

State of the Union Addresses of William H. Taft

William H. Taft

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December 6, 1910
December 5, 1911
December 3, 1912

State of the Union Address
William H. Taft
December 7, 1909

The relations of the United States with all foreign governments have continued upon the normal basis of amity and good understanding, and are very generally satisfactory. EUROPE.

Pursuant to the provisions of the general treaty of arbitration concluded between the United States and Great Britain, April 4, 1908, a special agreement was entered into between the two countries on January 27, 1909, for the submission of questions relating to the fisheries on the North Atlantic Coast to a tribunal to be formed from members of the Permanent Court of Arbitration at The Hague.

In accordance with the provisions of the special agreement the printed case of each Government was, on October 4 last, submitted to the other and to the Arbitral Tribunal at The Hague, and the counter case of the United States is now in course of preparation.

The American rights under the fisheries article of the Treaty of 1818 have been a cause of difference between the United States and Great Britain for nearly seventy years. The interests involved are of great importance to the American fishing industry, and the final settlement of the controversy will remove a source of constant irritation and complaint. This is the first case involving such great international questions which has been submitted to the Permanent Court of Arbitration at The Hague.

The treaty between the United States and Great Britain concerning the Canadian International boundary, concluded April 11, 1908, authorizes the appointment of two commissioners to define and mark accurately the international boundary line between the United States and the Dominion of Canada in the waters of the Passamaquoddy Bay, and provides for the exchange of briefs within the period of six months. The briefs were duly presented within the prescribed period, but as the commissioners failed to agree within six months after the exchange of the printed statements, as required by the treaty, it has now become necessary to resort to the arbitration provided for in the article.

The International Fisheries Commission appointed pursuant to and under the authority of the Convention of April 11, 1908, between the United States and Great Britain, has completed a system of uniform and common international regulations for the protection and preservation of the food fishes in international boundary waters of the United States and Canada.

The regulations will be duly submitted to Congress with a view to the enactment of such legislation as will be necessary under the convention to put them into operation.

The Convention providing for the settlement of international differences between the United States and Canada, including the apportionment between the two countries of certain of the boundary waters and the appointment of commissioners to adjust certain other questions, signed on the 11th day of January, 1909, and to the ratification of which the Senate gave its advice and consent on March 3, 1909, has not yet been ratified on the part of Great Britain.

Commissioners have been appointed on the part of the United States to act jointly with Commissioners on the part of Canada in examining into the question of obstructions in the St. John River between Maine and New Brunswick, and to make recommendations for the regulation of the uses thereof, and are now engaged in this work.

Negotiations for an international conference to consider and reach an arrangement providing for the preservation and protection of the fur seals in the North Pacific are in progress with the Governments of Great Britain, Japan, and Russia. The attitude of the Governments interested leads me to hope for a satisfactory settlement of this question as the ultimate outcome of the negotiations.

The Second Peace Conference recently held at The Hague adopted a convention for the establishment of an International Prize Court upon the joint proposal of delegations of the United States, France, Germany and Great Britain. The law to be observed by the Tribunal in the decision of prize cases was, however, left in an uncertain and therefore unsatisfactory state. Article 7 of the Convention provided that the Court was to be governed by the provisions of treaties existing between the belligerents, but that "in the absence of such provisions, the court shall apply the rules of international law. If no generally recognized rule exists, the court shall give judgment in accordance with the general principles of justice and equity." As, however, many questions in international maritime law are understood differently and therefore interpreted differently in various countries, it was deemed advisable not to intrust legislative powers to the proposed court, but to determine the rules of law properly applicable in a Conference of the representative maritime nations. Pursuant to an invitation of Great Britain a conference was held at London from December 2, 1908, to February 26, 1909, in which the following Powers participated: the United States, Austria-Hungary, France, Germany, Great Britain, Italy, Japan, the Netherlands, Russia and Spain. The conference resulted in the Declaration of London, unanimously agreed to and signed by the participating Powers, concerning among other matters, the highly important subjects of blockade, contraband, the destruction of neutral prizes, and continuous voyages. The declaration of London is an eminently satisfactory codification of the international maritime law, and it is hoped that its reasonableness and fairness will secure its general adoption, as well as remove one of the difficulties standing in the way of the establishment of an International Prize Court.

Under the authority given in the sundry civil appropriation act, approved March 4, 1909, the United States was represented at the International Conference on Maritime Law at Brussels. The Conference met on the 28th of September last and resulted in the signature and referendum of a convention for the unification of certain regulations with regard to maritime assistance and salvage and a convention for the unification of certain rules with regard to collisions at sea. Two new projects of conventions which have not heretofore been considered in a diplomatic conference, namely, one concerning the limitation of the responsibility of shipowners, and the other concerning marine mortgages and privileges, have been

submitted by the Conference to the different governments.

The Conference adjourned to meet again on April 11, 1910.

The International Conference for the purpose of promoting uniform legislation concerning letters of exchange, which was called by the Government of the Netherlands to meet at The Hague in September, 1909, has been postponed to meet at that capital in June, 1910. The United States will be appropriately represented in this Conference under the provision therefor already made by Congress.

The cordial invitation of Belgium to be represented by a fitting display of American progress in the useful arts and inventions at the World's Fair to be held at Brussels in 1910 remains to be acted upon by the Congress. Mindful of the advantages to accrue to our artisans and producers in competition with their Continental rivals, I renew the recommendation heretofore made that provision be made for acceptance of the invitation and adequate representation in the Exposition. The question arising out of the Belgian annexation of the Independent State of the Congo, which has so long and earnestly preoccupied the attention of this Government and enlisted the sympathy of our best citizens, is still open, but in a more hopeful stage. This Government was among the foremost in the great work of uplifting the uncivilized regions of Africa and urging the extension of the benefits of civilization, education, and fruitful open commerce to that vast domain, and is a party to treaty engagements of all the interested powers designed to carry out that great duty to humanity. The way to better the original and adventitious conditions, so burdensome to the natives and so destructive to their development, has been pointed out, by observation and experience, not alone of American representatives, but by cumulative evidence from all quarters and by the investigations of Belgian Agents. The announced programmes of reforms, striking at many of the evils known to exist, are an augury of better things. The attitude of the United States is one of benevolent encouragement, coupled with a hopeful trust that the good work, responsibly undertaken and zealously perfected to the accomplishment of the results so ardently desired, will soon justify the wisdom that inspires them and satisfy the demands of humane sentiment throughout the world.

A convention between the United States and Germany, under which the nonworking provisions of the German patent law are made inapplicable to the patents of American citizens, was concluded on February 23, 1909, and is now in force. Negotiations for similar conventions looking to the placing of American inventors on the same footing as nationals have recently been initiated with other European governments whose laws require the local working of foreign patents.

Under an appropriation made at the last session of the Congress, a commission was sent on American cruisers to Monrovia to investigate the interests of the United States and its citizens in Liberia. Upon its arrival at Monrovia the commission was enthusiastically received, and during its stay in Liberia was everywhere met with the heartiest expressions of good will for the American Government and people and the hope was repeatedly expressed on all sides that this Government might see its way clear to do something to relieve the critical position of the Republic arising in a measure from external as well as internal and financial embarrassments. The Liberian Government afforded every facility to the Commission for ascertaining the true state of affairs. The Commission also had conferences with representative citizens, interested foreigners and the representatives of foreign governments in Monrovia.

Visits were made to various parts of the Republic and to the neighboring British colony of Sierra Leone, where the Commission was received by and conferred with the Governor.

It will be remembered that the interest of the United States in the Republic of Liberia springs from the historical fact of the foundation of the Republic by the colonization of American citizens of the African race. In an early treaty with Liberia there is a provision under which the United States may be called upon for advice or assistance. Pursuant to this provision and in the spirit of the moral relationship of the United States to Liberia, that Republic last year asked this Government to lend assistance in the solution of certain of their national problems, and hence the Commission was sent.

The report of our commissioners has just been completed and is now under examination by the Department of State. It is hoped that there may result some helpful measures, in which case it may be my duty again to invite your attention to this subject.

The Norwegian Government, by a note addressed on January 26, 1909, to the Department of State, conveyed an invitation to the Government of the United States to take part in a conference which it is understood will be held in February or March, 1910, for the purpose of devising means to remedy existing conditions in the Spitzbergen Islands.

This invitation was conveyed under the reservation that the question of altering the status of the islands as countries belonging to no particular State, and as equally open to the citizens and subjects of all States, should not be raised.

The European Powers invited to this Conference by the Government of Norway were Belgium, Denmark, France, Germany, Great Britain, Russia, Sweden and the Netherlands.

The Department of State, in view of proofs filed with it in 1906, showing the American possession, occupation, and working of certain coal-bearing lands in Spitzbergen, accepted the invitation under the reservation above stated, and under the further reservation that all interests in those islands already vested should be protected and that there should be equality of opportunity for the future. It was further pointed out that membership in the Conference on the part of the United States was qualified by the consideration that this Government would not become a signatory to any conventional arrangement concluded by the European members of the Conference which would imply contributory participation by the United States in any obligation or responsibility for the enforcement of any scheme of administration which might be devised by the Conference for the islands.

THE NEAR EAST.

His Majesty Mehmed V, Sultan of Turkey, recently sent to this country a special embassy to announce his accession. The quick transition of the Government of the Ottoman Empire from one of retrograde tendencies to a constitutional government with a Parliament and with progressive modern policies of reform and public improvement is one of the important phenomena of our times. Constitutional government seems also to have made further advance in Persia. These events have turned the eyes of the world upon the Near East. In that quarter the prestige of the United States has spread widely through the peaceful influence of American schools, universities and

missionaries. There is every reason why we should obtain a greater share of the commerce of the Near East since the conditions are more favorable now than ever before.

LATIN AMERICA.

One of the happiest events in recent Pan-American diplomacy was the pacific, independent settlement by the Governments of Bolivia and Peru of a boundary difference between them, which for some weeks threatened to cause war and even to entrain embitterments affecting other republics less directly concerned. From various quarters, directly or indirectly concerned, the intermediation of the United States was sought to assist in a solution of the controversy. Desiring at all times to abstain from any undue mingling in the affairs of sister republics and having faith in the ability of the Governments of Peru and Bolivia themselves to settle their differences in a manner satisfactory to themselves which, viewed with magnanimity, would assuage all embitterment, this Government steadily abstained from being drawn into the controversy and was much gratified to find its confidence justified by events.

On the 9th of July next there will open at Buenos Aires the Fourth Pan-American Conference. This conference will have a special meaning to the hearts of all Americans, because around its date are clustered the anniversaries of the independence of so many of the American republics. It is not necessary for me to remind the Congress of the political, social and commercial importance of these gatherings. You are asked to make liberal appropriation for our participation. If this be granted, it is my purpose to appoint a distinguished and representative delegation, qualified fittingly to represent this country and to deal with the problems of intercontinental interest which will there be discussed.

The Argentine Republic will also hold from May to November, 1910, at Buenos Aires, a great International Agricultural Exhibition in which the United States has been invited to participate. Considering the rapid growth of the trade of the United States with the Argentine Republic and the cordial relations existing between the two nations, together with the fact that it provides an opportunity to show deference to a sister republic on the occasion of the celebration of its national independence, the proper Departments of this Government are taking steps to apprise the interests concerned of the opportunity afforded by this Exhibition, in which appropriate participation by this country is so desirable. The designation of an official representative is also receiving consideration.

To-day, more than ever before, American capital is seeking investment in foreign countries, and American products are more and more generally seeking foreign markets. As a consequence, in all countries there are American citizens and American interests to be protected, on occasion, by their Government. These movements of men, of capital, and of commodities bring peoples and governments closer together and so form bonds of peace and mutual dependency, as they must also naturally sometimes make passing points of friction. The resultant situation inevitably imposes upon this Government vastly increased responsibilities. This Administration, through the Department of State and the foreign service, is lending all proper support to legitimate and beneficial American enterprises in foreign countries, the degree of such support being measured by the national advantages to be expected. A citizen himself can not by contract or otherwise divest himself of the right, nor can this Government escape the obligation, of his protection in his personal and property rights when these are unjustly infringed in a foreign country. To avoid ceaseless

vexations it is proper that in considering whether American enterprise should be encouraged or supported in a particular country, the Government should give full weight not only to the national, as opposed to the individual benefits to accrue, but also to the fact whether or not the Government of the country in question is in its administration and in its diplomacy faithful to the principles of moderation, equity and justice upon which alone depend international credit, in diplomacy as well as in finance.

The Pan-American policy of this Government has long been fixed in its principles and remains unchanged. With the changed circumstances of the United States and of the Republics to the south of us, most of which have great natural resources, stable government and progressive ideals, the apprehension which gave rise to the Monroe Doctrine may be said to have nearly disappeared, and neither the doctrine as it exists nor any other doctrine of American policy should be permitted to operate for the perpetuation of irresponsible government, the escape of just obligations, or the insidious allegation of dominating ambitions on the part of the United States.

Beside the fundamental doctrines of our Pan-American policy there have grown up a realization of political interests, community of institutions and ideals, and a flourishing commerce. All these bonds will be greatly strengthened as time goes on and increased facilities, such as the great bank soon to be established in Latin America, supply the means for building up the colossal intercontinental commerce of the future.

My meeting with President Diaz and the greeting exchanged on both American and Mexican soil served, I hope, to signalize the close and cordial relations which so well bind together this Republic and the great Republic immediately to the south, between which there is so vast a network of material interests.

I am happy to say that all but one of the cases which for so long vexed our relations with Venezuela have been settled within the past few months and that, under the enlightened regime now directing the Government of Venezuela, provision has been made for arbitration of the remaining case before The Hague Tribunal. On July 30, 1909, the Government of Panama agreed, after considerable negotiation, to indemnify the relatives of the American officers and sailors who were brutally treated, one of them having, indeed, been killed by the Panaman police this year.

The sincere desire of the Government of Panama to do away with a situation where such an accident could occur is manifest in the recent request in compliance with which this Government has lent the services of an officer of the Army to be employed by the Government of Panama as Instructor of Police.

The sanitary improvements and public works undertaken in Cuba prior to the present administration of that Government, in the success of which the United States is interested under the treaty, are reported to be making good progress and since the Congress provided for the continuance of the reciprocal commercial arrangement between Cuba and the United States assurance has been received that no negotiations injuriously affecting the situation will be undertaken without consultation. The collection of the customs of the Dominican Republic through the general receiver of customs appointed by the President of the United States in accordance with the convention of February 8, 1907, has proceeded in an uneventful and satisfactory manner. The customs receipts have decreased owing to disturbed

political and economic conditions and to a very natural curtailment of imports in view of the anticipated revision of the Dominican tariff schedule. The payments to the fiscal agency fund for the service of the bonded debt of the Republic, as provided by the convention, have been regularly and promptly made, and satisfactory progress has been made in carrying out the provisions of the convention looking towards the completion of the adjustment of the debt and the acquirement by the Dominican Government of certain concessions and monopolies which have been a burden to the commerce of the country. In short, the receivership has demonstrated its ability, even under unfavorable economic and political conditions, to do the work for which it was intended.

This Government was obliged to intervene diplomatically to bring about arbitration or settlement of the claim of the Emery Company against Nicaragua, which it had long before been agreed should be arbitrated. A settlement of this troublesome case was reached by the signature of a protocol on September 18, 1909.

Many years ago diplomatic intervention became necessary to the protection of the interests in the American claim of Alsop and Company against the Government of Chile. The Government of Chile had frequently admitted obligation in the case and had promised this Government to settle. There had been two abortive attempts to do so through arbitral commissions, which failed through lack of jurisdiction. Now, happily, as the result of the recent diplomatic negotiations, the Governments of the United States and of Chile, actuated by the sincere desire to free from any strain those cordial and friendly relations upon which both set such store, have agreed by a protocol to submit the controversy to definitive settlement by His Britannic Majesty, Edward VII.

Since the Washington Conventions of 1907 were communicated to the Government of the United States as a consulting and advising party, this Government has been almost continuously called upon by one or another, and in turn by all the five Central American Republics, to exert itself for the maintenance of the Conventions. Nearly every complaint has been against the Zelaya Government of Nicaragua, which has kept Central America in constant tension or turmoil. The responses made to the representations of Central American Republics, as due from the United States on account of its relation to the Washington Conventions, have been at all times conservative and have avoided, so far as possible, any semblance of interference, although it is very apparent that the considerations of geographic proximity to the Canal Zone and of the very substantial American interests in Central America give to the United States a special position in the zone of these Republics and the Caribbean Sea.

I need not rehearse here the patient efforts of this Government to promote peace and welfare among these Republics, efforts which are fully appreciated by the majority of them who are loyal to their true interests. It would be no less unnecessary to rehearse here the sad tale of unspeakable barbarities and oppression alleged to have been committed by the Zelaya Government. Recently two Americans were put to death by order of President Zelaya himself. They were reported to have been regularly commissioned officers in the organized forces of a revolution which had continued many weeks and was in control of about half of the Republic, and as such, according to the modern enlightened practice of civilized nations, they were entitled to be dealt with as prisoners of war.

At the date when this message is printed this Government has terminated diplomatic relations with the Zelaya Government, for reasons made public in

a communication to the former Nicaraguan charge d'affaires, and is intending to take such future steps as may be found most consistent with its dignity, its duty to American interests, and its moral obligations to Central America and to civilization. It may later be necessary for me to bring this subject to the attention of the Congress in a special message.

The International Bureau of American Republics has carried on an important and increasing work during the last year. In the exercise of its peculiar functions as an international agency, maintained by all the American Republics for the development of Pan-American commerce and friendship, it has accomplished a great practical good which could be done in the same way by no individual department or bureau of one government, and is therefore deserving of your liberal support. The fact that it is about to enter a new building, erected through the munificence of an American philanthropist and the contributions of all the American nations, where both its efficiency of administration and expense of maintenance will naturally be much augmented, further entitles it to special consideration.

THE FAR EAST.

In the Far East this Government preserves unchanged its policy of supporting the principle of equality of opportunity and scrupulous respect for the integrity of the Chinese Empire, to which policy are pledged the interested Powers of both East and West.

By the Treaty of 1903 China has undertaken the abolition of likin with a moderate and proportionate raising of the customs tariff along with currency reform. These reforms being of manifest advantage to foreign commerce as well as to the interests of China, this Government is endeavoring to facilitate these measures and the needful acquiescence of the treaty Powers. When it appeared that Chinese likin revenues were to be hypothecated to foreign bankers in connection with a great railway project, it was obvious that the Governments whose nationals held this loan would have a certain direct interest in the question of the carrying out by China of the reforms in question. Because this railroad loan represented a practical and real application of the open door policy through cooperation with China by interested Powers as well as because of its relations to the reforms referred to above, the Administration deemed American participation to be of great national interest. Happily, when it was as a matter of broad policy urgent that this opportunity should not be lost, the indispensable instrumentality presented itself when a group of American bankers, of international reputation and great resources, agreed at once to share in the loan upon precisely such terms as this Government should approve. The chief of those terms was that American railway material should be upon an exact equality with that of the other nationals joining in the loan in the placing of orders for this whole railroad system. After months of negotiation the equal participation of Americans seems at last assured. It is gratifying that Americans will thus take their share in this extension of these great highways of trade, and to believe that such activities will give a real impetus to our commerce and will prove a practical corollary to our historic policy in the Far East.

The Imperial Chinese Government in pursuance of its decision to devote funds from the portion of the indemnity remitted by the United States to the sending of students to this country has already completed arrangements for carrying out this purpose, and a considerable body of students have arrived to take up their work in our schools and universities. No one can doubt the happy effect that the associations formed by these representative young men will have when they return to take up their work in the

progressive development of their country.

The results of the Opium Conference held at Shanghai last spring at the invitation of the United States have been laid before the Government. The report shows that China is making remarkable progress and admirable efforts toward the eradication of the opium evil and that the Governments concerned have not allowed their commercial interests to interfere with a helpful cooperation in this reform. Collateral investigations of the opium question in this country lead me to recommend that the manufacture, sale and use of opium and its derivatives in the United States should be so far as possible more rigorously controlled by legislation.

In one of the Chinese-Japanese Conventions of September 4 of this year there was a provision which caused considerable public apprehension in that upon its face it was believed in some quarters to seek to establish a monopoly of mining privileges along the South Manchurian and Antung-Mukden Railroads, and thus to exclude Americans from a wide field of enterprise, to take part in which they were by treaty with China entitled. After a thorough examination of the Conventions and of the several contextual documents, the Secretary of State reached the conclusion that no such monopoly was intended or accomplished. However, in view of the widespread discussion of this question, to confirm the view it had reached, this Government made inquiry of the Imperial Chinese and Japanese Governments and received from each official assurance that the provision had no purpose inconsistent with the policy of equality of opportunity to which the signatories, in common with the United States, are pledged.

Our traditional relations with the Japanese Empire continue cordial as usual. As the representative of Japan, His Imperial Highness Prince Kuni visited the Hudson-Fulton Celebration. The recent visit of a delegation of prominent business men as guests of the chambers of commerce of the Pacific slope, whose representatives had been so agreeably received in Japan, will doubtless contribute to the growing trade across the Pacific, as well as to that mutual understanding which leads to mutual appreciation. The arrangement of 1908 for a cooperative control of the coming of laborers to the United States has proved to work satisfactorily. The matter of a revision of the existing treaty between the United States and Japan which is terminable in 1912 is already receiving the study of both countries.

The Department of State is considering the revision in whole or in part, of the existing treaty with Siam, which was concluded in 1856, and is now, in respect to many of its provisions, out of date.

THE DEPARTMENT OF STATE.

I earnestly recommend to the favorable action of the Congress the estimates submitted by the Department of State and most especially the legislation suggested in the Secretary of State's letter of this date whereby it will be possible to develop and make permanent the reorganization of the Department upon modern lines in a manner to make it a thoroughly efficient instrument in the furtherance of our foreign trade and of American interests abroad. The plan to have Divisions of Latin-American and Far Eastern Affairs and to institute a certain specialization in business with Europe and the Near East will at once commend itself. These politico-geographical divisions and the detail from the diplomatic or consular service to the Department of a number of men, who bring to the study of complicated problems in different parts of the world practical knowledge recently gained on the spot, clearly is of the greatest advantage to the Secretary of State in foreseeing conditions likely to arise and in

conducting the great variety of correspondence and negotiation. It should be remembered that such facilities exist in the foreign offices of all the leading commercial nations and that to deny them to the Secretary of State would be to place this Government at a great disadvantage in the rivalry of commercial competition.

The consular service has been greatly improved under the law of April 5, 1906, and the Executive Order of June 27, 1906, and I commend to your consideration the question of embodying in a statute the principles of the present Executive Order upon which the efficiency of our consular service is wholly dependent.

In modern times political and commercial interests are interrelated, and in the negotiation of commercial treaties, conventions and tariff agreements, the keeping open of opportunities and the proper support of American enterprises, our diplomatic service is quite as important as the consular service to the business interests of the country. Impressed with this idea and convinced that selection after rigorous examination, promotion for merit solely and the experience only to be gained through the continuity of an organized service are indispensable to a high degree of efficiency in the diplomatic service, I have signed an Executive Order as the first step toward this very desirable result. Its effect should be to place all secretaries in the diplomatic service in much the same position as consular officers are now placed and to tend to the promotion of the most efficient to the grade of minister, generally leaving for outside appointments such posts of the grade of ambassador or minister as it may be expedient to fill from without the service. It is proposed also to continue the practice instituted last summer of giving to all newly appointed secretaries at least one month's thorough training in the Department of State before they proceed to their posts. This has been done for some time in regard to the consular service with excellent results.

Under a provision of the Act of August 5, 1909, I have appointed three officials to assist the officers of the Government in collecting information necessary to a wise administration of the tariff act of August 5, 1909. As to questions of customs administration they are cooperating with the officials of the Treasury Department and as to matters of the needs and the exigencies of our manufacturers and exporters, with the Department of Commerce and Labor, in its relation to the domestic aspect of the subject of foreign commerce. In the study of foreign tariff treatment they will assist the Bureau of Trade Relations of the Department of State. It is hoped thus to coordinate and bring to bear upon this most important subject all the agencies of the Government which can contribute anything to its efficient handling.

As a consequence of Section 2 of the tariff act of August 5, 1909, it becomes the duty of the Secretary of State to conduct as diplomatic business all the negotiations necessary to place him in a position to advise me as to whether or not a particular country unduly discriminates against the United States in the sense of the statute referred to. The great scope and complexity of this work, as well as the obligation to lend all proper aid to our expanding commerce, is met by the expansion of the Bureau of Trade Relations as set forth in the estimates for the Department of State.

OTHER DEPARTMENTS.

I have thus in some detail described the important transactions of the State Department since the beginning of this Administration for the reason

that there is no provision either by statute or custom for a formal report by the Secretary of State to the President or to Congress, and a Presidential message is the only means by which the condition of our foreign relations is brought to the attention of Congress and the public.

In dealing with the affairs of the other Departments, the heads of which all submit annual reports, I shall touch only those matters that seem to me to call for special mention on my part without minimizing in any way the recommendations made by them for legislation affecting their respective Departments, in all of which I wish to express my general concurrence.

GOVERNMENT EXPENDITURES AND REVENUES.

Perhaps the most important question presented to this Administration is that of economy in expenditures and sufficiency of revenue. The deficit of the last fiscal year, and the certain deficit of the current year, prompted Congress to throw a greater responsibility on the Executive and the Secretary of the Treasury than had heretofore been declared by statute. This declaration imposes upon the Secretary of the Treasury the duty of assembling all the estimates of the Executive Departments, bureaus, and offices, of the expenditures necessary in the ensuing fiscal year, and of making an estimate of the revenues of the Government for the same period; and if a probable deficit is thus shown, it is made the duty of the President to recommend the method by which such deficit can be met.

The report of the Secretary shows that the ordinary expenditures for the current fiscal year ending June 30, 1910, will exceed the estimated receipts by \$34,075,620. If to this deficit is added the sum to be disbursed for the Panama Canal, amounting to \$38,000,000, and \$1,000,000 to be paid on the public debt, the deficit of ordinary receipts and expenditures will be increased to a total deficit of \$73,075,620. This deficit the Secretary proposes to meet by the proceeds of bonds issued to pay the cost of constructing the Panama Canal. I approve this proposal.

The policy of paying for the construction of the Panama Canal, not out of current revenue, but by bond issues, was adopted in the Spooner Act of 1902, and there seems to be no good reason for departing from the principle by which a part at least of the burden of the cost of the canal shall fall upon our posterity who are to enjoy it; and there is all the more reason for this view because the actual cost to date of the canal, which is now half done and which will be completed January 1, 1915, shows that the cost of engineering and construction will be \$297,766,000, instead of \$139,705,200, as originally estimated. In addition to engineering and construction, the other expenses, including sanitation and government, and the amount paid for the properties, the franchise, and the privilege of building the canal, increase the cost by \$75,435,000, to a total of \$375,201,000. The increase in the cost of engineering and construction is due to a substantial enlargement of the plan of construction by widening the canal 100 feet in the Culebra cut and by increasing the dimensions of the locks, to the underestimate of the quantity of the work to be done under the original plan, and to an underestimate of the cost of labor and materials both of which have greatly enhanced in price since the original estimate was made.

In order to avoid a deficit for the ensuing fiscal year, I directed the heads of Departments in the preparation of their estimates to make them as low as possible consistent with imperative governmental necessity. The result has been, as I am advised by the Secretary of the Treasury, that the estimates for the expenses of the Government for the next fiscal year

ending June 30, 1911, are less than the appropriations for this current fiscal year by \$42,818,000. So far as the Secretary of the Treasury is able to form a judgment as to future income, and compare it with the expenditures for the next fiscal year ending June 30, 1911, and excluding payments on account of the Panama Canal, which will doubtless be taken up by bonds, there will be a surplus of \$35,931,000.

In the present estimates the needs of the Departments and of the Government have been cut to the quick, so to speak, and any assumption on the part of Congress, so often made in times past, that the estimates have been prepared with the expectation that they may be reduced, will result in seriously hampering proper administration.

The Secretary of the Treasury points out what should be carefully noted in respect to this reduction in governmental expenses for the next fiscal year, that the economies are of two kinds--first, there is a saving in the permanent administration of the Departments, bureaus, and offices of the Government; and, second, there is a present reduction in expenses by a postponement of projects and improvements that ultimately will have to be carried out but which are now delayed with the hope that additional revenue in the future will permit their execution without producing a deficit.

It has been impossible in the preparation of estimates greatly to reduce the cost of permanent administration. This can not be done without a thorough reorganization of bureaus, offices, and departments. For the purpose of securing information which may enable the executive and the legislative branches to unite in a plan for the permanent reduction of the cost of governmental administration, the Treasury Department has instituted an investigation by one of the most skilled expert accountants in the United States. The result of his work in two or three bureaus, which, if extended to the entire Government, must occupy two or more years, has been to show much room for improvement and opportunity for substantial reductions in the cost and increased efficiency of administration. The object of the investigation is to devise means to increase the average efficiency of each employee. There is great room for improvement toward this end, not only by the reorganization of bureaus and departments and in the avoidance of duplication, but also in the treatment of the individual employee.

Under the present system it constantly happens that two employees receive the same salary when the work of one is far more difficult and important and exacting than that of the other. Superior ability is not rewarded or encouraged. As the classification is now entirely by salary, an employee often rises to the highest class while doing the easiest work, for which alone he may be fitted. An investigation ordered by my predecessor resulted in the recommendation that the civil service be reclassified according to the kind of work, so that the work requiring most application and knowledge and ability shall receive most compensation. I believe such a change would be fairer to the whole force and would permanently improve the personnel of the service.

More than this, every reform directed toward the improvement in the average efficiency of government employees must depend on the ability of the Executive to eliminate from the government service those who are inefficient from any cause, and as the degree of efficiency in all the Departments is much lessened by the retention of old employees who have outlived their energy and usefulness, it is indispensable to any proper system of economy that provision be made so that their separation from the service shall be easy and inevitable. It is impossible to make such

provision unless there is adopted a plan of civil pensions. Most of the great industrial organizations, and many of the well-conducted railways of this country, are coming to the conclusion that a system of pensions for old employees, and the substitution therefor of younger and more energetic servants, promotes both economy and efficiency of administration.

I am aware that there is a strong feeling in both Houses of Congress, and possibly in the country, against the establishment of civil pensions, and that this has naturally grown out of the heavy burden of military pensions, which it has always been the policy of our Government to assume; but I am strongly convinced that no other practical solution of the difficulties presented by the superannuation of civil servants can be found than that of a system of civil pensions.

The business and expenditures of the Government have expanded enormously since the Spanish war, but as the revenues have increased in nearly the same proportion as the expenditures until recently, the attention of the public, and of those responsible for the Government, has not been fastened upon the question of reducing the cost of administration. We can not, in view of the advancing prices of living, hope to save money by a reduction in the standard of salaries paid. Indeed, if any change is made in that regard, an increase rather than a decrease will be necessary; and the only means of economy will be in reducing the number of employees and in obtaining a greater average of efficiency from those retained in the service.

Close investigation and study needed to make definite recommendations in this regard will consume at least two years. I note with much satisfaction the organization in the Senate of a Committee on Public Expenditures, charged with the duty of conducting such an investigation, and I tender to that committee all the assistance which the executive branch of the Government can possibly render.

FRAUDS IN THE COLLECTION OF CUSTOMS.

I regret to refer to the fact of the discovery of extensive frauds in the collections of the customs revenue at New York City, in which a number of the subordinate employees in the weighing and other departments were directly concerned, and in which the beneficiaries were the American Sugar Refining Company and others. The frauds consisted in the payment of duty on underweights of sugar. The Government has recovered from the American Sugar Refining Company all that it is shown to have been defrauded of. The sum was received in full of the amount due, which might have been recovered by civil suit against the beneficiary of the fraud, but there was an express reservation in the contract of settlement by which the settlement should not interfere with, or prevent the criminal prosecution of everyone who was found to be subject to the same.

Criminal prosecutions are now proceeding against a number of the Government officers. The Treasury Department and the Department of Justice are exerting every effort to discover all the wrongdoers, including the officers and employees of the companies who may have been privy to the fraud. It would seem to me that an investigation of the frauds by Congress at present, pending the probing by the Treasury Department and the Department of Justice, as proposed, might by giving immunity and otherwise prove an embarrassment in securing conviction of the guilty parties.

MAXIMUM AND MINIMUM CLAUSE IN TARIFF ACT.

Two features of the new tariff act call for special reference. By virtue of the clause known as the "Maximum and Minimum" clause, it is the duty of the Executive to consider the laws and practices of other countries with reference to the importation into those countries of the products and merchandise of the United States, and if the Executive finds such laws and practices not to be unduly discriminatory against the United States, the minimum duties provided in the bill are to go into force.

Unless the President makes such a finding, then the maximum duties provided in the bill, that is, an increase of twenty-five per cent. ad valorem over the minimum duties, are to be in force. Fear has been expressed that this power conferred and duty imposed on the Executive is likely to lead to a tariff war. I beg to express the hope and belief that no such result need be anticipated.

The discretion granted to the Executive by the terms "unduly discriminatory" is wide. In order that the maximum duty shall be charged against the imports from a country, it is necessary that he shall find on the part of that country not only discriminations in its laws or the practice under them against the trade of the United States, but that the discriminations found shall be undue; that is, without good and fair reason. I conceive that this power was reposed in the President with the hope that the maximum duties might never be applied in any case, but that the power to apply them would enable the President and the State Department through friendly negotiation to secure the elimination from the laws and the practice under them of any foreign country of that which is unduly discriminatory. No one is seeking a tariff war or a condition in which the spirit of retaliation shall be aroused.

USES OF THE NEW TARIFF BOARD.

The new tariff law enables me to appoint a tariff board to assist me in connection with the Department of State in the administration of the minimum and maximum clause of the act and also to assist officers of the Government in the administration of the entire law. An examination of the law and an understanding of the nature of the facts which should be considered in discharging the functions imposed upon the Executive show that I have the power to direct the tariff board to make a comprehensive glossary and encyclopedia of the terms used and articles embraced in the tariff law, and to secure information as to the cost of production of such goods in this country and the cost of their production in foreign countries. I have therefore appointed a tariff board consisting of three members and have directed them to perform all the duties above described. This work will perhaps take two or three years, and I ask from Congress a continuing annual appropriation equal to that already made for its prosecution. I believe that the work of this board will be of prime utility and importance whenever Congress shall deem it wise again to readjust the customs duties. If the facts secured by the tariff board are of such a character as to show generally that the rates of duties imposed by the present tariff law are excessive under the principles of protection as described in the platform of the successful party at the late election, I shall not hesitate to invite the attention of Congress to this fact and to the necessity for action predicated thereon. Nothing, however, halts business and interferes with the course of prosperity so much as the threatened revision of the tariff, and until the facts are at hand, after careful and deliberate investigation, upon which such revision can properly be undertaken, it seems to me unwise to attempt it. The amount of misinformation that creeps into arguments pro and con in respect to tariff rates is such as to require the kind of investigation that I have directed

the tariff board to make, an investigation undertaken by it wholly without respect to the effect which the facts may have in calling for a readjustment of the rates of duty.

WAR DEPARTMENT.

In the interest of immediate economy and because of the prospect of a deficit, I have required a reduction in the estimates of the War Department for the coming fiscal year, which brings the total estimates down to an amount forty-five millions less than the corresponding estimates for last year. This could only be accomplished by cutting off new projects and suspending for the period of one year all progress in military matters. For the same reason I have directed that the Army shall not be recruited up to its present authorized strength. These measures can hardly be more than temporary--to last until our revenues are in better condition and until the whole question of the expediency of adopting a definite military policy can be submitted to Congress, for I am sure that the interests of the military establishment are seriously in need of careful consideration by Congress. The laws regulating the organization of our armed forces in the event of war need to be revised in order that the organization can be modified so as to produce a force which would be more consistently apportioned throughout its numerous branches. To explain the circumstances upon which this opinion is based would necessitate a lengthy discussion, and I postpone it until the first convenient opportunity shall arise to send to Congress a special message upon this subject.

The Secretary of War calls attention to a number of needed changes in the Army in all of which I concur, but the point upon which I place most emphasis is the need for an elimination bill providing a method by which the merits of officers shall have some effect upon their advancement and by which the advancement of all may be accelerated by the effective elimination of a definite proportion of the least efficient. There are in every army, and certainly in ours, a number of officers who do not violate their duty in any such way as to give reason for a court-martial or dismissal, but who do not show such aptitude and skill and character for high command as to justify their remaining in the active service to be Promoted. Provision should be made by which they may be retired on a certain proportion of their pay, increasing with their length of service at the time of retirement. There is now a personnel law for the Navy which itself needs amendment and to which I shall make further reference. Such a law is needed quite as much for the Army.

The coast defenses of the United States proper are generally all that could be desired, and in some respects they are rather more elaborate than under present conditions are needed to stop an enemy's fleet from entering the harbors defended. There is, however, one place where additional defense is badly needed, and that is at the mouth of Chesapeake Bay, where it is proposed to make an artificial island for a fort which shall prevent an enemy's fleet from entering this most important strategical base of operations on the whole Atlantic and Gulf coasts. I hope that appropriate legislation will be adopted to secure the construction of this defense.

The military and naval joint board have unanimously agreed that it would be unwise to make the large expenditures which at one time were contemplated in the establishment of a naval base and station in the Philippine Islands, and have expressed their judgment, in which I fully concur, in favor of making an extensive naval base at Pearl Harbor, near Honolulu, and not in the Philippines. This does not dispense with the necessity for the comparatively small appropriations required to finish the proper coast

defenses in the Philippines now under construction on the island of Corregidor and elsewhere or to complete a suitable repair station and coaling supply station at Olongapo, where is the floating dock "Dewey." I hope that this recommendation of the joint board will end the discussion as to the comparative merits of Manila Bay and Olongapo as naval stations, and will lead to prompt measures for the proper equipment and defense of Pearl Harbor.

THE NAVY.

The return of the battle-ship fleet from its voyage around the world, in more efficient condition than when it started, was a noteworthy event of interest alike to our citizens and the naval authorities of the world. Besides the beneficial and far-reaching effect on our personal and diplomatic relations in the countries which the fleet visited, the marked success of the ships in steaming around the world in all weathers on schedule time has increased respect for our Navy and has added to our national prestige.

Our enlisted personnel recruited from all sections of the country is young and energetic and representative of the national spirit. It is, moreover, owing to its intelligence, capable of quick training into the modern man-of-warsman. Our officers are earnest and zealous in their profession, but it is a regrettable fact that the higher officers are old for the responsibilities of the modern navy, and the admirals do not arrive at flag rank young enough to obtain adequate training in their duties as flag officers. This need for reform in the Navy has been ably and earnestly presented to Congress by my predecessor, and I also urgently recommend the subject for consideration.

Early in the coming session a comprehensive plan for the reorganization of the officers of all corps of the Navy will be presented to Congress, and I hope it will meet with action suited to its urgency.

Owing to the necessity for economy in expenditures, I have directed the curtailment of recommendations for naval appropriations so that they are thirty-eight millions less than the corresponding estimates of last year, and the request for new naval construction is limited to two first-class battle ships and one repair vessel.

The use of a navy is for military purposes, and there has been found need in the Department of a military branch dealing directly with the military use of the fleet. The Secretary of the Navy has also felt the lack of responsible advisers to aid him in reaching conclusions and deciding important matters between coordinate branches of the Department. To secure these results he has inaugurated a tentative plan involving certain changes in the organization of the Navy Department, including the navy-yards, all of which have been found by the Attorney-General to be in accordance with law. I have approved the execution of the plan proposed because of the greater efficiency and economy it promises.

The generosity of Congress has provided in the present Naval Observatory the most magnificent and expensive astronomical establishment in the world. It is being used for certain naval purposes which might easily and adequately be subserved by a small division connected with the Naval Department at only a fraction of the cost of the present Naval Observatory. The official Board of Visitors established by Congress and appointed in 1901 expressed its conclusion that the official head of the observatory should be an eminent astronomer appointed by the President by and with the

advice and consent of the Senate, holding his place by a tenure at least as permanent as that of the Superintendent of the Coast Survey or the head of the Geological Survey, and not merely by a detail of two or three years' duration. I fully concur in this judgment, and urge a provision by law for the appointment of such a director.

It may not be necessary to take the observatory out of the Navy Department and put it into another department in which opportunity for scientific research afforded by the observatory would seem to be more appropriate, though I believe such a transfer in the long run is the best policy. I am sure, however, I express the desire of the astronomers and those learned in the kindred sciences when I urge upon Congress that the Naval Observatory be now dedicated to science under control of a man of science who can, if need be, render all the service to the Navy Department which this observatory now renders, and still furnish to the world the discoveries in astronomy that a great astronomer using such a plant would be likely to make.

DEPARTMENT OF JUSTICE EXPEDITION IN LEGAL PROCEDURE

The deplorable delays in the administration of civil and criminal law have received the attention of committees of the American Bar Association and of many State Bar Associations, as well as the considered thought of judges and jurists. In my judgment, a change in judicial procedure, with a view to reducing its expense to private litigants in civil cases and facilitating the dispatch of business and final decision in both civil and criminal cases, constitutes the greatest need in our American institutions. I do not doubt for one moment that much of the lawless violence and cruelty exhibited in lynchings is directly due to the uncertainties and injustice growing out of the delays in trials, judgments, and the executions thereof by our courts. Of course these remarks apply quite as well to the administration of justice in State courts as to that in Federal courts, and without making invidious distinction it is perhaps not too much to say that, speaking generally, the defects are less in the Federal courts than in the State courts. But they are very great in the Federal courts. The expedition with which business is disposed of both on the civil and the criminal side of English courts under modern rules of procedure makes the delays in our courts seem archaic and barbarous. The procedure in the Federal courts should furnish an example for the State courts. I presume it is impossible, without an amendment to the Constitution, to unite under one form of action the proceedings at common law and proceedings in equity in the Federal courts, but it is certainly not impossible by a statute to simplify and make short and direct the procedure both at law and in equity in those courts. It is not impossible to cut down still more than it is cut down, the jurisdiction of the Supreme Court so as to confine it almost wholly to statutory and constitutional questions. Under the present statutes the equity and admiralty procedure in the Federal courts is under the control of the Supreme Court, but in the pressure of business to which that court is subjected, it is impossible to hope that a radical and proper reform of the Federal equity procedure can be brought about. I therefore recommend legislation providing for the appointment by the President of a commission with authority to examine the law and equity procedure of the Federal courts of first instance, the law of appeals from those courts to the courts of appeals and to the Supreme Court, and the costs imposed in such procedure upon the private litigants and upon the public treasury and make recommendation with a view to simplifying and expediting the procedure as far as possible and making it as inexpensive as may be to the litigant of little means.

INJUNCTIONS WITHOUT NOTICE.

The platform of the successful party in the last election contained the following: "The Republican party will uphold at all times the authority and integrity of the courts, State and Federal, and will ever insist that their powers to enforce their process and to protect life, liberty, and property shall be preserved inviolate. We believe, however, that the rules of procedure in the Federal courts with respect to the issuance of the writ of injunction should be more accurately defined by statute, and that no injunction or temporary restraining order should be issued without notice, except where irreparable injury would result from delay, in which case a speedy hearing thereafter should be granted." I recommend that in compliance with the promise thus made, appropriate legislation be adopted. The ends of justice will best be met and the chief cause of complaint against ill-considered injunctions without notice will be removed by the enactment of a statute forbidding hereafter the issuing of any injunction or restraining order, whether temporary or permanent, by any Federal court, without previous notice and a reasonable opportunity to be heard on behalf of the parties to be enjoined; unless it shall appear to the satisfaction of the court that the delay necessary to give such notice and hearing would result in irreparable injury to the complainant and unless also the court shall from the evidence make a written finding, which shall be spread upon the court minutes, that immediate and irreparable injury is likely to ensue to the complainant, and shall define the injury, state why it is irreparable, and shall also endorse on the order issued the date and the hour of the issuance of the order. Moreover, every such injunction or restraining order issued without previous notice and opportunity by the defendant to be heard should by force of the statute expire and be of no effect after seven days from the issuance thereof or within any time less than that period which the court may fix, unless within such seven days or such less period, the injunction or order is extended or renewed after previous notice and opportunity to be heard.

My judgment is that the passage of such an act which really embodies the best practice in equity and is very like the rule now in force in some courts will prevent the issuing of ill-advised orders of injunction without notice and will render such orders when issued much less objectionable by the short time in which they may remain effective.

ANTI-TRUST AND INTERSTATE COMMERCE LAWS.

The jurisdiction of the General Government over interstate commerce has led to the passage of the so-called "Sherman Anti-trust Law" and the "Interstate Commerce Law" and its amendments. The developments in the operation of those laws, as shown by indictments, trials, judicial decisions, and other sources of information, call for a discussion and some suggestions as to amendments. These I prefer to embody in a special message instead of including them in the present communication, and I shall avail myself of the first convenient opportunity to bring these subjects to the attention of Congress.

JAIL OF THE DISTRICT OF COLUMBIA.

My predecessor transmitted to the Congress a special message on January 11, 1909, accompanying the report of Commissioners theretofore appointed to investigate the jail, workhouse, etc., in the District of Columbia, in which he directed attention to the report as setting forth vividly, "the really outrageous conditions in the workhouse and jail."

The Congress has taken action in pursuance of the recommendations of that report and of the President, to the extent of appropriating funds and enacting the necessary legislation for the establishment of a workhouse and reformatory. No action, however, has been taken by the Congress with respect to the jail, the conditions of which are still antiquated and insanitary. I earnestly recommend the passage of a sufficient appropriation to enable a thorough remodeling of that institution to be made without delay. It is a reproach to the National Government that almost under the shadow of the Capitol Dome prisoners should be confined in a building destitute of the ordinary decent appliances requisite to cleanliness and sanitary conditions.

POST-OFFICE DEPARTMENT. SECOND-CLASS MAIL MATTER.

The deficit every year in the Post-Office Department is largely caused by the low rate of postage of 1 cent a pound charged on second-class mail matter, which includes not only newspapers, but magazines and miscellaneous periodicals. The actual loss growing out of the transmission of this second-class mail matter at 1 cent a pound amounts to about \$63,000,000 a year. The average cost of the transportation of this matter is more than 9 cents a pound.

It appears that the average distance over which newspapers are delivered to their customers is 291 miles, while the average haul of magazines is 1,049, and of miscellaneous periodicals 1,128 miles. Thus, the average haul of the magazine is three and one-half times and that of the miscellaneous periodical nearly four times the haul of the daily newspaper, yet all of them pay the same postage rate of 1 cent a pound. The statistics of 1907 show that second-class mail matter constituted 63.91 per cent. of the weight of all the mail, and yielded only 5.19 per cent. of the revenue.

The figures given are startling, and show the payment by the Government of an enormous subsidy to the newspapers, magazines, and periodicals, and Congress may well consider whether radical steps should not be taken to reduce the deficit in the Post-Office Department caused by this discrepancy between the actual cost of transportation and the compensation exacted therefor.

A great saving might be made, amounting to much more than half of the loss, by imposing upon magazines and periodicals a higher rate of postage. They are much heavier than newspapers, and contain a much higher proportion of advertising to reading matter, and the average distance of their transportation is three and a half times as great.

The total deficit for the last fiscal year in the Post-Office Department amounted to \$17,500,000. The branches of its business which it did at a loss were the second-class mail service, in which the loss, as already said, was \$63,000,000, and the free rural delivery, in which the loss was \$28,000,000. These losses were in part offset by the profits of the letter postage and other sources of income. It would seem wise to reduce the loss upon second-class mail matter, at least to the extent of preventing a deficit in the total operations of the Post-Office.

I commend the whole subject to Congress, not unmindful of the spread of intelligence which a low charge for carrying newspapers and periodicals assists. I very much doubt, however, the wisdom of a policy which constitutes so large a subsidy and requires additional taxation to meet it.

POSTAL SAVINGS BANKS.

The second subject worthy of mention in the Post-Office Department is the real necessity and entire practicability of establishing postal savings banks. The successful party at the last election declared in favor of postal savings banks, and although the proposition finds opponents in many parts of the country, I am convinced that the people desire such banks, and am sure that when the banks are furnished they will be productive of the utmost good. The postal savings banks are not constituted for the purpose of creating competition with other banks. The rate of interest upon deposits to which they would be limited would be so small as to prevent their drawing deposits away from other banks.

I believe them to be necessary in order to offer a proper inducement to thrift and saving to a great many people of small means who do not now have banking facilities, and to whom such a system would offer an opportunity for the accumulation of capital. They will furnish a satisfactory substitute, based on sound principle and actual successful trial in nearly all the countries of the world, for the system of government guaranty of deposits now being adopted in several western States, which with deference to those who advocate it seems to me to have in it the seeds of demoralization to conservative banking and certain financial disaster. The question of how the money deposited in postal savings banks shall be invested is not free from difficulty, but I believe that a satisfactory provision for this purpose was inserted as an amendment to the bill considered by the Senate at its last session. It has been proposed to delay the consideration of legislation establishing a postal savings bank until after the report of the Monetary Commission. This report is likely to be delayed, and properly so, cause of the necessity for careful deliberation and close investigation. I do not see why the one should be tied up with the other. It is understood that the Monetary Commission have looked into the systems of banking which now prevail abroad, and have found that by a control there exercised in respect to reserves and the rates of exchange by some central authority panics are avoided. It is not apparent that a system of postal savings banks would in any way interfere with a change to such a system here. Certainly in most of the countries of Europe where control is thus exercised by a central authority, postal savings banks exist and are not thought to be inconsistent with a proper financial and banking system.

SHIP SUBSIDY.

Following the course of my distinguished predecessor, I earnestly recommend to Congress the consideration and passage of a ship subsidy bill, looking to the establishment of lines between our Atlantic seaboard and the eastern coast of South America, as well as lines from the west coast of the United States to South America, China, Japan, and the Philippines. The profits on foreign mails are perhaps a sufficient measure of the expenditures which might first be tentatively applied to this method of inducing American capital to undertake the establishment of American lines of steamships in those directions in which we now feel it most important that we should have means of transportation controlled in the interest of the expansion of our trade. A bill of this character has once passed the House and more than once passed the Senate, and I hope that at this session a bill framed on the same lines and with the same purposes may become a law.

INTERIOR DEPARTMENT. NEW MEXICO AND ARIZONA.

The successful party in the last election in its national platform declared in favor of the admission as separate States of New Mexico and Arizona, and

I recommend that legislation appropriate to this end be adopted. I urge, however, that care be exercised in the preparation of the legislation affecting each Territory to secure deliberation in the selection of persons as members of the convention to draft a constitution for the incoming State, and I earnestly advise that such constitution after adoption by the convention shall be submitted to the people of the Territory for their approval at an election in which the sole issue shall be the merits of the proposed constitution, and if the constitution is defeated by popular vote means shall be provided in the enabling act for a new convention and the drafting of a new constitution. I think it vital that the issue as to the merits of the constitution should not be mixed up with the selection of State officers, and that no election of State officers should be had until after the constitution has been fully approved and finally settled upon.

ALASKA.

With respect to the Territory of Alaska, I recommend legislation which shall provide for the appointment by the President of a governor and also of an executive council, the members of which shall during their term of office reside in the Territory, and which shall have legislative powers sufficient to enable it to give to the Territory local laws adapted to its present growth. I strongly deprecate legislation looking to the election of a Territorial legislature in that vast district. The lack of permanence of residence of a large part of the present population and the small number of the people who either permanently or temporarily reside in the district as compared with its vast expanse and the variety of the interests that have to be subserved, make it altogether unfitting in my judgment to provide for a popular election of a legislative body. The present system is not adequate and does not furnish the character of local control that ought to be there. The only compromise it seems to me which may give needed local legislation and secure a conservative government is the one I propose.

CONSERVATION OF NATIONAL RESOURCES.

In several Departments there is presented the necessity for legislation looking to the further conservation of our national resources, and the subject is one of such importance as to require a more detailed and extended discussion than can be entered upon in this communication. For that reason I shall take an early opportunity to send a special message to Congress on the subject of the improvement of our waterways, upon the reclamation and irrigation of arid, semiarid, and swamp lands; upon the preservation of our forests and the reforestation of suitable areas; upon the reclassification of the public domain with a view of separating from agricultural settlement mineral, coal, and phosphate lands and sites belonging to the Government bordering on streams suitable for the utilization of water power.

DEPARTMENT OF AGRICULTURE.

I commend to your careful consideration the report of the Secretary of Agriculture as showing the immense sphere of usefulness which that Department now fills and the wonderful addition to the wealth of the nation made by the farmers of this country in the crops of the current year.

DEPARTMENT OF COMMERCE AND LABOR. THE LIGHT-HOUSE BOARD.

The Light-House Board now discharges its duties under the Department of Commerce and Labor. For upwards of forty years this Board has been constituted of military and naval officers and two or three men of science, with such an absence of a duly constituted executive head that it is

marvelous what work has been accomplished. In the period of construction the energy and enthusiasm of all the members prevented the inherent defects of the system from interfering greatly with the beneficial work of the Board, but now that the work is chiefly confined to maintenance and repair, for which purpose the country is divided into sixteen districts, to which are assigned an engineer officer of the Army and an inspector of the Navy, each with a light-house tender and the needed plant for his work, it has become apparent by the frequent friction that arises, due to the absence of any central independent authority, that there must be a complete reorganization of the Board. I concede the advantage of keeping in the system the rigidity of discipline that the presence of naval and military officers in charge insures, but unless the presence of such officers in the Board can be made consistent with a responsible executive head that shall have proper authority, I recommend the transfer of control over the light-houses to a suitable civilian bureau. This is in accordance with the judgment of competent persons who are familiar with the workings of the present system. I am confident that a reorganization can be effected which shall avoid the recurrence of friction between members, instances of which have been officially brought to my attention, and that by such reorganization greater efficiency and a substantial reduction in the expense of operation can be brought about.

CONSOLIDATION OF BUREAUS.

I request Congressional authority to enable the Secretary of Commerce and Labor to unite the Bureaus of Manufactures and Statistics. This was recommended by a competent committee appointed in the previous administration for the purpose of suggesting changes in the interest of economy and efficiency, and is requested by the Secretary.

THE WHITE SLAVE TRADE.

I greatly regret to have to say that the investigations made in the Bureau of Immigration and other sources of information lead to the view that there is urgent necessity for additional legislation and greater executive activity to suppress the recruiting of the ranks of prostitutes from the streams of immigration into this country--an evil which, for want of a better name, has been called "The White Slave Trade." I believe it to be constitutional to forbid, under penalty, the transportation of persons for purposes of prostitution across national and state lines; and by appropriating a fund of \$50,000 to be used by the Secretary of Commerce and Labor for the employment of special inspectors it will be possible to bring those responsible for this trade to indictment and conviction under a federal law.

BUREAU OF HEALTH

For a very considerable period a movement has been gathering strength, especially among the members of the medical profession, in favor of a concentration of the instruments of the National Government which have to do with the promotion of public health. In the nature of things, the Medical Department of the Army and the Medical Department of the Navy must be kept separate. But there seems to be no reason why all the other bureaus and offices in the General Government which have to do with the public health or subjects akin thereto should not be united in a bureau to be called the "Bureau of Public Health." This would necessitate the transfer of the Marine-Hospital Service to such a bureau. I am aware that there is wide field in respect to the public health committed to the States in which the Federal Government can not exercise jurisdiction, but we have seen in

the Agricultural Department the expansion into widest usefulness of a department giving attention to agriculture when that subject is plainly one over which the States properly exercise direct jurisdiction. The opportunities offered for useful research and the spread of useful information in regard to the cultivation of the soil and the breeding of stock and the solution of many of the intricate problems in progressive agriculture have demonstrated the wisdom of establishing that department. Similar reasons, of equal force, can be given for the establishment of a bureau of health that shall not only exercise the police jurisdiction of the Federal Government respecting quarantine, but which shall also afford an opportunity for investigation and research by competent experts into questions of health affecting the whole country, or important sections thereof, questions which, in the absence of Federal governmental work, are not likely to be promptly solved.

CIVIL SERVICE COMMISSION.

The work of the United States Civil Service Commission has been performed to the general satisfaction of the executive officers with whom the Commission has been brought into official communication. The volume of that work and its variety and extent have under new laws, such as the Census Act, and new Executive orders, greatly increased. The activities of the Commission required by the statutes have reached to every portion of the public domain.

The accommodations of the Commission are most inadequate for its needs. I call your attention to its request for increase in those accommodations as will appear from the annual report for this year.

POLITICAL CONTRIBUTIONS.

I urgently recommend to Congress that a law be passed requiring that candidates in elections of Members of the House of Representatives, and committees in charge of their candidacy and campaign, file in a proper office of the United States Government a statement of the contributions received and of the expenditures incurred in the campaign for such elections and that similar legislation be enacted in respect to all other elections which are constitutionally within the control of Congress.

FREEDMAN'S SAVINGS AND TRUST COMPANY.

Recommendations have been made by my predecessors that Congress appropriate a sufficient sum to pay the balance--about 38 per cent.--of the amounts due depositors in the Freedman's Savings and Trust Company. I renew this recommendation, and advise also that a proper limitation be prescribed fixing a period within which the claims may be presented, that assigned claims be not recognized, and that a limit be imposed on the amount of fees collectible for services in presenting such claims.

SEMI-CENTENNIAL OF NEGRO FREEDOM.

The year 1913 will mark the fiftieth anniversary of the issuance of the Emancipation Proclamation granting freedom to the negroes. It seems fitting that this event should be properly celebrated. Already a movement has been started by prominent Negroes, encouraged by prominent white people and the press. The South especially is manifesting its interest in this movement.

It is suggested that a proper form of celebration would be an exposition to show the progress the Negroes have made, not only during their period of

freedom, but also from the time of their coming to this country.

I heartily indorse this proposal, and request that the Executive be authorized to appoint a preliminary commission of not more than seven persons to consider carefully whether or not it is wise to hold such an exposition, and if so, to outline a plan for the enterprise. I further recommend that such preliminary commission serve without salary, except as to their actual expenses, and that an appropriation be made to meet such expenses. CONCLUSION.

I have thus, in a message compressed as much as the subjects will permit, referred to many of the legislative needs of the country, with the exceptions already noted. Speaking generally, the country is in a high state of prosperity. There is every reason to believe that we are on the eve of a substantial business expansion, and we have just garnered a harvest unexampled in the market value of our agricultural products. The high prices which such products bring mean great prosperity for the farming community, but on the other hand they mean a very considerably increased burden upon those classes in the community whose yearly compensation does not expand with the improvement in business and the general prosperity. Various reasons are given for the high prices. The proportionate increase in the output of gold, which to-day is the chief medium of exchange and is in some respects a measure of value, furnishes a substantial explanation of at least a part of the increase in prices. The increase in population and the more expensive mode of living of the people, which have not been accompanied by a proportionate increase in acreage production, may furnish a further reason. It is well to note that the increase in the cost of living is not confined to this country, but prevails the world over, and that those who would charge increases in prices to the existing protective tariff must meet the fact that the rise in prices has taken place almost wholly in those products of the factory and farm in respect to which there has been either no increase in the tariff or in many instances a very considerable reduction.

State of the Union Address
William H. Taft
December 6, 1910

To the Senate and House of Representatives:

During the past year the foreign relations of the United States have continued upon a basis of friendship and good understanding. ARBITRATION.

The year has been notable as witnessing the pacific settlement of two important international controversies before the Permanent Court of The Hague.

The arbitration of the Fisheries dispute between the United States and Great Britain, which has been the source of nearly continuous diplomatic correspondence since the Fisheries Convention of 1818, has given an award which is satisfactory to both parties. This arbitration is particularly noteworthy not only because of the eminently just results secured, but also because it is the first arbitration held under the general arbitration treaty of April 4, 1908, between the United States and Great Britain, and disposes of a controversy the settlement of which has resisted every other resource of diplomacy, and which for nearly ninety years has been the cause of friction between two countries whose common interest lies in maintaining

the most friendly and cordial relations with each other.

The United States was ably represented before the tribunal. The complicated history of the questions arising made the issue depend, more than ordinarily in such cases, upon the care and skill with which our case was presented, and I should be wanting in proper recognition of a great patriotic service if I did not refer to the lucid historical analysis of the facts and the signal ability and force of the argument--six days in length--presented to the Court in support of our case by Mr. Elihu Root. As Secretary of State, Mr. Root had given close study to the intricate facts bearing on the controversy, and by diplomatic correspondence had helped to frame the issues. At the solicitation of the Secretary of State and myself, Mr. Root, though burdened by his duties as Senator from New York, undertook the preparation of the case as leading counsel, with the condition imposed by himself that, in view of his position as Senator, he should not receive any compensation.

The Tribunal constituted at The Hague by the Governments of the United States and Venezuela has completed its deliberations and has rendered an award in the case of the Orinoco Steamship Company against Venezuela. The award may be regarded as satisfactory since it has, pursuant to the contentions of the United States, recognized a number of important principles making for a judicial attitude in the determining of international disputes.

In view of grave doubts which had been raised as to the constitutionality of The Hague Convention for the establishment of an International Prize Court, now before the Senate for ratification, because of that provision of the Convention which provides that there may be an appeal to the proposed Court from the decisions of national courts, this government proposed in an Identic Circular Note addressed to those Powers who had taken part in the London Maritime Conference, that the powers signatory to the Convention, if confronted with such difficulty, might insert a reservation to the effect that appeals to the International Prize Court in respect to decisions of its national tribunals, should take the form of a direct claim for compensation; that the proceedings thereupon to be taken should be in the form of a trial de novo, and that judgment of the Court should consist of compensation for the illegal capture, irrespective of the decision of the national court whose judgment had thus been internationally involved. As the result of an informal discussion it was decided to provide such procedure by means of a separate protocol which should be ratified at the same time as the Prize Court Convention itself.

Accordingly, the Government of the Netherlands, at the request of this Government, proposed under date of May 24, 1910, to the powers signatory to The Hague Convention, the negotiation of a supplemental protocol embodying stipulations providing for this alternative procedure. It is gratifying to observe that this additional protocol is being signed without objection, by the powers signatory to the original convention, and there is every reason to believe that the International Prize Court will be soon established.

The Identic Circular Note also proposed that the International Prize Court when established should be endowed with the functions of an Arbitral Court of Justice under and pursuant to the recommendation adopted by the last Hague Conference. The replies received from the various powers to this proposal inspire the hope that this also may be accomplished within the reasonably near future.

It is believed that the establishment of these two tribunals will go a long

way toward securing the arbitration of many questions which have heretofore threatened and, at times, destroyed the peace of nations.

PEACE COMMISSION.

Appreciating these enlightened tendencies of modern times, the Congress at its last session passed a law providing for the appointment of a commission of five members "to be appointed by the President of the United States to consider the expediency of utilizing existing international agencies for the purpose of limiting the armaments of the nations of the world by international agreement, and of constituting the combined navies of the world an international force for the preservation of universal peace, and to consider and report upon any other means to diminish the expenditures of government for military purposes and to lessen the probabilities of war."

I have not as yet made appointments to this Commission because I have invited and am awaiting the expressions of foreign governments as to their willingness to cooperate with us in the appointment of similar commissions or representatives who would meet with our commissioners and by joint action seek to make their work effective.

GREAT BRITAIN AND CANADA.

Several important treaties have been negotiated with Great Britain in the past twelve months. A preliminary diplomatic agreement has been reached regarding the arbitration of pecuniary claims which each Government has against the other. This agreement, with the schedules of claims annexed, will, as soon as the schedules are arranged, be submitted to the Senate for approval.

An agreement between the United States and Great Britain with regard to the location of the international boundary line between the United States and Canada in Passamaquoddy Bay and to the middle of Grand Manan Channel was reached in a Treaty concluded May 21, 1910, which has been ratified by both Governments and proclaimed, thus making unnecessary the arbitration provided for in the previous treaty of April 11, 1908.

The Convention concluded January 11, 1909, between the United States and Great Britain providing for the settlement of international differences between the United States and Canada including the apportionment between the two countries of certain of the boundary waters and the appointment of Commissioners to adjust certain other questions has been ratified by both Governments and proclaimed.

The work of the International Fisheries Commission appointed in 1908, under the treaty of April 11, 1908, between Great Britain and the United States, has resulted in the formulation and recommendation of uniform regulations governing the fisheries of the boundary waters of Canada and the United States for the purpose of protecting and increasing the supply of food fish in such waters. In completion of this work, the regulations agreed upon

require congressional legislation to make them effective and for their enforcement in fulfillment of the treaty stipulations. PORTUGAL.

In October last the monarchy in Portugal was overthrown, a provisional Republic was proclaimed, and there was set up a de facto Government which was promptly recognized by the Government of the United States for purposes of ordinary intercourse pending formal recognition by this and other Powers of the Governmental entity to be duly established by the national

sovereignty. LIBERIA.

A disturbance among the native tribes of Liberia in a portion of the Republic during the early part of this year resulted in the sending, under the Treaty of 1862, of an American vessel of war to the disaffected district, and the Liberian authorities, assisted by the good offices of the American Naval Officers, were able to restore order. The negotiations which have been undertaken for the amelioration of the conditions found in Liberia by the American Commission, whose report I transmitted to Congress on March 25 last, are being brought to conclusion, and it is thought that within a short time practical measures of relief may be put into effect through the good offices of this Government and the cordial cooperation of other governments interested in Liberia's welfare.

THE NEAR EAST. TURKEY.

To return the visit of the Special Embassy announcing the accession of His Majesty Mehemet V, Emperor of the Ottomans, I sent to Constantinople a Special Ambassador who, in addition to this mission of ceremony, was charged with the duty of expressing to the Ottoman Government the value attached by the Government of the United States to increased and more important relations between the countries and the desire of the United States to contribute to the larger economic and commercial development due to the new regime in Turkey.

The rapid development now beginning in that ancient empire and the marked progress and increased commercial importance of Bulgaria, Roumania, and Servia make it particularly opportune that the possibilities of American commerce in the Near East should receive due attention. MONTENEGRO.

The National Skoupchtina having expressed its will that the Principality of Montenegro be raised to the rank of Kingdom, the Prince of Montenegro on August 15 last assumed the title of King of Montenegro. It gave me pleasure to accord to the new kingdom the recognition of the United States.

THE FAR EAST.

The center of interest in Far Eastern affairs during the past year has again been China.

It is gratifying to note that the negotiations for a loan to the Chinese Government for the construction of the trunk railway lines from Hankow southward to Canton and westward through the Yangtse Valley, known as the Hukuang Loan, were concluded by the representatives of the various financial groups in May last and the results approved by their respective governments. The agreement, already initialed by the Chinese Government, is now awaiting formal ratification. The basis of the settlement of the terms of this loan was one of exact equality between America, Great Britain, France, and Germany in respect to financing the loan and supplying materials for the proposed railways and their future branches.

The application of the principle underlying the policy of the United States in regard to the Hukuang Loan, viz., that of the internationalization of the foreign interest in such of the railways of China as may be financed by foreign countries, was suggested on a broader scale by the Secretary of State in a proposal for internationalization and commercial neutralization of all the railways of Manchuria. While the principle which led to the proposal of this Government was generally admitted by the powers to whom it was addressed, the Governments of Russia and Japan apprehended practical

difficulties in the execution of the larger plan which prevented their ready adherence. The question of constructing the Chinchow-Aigun railway by means of an international loan to China is, however, still the subject of friendly discussion by the interested parties.

The policy of this Government in these matters has been directed by a desire to make the use of American capital in the development of China an instrument in the promotion of China's welfare and material prosperity without prejudice to her legitimate rights as an independent political power.

This policy has recently found further exemplification in the assistance given by this Government to the negotiations between China and a group of American bankers for a loan of \$50,000,000 to be employed chiefly in currency reform. The confusion which has from ancient times existed in the monetary usages of the Chinese has been one of the principal obstacles to commercial intercourse with that people. The United States in its Treaty of 1903 with China obtained a pledge from the latter to introduce a uniform national coinage, and the following year, at the request of China, this Government sent to Peking a member of the International Exchange Commission, to discuss with the Chinese Government the best methods of introducing the reform. In 1908 China sent a Commissioner to the United States to consult with American financiers as to the possibility of securing a large loan with which to inaugurate the new currency system, but the death of Their Majesties, the Empress Dowager and the Emperor of China, interrupted the negotiations, which were not resumed until a few months ago, when this Government was asked to communicate to the bankers concerned the request of China for a loan of \$50,000,000 for the purpose under review. A preliminary agreement between the American group and China has been made covering the loan.

For the success of this loan and the contemplated reforms which are of the greatest importance to the commercial interests of the United States and the civilized world at large, it is realized that an expert will be necessary, and this Government has received assurances from China that such an adviser, who shall be an American, will be engaged.

It is a matter of interest to Americans to note the success which is attending the efforts of China to establish gradually a system of representative government. The provincial assemblies were opened in October, 1909, and in October of the present year a consultative body, the nucleus of the future national parliament, held its first session at Peking.

The year has further been marked by two important international agreements relating to Far Eastern affairs. In the Russo-Japanese Agreement relating to Manchuria, signed July 4, 1910, this Government was gratified to note an assurance of continued peaceful conditions in that region and the reaffirmation of the policies with respect to China to which the United States together with all other interested powers are alike solemnly committed.

The treaty annexing Korea to the Empire of Japan, promulgated August 29, 1910, marks the final step in a process of control of the ancient empire by her powerful neighbor that has been in progress for several years past. In communicating the fact of annexation the Japanese Government gave to the Government of the United States assurances of the full protection of the rights of American citizens in Korea under the changed conditions.

Friendly visits of many distinguished persons from the Far East have been made during the year. Chief among these were Their Imperial Highnesses Princes Tsai-tao and Tsai-Hsun of China; and His Imperial Highness Prince Higashi Fushimi, and Prince Tokugawa, President of the House of Peers of Japan. The Secretary of War has recently visited Japan and China in connection with his tour to the Philippines, and a large delegation of American business men are at present traveling in China. This exchange of friendly visits has had the happy effect of even further strengthening our friendly international relations.

LATIN AMERICA.

During the past year several of our southern sister Republics celebrated the one hundredth anniversary of their independence. In honor of these events, special embassies were sent from this country to Argentina, Chile, and Mexico, where the gracious reception and splendid hospitality extended them manifested the cordial relations and friendship existing between those countries and the United States, relations which I am happy to believe have never before been upon so high a plane and so solid a basis as at present.

The Congressional commission appointed under a concurrent resolution to attend the festivities celebrating the centennial anniversary of Mexican independence, together with a special ambassador, were received with the highest honors and with the greatest cordiality, and returned with the report of the bounteous hospitality and warm reception of President Diaz and the Mexican people, which left no doubt of the desire of the immediately neighboring Republic to continue the mutually beneficial and intimate relations which I feel sure the two governments will ever cherish.

At the Fourth Pan-American Conference which met in Buenos Aires during July and August last, after seven weeks of harmonious deliberation, three conventions were signed providing for the regulation of trade-marks, patents, and copyrights, which when ratified by the different Governments, will go far toward furnishing to American authors, patentees, and owners of trade-marks the protection needed in localities where heretofore it has been either lacking or inadequate. Further, a convention for the arbitration of pecuniary claims was signed and a number of important resolutions passed. The Conventions will in due course be transmitted to the Senate, and the report of the Delegation of the United States will be communicated to the Congress for its information. The special cordiality between representative men from all parts of America which was shown at this Conference cannot fail to react upon and draw still closer the relations between the countries which took part in it.

The International Bureau of American Republics is doing a broad and useful work for Pan American commerce and comity. Its duties were much enlarged by the International Conference of American States at Buenos Aires and its name was shortened to the more practical and expressive term of Pan American Union. Located now in its new building, which was specially dedicated April 26 of this year to the development of friendship, trade and peace among the American nations, it has improved instrumentalities to serve the twenty-two republics of this hemisphere.

I am glad to say that the action of the United States in its desire to remove imminent danger of war between Peru and Ecuador growing out of a boundary dispute, with the cooperation of Brazil and the Argentine Republic as joint mediators with this Government, has already resulted successfully in preventing war. The Government of Chile, while not one of the mediators,

lent effective aid in furtherance of a preliminary agreement likely to lead on to an amicable settlement, and it is not doubted that the good offices of the mediating Powers and the conciliatory cooperation of the Governments directly interested will finally lead to a removal of this perennial cause of friction between Ecuador and Peru. The inestimable value of cordial cooperation between the sister republics of America for the maintenance of peace in this hemisphere has never been more clearly shown than in this mediation, by which three American Governments have given to this hemisphere the honor of first invoking the most far-reaching provisions of The Hague Convention for the pacific settlement of international disputes.

There has been signed by the representatives of the United States and Mexico a protocol submitting to the United States-Mexican Boundary Commission (whose membership for the purpose of this case is to be increased by the addition of a citizen of Canada) the question of sovereignty over the Chamizal Tract which lies within the present physical boundaries of the city of El Paso, Tex. The determination of this question will remove a source of no little annoyance to the two Governments.

The Republic of Honduras has for many years been burdened with a heavy bonded debt held in Europe, the interest on which long ago fell in arrears. Finally conditions were such that it became imperative to refund the debt and place the finances of the Republic upon a sound basis. Last year a group of American bankers undertook to do this and to advance funds for railway and other improvements contributing directly to the country's prosperity and commerce--an arrangement which has long been desired by this Government. Negotiations to this end have been under way for more than a year and it is now confidently believed that a short time will suffice to conclude an arrangement which will be satisfactory to the foreign creditors, eminently advantageous to Honduras, and highly creditable to the judgment and foresight of the Honduran Government. This is much to be desired since, as recognized by the Washington Conventions, a strong Honduras would tend immensely to the progress and prosperity of Central America.

During the past year the Republic of Nicaragua has been the scene of internecine struggle. General Zelaya, for seventeen years the absolute ruler of Nicaragua, was throughout his career the disturber of Central America and opposed every plan for the promotion of peace and friendly relations between the five republics. When the people of Nicaragua were finally driven into rebellion by his lawless exactions, he violated the laws of war by the unwarranted execution of two American citizens who had regularly enlisted in the ranks of the revolutionists. This and other offenses made it the duty of the American Government to take measures with a view to ultimate reparation and for the safeguarding of its interests. This involved the breaking off of all diplomatic relations with the Zelaya Government for the reasons laid down in a communication from the Secretary of State, which also notified the contending factions in Nicaragua that this Government would hold each to strict accountability for outrages on the rights of American citizens. American forces were sent to both coasts of Nicaragua to be in readiness should occasion arise to protect Americans and their interests, and remained there until the war was over and peace had returned to that unfortunate country. These events, together with Zelaya's continued exactions, brought him so clearly to the bar of public opinion that he was forced to resign and to take refuge abroad.

In the above-mentioned communication of the Secretary of State to the Charge d'Affaires of the Zelaya Government, the opinion was expressed that the revolution represented the wishes of the majority of the Nicaraguan

people. This has now been proved beyond doubt by the fact that since the complete overthrow of the Madriz Government and the occupation of the capital by the forces of the revolution, all factions have united to maintain public order and as a result of discussion with an Agent of this Government, sent to Managua at the request of the Provisional Government, comprehensive plans are being made for the future welfare of Nicaragua, including the rehabilitation of public credit. The moderation and conciliatory spirit shown by the various factions give ground for the confident hope that Nicaragua will soon take its rightful place among the law-abiding and progressive countries of the world.

It gratifies me exceedingly to announce that the Argentine Republic some months ago placed with American manufacturers a contract for the construction of two battle-ships and certain additional naval equipment. The extent of this work and its importance to the Argentine Republic make the placing of the bid an earnest of friendly feeling toward the United States.

TARIFF NEGOTIATIONS.

The new tariff law, in section 2, respecting the maximum and minimum tariffs of the United States, which provisions came into effect on April 1, 1910, imposed upon the President the responsibility of determining prior to that date whether or not any undue discrimination existed against the United States and its products in any country of the world with which we sustained commercial relations.

In the case of several countries instances of apparent undue discrimination against American commerce were found to exist. These discriminations were removed by negotiation. Prior to April 1, 1910, when the maximum tariff was to come into operation with respect to importations from all those countries in whose favor no proclamation applying the minimum tariff should be issued by the President, one hundred and thirty-four such proclamations were issued. This series of proclamations embraced the entire commercial world, and hence the minimum tariff of the United States has been given universal application, thus testifying to the satisfactory character of our trade relations with foreign countries.

Marked advantages to the commerce of the United States were obtained through these tariff settlements. Foreign nations are fully cognizant of the fact that under section 2 of the tariff act the President is required, whenever he is satisfied that the treatment accorded by them to the products of the United States is not such as to entitle them to the benefits of the minimum tariff of the United States, to withdraw those benefits by proclamation giving ninety days' notice, after which the maximum tariff will apply to their dutiable products entering the United States. In its general operation this section of the tariff law has thus far proved a guaranty of continued commercial peace, although there are unfortunately instances where foreign governments deal arbitrarily with American interests within their jurisdiction in a manner injurious and inequitable.

The policy of broader and closer trade relations with the Dominion of Canada which was initiated in the adjustment of the maximum and minimum provisions of the Tariff Act of August, 1909, has proved mutually beneficial. It justifies further efforts for the readjustment of the commercial relations of the two countries so that their commerce may follow the channels natural to contiguous countries and be commensurate with the steady expansion of trade and industry on both sides of the boundary line.

The reciprocation on the part of the Dominion Government of the sentiment which was expressed by this Government was followed in October by the suggestion that it would be glad to have the negotiations, which had been temporarily suspended during the summer, resumed. In accordance with this suggestion the Secretary of State, by my direction, dispatched two representatives of the Department of State as special commissioners to Ottawa to confer with representatives of the Dominion Government. They were authorized to take such steps for formulating a reciprocal trade agreement as might be necessary and to receive and consider any propositions which the Dominion Government might care to submit.

Pursuant to the instructions issued conferences were held by these commissioners with officials of the Dominion Government at Ottawa in the early part of November.

The negotiations were conducted on both sides in a spirit of mutual accommodation. The discussion of the common commercial interests of the two countries had for its object a satisfactory basis for a trade arrangement which offers the prospect of a freer interchange for the products of the United States and of Canada. The conferences were adjourned to be resumed in Washington in January, when it is hoped that the aspiration of both Governments for a mutually advantageous measure of reciprocity will be realized.

FOSTERING FOREIGN TRADE.

All these tariff negotiations, so vital to our commerce and industry, and the duty of jealously guarding the equitable and just treatment of our products, capital, and industry abroad devolve upon the Department of State.

The Argentine battle-ship contracts, like the subsequent important one for Argentine railway equipment, and those for Cuban Government vessels, were secured for our manufacturers largely through the good offices of the Department of State.

The efforts of that Department to secure for citizens of the United States equal opportunities in the markets of the world and to expand American commerce have been most successful. The volume of business obtained in new fields of competition and upon new lines is already very great and Congress is urged to continue to support the Department of State in its endeavors for further trade expansion.

Our foreign trade merits the best support of the Government and the most earnest endeavor of our manufacturers and merchants, who, if they do not already in all cases need a foreign market, are certain soon to become dependent on it. Therefore, now is the time to secure a strong position in this field.

AMERICAN BRANCH BANKS ABROAD.

I cannot leave this subject without emphasizing the necessity of such legislation as will make possible and convenient the establishment of American banks and branches of American banks in foreign countries. Only by such means can our foreign trade be favorably financed, necessary credits be arranged, and proper avail be made of commercial opportunities in foreign countries, and most especially in Latin America.

AID TO OUR FOREIGN MERCHANT MARINE.

Another instrumentality indispensable to the unhampered and natural development of American commerce is merchant marine. All maritime and commercial nations recognize the importance of this factor. The greatest commercial nations, our competitors, jealously foster their merchant marine. Perhaps nowhere is the need for rapid and direct mail, passenger and freight communication quite so urgent as between the United States and Latin America. We can secure in no other quarter of the world such immediate benefits in friendship and commerce as would flow from the establishment of direct lines of communication with the countries of Latin America adequate to meet the requirements of a rapidly increasing appreciation of the reciprocal dependence of the countries of the Western Hemisphere upon each other's products, sympathies and assistance.

I alluded to this most important subject in my last annual message; it has often been before you and I need not recapitulate the reasons for its recommendation. Unless prompt action be taken the completion of the Panama Canal will find this the only great commercial nation unable to avail in international maritime business of this great improvement in the means of the world's commercial intercourse.

Quite aside from the commercial aspect, unless we create a merchant marine, where can we find the seafaring population necessary as a natural naval reserve and where could we find, in case of war, the transports and subsidiary vessels without which a naval fleet is arms without a body? For many reasons I cannot too strongly urge upon the Congress the passage of a measure by mail subsidy or other subvention adequate to guarantee the establishment and rapid development of an American merchant marine, and the restoration of the American flag to its ancient place upon the seas.

Of course such aid ought only to be given under conditions of publicity of each beneficiary's business and accounts which would show that the aid received was needed to maintain the trade and was properly used for that purpose.

FEDERAL PROTECTION TO ALIENS.

With our increasing international intercourse, it becomes incumbent upon me to repeat more emphatically than ever the recommendation which I made in my Inaugural Address that Congress shall at once give to the Courts of the United States jurisdiction to punish as a crime the violation of the rights of aliens secured by treaty with the United States, in order that the general government of the United States shall be able, when called upon by a friendly nation, to redeem its solemn promise by treaty to secure to the citizens or subjects of that nation resident in the United States, freedom from violence and due process of law in respect to their life, liberty and property.

MERIT SYSTEM FOR DIPLOMATIC AND CONSULAR SERVICE.

I also strongly commend to the favorable action of the Congress the enactment of a law applying to the diplomatic and consular service the principles embodied in Section 1753 of the Revised Statutes of the United States, in the Civil Service Act of January 16, 1883, and the Executive Orders of June 27, 1906, and of November 26, 1909. The excellent results which have attended the partial application of Civil Service principles to the diplomatic and consular services are an earnest of the benefit to be wrought by a wider and more permanent extension of those principles to both branches of the foreign service. The marked improvement in the consular

service during the four years since the principles of the Civil Service Act were applied to that service in a limited way, and the good results already noticeable from a similar application of civil service principles to the diplomatic service a year ago, convince me that the enactment into law of the general principles of the existing executive regulations could not fail to effect further improvement of both branches of the foreign service, offering as it would by its assurance of permanency of tenure and promotion on merit, an inducement for the entry of capable young men into the service and an incentive to those already in to put forth their best efforts to attain and maintain that degree of efficiency which the interests of our international relations and commerce demand.

GOVERNMENT OWNERSHIP OF OUR EMBASSY AND LEGATION PREMISES.

During many years past appeals have been made from time to time to Congress in favor of Government ownership of embassy and legation premises abroad. The arguments in favor of such ownership have been many and oft repeated and are well known to the Congress. The acquisition by the Government of suitable residences and offices for its diplomatic officers, especially in the capitals of the Latin-American States and of Europe, is so important and necessary to an improved diplomatic service that I have no hesitation in urging upon the Congress the passage of some measure similar to that favorably reported by the House Committee on Foreign Affairs on February 14, 1910 (Report No. 438), that would authorize the gradual and annual acquisition of premises for diplomatic use.

The work of the Diplomatic Service is devoid of partisanship; its importance should appeal to every American citizen and should receive the generous consideration of the Congress.

TREASURY DEPARTMENT.

ESTIMATES FOR NEXT YEAR'S EXPENSES.

Every effort has been made by each department chief to reduce the estimated cost of his department for the ensuing fiscal year ending June 30, 1912. I say this in order that Congress may understand that these estimates thus made present the smallest sum which will maintain the departments, bureaus, and offices of the Government and meet its other obligations under existing law, and that a cut of these estimates would result in embarrassing the executive branch of the Government in the performance of its duties. This remark does not apply to the river and harbor estimates, except to those for expenses of maintenance and the meeting of obligations under authorized contracts, nor does it apply to the public building bill nor to the navy building program. Of course, as to these Congress could withhold any part or all of the estimates for them without interfering with the discharge of the ordinary obligations of the Government or the performance of the functions of its departments, bureaus, and offices.

A FIFTY-TWO MILLION CUT.

The final estimates for the year ending June 30, 1912, as they have been sent to the Treasury, on November 29 of this year, for the ordinary expenses of the Government, including those for public buildings, rivers and harbors, and the navy building program, amount to \$630,494,013.12. This is \$52,964,887.36 less than the appropriations for the fiscal year ending June 30, 1911. It is \$16,883,153.44 less than the total estimates, including supplemental estimates submitted to Congress by the Treasury for the year 1911, and is \$5,574,659.39 less than the original estimates

submitted by the Treasury for 1911.

These figures do not include the appropriations for the Panama Canal, the policy in respect to which ought to be, and is, to spend as much each year as can be economically and effectively expended in order to complete the Canal as promptly as possible, and, therefore, the ordinary motive for cutting down the expense of the Government does not apply to appropriations for this purpose. It will be noted that the estimates for the Panama Canal for the ensuing year are more than fifty-six millions of dollars, an increase of twenty millions over the amount appropriated for this year--a difference due to the fact that the estimates for 1912 include something over nineteen millions for the fortification of the Canal. Against the estimated expenditures of \$630,494,013.12, the Treasury has estimated receipts for next year \$680,000,000, making a probable surplus of ordinary receipts over ordinary expenditures of about \$50,000,000.

A table showing in detail the estimates and the comparisons referred to follows.

TYPICAL ECONOMIES.

The Treasury Department is one of the original departments of the Government. With the changes in the monetary system made from time to time and with the creation of national banks, it was thought necessary to organize new bureaus and divisions which were added in a somewhat haphazard way and resulted in a duplication of duties which might well now be ended. This lack of system and economic coordination has attracted the attention of the head of that Department who has been giving his time for the last two years, with the aid of experts and by consulting his bureau chiefs, to its reformation. He has abolished four hundred places in the civil service without at all injuring its efficiency. Merely to illustrate the character of the reforms that are possible, I shall comment on some of the specific changes that are being made, or ought to be made by legislative aid.

AUDITING SYSTEM.

The auditing system in vogue is as old as the Government and the methods used are antiquated. There are six Auditors and seven Assistant Auditors for the nine departments, and under the present system the only function which the Auditor of a department exercises is to determine, on accounts presented by disbursing officers, that the object of the expenditure was within the law and the appropriation made by Congress for the purpose on its face, and that the calculations in the accounts are correct. He does not examine the merits of the transaction or determine the reasonableness of the price paid for the articles purchased, nor does he furnish any substantial check upon disbursing officers and the heads of departments or bureaus with sufficient promptness to enable the Government to recoup itself in full measure for unlawful expenditure. A careful plan is being devised and will be presented to Congress with the recommendation that the force of auditors and employees under them be greatly reduced, thereby effecting substantial economy. But this economy will be small compared with the larger economy that can be effected by consolidation and change of methods. The possibilities in this regard have been shown in the reduction of expenses and the importance of methods and efficiency in the office of the Auditor for the Post Office Department, who, without in the slightest degree impairing the comprehensiveness and efficiency of his work, has cut down the expenses of his office \$120,000 a year.

Statement of estimates of appropriations for the fiscal years 1912 and

1911, and of appropriations for 1911, showing increases and decreases. -
Final Estimates for 1912 as of November 29 - Original Estimates submitted
by the Treasury for 1911 - Total Estimates for 1911 including supplementals
- Appropriations for 1911 - Increase (+) and decrease (-), 1912 estimates
against 1911 total estimates - Increase (+) and decrease (-), 1912
estimates against 1911 total appropriations - Increase (+) and decrease
(-), 1911 estimates against 1911 total appropriations

Legislature - \$13,426,805.73 - \$13,169,679.70 - \$13,169,679.70 -
\$12,938,048.00 - + \$257,126.03 - + \$488,757.73 - + \$231,631.70

Executive - 998,170.00 - 472,270.00 - 722,270.00 - 870,750.00 - +
275,900.00 - + 127,420.00 - - 148,480.00

State Department: - 4,875,576.41 - 4,875,301.41 - 4,749,801.41 -
5,046,701.41 - + 125,775.00 - - 171,125.00 - - 296,900.00

TREASURY DEPARTMENT: Treasury Department proper - 68,735,451.00 -
69,865,240.00 - 70,393,543.75 - 69,973,434.61 - - 1,658,092.75 - -
1,237,983.61 - + 420,109.14

Public buildings and works - 11,864,545.60 - 6,198,365.60 - 7,101,465.60 -
5,565,164.00 - + 4,763,080.00 - + 6,299,381.60 - + 1,536,301.60

Territorial governments - 202,150.00 - 287,350.00 - 292,350.00 - 282,600.00
- - 90,200.00 - - 80,450.00 - + 9,750.00

Independent offices - 2,638,695.12 - 2,400,695.12 - 2,492,695.12 -
2,128,695.12 - + 146,000.00 - + 510,000.00 - + 364,000.00

District of Columbia - 13,602,785.90 - 11,884,928.49 - 12,108,878.49 -
11,440,346.99 - + 1,492,907.41 - + 2,162,439.91 - + 668,532.50

WAR DEPARTMENT: War Department proper - 120,104,260.12 - 124,165,656.28 -
125,717,204.77 - 122,322,178.12 - - 5,612,944.65 - - 2,217,918.00 - +
3,395,026.65

Rivers and harbors - 28,232,438.00 - 28,232,465.00 - 28,232,465.00 -
49,390,541.50 - - 27.00 - -21,158,103.50 - -21,158,076.50

NAVY DEPARTMENT: Navy Department proper - 116,101,730.24 - 117,029,914.38 -
119,768,860.83 - 119,596,870.46 - - 3,667,130.59 - - 3,495,140.22 - +
171,990.37

New navy building program - 12,840,428.00 - 12,844,122.00 - 12,844,122.00 -
14,790,122.00 - - 3,694.00 - - 1,949,694.00 - - 1,946,000.00

Interior Department - 189,151,875.00 - 191,224,182.90 - 193,948,582.02 -
214,754,278.00 - - 4,796,707.02 - -25,602,403.00 - -20,805,698.98

Post-Office Department proper - 1,697,490.00 - 1,695,690.00 - 1,695,690.00
- 2,085,005.33 - + 1,800.00 - - 387,515.33 - - 389,315.33

Deficiency in postal revenues - ----- - 10,634,122.63 -
10,634,122.63 - 10,634,122.63 - -10,634,122.65 - -10,634,122.63 -

Department of Agriculture - 19,681,066.00 - 17,681,136.00 - 17,753,931.24 -
17,821,836.00 - + 1,927,134.76 - + 1,859,230.00 - - 67,904.76

Department of Commerce and

Labor - 16,276,970.00 - 14,187,913.00 - 15,789,271.00 - 14,169,969.32 - +
487,699.00 - + 2,107,000.68 - + 1,619,301.68

Department of Justice - 10,063,576.00 - 9,518,640.00 - 9,962,233.00 -
9,648,237.99 - + 101,343.00 - + 415,338.01 - + 313,995.01 -

State of the Union Address
William H. Taft
December 5, 1911

[Jump to Part II](#) | [Part III](#) | [Part IV](#)

This message is the first of several which I shall send to Congress during the interval between the opening of its regular session and its adjournment for the Christmas holidays. The amount of information to be communicated as to the operations of the Government, the number of important subjects calling for comment by the Executive, and the transmission to Congress of exhaustive reports of special commissions, make it impossible to include in one message of a reasonable length a discussion of the topics that ought to be brought to the attention of the National Legislature at its first regular session.

THE ANTI-TRUST LAW-THE SUPREME COURT DECISIONS.

In May last the Supreme Court handed down decisions in the suits in equity brought by the United States to enjoin the further maintenance of the Standard Oil Trust and of the American Tobacco Trust, and to secure their dissolution. The decisions are epoch-making and serve to advise the business world authoritatively of the scope and operation of the anti-trust act of 1890. The decisions do not depart in any substantial way from the previous decisions of the court in construing and applying this important statute, but they clarify those decisions by further defining the already admitted exceptions to the literal construction of the act. By the decrees, they furnish a useful precedent as to the proper method of dealing with the capital and property of illegal trusts. These decisions suggest the need and wisdom of additional or supplemental legislation to make it easier for the entire business community to square with the rule of action and legality thus finally established and to preserve the benefit, freedom, and spur of reasonable competition without loss of real efficiency or progress.

NO CHANGE IN THE RULE OF DECISION-MERELY IN ITS FORM OF EXPRESSION.

The statute in its first section declares to be illegal "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States or with foreign nations," and in the second, declares guilty of a misdemeanor "every person who shall monopolize or attempt to monopolize or combine or conspire with any other person to monopolize any part of the trade or commerce of the several States or with foreign nations."

In two early cases, where the statute was invoked to enjoin a transportation rate agreement between interstate railroad companies, it was held that it was no defense to show that the agreement as to rates

complained of was reasonable at common law, because it was said that the statute was directed against all contracts and combinations in restraint of trade whether reasonable at common law or not. It was plain from the record, however, that the contracts complained of in those cases would not have been deemed reasonable at common law. In subsequent cases the court said that the statute should be given a reasonable construction and refused to include within its inhibition, certain contractual restraints of trade which it denominated as incidental or as indirect.

These cases of restraint of trade that the court excepted from the operation of the statute were instances which, at common law, would have been called reasonable. In the Standard Oil and Tobacco cases, therefore, the court merely adopted the tests of the common law, and in defining exceptions to the literal application of the statute, only substituted for the test of being incidental or indirect, that of being reasonable, and this, without varying in the slightest the actual scope and effect of the statute. In other words, all the cases under the statute which have now been decided would have been decided the same way if the court had originally accepted in its construction the rule at common law.

It has been said that the court, by introducing into the construction of the statute common-law distinctions, has emasculated it. This is obviously untrue. By its judgment every contract and combination in restraint of interstate trade made with the purpose or necessary effect of controlling prices by stifling competition, or of establishing in whole or in part a monopoly of such trade, is condemned by the statute. The most extreme critics can not instance a case that ought to be condemned under the statute which is not brought within its terms as thus construed.

The suggestion is also made that the Supreme Court by its decision in the last two cases has committed to the court the undefined and unlimited discretion to determine whether a case of restraint of trade is within the terms of the statute. This is wholly untrue. A reasonable restraint of trade at common law is well understood and is clearly defined. It does not rest in the discretion of the court. It must be limited to accomplish the purpose of a lawful main contract to which, in order that it shall be enforceable at all, it must be incidental. If it exceed the needs of that contract, it is void.

The test of reasonableness was never applied by the court at common law to contracts or combinations or conspiracies in restraint of trade whose purpose was or whose necessary effect would be to stifle competition, to control prices, or establish monopolies. The courts never assumed power to say that such contracts or combinations or conspiracies might be lawful if the parties to them were only moderate in the use of the power thus secured and did not exact from the public too great and exorbitant prices. It is true that many theorists, and others engaged in business violating the statute, have hoped that some such line could be drawn by courts; but no court of authority has ever attempted it. Certainly there is nothing in the decisions of the latest two cases from which such a dangerous theory of judicial discretion in enforcing this statute can derive the slightest sanction.

FORCE AND EFFECTIVENESS OF STATUTE A MATTER OF GROWTH.

We have been twenty-one years making this statute effective for the purposes for which it was enacted. The Knight case was discouraging and seemed to remit to the States the whole available power to attack and suppress the evils of the trusts. Slowly, however, the error of that

judgment was corrected, and only in the last three or four years has the heavy hand of the law been laid upon the great illegal combinations that have exercised such an absolute dominion over many of our industries. Criminal prosecutions have been brought and a number are pending, but juries have felt averse to convicting for jail sentences, and judges have been most reluctant to impose such sentences on men of respectable standing in society whose offense has been regarded as merely statutory. Still, as the offense becomes better understood and the committing of it partakes more of studied and deliberate defiance of the law, we can be confident that juries will convict individuals and that jail sentences will be imposed.

THE REMEDY IN EQUITY BY DISSOLUTION.

In the Standard Oil case the Supreme and Circuit Courts found the combination to be a monopoly of the interstate business of refining, transporting, and marketing petroleum and its products, effected and maintained through thirty-seven different corporations, the stock of which was held by a New Jersey company. It in effect commanded the dissolution of this combination, directed the transfer and pro rata distribution by the New Jersey company of the stock held by it in the thirty-seven corporations to and among its stockholders; and the corporations and individual defendants were enjoined from conspiring or combining to restore such monopoly; and all agreements between the subsidiary corporations tending to produce or bring about further violations of the act were enjoined.

In the Tobacco case, the court found that the individual defendants, twenty-nine in number, had been engaged in a successful effort to acquire complete dominion over the manufacture, sale, and distribution of tobacco in this country and abroad, and that this had been done by combinations made with a purpose and effect to stifle competition, control prices, and establish a monopoly, not only in the manufacture of tobacco, but also of tin-foil and licorice used in its manufacture and of its products of cigars, cigarettes, and snuffs. The tobacco suit presented a far more complicated and difficult case than the Standard Oil suit for a decree which would effectuate the will of the court and end the violation of the statute. There was here no single holding company as in the case of the Standard Oil Trust. The main company was the American Tobacco Company, a manufacturing, selling, and holding company. The plan adopted to destroy the combination and restore competition involved the redivision of the capital and plants of the whole trust between some of the companies constituting the trust and new companies organized for the purposes of the decree and made parties to it, and numbering, new and old, fourteen.

SITUATION AFTER READJUSTMENT.

The American Tobacco Company (old), readjusted capital, \$92, 000,000; the Liggett & Meyers Tobacco Company (new), capital, \$67,000,000; the P. Lorillard Company (new), capital, \$47,000,000; and the R. J. Reynolds Tobacco Company (old), capital, \$7,525,000, are chiefly engaged in the manufacture and sale of chewing and smoking tobacco and cigars. The former one tin-foil company is divided into two, one of \$825,000 capital and the other of \$400,000. The one snuff company is divided into three companies, one with a capital of \$15,000,000, another with a capital of \$8,000,000, and a third with a capital of \$8,000,000. The licorice companies are two one with a capital of \$5,758,300 and another with a capital of \$200,000. There is, also, the British-American Tobacco Company, a British corporation, doing business abroad with a capital of \$26,000,000, the Porto Rican Tobacco Company, with a capital of \$1,800,000, and the corporation of

United Cigar Stores, with a capital of \$9,000,000.

Under this arrangement, each of the different kinds of business will be distributed between two or more companies with a division of the prominent brands in the same tobacco products, so as to make competition not only possible but necessary. Thus the smoking-tobacco business of the country is divided so that the present independent companies have 21-39 per cent, while the American Tobacco Company will have 33-08 per cent, the Liggett & Meyers 20.05 per cent, the Lorillard Company 22.82 per cent, and the Reynolds Company 2.66 per cent. The stock of the other thirteen companies, both preferred and common, has been taken from the defendant American Tobacco Company and has been distributed among its stockholders. All covenants restricting competition have been declared null and further performance of them has been enjoined. The preferred stock of the different companies has now been given voting power which was denied it under the old organization. The ratio of the preferred stock to the common was as 78 to 40. This constitutes a very decided change in the character of the ownership and control of each company.

In the original suit there were twenty-nine defendants who were charged with being the conspirators through whom the illegal combination acquired and exercised its unlawful dominion. Under the decree these defendants. will hold amounts of stock in the various distributee companies ranging from 41 per cent as a maximum to 28.5 per cent as a minimum, except in the case of one small company, the Porto Rican Tobacco Company, in which they will hold 45 per cent. The twenty-nine individual defendants are enjoined for three years from buying any stock except from each other, and the group is thus prevented from extending its control during that period. All parties to the suit, and the new companies who are made parties are enjoined perpetually from in any way effecting any combination between any of the companies in violation of the statute by way of resumption of the old trust. Each of the fourteen companies is enjoined from acquiring stock in any of the others. All these companies are enjoined from having common directors or officers, or common buying or selling agents, or common offices, or lending money to each other.

SIZE OF NEW COMPANIES.

Objection was made by certain independent tobacco companies that this settlement was unjust because it left companies with very large capital in active business, and that the settlement that would be effective to put all on an equality would be a division of the capital and plant of the trust into small fractions in amount more nearly equal to that of each of the independent companies. This contention results from a misunderstanding of the anti-trust law and its purpose. It is not intended thereby to prevent the accumulation of large capital in business enterprises in which such a combination can secure reduced cost of production, sale, and distribution. It is directed against such an aggregation of capital only when its purpose is that of stifling competition, enhancing or controlling prices, and establishing a monopoly. If we shall have by the decree defeated these purposes and restored competition between the large units into which the capital and plant have been divided, we shall have accomplished the useful purpose of the statute.

CONFISCATION NOT THE PURPOSE OF THE STATUTE.

It is not the purpose of the statute to confiscate the property and capital of the offending trusts. Methods of punishment by fine or imprisonment of the individual offenders, by fine of the corporation or by forfeiture of

its goods in transportation, are provided, but the proceeding in equity is a specific remedy to stop the operation of the trust by injunction and prevent the future use of the plant and capital in violation of the statute.

EFFECTIVENESS OF DECREE.

I venture to say that not in the history of American law has a decree more effective for such a purpose been entered by a court than that against the Tobacco Trust. As Circuit judge Noyes said in his judgment approving the decree:

"The extent to which it has been necessary to tear apart this combination and force it into new forms with the attendant burdens ought to demonstrate that the Federal anti-trust statute is a drastic statute which accomplishes effective results; which so long as it stands on the statute books must be obeyed, and which can not be disobeyed without incurring far-reaching penalties. And, on the other hand, the successful reconstruction of this organization should teach that the effect of enforcing this statute is not to destroy, but to reconstruct; not to demolish, but to re-create in accordance with the conditions which the Congress has declared shall exist among the people of the United States."

COMMON STOCK OWNERSHIP.

It has been assumed that the present pro rata and common ownership in all these companies by former stockholders of the trust would insure a continuance of the same old single control of all the companies into which the trust has by decree been disintegrated. This is erroneous and is based upon the assumed inefficacy and innocuousness of judicial injunctions. The companies are enjoined from cooperation or combination; they have different managers, directors, purchasing and sales agents. If all or many of the numerous stockholders, reaching into the thousands, attempt to secure concerted action of the companies with a view to the control of the market, their number is so large that such an attempt could not well be concealed, and its prime movers and all its participants would be at once subject to contempt proceedings and imprisonment of a summary character. The immediate result of the present situation will necessarily be activity by all the companies under different managers, and then competition must follow, or there will be activity by one company and stagnation by another. Only a short time will inevitably lead to a change in ownership of the stock, as all opportunity for continued cooperation must disappear. Those critics who speak of this disintegration in the trust as a mere change of garments have not given consideration to the inevitable working of the decree and understand little the personal danger of attempting to evade or set at naught the solemn injunction of a court whose object is made plain by the decree and whose inhibitions are set forth with a detail and comprehensiveness.

VOLUNTARY REORGANIZATIONS OF OTHER TRUSTS AT HAND.

The effect of these two decisions has led to decrees dissolving the combination of manufacturers of electric lamps, a southern wholesale grocers' association, an interlocutory decree against the Powder Trust with directions by the circuit court compelling dissolution, and other combinations of a similar history are now negotiating with the Department of justice looking to a disintegration by decree and reorganization in accordance with law. It seems possible to bring about these reorganizations without general business disturbance.

MOVEMENT FOR REPEAL OF THE ANTI-TRUST LAW.

But now that the anti-trust act is seen to be effective for the accomplishment of the purpose of its enactment, we are met by a cry from many different quarters for its repeal. It is said to be obstructive of business progress to be an attempt to restore old-fashioned methods of destructive competition between small units, and to make impossible those useful combinations of capital and the reduction of the cost of production that are essential to continued prosperity and normal growth.

In the recent decisions the Supreme Court makes clear that there is nothing in the statute which condemns combinations of capital or mere bigness of plant organized to secure economy in production and a reduction of its cost. It is only when the purpose or necessary effect of the organization and maintenance of the combination or the aggregation of immense size are the stifling of competition, actual and potential, and the enhancing of prices and establishing a monopoly, that the statute is violated. Mere size is no sin against the law. The merging of two or more business plants necessarily eliminates competition between the units thus combined, but this elimination is in contravention of the statute only when the combination is made for purpose of ending this particular competition in order to secure control of, and enhance, prices and create a monopoly.

LACK OF DEFINITENESS IN THE STATUTE.

The complaint is made of the statute that it is not sufficiently definite in its description of that which is forbidden, to enable business men to avoid its violation. The suggestion is, that we may have a combination of two corporations, which may run on for years, and that subsequently the Attorney General may conclude that it was a violation of the statute, and that which was supposed by the combiners to be innocent then turns out to be a combination in violation of the statute. The answer to this hypothetical case is that when men attempt to amass such stupendous capital as will enable them to suppress competition, control prices and establish a monopoly, they know the purpose of their acts. Men do not do such a thing without having it clearly in mind. If what they do is merely for the purpose of reducing the cost of production, without the thought of suppressing competition by use of the bigness of the plant they are creating, then they can not be convicted at the time the union is made, nor can they be convicted later, unless it happen that later on they conclude to suppress competition and take the usual methods for doing so, and thus establish for themselves a monopoly. They can, in such a case, hardly complain if the motive which subsequently is disclosed is attributed by the court to the original combination.

NEW REMEDIES SUGGESTED.

Much is said of the repeal of this statute and of constructive legislation intended to accomplish the purpose and blaze a clear path for honest merchants and business men to follow. It may be that such a plan will be evolved, but I submit that the discussions which have been brought out in recent days by the fear of the continued execution of the anti-trust law have produced nothing but glittering generalities and have offered no line of distinction or rule of action as definite and as clear as that which the Supreme Court itself lays down in enforcing the statute.

SUPPLEMENTAL LEGISLATION NEEDED--NOT REPEAL OR AMENDMENT.

I see no objection-and indeed I can see decided advantages-in the enactment of a law which shall describe and denounce methods of competition which are unfair and are badges of the unlawful purpose denounced in the anti-trust law. The attempt and purpose to suppress a competitor by underselling him at a price so unprofitable as to drive him out of business, or the making of exclusive contracts with customers under which they are required to give up association with other manufacturers, and numerous kindred methods for stifling competition and effecting monopoly, should be described with sufficient accuracy in a criminal statute on the one hand to enable the Government to shorten its task by prosecuting single misdemeanors instead of an entire conspiracy, and, on the other hand, to serve the purpose of pointing out more in detail to the business community what must be avoided.

FEDERAL INCORPORATION RECOMMENDED.

In a special message to Congress on January 7, 1910, I ventured to point out the disturbance to business that would probably attend the dissolution of these offending trusts. I said:

"But such an investigation and possible prosecution of corporations whose prosperity or destruction affects the comfort not only of stockholders but of millions of wage earners, employees, and associated tradesmen must necessarily tend to disturb the confidence of the business community, to dry up the now flowing sources of capital from its places of hoarding, and produce a halt in our present prosperity that will cause suffering and strained circumstances among the innocent many for the faults of the guilty few. The question which I wish in this message to bring clearly to the consideration and discussion of Congress is whether, in order to avoid such a possible business danger, something can not be done by which these business combinations may be offered a means, without great financial disturbance, of changing the character, organization, and extent of their business into one within the lines of the law under Federal control and supervision, securing compliance with the anti-trust statute.

"Generally, in the industrial combinations called 'trusts,' the principal business is the sale of goods in many States and in foreign markets; in other words, the interstate and foreign business far exceeds the business done in any one State. This fact will justify the Federal Government in granting a Federal charter to such a combination to make and sell in interstate and foreign commerce the products of useful manufacture under such limitations as will secure a compliance with the anti-trust law. It is possible so to frame a statute that while it offers protection to a Federal company against harmful, vexatious, and unnecessary invasion by the States, it shall subject it to reasonable taxation and control by the States with respect to its purely local business. * * *

"Corporations organized under this act should be prohibited from acquiring and holding stock in other corporations (except for special reasons, upon approval by the proper Federal authority), thus avoiding the creation under national auspices of the holding company with subordinate corporations in different States, which has been such an effective agency in the creation of the great trusts and monopolies.

"If the prohibition of the anti-trust act against combinations in restraint of trade is to be effectively enforced, it is essential that the National Government shall provide for the creation of national corporations to carry on a legitimate business throughout the United States. The conflicting laws of the different States of the Union with respect to foreign corporations

make it difficult, if not impossible, for one corporation to comply with their requirements so as to carry on business in a number of different States."

I renew the recommendation of the enactment of a general law providing for the voluntary formation of corporations to engage in trade and commerce among the States and with foreign nations. Every argument which was then advanced for such a law, and every explanation which was at that time offered to possible objections, have been confirmed by our experience since the enforcement of the antitrust statute has resulted in the actual dissolution of active commercial organizations.

It is even more manifest now than it was then that the denunciation of conspiracies in restraint of trade should not and does not mean the denial of organizations large enough to be intrusted with our interstate and foreign trade. It has been made more clear now than it was then that a purely negative statute like the anti-trust law may well be supplemented by specific provisions for the building up and regulation of legitimate national and foreign commerce.

GOVERNMENT ADMINISTRATIVE EXPERTS NEEDED TO AID COURTS IN TRUST DISSOLUTIONS.

The drafting of the decrees in the dissolution of the present trusts, with a view to their reorganization into legitimate corporations, has made it especially apparent that the courts are not provided with the administrative machinery to make the necessary inquiries preparatory to reorganization, or to pursue such inquiries, and they should be empowered to invoke the aid of the Bureau of Corporations in determining the suitable reorganization of the disintegrated parts. The circuit court and the Attorney General were greatly aided in framing the decree in the Tobacco Trust dissolution by an expert from the Bureau of Corporations.

FEDERAL CORPORATION COMMISSION PROPOSED.

I do not set forth in detail the terms and sections of a statute which might supply the constructive legislation permitting and aiding the formation of combinations of capital into Federal corporations. They should be subject to rigid rules as to their organization and procedure, including effective publicity, and to the closest supervision as to the issue of stock and bonds by an executive bureau or commission in the Department of Commerce and Labor, to which in times of doubt they might well submit their proposed plans for future business. It must be distinctly understood that incorporation under Federal law could not exempt the company thus formed and its incorporators and managers from prosecution under the anti-trust law for subsequent illegal conduct, but the publicity of its procedure and the opportunity for frequent consultation with the bureau or commission in charge of the incorporation as to the legitimate purpose of its transactions would offer it as great security against successful prosecutions for violations of the law as would be practical or wise.

Such a bureau or commission might well be invested also with the duty already referred to, of aiding courts in the dissolution and recreation of trusts within the law. It should be an executive tribunal of the dignity and power of the Comptroller of the Currency or the Interstate Commerce Commission, which now exercise supervisory power over important classes of corporations under Federal regulation.

The drafting of such a Federal incorporation law would offer ample

opportunity to prevent many manifest evils in corporate management to-day, including irresponsibility of control in the hands of the few who are not the real owners.

INCORPORATION VOLUNTARY.

I recommend that the Federal charters thus to be granted shall be voluntary, at least until experience justifies mandatory provisions. The benefit to be derived from the operation of great businesses under the protection of such a charter would attract all who are anxious to keep within the lines of the law. Other large combinations that fail to take advantage of the Federal incorporation will not have a right to complain if their failure is ascribed to unwillingness to submit their transactions to the careful official scrutiny, competent supervision, and publicity attendant upon the enjoyment of such a charter.

ONLY SUPPLEMENTAL LEGISLATION NEEDED.

The opportunity thus suggested for Federal incorporation, it seems to me, is suitable constructive legislation needed to facilitate the squaring Of great industrial enterprises to the rule of action laid down by the anti-trust law. This statute as construed by the Supreme Court must continue to be the line of distinction for legitimate business. It must be enforced, unless we are to banish individualism from all business and reduce it to one common system of regulation or control of prices like that which now prevails with respect to public utilities, and which when applied to all business would be a long step toward State socialism.

IMPORTANCE OF THE ANTI-TRUST ACT.

The anti-trust act is the expression of the effort of a freedom-loving people to preserve equality of opportunity. It is the result of the confident determination of such a people to maintain their future growth by preserving uncontrolled and unrestricted the enterprise of the individual, his industry, his ingenuity, his intelligence, and his independent courage.

For twenty years or more this statute has been upon the statute book. All knew its general purpose and approved. Many of its violators were cynical over its assumed impotence. It seemed impossible of enforcement. Slowly the mills of the courts ground, and only gradually did the majesty of the law assert itself. Many of its statesmen-authors died before it became a living force, and they and others saw the evil grow which they had hoped to destroy. Now its efficacy is seen; now its power is heavy; now its object is near achievement. Now we hear the call for its repeal on the plea that it interferes with business prosperity, and we are advised in most general terms, how by some other statute and in some other way the evil we are just stamping out can be cured, if we only abandon this work of twenty years and try another experiment for another term of years.

It is said that the act has not done good. Can this be said in the face of the effect of the Northern Securities decree? That decree was in no way so drastic or inhibitive in detail as either the Standard Oil decree or the Tobacco decree; but did it not stop for all time the then powerful movement toward the control of all the railroads of the country in a single hand? Such a one-man power could not have been a healthful influence in the Republic, even though exercised under the general supervision of an interstate commission.

Do we desire to make such ruthless combinations and monopolies lawful? When all energies are directed, not toward the reduction of the cost of production for the public benefit by a healthful competition, but toward new ways and means for making permanent in a few hands the absolute control of the conditions and prices prevailing in the whole field of industry, then individual enterprise and effort will be paralyzed and the spirit of commercial freedom will be dead.

PART II.

The relations of the United States with other countries have continued during the past twelve months upon a basis of the usual good will and friendly intercourse. ARBITRATION.

The year just passed marks an important general movement on the part of the Powers for broader arbitration. In the recognition of the manifold benefits to mankind in the extension of the policy of the settlement of international disputes by arbitration rather than by war, and in response to a widespread demand for an advance in that direction on the part of the people of the United States and of Great Britain and of France, new arbitration treaties were negotiated last spring with Great Britain and France, the terms of which were designed, as expressed in the preamble of these treaties, to extend the scope and obligations of the policy of arbitration adopted in our present treaties with those Governments. To pave the way for this treaty with the United States, Great Britain negotiated an important modification in its alliance with Japan, and the French Government also expedited the negotiations with signal good will. The new treaties have been submitted to the Senate and are awaiting its advice and consent to their ratification. All the essentials of these important treaties have long been known, and it is my earnest hope that they will receive prompt and favorable action.

CLAIM OF ALSOP & CO. SETTLED.

I am glad to report that on July 5 last the American claim of Alsop & Co. against the Government of Chile was finally disposed of by the decision of His Britannic Majesty George V, to whom, as amiable compositeur, the matter had been referred for determination. His Majesty made an award of nearly \$1,000,000 to the claimants, which was promptly paid by Chile. The settlement of this controversy has happily eliminated from the relations between the Republic of Chile and the United States the only question which for two decades had given the two foreign offices any serious concern and makes possible the unobstructed development of the relations of friendship which it has been the aim of this Government in every possible way to further and cultivate.

ARBITRATIONS--PANAMA AND COSTA RICA--COLOMBIA AND HAITI.

In further illustration of the practical and beneficent application of the principle of arbitration and the underlying broad spirit of conciliation, I am happy to advert to the part of the United States in facilitating amicable settlement of disputes which menaced the peace between Panama and Costa Rica and between Haiti and the Dominican Republic.

Since the date of their independence, Colombia and Costa Rica had been seeking a solution of a boundary dispute, which came as an heritage from Colombia to the new Republic of Panama, upon its beginning life as an independent nation. Although the disputants had submitted this question for decision to the President of France under the terms of an arbitration

treaty, the exact interpretation of the provisions of the award rendered had been a matter of serious disagreement between the two countries, both contending for widely different lines even under the terms of the decision. Subsequently and since 1903 this boundary question had been the subject of fruitless diplomatic negotiations between the parties. In January, 1910, at the request of both Governments the agents representing them met in conference at the Department of State and subsequently concluded a protocol submitting this long-pending controversy to the arbitral judgment of the Chief justice of the United States, who consented to act in this capacity. A boundary commission, according to the international agreement, has now been appointed, and it is expected that the arguments will shortly proceed and that this long-standing dispute will be honorably and satisfactorily terminated.

Again, a few months ago it appeared that the Dominican Republic and Haiti were about to enter upon hostilities because of complications growing out of an acrimonious boundary dispute which the efforts of many years had failed to solve. The Government of the United States, by a friendly interposition of good offices, succeeded in prevailing upon the parties to place their reliance upon some form of pacific settlement. Accordingly, on the friendly suggestion of this Government, the two Governments empowered commissioners to meet at Washington in conference at the State Department in order to arrange the terms of submission to arbitration of the boundary controversy.

CHAMIZAL ARBITRATION NOT SATISFACTORY.

Our arbitration of the Chamizal boundary question with Mexico was unfortunately abortive, but with the earnest efforts on the part of both Governments which its importance commands, it is felt that an early practical adjustment should prove possible.

LATIN AMERICA. VENEZUELA.

During the past year the Republic of Venezuela celebrated the one hundredth anniversary of its independence. The United States sent, in honor of this event, a special embassy to Caracas, where the cordial reception and generous hospitality shown it were most gratifying as a further proof of the good relations and friendship existing between that country and the United States. MEXICO.

The recent political events in Mexico received attention from this Government because of the exceedingly delicate and difficult situation created along our southern border and the necessity for taking measures properly to safeguard American interests. The Government of the United States, in its desire to secure a proper observance and enforcement of the so-called neutrality statutes of the Federal Government, issued directions to the appropriate officers to exercise a diligent and vigilant regard for the requirements of such rules and laws. Although a condition of actual armed conflict existed, there was no official recognition of belligerency involving the technical neutrality obligations of international law.

On the 6th of March last, in the absence of the Secretary of State, I had a personal interview with Mr. Wilson, the ambassador of the United States to Mexico, in which he reported to me that the conditions in Mexico were much more critical than the press dispatches disclosed; that President Diaz was on a volcano of popular uprising; that the small outbreaks which had occurred were only symptomatic of the whole condition; that a very large per cent of the people were in sympathy with the insurrection; that a

general explosion was probable at any time, in which case he feared that the 40,000 or more American residents in Mexico might be assailed, and that the very large American investments might be injured or destroyed.

After a conference with the Secretary of War and the Secretary of the Navy, I thought it wise to assemble an Army division of full strength at San Antonio, Tex., a brigade of three regiments at Galveston, a brigade of Infantry in the Los Angeles district of southern California, together with a squadron of battleships and cruisers and transports at Galveston, and a small squadron of ships at San Diego. At the same time, through our representative at the City of Mexico, I expressed to President Diaz the hope that no apprehensions might result from unfounded conjectures as to these military maneuvers, and assured him that they had no significance which should cause concern to his Government.

The mobilization was effected with great promptness, and on the 15th of March, through the Secretary of War and the Secretary of the Navy, in a letter addressed to the Chief of Staff, I issued the following instructions: It seems my duty as Commander in Chief to place troops in sufficient number where, if Congress shall direct that they enter Mexico to save American lives and property, an effective movement may be promptly made. Meantime, the movement of the troops to Texas and elsewhere near the boundary, accompanied with sincere assurances of the utmost goodwill toward the present Mexican Government and with larger and more frequent patrols along the border to prevent insurrectionary expeditions from American soil, will hold up the hands of the existing Government and will have a healthy moral effect to prevent attacks upon Americans and their property in any subsequent general internecine strife. Again, the sudden mobilization of a division of troops has been a great test of our Army and full of useful instruction, while the maneuvers that are thus made possible can occupy the troops and their officers to great advantage.

The assumption by the press that I contemplate intervention on Mexican soil to protect American lives or property is of course gratuitous, because I seriously doubt whether I have such authority under any circumstances, and if I had I would not exercise it without express congressional approval. Indeed, as you know, I have already declined, without Mexican consent, to order a troop of Cavalry to protect the breakwater we are constructing just across the border in Mexico at the mouth of the Colorado River to save the Imperial Valley, although the insurrectos had scattered the Mexican troops and were taking our horses and supplies and frightening our workmen away. My determined purpose, however, is to be in a position so that when danger to American lives and property in Mexico threatens and the existing Government is rendered helpless by the insurrection, I can promptly execute congressional orders to protect them, with effect.

Meantime, I send you this letter, through the Secretary, to call your attention to some things in connection with the presence of the division in the Southwest which have doubtless occurred to you, but which I wish to emphasize.

In the first place, I want to make the mobilization a first-class training for the Army, and I wish you would give your time and that of the War College to advising and carrying out maneuvers of a useful character, and plan to continue to do this during the next three months. By that time we may expect that either Ambassador Wilson's fears will have been realized and chaos and its consequences have ensued, or that the present Government of Mexico will have so readjusted matters as to secure tranquillity—a result devoutly to be wished. The troops can then be returned to their

posts. I understood from you in Washington that Gen. Aleshire said that you could probably meet all the additional expense of this whole movement out of the present appropriations if the troops continue in Texas for three months. I sincerely hope this is so. I observe from the newspapers that you have no blank cartridges, but I presume that this is an error, or that it will be easy to procure those for use as soon as your maneuvers begin.

Second. Texas is a State ordinarily peaceful, but you can not put 20,000 troops into it without running some risk of a collision between the people of that State, and especially the Mexicans who live in Texas near the border and who sympathize with the insurrectos, and the Federal soldiers. For that reason I beg you to be as careful as you can to prevent friction of any kind. We were able in Cuba, with the army of pacification there of something more than 5,000 troops, to maintain them for a year without any trouble, and I hope you can do the same thing in Texas. Please give your attention to this, and advise all the officers in command of the necessity for very great circumspection in this regard.

Third. One of the great troubles in the concentration of troops is the danger of disease, and I suppose that you have adopted the most modern methods for preventing and, if necessary, for stamping out epidemics. That is so much a part of a campaign that it hardly seems necessary for me to call attention to it.

Finally, I wish you to examine the question of the patrol of the border and put as many troops on that work as is practicable, and more than are now engaged in it, in order to prevent the use of our borderland for the carrying out of the insurrection. I have given assurances to the Mexican ambassador on this point.

I sincerely hope that this experience will always be remembered by the Army and Navy as a useful means of education, and I should be greatly disappointed if it resulted in any injury or disaster to our forces from any cause. I have taken a good deal of responsibility in ordering this mobilization, but I am ready to answer for it if only you and those under you use the utmost care to avoid the difficulties which I have pointed out.

You may have a copy of this letter made and left with Gen. Carter and such other generals in command as you may think wise and necessary to guide them in their course, but to be regarded as confidential. I am more than happy to here record the fact that all apprehensions as to the effect of the presence of so large a military force in Texas proved groundless; no disturbances occurred; the conduct of the troops was exemplary and the public reception and treatment of them was all that could have been desired, and this notwithstanding the presence of a large number of Mexican refugees in the border territory.

From time to time communications were received from Ambassador Wilson, who had returned to Mexico, confirming the view that the massing of American troops in the neighborhood had had good effect. By dispatch of April 3, 1911, the ambassador said: The continuing gravity of the situation here and the chaos that would ensue should the constitutional authorities be eventually overthrown, thus greatly increasing the danger to which American lives and property are already subject, confirm the wisdom of the President in taking those military precautions which, making every allowance for the dignity and the sovereignty of a friendly state, are due to our nationals abroad.

Charged as I am with the responsibility of safeguarding these lives and property, I am bound to say to the department that our military dispositions on the frontier have produced an effective impression on the Mexican mind and may, at any moment, prove to be the only guaranties for the safety of our nationals and their property. If it should eventuate that conditions here require more active measures by the President and Congress, sporadic attacks might be made upon the lives and property of our nationals, but the ultimate result would be order and adequate protection. The insurrection continued and resulted in engagements between the regular Mexican troops and the insurgents, and this along the border, so that in several instances bullets from the contending forces struck American citizens engaged in their lawful occupations on American soil.

Proper protests were made against these invasions of American rights to the Mexican authorities. On April 17, 1911, I received the following telegram from the governor of Arizona: As a result of to-day's fighting across the international line, but within gunshot range of the heart of Douglas, five Americans wounded on this side of the line. Everything points to repetition of these casualties on to-morrow, and while the Federals seem disposed to keep their agreement not to fire into Douglas, the position of the insurrectionists is such that when fighting occurs on the east and southeast of the intrenchments people living in Douglas are put in danger of their lives. In my judgment radical measures are needed to protect our innocent people, and if anything can be done to stop the fighting at Agua Prieta the situation calls for such action. It is impossible to safeguard the people of Douglas unless the town be vacated. Can anything be done to relieve situation, now acute? After a conference with the Secretary of State, the following telegram was sent to Governor Sloan, on April 18, 1911, and made public: Your dispatch received. Have made urgent demand upon Mexican Government to issue instructions to prevent firing across border by Mexican federal troops, and am waiting reply. Meantime I have sent direct warning to the Mexican and insurgent forces near Douglas. I infer from your dispatch that both parties attempt to heed the warning, but that in the strain and exigency of the contest wild bullets still find their way into Douglas. The situation might justify me in ordering our troops to cross the border and attempt to stop the fighting, or to fire upon both combatants from the American side. But if I take this step, I must face the possibility of resistance and greater bloodshed, and also the danger of having our motives misconstrued and misrepresented, and of thus inflaming Mexican popular indignation against many thousand Americans now in Mexico and jeopardizing their lives and property. The pressure for general intervention under such conditions it might not be practicable to resist. It is impossible to foresee or reckon the consequences of such a course, and we must use the greatest self-restraint to avoid it. Pending my urgent representation to the Mexican Government, I can not therefore order the troops at Douglas to cross the border, but I must ask you and the local authorities, in case the same danger recurs, to direct the people of Douglas to place themselves where bullets can not reach them and thus avoid casualty. I am loath to endanger Americans in Mexico, where they are necessarily exposed, by taking a radical step to prevent injury to Americans on our side of the border who can avoid it by a temporary inconvenience. I am glad to say that no further invasion of American rights of any substantial character occurred.

The presence of a large military and naval force available for prompt action, near the Mexican border, proved to be most fortunate under the somewhat trying conditions presented by this invasion of American rights. Had no movement theretofore taken place, and because of these events it had been necessary then to bring about the mobilization, it must have had

sinister significance. On the other hand, the presence of the troops before and at the time of the unfortunate killing and wounding of American citizens at Douglas, made clear that the restraint exercised by our Government in regard to this Occurrence was not due to lack of force or power to deal with it promptly and aggressively, but was due to a real desire to use every means possible to avoid direct intervention in the affairs of our neighbor whose friendship we valued and were most anxious to retain.

The policy and action of this Government were based upon an earnest friendliness for the Mexican people as a whole, and it is a matter of gratification to note that this attitude of strict impartiality as to all factions in Mexico and of sincere friendship for the neighboring nation, without regard for party allegiance, has been generally recognized and has resulted in an even closer and more sympathetic understanding between the two Republics and a warmer regard one for the other. Action to suppress violence and restore tranquillity throughout the Mexican Republic was of peculiar interest to this Government, in that it concerned the safeguarding of American life and property in that country. The Government of the United States had occasion to accord permission for the passage of a body of Mexican rurales through Douglas, Arizona, to Tia Juana, Mexico, for the suppression of general lawlessness which had for some time existed in the region of northern Lower California. On May 25, 1911, President Diaz resigned, Senor de la Barra was chosen provisional President. Elections for President and Vice President were thereafter held throughout the Republic, and Senor Francisco I. Madero was formally declared elected on October 15 to the chief magistracy. On November 6 President Madero entered upon the duties of his office.

Since the inauguration of President Madero a plot has been unearthed against the present Government, to begin a new insurrection. Pursuing the same consistent policy which this administration has adopted from the beginning, it directed an investigation into the conspiracy charged, and this investigation has resulted in the indictment of Gen. Bernardo Reyes and others and the seizure of a number of officers and men and horses and accoutrements assembled upon the soil of Texas for the purpose of invading Mexico. Similar proceedings had been taken during the insurrection against the Diaz Government resulting in the indictments and prosecution of persons found to be engaged in violating the neutrality laws of the United States in aid of that uprising.

The record of this Government in respect of the recognition of constituted authority in Mexico therefore is clear.

CENTRAL AMERICA-HONDURAS AND NICARAGUA TREATIES PROPOSED.

As to the situation in Central America, I have taken occasion in the past to emphasize most strongly the importance that should be attributed to the consummation of the conventions between the Republics of Nicaragua and of Honduras and this country, and I again earnestly recommend that the necessary advice and consent of the Senate be accorded to these treaties, which will make it possible for these Central American Republics to enter upon an era of genuine economic national development. The Government of Nicaragua which has already taken favorable action on the convention, has found it necessary, pending the exchange of final ratifications, to enter into negotiations with American bankers for the purpose of securing a temporary loan to relieve the present financial tension. In connection with this temporary loan and in the hope of consummating, through the ultimate operation of the convention, a complete and lasting economic

regeneration, the Government of Nicaragua has also decided to engage an American citizen as collector general of customs. The claims commission on which the services of two American citizens have been sought, and the work of the American financial adviser should accomplish a lasting good of inestimable benefit to the prosperity, commerce, and peace of the Republic. In considering the ratification of the conventions with Nicaragua and Honduras, there rests with the United States the heavy responsibility of the fact that their rejection here might destroy the progress made and consign the Republics concerned to still deeper submergence in bankruptcy, revolution, and national jeopardy. PANAMA.

Our relations with the Republic of Panama, peculiarly important, due to mutual obligations and the vast interests created by the canal, have continued in the usual friendly manner, and we have been glad to make appropriate expression of our attitude of sympathetic interest in the endeavors of our neighbor in undertaking the development of the rich resources of the country. With reference to the internal political affairs of the Republic, our obvious concern is in the maintenance of public peace and constitutional order, and the fostering of the general interests created by the actual relations of the two countries, without the manifestation of any preference for the success of either of the political parties.

THE PAN AMERICAN UNION.

The Pan American Union, formerly known as the Bureau of American Republics, maintained by the joint contributions of all the American nations, has during the past year enlarged its practical work as an international organization, and continues to prove its usefulness as an agency for the mutual development of commerce, better acquaintance, and closer intercourse between the United States and her sister American republics.

THE FAR EAST.

THE CHINESE LOANS.

The past year has been marked in our relations with China by the conclusion of two important international loans, one for the construction of the Hukuang railways, the other for carrying out of the currency reform to which China was pledged by treaties with the United States, Great Britain, and Japan, of which mention was made in my last annual message.

It will be remembered that early in 1909 an agreement was consummated among British, French, and German financial groups whereby they proposed to lend the Chinese Government funds for the construction of railways in the Provinces of Hunan and Hupeh, reserving for their nationals the privilege of engineering the construction of the lines and of furnishing the materials required for the work. After negotiations with the Governments and groups concerned an agreement was reached whereby American, British, French, and German nationals should participate upon equal terms in this important and useful undertaking. Thereupon the financial groups, supported by their respective Governments, began negotiations with the Chinese Government which terminated in a loan to China of \$30,000,000, with the privilege of increasing the amount to \$50,000,000. The cooperative construction of these trunk lines should be of immense advantage, materially and otherwise, to China and should greatly facilitate the development of the bountiful resources of the Empire. On the other hand, a large portion of these funds is to be expended for materials, American products having equal preference with those of the other three lending

nations, and as the contract provides for branches and extensions subsequently to be built on the same terms the opportunities for American materials will reach considerable proportions.

Knowing the interest of the United States in the reform of Chinese currency, the Chinese Government, in the autumn of 1910 sought the assistance of the American Government to procure funds with which to accomplish that all-important reform. In the course of the subsequent negotiations there was combined with the proposed currency loan one for certain industrial developments in Manchuria, the two loans aggregating the sum Of \$50,000,000. While this was originally to be solely an American enterprise, the American Government, consistently with its desire to secure a sympathetic and practical cooperation of the great powers toward maintaining the principle of equality of opportunity and the administrative integrity of China, urged the Chinese Government to admit to participation in the currency loan the associates of the American group in the Hukuang loan. While of immense importance in itself, the reform contemplated in making this loan is but preliminary to other and more comprehensive fiscal reforms which will be of incalculable benefit to China and foreign interests alike, since they will strengthen the Chinese Empire and promote the rapid development of international trade.

NEUTRAL FINANCIAL ADVISER.

When these negotiations were begun, it was understood that a financial adviser was to be employed by China in connection with the reform, and in order that absolute equality in all respects among the lending nations might be scrupulously observed, the American Government proposed the nomination of a neutral adviser, which was agreed to by China and the other Governments concerned. On September 28, 1911, Dr. Vissering, president of the Dutch Java Bank and a financier of wide experience in the Orient, was recommended to the Chinese Government for the post of monetary adviser.

Especially important at the present, when the ancient Chinese Empire is shaken by civil war incidental to its awakening to the many influences and activities of modernization, are the cooperative policy of good understanding which has been fostered by the international projects referred to above and the general sympathy of view among all the Powers interested in the Far East. While safeguarding the interests of our nationals, this Government is using its best efforts in continuance of its traditional policy of sympathy and friendship toward the Chinese Empire and its people, with the confident hope for their economic and administrative development, and with the constant disposition to contribute to their welfare in all proper ways consistent with an attitude of strict impartiality as between contending factions.

For the first time in the history of the two countries, a Chinese cruiser, the Haichi, under the command of Admiral Ching, recently visited New York, where the officers and men were given a cordial welcome.

NEW JAPANESE TREATY.

The treaty of commerce and navigation between the United States and Japan, signed in 1894, would by a strict interpretation of its provisions have terminated on July 17, 1912. Japan's general treaties with the other powers, however, terminated in 1911, and the Japanese Government expressed an earnest desire to conduct the negotiations for a new treaty with the United States simultaneously with its negotiations with the other powers. There were a number of important questions involved in the treaty,

including the immigration of laborers, revision of the customs tariff, and the right of Americans to hold real estate in Japan. The United States consented to waive all technicalities and to enter at once upon negotiations for a new treaty on the understanding that there should be a continuance throughout the life of the treaty of the same effective measures for the restriction of immigration of laborers to American territory which had been in operation with entire satisfaction to both Governments since 1908. The Japanese Government accepted this basis of negotiation, and a new treaty was quickly concluded, resulting in a highly satisfactory settlement of the other questions referred to.

A satisfactory adjustment has also been effected of the questions growing out of the annexation of Korea by Japan.

The recent visit of Admiral Count Togo to the United States as the Nation's guest afforded a welcome opportunity to demonstrate the friendly feeling so happily existing between the two countries. SIAM.

There has been a change of sovereigns in Siam and the American minister at Bangkok was accredited in a special capacity to represent the United States at the coronation ceremony of the new King.

EUROPE AND THE NEAR EAST.

In Europe and the Near East, during the past twelve-month, there has been at times considerable political unrest. The Moroccan question, which for some months was the cause of great anxiety, happily appears to have reached a stage at which it need no longer be regarded with concern. The Ottoman Empire was occupied for a period by strife in Albania and is now at war with Italy. In Greece and the Balkan countries the disquieting potentialities of this situation have been more or less felt. Persia has been the scene of a long internal struggle. These conditions have been the cause of uneasiness in European diplomacy, but thus far without direct political concern to the United States.

In the war which unhappily exists between Italy and Turkey this Government has no direct political interest, and I took occasion at the suitable time to issue a proclamation of neutrality in that conflict. At the same time all necessary steps have been taken to safeguard the personal interests of American citizens and organizations in so far as affected by the war.

COMMERCE WITH THE NEAR EAST.

In spite of the attendant economic uncertainties and detriments to commerce, the United States has gained markedly in its commercial standing with certain of the nations of the Near East. Turkey, especially, is beginning to come into closer relations with the United States through the new interest of American manufacturers and exporters in the possibilities of those regions, and it is hoped that foundations are being laid for a large and mutually beneficial exchange of commodities between the two countries. This new interest of Turkey in American goods is indicated by the fact that a party of prominent merchants from a large city in Turkey recently visited the United States to study conditions of manufacture and export here, and to get into personal touch with American merchants, with a view to cooperating more intelligently in opening up the markets of Turkey and the adjacent countries to our manufactures. Another indication of this new interest of America in the commerce of the Near East is the recent visit of a large party of American merchants and manufacturers to central and eastern Europe, where they were entertained by prominent officials and

organizations of the large cities, and new bonds of friendship and understanding were established which can not but lead to closer and greater commercial interchange.

CORONATION OF KING GEORGE V.

The 22d of June of the present year marked the coronation of His Britannic Majesty King George V. In honor of this auspicious occasion I sent a special embassy to London. The courteous and cordial welcome extended to this Government's representatives by His Majesty and the people of Great Britain has further emphasized the strong bonds of friendship happily existing between the two nations.

SETTLEMENT OF LONG-STANDING DIFFERENCES WITH GREAT BRITAIN.

As the result of a determined effort on the part of both Great Britain and the United States to settle all of their outstanding differences a number of treaties have been entered into between the two countries in recent years, by which nearly all of the unsettled questions between them of any importance have either been adjusted by agreement or arrangements made for their settlement by arbitration. A number of the unsettled questions referred to consist of pecuniary claims presented by each country against the other, and in order that as many of these claims as possible should be settled by arbitration a special agreement for that purpose was entered into between the two Governments on the 18th day of August, 1910, in accordance with Article 11 of the general arbitration treaty with Great Britain of April 4, 1908. Pursuant to the provisions of this special agreement a schedule of claims has already been agreed upon, and the special agreement, together with this schedule, received the approval of the Senate when submitted to it for that purpose at the last session of Congress. Negotiations between the two Governments for the preparation of an additional schedule of claims are already well advanced, and it is my intention to submit such schedule as soon as it is agreed upon to the Senate for its approval, in order that the arbitration proceedings may be undertaken at an early date. In this connection the attention of Congress is particularly called to the necessity for an appropriation to cover the expense incurred in submitting these claims to arbitration.

PRESENTATION TO GERMANY OF REPLICA OF VON STEUBEN STATUE.

In pursuance of the act of Congress, approved June 23, 1910, the Secretary of State and the joint Committee on the Library entered into a contract with the sculptor, Albert Jaegers, for the execution of a bronze replica of the statue of Gen. von Steuben erected in Washington, for presentation to His Majesty the German Emperor and the German nation in recognition of the gift of the statue of Frederick the Great made by the Emperor to the people of the United States.

The presentation was made on September 2 last by representatives whom I commissioned as the special mission of this Government for the purpose.

The German Emperor has conveyed to me by telegraph, on his own behalf and that of the German people, an expression of appreciative thanks for this action of Congress. RUSSIA.

By direction of the State Department, our ambassador to Russia has recently been having a series of conferences with the minister of foreign affairs of Russia, with a view to securing a clearer understanding and construction of the treaty of 1832 between Russia and the United States and the

modification of any existing Russian regulations which may be found to interfere in any way with the full recognition of the rights of American citizens under this treaty. I believe that the Government of Russia is addressing itself seriously to the need of changing the present practice under the treaty and that sufficient progress has been made to warrant the continuance of these conferences in the hope that there may soon be removed any justification of the complaints of treaty violation now prevalent in this country.

I expect that immediately after the Christmas recess I shall be able to make a further communication to Congress on this subject. LIBERIA.

Negotiations for the amelioration of conditions found to exist in Liberia by the American commission, undertaken through the Department of State, have been concluded and it is only necessary for certain formalities to be arranged in securing the loan which it is hoped will place that republic on a practical financial and economic footing.

RECOGNITION OF PORTUGUESE REPUBLIC.

The National Constituent Assembly, regularly elected by the vote of the Portuguese people, having on June 19 last unanimously proclaimed a republican form of government, the official recognition of the Government of the United States was given to the new Republic in the afternoon of the same day.

SPITZBERGEN ISLANDS.

Negotiations for the betterment of conditions existing in the Spitzbergen Islands and the adjustment of conflicting claims of American citizens and Norwegian subjects to lands in that archipelago are still in progress.

INTERNATIONAL CONVENTIONS AND CONFERENCES.

INTERNATIONAL PRIZE COURT.

The supplementary protocol to The Hague convention for the establishment of an international prize court, mentioned in my last annual message, embodying stipulations providing for an alternative procedure which would remove the constitutional objection to that part of The Hague convention which provides that there may be an appeal to the proposed court from the decisions of national courts, has received the signature of the governments parties to the original convention and has been ratified by the Government of the United States, together with the prize court convention.

The deposit of the ratifications with the Government of the Netherlands awaits action by the powers on the declaration, signed at London on February 26, 1909 of the rules of international law to be recognized within the meaning of article 7 of The Hague convention for the establishment of an International Prize Court.

FUR-SEAL TREATY.

The fur-seal controversy, which for nearly twenty-five years has been the source of serious friction between the United States and the powers bordering upon the north Pacific Ocean, whose subjects have been permitted to engage in pelagic sealing against the fur-seal herds having their breeding grounds within the jurisdiction of the United States, has at last been satisfactorily adjusted by the conclusion of the north Pacific sealing

convention entered into between the United States, Great Britain, Japan, and Russia on the 7th of July last. This convention is a conservation measure of very great importance, and if it is carried out in the spirit of reciprocal concession and advantage upon which it is based, there is every reason to believe that not only will it result in preserving the fur-seal herds of the north Pacific Ocean and restoring them to their former value for the purposes of commerce, but also that it will afford a permanently satisfactory settlement of a question the only other solution of which seemed to be the total destruction of the fur seals. In another aspect, also, this convention is of importance in that it furnishes an illustration of the feasibility of securing a general international game law for the protection of other mammals of the sea, the preservation of which is of importance to all the nations of the world.

LEGISLATION NECESSARY.

The attention of Congress is especially called to the necessity for legislation on the part of the United States for the purpose of fulfilling the obligations assumed under this convention, to which the Senate gave its advice and consent on the 24th day of July last.

PROTECTION OF INDUSTRIAL PROPERTY UNION.

The conference of the International Union for the Protection of Industrial Property, which, under the authority of Congress, convened at Washington on May 16, 1911, closed its labors on June 2, 1911, by the signature of three acts, as follows:

(1) A convention revising the Paris convention of March 20, 1883, for the protection of industrial property, as modified by the additional act signed at Brussels on December 14, 1900;

(2) An arrangement to replace the arrangement signed at Madrid on April 14, 1891 for the international registration of trade-marks, and the additional act with regard thereto signed at Brussels on December 14, 1900; and

(3) An arrangement to replace the arrangement signed at Madrid on April 14, 1891, relating to the repression of false indication of production of merchandise.

The United States is a signatory of the first convention only, and this will be promptly submitted to the Senate.

INTERNATIONAL OPIUM COMMISSION.

In a special message transmitted to the Congress on the 11th of January, 1911, in which I concurred in the recommendations made by the Secretary of State in regard to certain needful legislation for the control of our interstate and foreign traffic in opium and other menacing drugs, I quoted from my annual message of December 7, 1909, in which I announced that the results of the International Opium Commission held at Shanghai in February, 1909, at the invitation of the United States, had been laid before this Government; that the report of that commission showed that China was making remarkable progress and admirable efforts toward the eradication of the opium evil; that the interested governments had not permitted their commercial interests to prevent their cooperation in this reform; and, as a result of collateral investigations of the opium question in this country, I recommended that the manufacture, sale, and use of opium in the United States should be more rigorously controlled by legislation.

Prior to that time and in continuation of the policy of this Government to secure the cooperation of the interested nations, the United States proposed an international opium conference with full powers for the purpose of clothing with the force of international law the resolutions adopted by the above-mentioned commission, together with their essential corollaries. The other powers concerned cordially responded to the proposal of this Government, and, I am glad to be able to announce, representatives of all the powers assembled in conference at The Hague on the first of this month.

Since the passage of the opium-exclusion act, more than twenty States have been animated to modify their pharmacy laws and bring them in accord with the spirit of that act, thus stamping out, to a measure, the intrastate traffic in opium and other habit-forming drugs. But, although I have urged on the Congress the passage of certain measures for Federal control of the interstate and foreign traffic in these drugs, no action has yet been taken. In view of the fact that there is now sitting at The Hague so important a conference, which has under review the municipal laws of the different nations for the mitigation of their opium and other allied evils, a conference which will certainly deal with the international aspects of these evils, it seems to me most essential that the Congress should take immediate action on the anti-narcotic legislation to which I have already called attention by a special message.

BUENOS AIRES CONVENTIONS.

The four important conventions signed at the Fourth Pan American Conference at Buenos Aires, providing for the regulation of trademarks, patents, and copyrights, and for the arbitration of pecuniary claims, have, with the advice and consent of the Senate, been ratified on the part of the United States and the ratifications have been deposited with the Government of the Argentine Republic in accordance with the requirements of the conventions. I am not advised that similar action has been taken by any other of the signatory governments.

INTERNATIONAL ARRANGEMENT TO SUPPRESS OBSCENE PUBLICATIONS.

One of the notable advances in international morality accomplished in recent years was an arrangement entered into on April 13th of the present year between the United States and other powers for the repression of the circulation of obscene publications.

FOREIGN TRADE RELATIONS OF THE UNITED STATES.

In my last annual message I referred to the tariff negotiations of the Department of State with foreign countries in connection with the application, by a series of proclamations, of the minimum tariff of the United States to importations from the several countries, and I stated that, in its general operation, section 2 of the new tariff law had proved a guaranty of continued commercial peace, although there were, unfortunately, instances where foreign governments dealt arbitrarily with American interests within their jurisdiction in a manner injurious and inequitable. During the past year some instances of discriminatory treatment have been removed, but I regret to say that there remain a few cases of differential treatment adverse to the commerce of the United States. While none of these instances now appears to amount to undue discrimination in the sense of section 2 Of the tariff law of August 5, 1909, they are all exceptions to that complete degree of equality of tariff

treatment that the Department of State has consistently sought to obtain for American commerce abroad.

While the double tariff feature of the tariff law of 1909 has been amply justified by the results achieved in removing former and preventing new, undue discriminations against American commerce it is believed that the time has come for the amendment of this feature of the law in such way as to provide a graduated means of meeting varying degrees of discriminatory treatment of American commerce in foreign countries as well as to protect the financial interests abroad of American citizens against arbitrary and injurious treatment on the part of foreign governments through either legislative or administrative measures.

It would seem desirable that the maximum tariff of the United States should embrace within its purview the free list, which is not the case at the present time, in order that it might have reasonable significance to the governments of those countries from which the importations into the United States are confined virtually to articles on the free list.

RECORD OF HIGHEST AMOUNT OF FOREIGN TRADE.

The fiscal year ended June 30, 1911, shows great progress in the development of American trade. It was noteworthy as marking the highest record of exports of American products to foreign countries, the valuation being in excess of \$2,000,000,000. These exports showed a gain over the preceding year of more than \$300,000,000.

FACILITIES FOR FOREIGN TRADE FURNISHED BY JOINT ACTION OF DEPARTMENT OF STATE AND OF COMMERCE AND LABOR.

There is widespread appreciation expressed by the business interests of the country as regards the practical value of the facilities now offered by the Department of State and the Department of Commerce and Labor for the furtherance of American commerce. Conferences with their officers at Washington who have an expert knowledge of trade conditions in foreign countries and with consular officers and commercial agents of the Department of Commerce and Labor who, while on leave of absence, visit the principal industrial centers of the United States, have been found of great value. These trade conferences are regarded as a particularly promising method of governmental aid in foreign trade promotion. The Department of Commerce and Labor has arranged to give publicity to the expected arrival and the itinerary of consular officers and commercial agents while on leave in the United States, in order that trade organizations may arrange for conferences with them.

As I have indicated, it is increasingly clear that to obtain and maintain that equity and substantial equality of treatment essential to the flourishing foreign trade, which becomes year by year more important to the industrial and commercial welfare of the United States, we should have a flexibility of tariff sufficient for the give and take of negotiation by the Department of State on behalf of our commerce and industry.

CRYING NEED FOR AMERICAN MERCHANT MARINE.

I need hardly reiterate the conviction that there should speedily be built up an American merchant marine. This is necessary to assure favorable transportation facilities to our great ocean-borne commerce as well as to supplement the Navy with an adequate reserve of ships and men. It would have the economic advantage of keeping at home part of the vast sums now paid

foreign shipping for carrying American goods. All the great commercial nations pay heavy subsidies to their merchant marine so that it is obvious that without some wise aid from the Congress the United States must lag behind in the matter of merchant marine in its present anomalous position.

EXTENSION OF AMERICAN BANKING TO FOREIGN COUNTRIES.

Legislation to facilitate the extension of American banks to foreign countries is another matter in which our foreign trade needs assistance.

CHAMBERS OF FOREIGN COMMERCE SUGGESTED.

The interests of our foreign commerce are nonpartisan, and as a factor in prosperity are as broad as the land. In the dissemination of useful information and in the coordination of effort certain unofficial associations have done good work toward the promotion of foreign commerce. It is cause for regret, however, that the great number of such associations and the comparative lack of cooperation between them fails to secure an efficiency commensurate with the public interest. Through the agency of the Department of Commerce and Labor, and in some cases directly, the Department of State transmits to reputable business interests information of commercial opportunities, supplementing the regular published consular reports. Some central organization in touch with associations and chambers of commerce throughout the country and able to keep purely American interests in closer touch with different phases of commercial affairs would, I believe, be of great value. Such organization might be managed by a committee composed of a small number of those now actively carrying on the work of some of the larger associations, and there might be added to the committee, as members *ex officio*, one or two officials of the Department of State and one or two officials from the Department of Commerce and Labor and representatives of the appropriate committees of Congress. The authority and success of such an organization would evidently be enhanced if the Congress should see fit to prescribe its scope and organization through legislation which would give to it some such official standing as that, for example, of the National Red Cross.

With these factors and the continuance of the foreign-service establishment (departmental, diplomatic, and consular) upon the high plane where it has been placed by the recent reorganization this Government would be abreast of the times in fostering the interests of its foreign trade, and the rest must be left to the energy and enterprise of our business men.

IMPROVEMENT OF THE FOREIGN SERVICE.

The entire foreign-service organization is being improved and developed with especial regard to the requirements of the commercial interests of the country. The rapid growth of our foreign trade makes it of the utmost importance that governmental agencies through which that trade is to be aided and protected should possess a high degree of efficiency. Not only should the foreign representatives be maintained upon a generous scale in so far as salaries and establishments are concerned, but the selection and advancement of officers should be definitely and permanently regulated by law so that the service shall not fail to attract men of high character and ability. The experience of the past few years with a partial application of civil-service rules to the Diplomatic and Consular Service leaves no doubt in my mind of the wisdom of a wider and more permanent extension of those principles to both branches of the foreign service. The men selected for appointment by means of the existing executive regulations have been of a far higher average of intelligence and ability than the men appointed

before the regulations were promulgated. Moreover, the feeling that under the existing rules there is reasonable hope for permanence of tenure during good behavior and for promotion for meritorious service has served to bring about a zealous activity in the interests of the country, which never before existed or could exist. It is my earnest conviction that the enactment into law of the general principles of the existing regulations can not fail to effect further improvement in both branches of the foreign service by providing greater inducement for young men of character and ability to seek a career abroad in the service of the Government, and an incentive to those already in the service to put forth greater efforts to attain the high standards which the successful conduct of our international relations and commerce requires.

I therefore again commend to the favorable action of the Congress the enactment of a law applying to the diplomatic and consular service the principles embodied in section 1753 of the Revised Statutes of the United States, in the civil-service act of January 16, 1883, and the Executive orders of June 27, 1906, and of November 26, 1909. In its consideration of this important subject I desire to recall to the attention of the Congress the very favorable report made on the Lowden bill for the improvement of the foreign service by the Foreign Affairs Committee of the House of Representatives. Available statistics show the strictness with which the merit system has been applied to the foreign service during recent years and the absolute nonpartisan selection of consuls and diplomatic-service secretaries who, indeed, far from being selected with any view to political consideration, have actually been chosen to a disproportionate extent from States which would have been unrepresented in the foreign service under the system which it is to be hoped is now permanently obsolete. Some legislation for the perpetuation of the present system of examinations and promotions upon merit and efficiency would be of greatest value to our commercial and international interests.

PART III.

THE WHITE HOUSE, December 20, 1911. To the Senate and House of Representatives:

In my annual message to Congress, December, 1909, I stated that under section 2 of the act of August 5, 1909, I had appointed a Tariff Board of three members to cooperate with the State Department in the administration of the maximum and minimum clause of that act, to make a glossary or encyclopedia of the existing tariff so as to render its terms intelligible to the ordinary reader, and then to investigate industrial conditions and costs of production at home and abroad with a view to determining to what extent existing tariff rates actually exemplify the protective principle, viz., that duties should be made adequate, and only adequate, to equalize the difference in cost of production at home and abroad.

I further stated that I believed these investigations would be of great value as a basis for accurate legislation, and that I should from time to time recommend to Congress the revision of certain schedules in accordance with the findings of the Board.

In the last session of the Sixty-first Congress a bill creating a permanent Tariff Board of five members, of whom not more than three should be of the same political party, passed each House, but failed of enactment because of slight differences on which agreement was not reached before adjournment. An appropriation act provided that the permanent Tariff Board, if created by statute, should report to Congress on Schedule K in December, 1911.

Therefore, to carry out so far as lay within my power the purposes of this bill for a permanent Tariff Board, I appointed in March, 1911, a board of five, adding two members of such party affiliation as would have fulfilled the statutory requirement, and directed them to make a report to me on Schedule K of the tariff act in December of this year.

In my message of August 17, 1911, accompanying the veto of the wool bill, I said that, in my judgment, Schedule K should be revised and the rates reduced. My veto was based on the ground that, since the Tariff Board would make, in December, a detailed report on wool and wool manufactures, with special reference to the relation of the existing rates of duties to relative costs here and abroad, public policy and a fair regard to the interests of the producers and the manufacturers on the one hand and of the consumers on the other demanded that legislation should not be hastily enacted in the absence of such information; that I was not myself possessed at that time of adequate knowledge of the facts to determine whether or not the proposed act was in accord with my pledge to support a fair and reasonable protective policy; that such legislation might prove only temporary and inflict upon a great industry the evils of continued uncertainty.

I now herewith submit a report of the Tariff Board on Schedule K. The board is unanimous in its findings. On the basis of these findings I now recommend that the Congress proceed to a consideration of this schedule with a view to its revision and a general reduction of its rates.

The report shows that the present method of assessing the duty on raw Wool--this is, by a specific rate on the grease pound (i. e., unscoured) --operates to exclude wools of high shrinkage in scouring but fine quality from the American market and thereby lessens the range of wools available to the domestic manufacturer; that the duty on scoured wool Of 33 cents per pound is prohibitory and operates to exclude the importation of clean, low-priced foreign wools of inferior grades, which are nevertheless valuable material for manufacturing, and which can not be imported in the grease because of their heavy shrinkage. Such wools, if imported, might be used to displace the cheap substitutes now in use.

To make the preceding paragraph a little plainer, take the instance of a hundred pounds of first-class wool imported under the present duty, which is 11 cents a pound. That would make the duty on the hundred pounds \$11. The merchantable part of the wool thus imported is the weight of the wool of this hundred pounds after scouring. If the wool shrinks 80 per cent, as some wools do, then the duty in such a case would amount to \$11 \$11 on 20 pounds of scoured wool. This, of course, would be prohibitory. If the wool shrinks only 50 per cent, it would be \$11 on 50 pounds of wool, and this is near to the average of the great bulk of wools that are imported from Australia, which is the principal source of our imported wool.

These discriminations could be overcome by assessing a duty in ad valorem terms, but this method is open to the objection, first, that it increases administrative difficulties and tends to decrease revenue through undervaluation; and, second, that as prices advance, the ad valorem rate increases the duty per pound at the time when the consumer most needs relief and the producer can best stand competition; while if prices decline the duty is decreased at the time when the consumer is least burdened by the price and the producer most needs protection.

Another method of meeting the difficulty of taxing the grease pound is to

assess a specific duty on grease wool in terms of its scoured content. This obviates the chief evil of the present system, namely, the discrimination due to different shrinkages, and thereby tends greatly to equalize the duty. The board reports that this method is feasible in practice and could be administered without great expense. The scoured content of the wool is the basis on which users of wool make their calculations, and a duty of this kind would fit the usages of the trade. One effect of this method of assessment would be that, regardless of the rate of duty, there would be an increase in the supply and variety of wool by making available to the American market wools of both low and fine quality now excluded.

The report shows in detail the difficulties involved in attempting to state in categorical terms the cost of wool production and the great differences in cost as between different regions and different types of wool. It is found, however, that, taking all varieties in account, the average cost of production for the whole American clip is higher than the cost in the chief competing country by an amount somewhat less than the present duty.

The report shows that the duties on wools, wool wastes, and shoddy, which are adjusted to the rate of 33 cents on scoured wool are prohibitory in the same measure that the duty on scoured wool is prohibitory. In general, they are assessed at rates as high as, or higher than, the duties paid on the clean content of wools actually imported. They should be reduced and so adjusted to the rate on wool as to bear their proper proportion to the real rate levied on the actual wool imports.

The duties on many classes of wool manufacture are prohibitory and greatly in excess of the difference in cost of production here and abroad.

This is true of tops, of yarns (with the exception of worsted yarns of a very high grade), and of low and medium grade cloth of heavy weight.

On tops up to 52 cents a pound in value, and on yarns of 65 cents in value, the rate is 100 per cent with correspondingly higher rates for lower values. On cheap and medium grade cloths, the existing rates frequently run to 150 per cent and on some cheap goods to over 200 per cent. This is largely due to that part of the duty which is levied ostensibly to compensate the manufacturer for the enhanced cost of his raw material due to the duty on wool. As a matter of fact, this compensatory duty, for numerous classes of goods, is much in excess of the amount needed for strict compensation.

On the other hand, the findings show that the duties which run to such high ad valorem equivalents are prohibitory, since the goods are not imported, but that the prices of domestic fabrics are not raised by the full amount of duty. On a set of 1-yard samples of 16 English fabrics, which are completely excluded by the present tariff rates, it was found that the total foreign value was \$41.84; the duties which would have been assessed had these fabrics been imported, \$76.90; the foreign value plus the amount of the duty, \$118.74; or a nominal duty of 183 per cent. In fact, however, practically identical fabrics of domestic make sold at the same time at \$69.75, showing an enhanced price over the foreign market value of but 67 per cent.

Although these duties do not increase prices of domestic goods by anything like their full amount, it is none the less true that such prohibitive duties eliminate the possibility of foreign competition, even in time of scarcity; that they form a temptation to monopoly and conspiracies to control domestic prices; that they are much in excess of the difference in

cost of production here and abroad, and that they should be reduced to a point which accords with this principle.

The findings of the board show that in this industry the actual manufacturing cost, aside from the question of the price of materials, is much higher in this country than it is abroad; that in the making of yarn and cloth the domestic woolen or worsted manufacturer has in general no advantage in the form of superior machinery or more efficient labor to offset the higher wages paid in this country. The findings show that the cost of turning wool into yarn in this country is about double that in the leading competing country, and that the cost of turning yarn into cloth is somewhat more than double. Under the protective policy a great industry, involving the welfare of hundreds of thousands of people, has been established despite these handicaps.

In recommending revision and reduction, I therefore urge that action be taken with these facts in mind, to the end that an important and established industry may not be jeopardized.

The Tariff Board reports that no equitable method has been found to, levy purely specific duties on woolen and worsted fabrics and that, excepting for a compensatory duty, the rate must be ad valorem on such manufactures. It is important to realize, however, that no flat ad valorem rate on such fabrics can be made to work fairly and effectively. Any single rate which is high enough to equalize the difference in manufacturing cost at home and abroad on highly finished goods involving such labor would be prohibitory on cheaper goods, in which the labor cost is a smaller proportion of the total value. Conversely, a rate only adequate to equalize this difference on cheaper goods would remove protection from the fine-goods manufacture, the increase in which has been one of the striking features of the trade's development in recent years. I therefore recommend that in any revision the importance of a graduated scale of ad valorem duties on cloths be carefully considered and applied.

I venture to say that no legislative body has ever had presented to it a more complete and exhaustive report than this on so difficult and complicated a subject as the relative costs of wool and woolens the world over. It is a monument to the thoroughness, industry, impartiality, and accuracy of the men engaged in its making. They were chosen from both political parties but have allowed no partisan spirit to prompt or control their inquiries. They are unanimous in their findings. I feel sure that after the report has been printed and studied the value of such a compendium of exact knowledge in respect to this schedule of the tariff will convince all of the wisdom of making such a board permanent in order that it may treat each schedule of the tariff as it has treated this, and then keep its bureau of information up to date with current changes in the economic world.

It is no part of the function of the Tariff Board to propose rates of duty. Their function is merely to present findings of fact on which rates of duty may be fairly determined in the light of adequate knowledge in accord with the economic policy to be followed. This is what the present report does.

The findings of fact by the board show ample reason for the revision downward of Schedule K, in accord with the protective principle, and present the data as to relative costs and prices from which may be determined what rates will fairly equalize the difference in production costs. I recommend that such revision be proceeded with at once.

PART IV.

THE WHITE HOUSE, December 21, 1911. To the Senate and House of Representatives:

The financial condition of the Government, as shown at the close of the last fiscal year, June 30, 1911, was very satisfactory. The ordinary receipts into the general fund, excluding postal revenues, amounted to \$701,372,374.99, and the disbursements from the general fund for current expenses and capital outlays, excluding postal and Panama Canal disbursements, including the interest on the public debt, amounted to \$654,137,907.89, leaving a surplus Of \$47,234,377.10.

The postal revenue receipts amounted to \$237,879,823.60, while the payments made for the postal service from the postal revenues amounted to \$237,660,705.48, which left a surplus of postal receipts over disbursements Of \$219,118.12, the first time in 27 years in which a surplus occurred.

The interest-bearing debt of the United States June 30, 1911, amounted to \$915,353,190. The debt on which interest had ceased amounted to \$1,879,830.26, and the debt bearing no interest, including greenbacks, national bank notes to be redeemed, and fractional currency, amounted to \$386,751,917.43, or a total of interest and noninterest bearing debt amounting to \$1,303,984,937.69.

The actual disbursements, exclusive of those for the Panama Canal and for the postal service for the year ending June 30, 1911, were \$654,137,997.89. The actual disbursements for the year ending June 30, 1910, exclusive of the Panama Canal and the postal service disbursements, were \$659,705,391.08, making a decrease Of \$5,567,393.19 in yearly expenditures in the year 1911 under that of 1910. For the year ending June 30, 1912, the estimated receipts, exclusive of the postal revenues, are \$666,000,000, while the total estimates, exclusive of those for the Panama Canal and the postal expenditures payable from the postal revenues, amount to \$645,842,799.34. This is a decrease in the 1912 estimates from that of the 1911 estimates of \$1,534,367.22.

For the year ending June 30, 1913, the estimated receipts, exclusive of the postal revenues, are \$667,000,000, while the total estimated appropriations, exclusive of the Panama Canal and postal disbursements payable from postal revenues, will amount to \$637,920,803.35. This is a decrease in the 1913 estimates from that of the 1912 estimates of \$7,921,995.99.

As to the postal revenues, the expansion of the business in that department, the normal increase in the Post Office and the extension of the service, will increase the outlay to the sum Of \$260,938,463; but as the department was self-sustaining this year the Postmaster General is assured that next year the receipts will at least equal the expenditures, and probably exceed them by more than the surplus of this year. It is fair and equitable, therefore, in determining the economy with which the Government has been run, to exclude the transactions of a department like the Post Office Department, which relies for its support upon its receipts. In calculations heretofore made for comparison of economy in each year, it has been the proper custom only to include in the statement the deficit in the Post Office Department which was paid out of the Treasury.

A calculation of the actual increase in the expenses of Government arising from the increase in the population and the general expansion of

governmental functions, except those of the Post Office, for a number of years shows a normal increase of about 4 per cent a year. By directing the exercise of great care to keep down the expenses and the estimates we have succeeded in reducing the total disbursements each year.

THE CREDIT OF THE UNITED STATES.

The credit of this Government was shown to be better than that of any other Government by the sale of the Panama Canal 3 per cent bonds. These bonds did not give their owners the privilege of using them as a basis for bank-note circulation, nor was there any other privilege extended to them which would affect their general market value. Their sale, therefore, measured the credit of the Government. The premium which was realized upon the bonds made the actual interest rate of the transaction 2.909 per cent.

EFFICIENCY AND ECONOMY IN THE TREASURY DEPARTMENT.

In the Treasury Department the efficiency and economy work has been kept steadily up. Provision is made for the elimination of 134 positions during the coming year. Two hundred and sixty-seven statutory positions were eliminated during the last year in the office of the Treasury in Washington, and 141 positions in the year 1910, making an elimination of 542 statutory positions since March 4, 1909; and this has been done without the discharge of anybody, because the normal resignations and deaths have been equal to the elimination of the places, a system of transfers having taken care of the persons whose positions were dropped out. In the field service of the department, too, 1,259 positions have been eliminated down to the present time, making a total net reduction of all Treasury positions to the number of 1,801. Meantime the efficiency of the work of the department has increased.

MONETARY REFORM.

A matter of first importance that will come before Congress for action at this session is monetary reform. The Congress has itself arranged an early introduction of this great question through the report of its Monetary Commission. This commission was appointed to recommend a solution of the banking and currency problems so long confronting the Nation and to furnish the facts and data necessary to enable the Congress to take action. The commission was appointed when an impressive and urgent popular demand for legislative relief suddenly arose out of the distressing situation of the people caused by the deplorable panic of 1907. The Congress decided that while it could not give immediately the relief required, it would provide a commission to furnish the means for prompt action at a later date.

In order to do its work with thoroughness and precision this commission has taken some time to make its report. The country is undoubtedly hoping for as prompt action on the report as the convenience of the Congress can permit. The recognition of the gross imperfections and marked inadequacy of our banking and currency system even in our most quiet financial periods is of long standing; and later there has matured a recognition of the fact that our system is responsible for the extraordinary devastation, waste, and business paralysis of our recurring periods of panic. Though the members of the Monetary Commission have for a considerable time been working in the open, and while large numbers of the people have been openly working with them, and while the press has largely noted and discussed this work as it has proceeded, so that the report of the commission promises to represent a national movement, the details of the report are still being considered. I can not, therefore, do much more at this time than commend

the immense importance of monetary reform, urge prompt consideration and action when the commission's report is received, and express my satisfaction that the plan to be proposed promises to embrace main features that, having met the approval of a great preponderance of the practical and professional opinion of the country, are likely to meet equal approval in Congress.

It is exceedingly fortunate that the wise and undisputed policy of maintaining unchanged the main features of our banking system rendered it at once impossible to introduce a central bank; for a central bank would certainly have been resisted, and a plan into which it could have been introduced would probably have been defeated. But as a central bank could not be a part of the only plan discussed or considered, that troublesome question is eliminated. And ingenious and novel as the proposed National Reserve Association appears, it simply is a logical outgrowth of what is best in our present system, and is, in fact, the fulfillment of that system.

Exactly how the management of that association should be organized is a question still open. It seems to be desirable that the banks which would own the association should in the main manage it, It will be an agency of the banks to act for them, and they can be trusted better than anybody else chiefly to conduct it. It is mainly bankers' work. But there must be some form of Government supervision and ultimate control, and I favor a reasonable representation of the Government in the management. I entertain no fear of the introduction of politics or of any undesirable influences from a properly measured Government representation.

I trust that all banks of the country possessing the requisite standards will be placed upon a footing of perfect equality of opportunity. Both the National system and the State system should be fairly recognized, leaving them eventually to coalesce if that shall prove to be their tendency. But such evolution can not develop impartially if the banks of one system are given or permitted any advantages of opportunity over those of the other system. And I trust also that the new legislation will carefully and completely protect and assure the individuality and the independence of each bank, to the end that any tendency there may ever be toward a consolidation of the money or banking power of the Nation shall be defeated.

It will always be possible, of course, to correct any features of the new law which may in practice prove to be unwise; so that while this law is sure to be enacted under conditions of unusual knowledge and authority, it also will include, it is well to remember, the possibility of future amendment.

With the present prospects of this long-awaited reform encouraging us, it would be singularly unfortunate if this monetary question should by any chance become a party issue. And I sincerely hope it will not. The exceeding amount of consideration it has received from the people of the Nation has been wholly nonpartisan; and the Congress set its nonpartisan seal upon it when the Monetary Commission was appointed. In commending the question to the favorable consideration of Congress, I speak for, and in the spirit of, the great number of my fellow citizens who without any thought of party or partisanship feel with remarkable earnestness that this reform is necessary to the interests of all the people.

THE WAR DEPARTMENT.

There is now before Congress a Dill, the purpose of which is to increase the efficiency and decrease the expense of the Army. It contains four principal features: First, a consolidation of the General Staff with the Adjutant General's and the Inspector General's Departments; second, a consolidation of the Quartermaster's Department with the Subsistence and the Pay Departments; third, the creation of an Army Service Corps; and fourth, an extension of the enlistment period from three to five years.

With the establishment of an Army Service Corps, as proposed in the bill, I am thoroughly in accord and am convinced that the establishment of such a corps will result in a material economy and a very great increase of efficiency in the Army. It has repeatedly been recommended by me and my predecessors. I also believe that a consolidation of the Staff Corps can be made with a resulting increase in efficiency and economy, but not along the lines provided in the bill under consideration.

I am opposed to any plan the result of which would be to break up or interfere with the essential principles of the detail system in the Staff Corps established by the act of February 2, 1901, and I am opposed to any plan the result of which would be to give to the officer selected as Chief of Staff or to any other member of the General Staff Corps greater permanency of office than he now has. Under the existing law neither the Chief of Staff nor any other member of the General Staff Corps can remain in office for a period of more than four years, and there must be an interval of two years between successive tours of duty.

The bill referred to provides that certain persons shall become permanent members of the General Staff Corps, and that certain others are subject to re-detail without an interval of two years. Such provision is fraught with danger to the welfare of the Army, and would practically nullify the main purpose of the law creating the [missing text].

In making the consolidations no reduction should be made in the total number of officers of the Army, of whom there are now too few to perform the duties imposed by law. I have in the past recommended an increase in the number of officers by 600 in order to provide sufficient officers to perform all classes of staff duty and to reduce the number of line officers detached from their commands. Congress at the last session increased the total number of officers by 200, but this is not enough. Promotion in the line of the Army is too slow. Officers do not attain command rank at an age early enough properly to exercise it. It would be a mistake further to retard this already slow promotion by throwing back into the line of the Arm a number of high-ranking officers to be absorbed as is provided in the [missing text].

Another feature of the bill which I believe to be a mistake is the proposed increase in the term of enlistment from three to five ears I believe it would be better to enlist men for six years, release them at the end of three years from active service, and put them in reserve for the remaining three years. Reenlistments should be largely confined to the noncommissioned officers and other enlisted men in the skilled grades. This plan by the payment of a comparatively small compensation during the three years of reserve, would keep a large body of men at the call of the Government, trained and ready for [missing text].

The Army of the United States is in good condition. It showed itself able to meet an emergency in the successful mobilization of an army division of from 15,000 to 20,000 men, which took place along the border of Mexico during the recent disturbances in that country. The marvelous freedom from

the ordinary camp diseases of typhoid fever and measles is referred to in the report of the Secretary of War and shows such an effectiveness in the sanitary regulations and treatment of the Medical Corps, and in the discipline of the Army itself, as to invoke the highest commendation.

MEMORIAL AMPHITHEATER AT ARLINGTON.

I beg to renew my recommendation of last year that the Congress appropriate for a memorial amphitheater at Arlington, Va., the funds required to construct it upon the plans already approved.

THE PANAMA CANAL.

The very satisfactory progress made on the Panama Canal last year has continued, and there is every reason to believe that the canal will be completed as early as the 1st of July, 1913, unless something unforeseen occurs. This is about 18 months before the time promised by the engineers.

We are now near enough the completion of the canal to make it imperatively necessary that legislation should be enacted to fix the method by which the canal shall be maintained and controlled and the zone governed. The fact is that to-day there is no statutory law by authority of which the President is maintaining the government of the zone. Such authority was given in an amendment to the Spooner Act, which expired by the terms of its own limitation some years ago. Since that time the government has continued, under the advice of the Attorney General that in the absence of action by Congress, there is necessarily an implied authority on the part of the Executive to maintain a government in a territory in which he has to see that the laws are executed. The fact that we have been able thus to get along during the important days of construction without legislation expressly formulating the government of the zone, or delegating the creation of it to the President, is not a reason for supposing that we may continue the same kind of a government after the construction is finished. The implied authority of the President to maintain a civil government in the zone may be derived from the mandatory direction given him in the original Spooner Act, by which he was commanded to build the canal; but certainly, now that the canal is about to be completed and to be put under a permanent management, there ought to be specific statutory authority for its regulation and control and for the government of the zone, which we hold for the chief and main purpose of operating the canal.

I fully concur with the Secretary of War that the problem is simply the management of a great public work, and not the government of a local republic; that every provision must be directed toward the successful maintenance of the canal as an avenue of commerce, and that all provisions for the government of those who live within the zone should be subordinate to the main purpose.

The zone is 40 miles long and 10 miles wide. Now, it has a population of 50,000 or 60,000, but as soon as the work of construction is completed, the towns which make up this population will be deserted, and only comparatively few natives will continue their residence there. The control of them ought to approximate a military government. One judge and two justices of the peace will be sufficient to attend to all the judicial and litigated business there is. With a few fundamental laws of Congress, the zone should be governed by the orders of the President, issued through the War Department, as it is today. Provisions can be made for the guaranties of life, liberty, and property, but beyond those, the government should be

that of a military reservation, managed in connection with this great highway of trade.

FURNISHING SUPPLIES AND REPAIRS.

In my last annual message I discussed at length the reasons for the Government's assuming the task of furnishing to all ships that use the canal, whether our own naval vessels or others, the supplies of coal and oil and other necessities with which they must be replenished either before or after passing through the canal, together with the dock facilities and repairs of every character. This it is thought wise to do through the Government, because the Government must establish for itself, for its own naval vessels, large depots and dry docks and warehouses, and these may easily be enlarged so as to secure to the world public using the canal reasonable prices and a certainty that there will be no discrimination between those who wish to avail themselves of such facilities. TOLLS.

I renew my recommendation with respect to the tolls of the canal that within limits, which shall seem wise to Congress, the power of fixing tolls be given to the President. In order to arrive at a proper conclusion, there must be some experimenting, and this can not be done if Congress does not delegate the power to one who can act expeditiously.

POWER EXISTS TO RELIEVE AMERICAN SHIPPING.

I am very confident that the United States has the power to relieve from the payment of tolls any part of our shipping that Congress deems wise. We own the canal. It was our money that built it. We have the right to charge tolls for its use. Those tolls must be the same to everyone; but when we are dealing with our own ships, the practice of many Governments of subsidizing their own merchant vessels is so well established in general that a subsidy equal to the tolls, an equivalent remission of tolls, can not be held to be a discrimination in the use of the canal. The practice in the Suez Canal makes this clear. The experiment in tolls to be made by the President would doubtless disclose how great a burden of tolls the coastwise trade between the Atlantic and the Pacific coast could bear without preventing its usefulness in competition with the transcontinental railroads. One of the chief reasons for building the canal was to set up this competition and to bring the two shores closer together as a practical trade problem. It may be that the tolls will have to be wholly remitted. I do not think this is the best principle, because I believe that the cost of such a Government work as the Panama Canal ought to be imposed gradually but certainly upon the trade which it creates and makes possible. So far as we can, consistent with the development of the world's trade through the canal, and the benefit which it was intended to secure to the east and west coastwise trade, we ought to labor to secure from the canal tolls a sufficient amount ultimately to meet the debt which we have assumed and to pay the interest.

THE PHILIPPINE ISLANDS.

In respect to the Philippines, I urgently join in the recommendation of the Secretary of War that the act of February 6, 1905, limiting the indebtedness that may be incurred by the Philippine Government for the construction of public works, be increased from \$5,000,000 to \$15,000,000. The finances of that Government are in excellent condition. The maximum sum mentioned is quite low as compared with the amount of indebtedness of other governments with similar resources, and the success which has attended the expenditure of the \$5,000,000 in the useful improvements of the harbors and

other places in the Islands justifies and requires additional expenditures for like purposes. NATURALIZATION.

I also join in the recommendation that the legislature of the Philippine Islands be authorized to provide for the naturalization of Filipinos and others who by the present law are treated as aliens, so as to enable them to become citizens of the Philippine Islands.

FRIARS' LANDS.

Pending an investigation by Congress at its last session, through one of its committees, into the disposition of the friars' lands, Secretary Dickinson directed that the friars' lands should not be sold in excess of the limits fixed for the public lands until Congress should pass upon the subject or should have concluded its investigation. This order has been an obstruction to the disposition of the lands, and I expect to direct the Secretary of War to return to the practice under the opinion of the Attorney General which will enable us to dispose of the lands much more promptly, and to prepare a sinking fund with which to meet the \$7,000,000 of bonds issued for the purchase of the lands. I have no doubt whatever that the Attorney General's construction was a proper one, and that it is in the interest of everyone that the land shall be promptly disposed of. The danger of creating a monopoly of ownership in lands under the statutes as construed is nothing. There are only two tracts of 60,000 acres each unimproved and in remote Provinces that are likely to be disposed of in bulk, and the rest of the lands are subject to the limitation that they shall be first offered to the present tenants and lessors who hold them in small tracts.

RIVERS AND HARBORS.

The estimates for the river and harbor improvements reach \$32,000,000 for the coming year. I wish to urge that whenever a project has been adopted by Congress as one to be completed, the more money which can be economically expended in its construction in each year, the greater the ultimate economy. This has especial application to the improvement of the Mississippi River and its large branches. It seems to me that an increase in the amount of money now being annually expended in the improvement of the Ohio River which has been formally adopted by Congress would be in the interest of the public. A similar change ought to be made during the present Congress, in the amount to be appropriated for the Missouri River. The engineers say that the cost of the improvement of the Missouri River from Kansas City to St. Louis, in order to secure 6 feet as a permanent channel, will reach \$20,000,000. There have been at least three recommendations from the Chief of Engineers that if the improvement be adopted, \$2,000,000 should be expended upon it annually. This particular improvement is especially entitled to the attention of Congress, because a company has been organized in Kansas City, with a capital of \$1,000,000, which has built steamers and barges, and is actually using the river for transportation in order to show what can be done in the way of affecting rates between Kansas City and St. Louis, and in order to manifest their good faith and confidence in respect of the improvement. I urgently recommend that the appropriation for this improvement be increased from \$600,000, as recommended now in the completion of a contract, to \$2,000,000 annually, so that the work may be done in 10 years.

WATERWAY FROM THE LAKES TO THE GULF.

The project for a navigable waterway from Lake Michigan to the mouth of the

Illinois River, and thence via the Mississippi to the Gulf of Mexico, is one of national importance. In view of the work already accomplished by the Sanitary District of Chicago, an agency of the State of Illinois, which has constructed the most difficult and costly stretch of this waterway and made it an asset of the Nation, and in view of the fact that the people of Illinois have authorized the expenditure Of \$20,000,000 to carry this waterway 62 miles farther to Utica, I feel that it is fitting that this work should be supplemented by the Government, and that the expenditures recommended by the special board of engineers on the waterway from Utica to the mouth of the Illinois River be made upon lines which while providing a waterway for the Nation should otherwise benefit that State to the fullest extent. I recommend that the term of service of said special board of engineers be continued, and that it be empowered to reopen the question of the treatment of the lower Illinois River, and to negotiate with a properly constituted commission representing the State of Illinois, and to agree upon a plan for the improvement of the lower Illinois River and upon the extent to which the United States may properly cooperate with the State of Illinois in securing the construction of a navigable waterway from Lockport to the mouth of the Illinois River in conjunction with the development of water power by that State between Lockport and Utica.

THE DEPARTMENT OF JUSTICE.

Removal of clerks of Federal courts.

The report of the Attorney General shows that he has subjected to close examination the accounts of the clerks of the Federal courts; that he has found a good many which disclose irregularities or dishonesty; but that he has had considerable difficulty in securing an effective prosecution or removal of the clerks thus derelict. I am certainly not unduly prejudiced against the Federal courts, but the fact is that the long and confidential relations which grow out of the tenure for life on the part of the judge and the practical tenure for life on the part of the clerk are not calculated to secure the strictness of dealing by the judge with the clerk in respect to his fees and accounts which assures in the clerk's conduct a freedom from overcharges and carelessness. The relationship between the judge and the clerk makes it ungracious for members of the bar to complain of the clerk or for department examiners to make charges against him to be heard by the court, and an order of removal of a clerk and a judgment for the recovery of fees are in some cases reluctantly entered by the judge. For this reason I recommend an amendment to the law whereby the President shall be given power to remove the clerks for cause. This provision need not interfere with the right of the judge to appoint his clerk or to remove him.

French spoliation awards.

In my last message, I recommended to Congress that it authorize the payment of the findings or judgments of the Court of Claims in the matter of the French spoliation cases. There has been no appropriation to pay these judgments since 1905. The findings and awards were obtained after a very bitter fight, the Government succeeding in about 75 per cent of the cases. The amount of the awards ought, as a matter of good faith on the part of the Government, to be paid.

EMPLOYERS' LIABILITY AND WORKMEN'S COMPENSATION COMMISSION.

The limitation of the liability of the master to his servant for personal injuries to such as are occasioned by his fault has been abandoned in most

civilized countries and provision made whereby the employee injured in the course of his employment is compensated for his loss of working ability irrespective of negligence. The principle upon which such provision proceeds is that accidental injuries to workmen in modern industry, with its vast complexity and inherent dangers arising from complicated machinery and the use of the great forces of steam and electricity, should be regarded as risks of the industry and the loss borne in some equitable proportion by those who for their own profit engage therein. In recognition of this the last Congress authorized the appointment of a commission to investigate the subject of employers' liability and workmen's compensation and to report the result of their investigations, through the President, to Congress. This commission was appointed and has been at work, holding hearings, gathering data, and considering the subject, and it is expected will be able to report by the first of the year, in accordance with the provisions of the law. It is hoped and expected that the commission will suggest legislation which will enable us to put in the place of the present wasteful and sometimes unjust system of employers' liability a plan of compensation which will afford some certain and definite relief to all employees who are injured in the course of their employment in those industries which are subject to the regulating power of Congress.

MEASURES TO PREVENT DELAY AND UNNECESSARY COST OF LITIGATION.

In promotion of the movement for the prevention of delay and unnecessary cost, in litigation, I am glad to say that the Supreme Court has taken steps to reform the present equity rules of the Federal courts, and that we may in the near future expect a revision of them which will be a long step in the right direction.

The American Bar Association has recommended to Congress several bills expediting procedure, one of which has already passed the House unanimously, February 6, 1911. This directs that no judgment should be set aside or reversed, or new trial granted, unless it appears to the court, after an examination of the entire cause, that the error complained of has injuriously affected the substantial rights of the parties, and also provides for the submission of issues of fact to a jury, reserving questions of law for subsequent argument and decision. I hope this bill will pass the Senate and become law, for it will simplify the procedure at law.

Another bill 11 to amend chapter II of the judicial Code, in order to avoid errors in pleading, was presented by the same association, and one enlarging the jurisdiction of the Supreme Court so as to permit that court to examine, upon a writ of error, all cases in which any right or title is claimed under the Constitution, or any statute or treaty of the United States, whether the decision in the court below has been against the right or title or in its favor. Both these measures are in the interest of justice and should be passed.

POST OFFICE.

At the beginning of the present administration in 1909 the postal service was in arrears to the extent Of \$17,479,770.47. It was very much the largest deficit on record. In the brief space of two years this has been turned into a surplus Of \$220,000, which has been accomplished without curtailment of the postal facilities, as may be seen by the fact that there have been established 3,744 new post offices; delivery by carrier has been added to the service in 186 cities; 2,516 new rural routes have been established, covering 60,000 miles; the force of postal employees has been

increased in these two years by more than 8,000, and their average annual salary has had a substantial increase.

POSTAL-SAVINGS SYSTEM.

On January 3, 1911, postal-savings depositories were established experimentally in 48 States and Territories. After three months' successful operation the system was extended as rapidly as feasible to the 7,500 Post offices of the first, second, and third classes constituting the presidential grade. By the end of the year practically all of these will have been designated and then the system will be extended to all fourth-class post offices doing a money-order business.

In selecting post offices for depositories consideration was given to the efficiency of the postmasters and only those offices where the ratings were satisfactory to the department have been designated. Withholding designation from postmasters with unsatisfactory ratings has had a salutary effect on the service.

The deposits have kept pace with the extension of the system. Amounting to only \$60,652 at the end of the first month's operation in the experimental offices, they increased to \$679,310 by July, and now after 11 months of operation have reached a total of \$11,000,000. This sum is distributed among 2,710 banks and protected under the law by bonds deposited with the Treasurer of the United States.

Under the method adopted for the conduct of the system certificates are issued as evidence of deposits, and accounts with depositors are kept by the post offices instead of by the department. Compared with the practice in other countries of entering deposits in pass books and keeping at the central office a ledger account with each depositor, the use of the certificate has resulted in great economy of administration.

The depositors thus far number approximately 150,000. They include 40 nationalities, native Americans largely predominating and English and Italians coming next.

The first conversion of deposits into United States bonds bearing interest at the rate of 2.5 per cent occurred on July 1, 1911, the amount of deposits exchanged being \$41,900, or a little more than 6 per cent of the total outstanding certificates of deposit on June 30. Of this issue, bonds to the value of \$6,120 were in coupon form and \$35,780 in registered form.

PARCEL POST.

Steps should be taken immediately for the establishment of a rural parcel post. In the estimates of appropriations needed for the maintenance of the postal service for the ensuing fiscal year an item of \$150,000 has been inserted to cover the preliminary expense of establishing a parcel post on rural mail routes, as well as to cover an investigation having for its object the final establishment of a general parcel post on all railway and steamboat transportation routes. The department believes that after the initial expenses of establishing the system are defrayed and the parcel post is in full operation on the rural routes it will not only bring in sufficient revenue to meet its cost, but also a surplus that can be utilized in paying the expenses of a parcel post in the City Delivery Service.

It is hoped that Congress will authorize the immediate establishment of a

limited parcel post on such rural routes as may be selected, providing for the delivery along the routes of parcels not exceeding eleven pounds, which is the weight limit for the international parcel post, or at the post office from which such route emanates, or on another route emanating from the same office. Such preliminary service will prepare the way for the more thorough and comprehensive inquiry contemplated in asking for the appropriation mentioned, enable the department to gain definite information concerning the practical operation of a general system, and at the same time extend the benefit of the service to a class of people who, above all others, are specially in need of it.

The suggestion that we have a general parcel post has awakened great opposition on the part of some who think that it will have the effect to destroy the business of the country storekeeper. Instead of doing this, I think the change will greatly increase business for the benefit of all. The reduction in the cost of living it will bring about ought to make its coming certain.

THE NAVY DEPARTMENT.

On the 2d of November last, I reviewed the fighting fleet of battleships and other vessels assembled in New York Harbor, consisting of 24 battleships, 2 armored cruisers, 2 cruisers, 22 destroyers, 12 torpedo boats, 8 submarines, and other attendant vessels, making 98 vessels of all classes, of a tonnage of 576,634 tons. Those who saw the fleet were struck with its preparedness and with its high military efficiency. All Americans should be proud of its personnel.

The fleet was deficient in the number of torpedo destroyers, in cruisers, and in colliers, as well as in large battleship cruisers, which are now becoming a very important feature of foreign navies, notably the British, German, and Japanese.

The building plan for this year contemplates two battleships and two colliers. This is because the other and smaller vessels can be built much more rapidly in case of emergency than the battleships, and we certainly ought to continue the policy of two battleships a year until after the Panama Canal is finished and until in our first line and in our reserve line we can number 40 available vessels of proper armament and size.

The reorganization of the Navy and the appointment of four aids to the Secretary have continued to demonstrate their usefulness. It would be difficult now to administer the affairs of the Navy without the expert counsel and advice of these aids, and I renew the recommendation which I made last year, that the aids be recognized by statute.

It is certain that the Navy, with its present size, should have admirals in active command higher than rear admirals. The recognized grades in order are: Admiral of the fleet, admiral, vice admiral, and rear admiral. Our great battleship fleet is commanded by a rear admiral, with four other rear admirals under his orders. This is not as it should be, and when questions of precedence arise between our naval officers and those of European navies, the American rear admiral, though in command of ten times the force of a foreign vice admiral, must yield precedence to the latter. Such an absurdity ought not to prevail, and it can be avoided by the creation of two or three positions of flag rank above that of rear admiral.

I attended the opening of the new training school at North Chicago, Ill., and am glad to note the opportunity which this gives for drawing upon young

men of the country from the interior, from farms, stores, shops, and offices, which insures a high average of intelligence and character among them, and which they showed in the very wonderful improvement in discipline and drill which only a few short weeks' presence at the naval station had made.

I invite your attention to the consideration of the new system of detention and of punishment for Army and Navy enlisted men which has obtained in Great Britain, and which has made greatly for the better control of the men. We should adopt a similar system here.

Like the Treasury Department and the War Department, the Navy Department has given much attention to economy in administration, and has cut down a number of unnecessary expenses and reduced its estimates except for construction and the increase that that involves.

I urge upon Congress the necessity for an immediate increase of 2,000 men in the enlisted strength of the Navy, provided for in the estimates. Four thousand more are now needed to man all the available vessels.

There are in the service to-day about 47,750 enlisted men of all ratings.

Careful computation shows that in April, 1912, 49,166 men will be required for vessels in commission, and 3,000 apprentice seamen should be kept under training at all times.

ABOLITION OF NAVY YARDS.

The Secretary of the Navy has recommended the abolition of certain of the smaller and unnecessary navy yards, and in order to furnish a complete and comprehensive report has referred the question of all navy yards to the joint board of the Army and Navy. This board will shortly make its report and the Secretary of the Navy advises me that his recommendations on the subject will be presented early in the coming year. The measure of economy contained in a proper handling of this subject is so great and so important to the interests of the Nation that I shall present it to Congress as a separate subject apart from my annual message. Concentration of the necessary work for naval vessels in a few navy yards on each coast is a vital necessity if proper economy in Government expenditures is to be attained.

AMALGAMATION OF STAFF CORPS IN THE NAVY.

The Secretary of the Navy is striving to unify the various corps of the Navy to the extent possible and thereby stimulate a Navy spirit as distinguished from a corps spirit. In this he has my warm support.

All officers are to be naval officers first and specialists afterwards. This means that officers will take up at least one specialty, such as ordnance, construction, or engineering. This is practically what is done now, only some of the specialists, like the pay officers and naval constructors, are not of the line. It is proposed to make them all of the line.

All combatant corps should obviously be of the line. This necessitates amalgamating the pay officers and also those engaged in the technical work of producing the finished ship. This is at present the case with the single exception of the naval constructors, whom it is now proposed to amalgamate with the line.

COUNCIL OF NATIONAL DEFENSE.

I urge again upon Congress the desirability of establishing the council of national defense. The bill to establish this council was before Congress last winter, and it is hoped that this legislation will pass during the present session. The purpose of the council is to determine the general policy of national defense and to recommend to Congress and to the President such measures relating to it as it shall deem necessary and expedient.

No such machinery is now provided by which the readiness of the Army and Navy may be improved and the programs of military and naval requirements shall be coordinated and properly scrutinized with a view of the necessities of the whole Nation rather than of separate departments.

DEPARTMENTS OF AGRICULTURE AND COMMERCE AND LABOR.

For the consideration of matters which are pending or have been disposed of in the Agricultural Department and in the Department of Commerce and Labor, I refer to the very excellent reports of the Secretaries of those departments. I shall not be able to submit to Congress until after the Christmas holidays the question of conservation of our resources arising in Alaska and the West and the question of the rate for second-class mail matter in the Post Office Department.

COMMISSION ON EFFICIENCY AND ECONOMY.

The law does not require the submission of the reports of the Commission on Economy and Efficiency until the 31st of December. I shall therefore not be able to submit a report of the work of that commission until the assembling of Congress after the holidays.

CIVIL RETIREMENT AND CONTRIBUTORY PENSION SYSTEM.

I have already advocated, in my last annual message, the adoption of a civil-service retirement system, with a contributory feature to it so as to reduce to a minimum the cost to the Government of the pensions to be paid. After considerable reflection, I am very much opposed to a pension system that involves no contribution from the employees. I think the experience of other governments justifies this view; but the crying necessity for some such contributory system, with possibly a preliminary governmental outlay, in order to cover the initial cost and to set the system going at once while the contributions are accumulating, is manifest on every side. Nothing will so much promote the economy and efficiency of the Government as such a system.

ELIMINATION OF ALL LOCAL OFFICES FROM POLITICS.

I wish to renew again my recommendation that all the local offices throughout the country, including collectors of internal revenue, collectors of customs, postmasters of all four classes, immigration commissioners and marshals, should be by law covered into the classified service, the necessity for confirmation by the Senate be removed, and the President and the others, whose time is now taken up in distributing this patronage under the custom that has prevailed since the beginning of the Government in accordance with the recommendation of the Senators and Congressmen of the majority party, should be relieved from this burden. I am confident that such a change would greatly reduce the cost of

administering the Government, and that it would add greatly to its efficiency. It would take away the power to use the patronage of the Government for political purposes. When officers are recommended by Senators and Congressmen from political motives and for political services rendered, it is impossible to expect that while in office the appointees will not regard their tenure as more or less dependent upon continued political service for their patrons, and no regulations, however stiff or rigid, will prevent this, because such regulations, in view of the method and motive for selection, are plainly inconsistent and deemed hardly worthy of respect.

State of the Union Address
William H. Taft
December 3, 1912

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To the Senate and House of Representatives:

The foreign relations of the United States actually and potentially affect the state of the Union to a degree not widely realized and hardly surpassed by any other factor in the welfare of the whole Nation. The position of the United States in the moral, intellectual, and material relations of the family of nations should be a matter of vital interest to every patriotic citizen. The national prosperity and power impose upon us duties which we can not shirk if we are to be true to our ideals. The tremendous growth of the export trade of the United States has already made that trade a very real factor in the industrial and commercial prosperity of the country. With the development of our industries the foreign commerce of the United States must rapidly become a still more essential factor in its economic welfare. Whether we have a farseeing and wise diplomacy and are not recklessly plunged into unnecessary wars, and whether our foreign policies are based upon an intelligent grasp of present-day world conditions and a clear view of the potentialities of the future, or are governed by a temporary and timid expediency or by narrow views befitting an infant nation, are questions in the alternative consideration of which must convince any thoughtful citizen that no department of national polity offers greater opportunity for promoting the interests of the whole people on the one hand, or greater chance on the other of permanent national injury, than that which deals with the foreign relations of the United States.

The fundamental foreign policies of the United States should be raised high above the conflict of partisanship and wholly dissociated from differences as to domestic policy. In its foreign affairs the United States should present to the world a united front. The intellectual, financial, and industrial interests of the country and the publicist, the wage earner, the farmer, and citizen of whatever occupation must cooperate in a spirit of high patriotism to promote that national solidarity which is indispensable to national efficiency and to the attainment of national ideals.

The relations of the United States with all foreign powers remain upon a sound basis of peace, harmony, and friendship. A greater insistence upon justice to American citizens or interests wherever it may have been denied and a stronger emphasis of the need of mutuality in commercial and other relations have only served to strengthen our friendships with foreign countries by placing those friendships upon a firm foundation of realities

as well as aspirations.

Before briefly reviewing the more important events of the last year in our foreign relations, which it is my duty to do as charged with their conduct and because diplomatic affairs are not of a nature to make it appropriate that the Secretary of State make a formal annual report, I desire to touch upon some of the essentials to the safe management of the foreign relations of the United States and to endeavor, also, to define clearly certain concrete policies which are the logical modern corollaries of the undisputed and traditional fundamentals of the foreign policy of the United States.

REORGANIZATION OF THE STATE DEPARTMENT

At the beginning of the present administration the United States, having fully entered upon its position as a world power, with the responsibilities thrust upon it by the results of the Spanish-American War, and already engaged in laying the groundwork of a vast foreign trade upon which it should one day become more and more dependent, found itself without the machinery for giving thorough attention to, and taking effective action upon, a mass of intricate business vital to American interests in every country in the world.

The Department of State was an archaic and inadequate machine lacking most of the attributes of the foreign office of any great modern power. With an appropriation made upon my recommendation by the Congress on August 5, 1909, the Department of State was completely reorganized. There were created Divisions of Latin American Affairs and of Far Eastern, Near Eastern, and Western European Affairs. To these divisions were called from the foreign service diplomatic and consular officers possessing experience and knowledge gained by actual service in different parts of the world and thus familiar with political and commercial conditions in the regions concerned. The work was highly specialized. The result is that where previously this Government from time to time would emphasize in its foreign relations one or another policy, now American interests in every quarter of the globe are being cultivated with equal assiduity. This principle of politico-geographical division possesses also the good feature of making possible rotation between the officers of the departmental, the diplomatic, and the consular branches of the foreign service, and thus keeps the whole diplomatic and consular establishments under the Department of State in close touch and equally inspired with the aims and policy of the Government. Through the newly created Division of Information the foreign service is kept fully informed of what transpires from day to day in the international relations of the country, and contemporary foreign comment affecting American interests is promptly brought to the attention of the department. The law offices of the department were greatly strengthened. There were added foreign trade advisers to cooperate with the diplomatic and consular bureaus and the politico-geographical divisions in the innumerable matters where commercial diplomacy or consular work calls for such special knowledge. The same officers, together with the rest of the new organization, are able at all times to give to American citizens accurate information as to conditions in foreign countries with which they have business and likewise to cooperate more effectively with the Congress and also with the other executive departments.

MERIT SYSTEM IN CONSULAR AND DIPLOMATIC CORPS

Expert knowledge and professional training must evidently be the essence of this reorganization. Without a trained foreign service there would not be

men available for the work in the reorganized Department of State. President Cleveland had taken the first step toward introducing the merit system in the foreign service. That had been followed by the application of the merit principle, with excellent results, to the entire consular branch. Almost nothing, however, had been done in this direction with regard to the Diplomatic Service. In this age of commercial diplomacy it was evidently of the first importance to train an adequate personnel in that branch of the service. Therefore, on November 26, 1909, by an Executive order I placed the Diplomatic Service up to the grade of secretary of embassy, inclusive, upon exactly the same strict nonpartisan basis of the merit system, rigid examination for appointment and promotion only for efficiency, as had been maintained without exception in the Consular Service.

STATISTICS AS TO MERIT AND NONPARTISAN CHARACTER OF APPOINTMENTS

How faithful to the merit system and how nonpartisan has been the conduct of the Diplomatic and Consular Services in the last four years may be judged from the following: Three ambassadors now serving held their present rank at the beginning of my administration. Of the ten ambassadors whom I have appointed, five were by promotion from the rank of minister. Nine ministers now serving held their present rank at the beginning of my administration. Of the thirty ministers whom I have appointed, eleven were promoted from the lower grades of the foreign service or from the Department of State. Of the nineteen missions in Latin America, where our relations are close and our interest is great, fifteen chiefs of mission are service men, three having entered the service during this administration. Thirty-seven secretaries of embassy or legation who have received their initial appointments after passing successfully the required examination were chosen for ascertained fitness, without regard to political affiliations. A dearth of candidates from Southern and Western States has alone made it impossible thus far completely to equalize all the States' representations in the foreign service. In the effort to equalize the representation of the various States in the Consular Service I have made sixteen of the twenty-nine new appointments as consul which have occurred during my administration from the Southern States. This is 55 per cent. Every other consular appointment made, including the promotion of eleven young men from the consular assistant and student interpreter corps, has been by promotion or transfer, based solely upon efficiency shown in the service.

In order to assure to the business and other interests of the United States a continuance of the resulting benefits of this reform, I earnestly renew my previous recommendations of legislation making it permanent along some such lines as those of the measure now Pending in Congress.

LARGER PROVISION FOR EMBASSIES AND LEGATIONS AND FOR OTHER EXPENSES OF OUR FOREIGN REPRESENTATIVES RECOMMENDED

In connection with legislation for the amelioration of the foreign service, I wish to invite attention to the advisability of placing the salary appropriations upon a better basis. I believe that the best results would be obtained by a moderate scale of salaries, with adequate funds for the expense of proper representation, based in each case upon the scale and cost of living at each post, controlled by a system of accounting, and under the general direction of the Department of State.

In line with the object which I have sought of placing our foreign service on a basis of permanency, I have at various times advocated provision by

Congress for the acquisition of Government-owned buildings for the residence and offices of our diplomatic officers, so as to place them more nearly on an equality with similar officers of other nations and to do away with the discrimination which otherwise must necessarily be made, in some cases, in favor of men having large private fortunes. The act of Congress which I approved on February 17, 1911, was a right step in this direction. The Secretary of State has already made the limited recommendations permitted by the act for any one year, and it is my hope that the bill introduced in the House of Representatives to carry out these recommendations will be favorably acted on by the Congress during its present session.

In some Latin-American countries the expense of government-owned legations will be less than elsewhere, and it is certainly very urgent that in such countries as some of the Republics of Central America and the Caribbean, where it is peculiarly difficult to rent suitable quarters, the representatives of the United States should be justly and adequately provided with dignified and suitable official residences. Indeed, it is high time that the dignity and power of this great Nation should be fittingly signalized by proper buildings for the occupancy of the Nation's representatives everywhere abroad.

DIPLOMACY A HAND MAID OF COMMERCIAL INTERCOURSE AND PEACE

The diplomacy of the present administration has sought to respond to modern ideas of commercial intercourse. This policy has been characterized as substituting dollars for bullets. It is one that appeals alike to idealistic humanitarian sentiments, to the dictates of sound policy and strategy, and to legitimate commercial aims. It is an effort frankly directed to the increase of American trade upon the axiomatic principle that the Government of the United States shall extend all proper support to every legitimate and beneficial American enterprise abroad. How great have been the results of this diplomacy, coupled with the maximum and minimum provision of the tariff law, will be seen by some consideration of the wonderful increase in the export trade of the United States. Because modern diplomacy is commercial, there has been a disposition in some quarters to attribute to it none but materialistic aims. How strikingly erroneous is such an impression may be seen from a study of the results by which the diplomacy of the United States can be judged.

SUCCESSFUL EFFORTS IN PROMOTION OF PEACE

In the field of work toward the ideals of peace this Government negotiated, but to my regret was unable to consummate, two arbitration treaties which set the highest mark of the aspiration of nations toward the substitution of arbitration and reason for war in the settlement of international disputes. Through the efforts of American diplomacy several wars have been prevented or ended. I refer to the successful tripartite mediation of the Argentine Republic, Brazil, and the United States between Peru and Ecuador; the bringing of the boundary dispute between Panama and Costa Rica to peaceful arbitration; the staying of warlike preparations when Haiti and the Dominican Republic were on the verge of hostilities; the stopping of a war in Nicaragua; the halting of internecine strife in Honduras. The Government of the United States was thanked for its influence toward the restoration of amicable relations between the Argentine Republic and Bolivia. The diplomacy of the United States is active in seeking to assuage the remaining ill-feeling between this country and the Republic of Colombia. In the recent civil war in China the United States successfully joined with the other interested powers in urging an early cessation of

hostilities. An agreement has been reached between the Governments of Chile and Peru whereby the celebrated Tacna-Arica dispute, which has so long embittered international relations on the west coast of South America, has at last been adjusted. Simultaneously came the news that the boundary dispute between Peru and Ecuador had entered upon a stage of amicable settlement. The position of the United States in reference to the Tacna-Arica dispute between Chile and Peru has been one of nonintervention, but one of friendly influence and pacific counsel throughout the period during which the dispute in question has been the subject of interchange of views between this Government and the two Governments immediately concerned. In the general easing of international tension on the west coast of South America the tripartite mediation, to which I have referred, has been a most potent and beneficent factor.

CHINA

In China the policy of encouraging financial investment to enable that country to help itself has had the result of giving new life and practical application to the open-door policy. The consistent purpose of the present administration has been to encourage the use of American capital in the development of China by the promotion of those essential reforms to which China is pledged by treaties with the United States and other powers. The hypothecation to foreign bankers in connection with certain industrial enterprises, such as the Hukuang railways, of the national revenues upon which these reforms depended, led the Department of State early in the administration to demand for American citizens participation in such enterprises, in order that the United States might have equal rights and an equal voice in all questions pertaining to the disposition of the public revenues concerned. The same policy of promoting international accord among the powers having similar treaty rights as ourselves in the matters of reform, which could not be put into practical effect without the common consent of all, was likewise adopted in the case of the loan desired by China for the reform of its currency. The principle of international cooperation in matters of common interest upon which our policy had already been based in all of the above instances has admittedly been a great factor in that concert of the powers which has been so happily conspicuous during the perilous period of transition through which the great Chinese nation has been passing.

CENTRAL AMERICA NEEDS OUR HELP IN DEBT ADJUSTMENT

In Central America the aim has been to help such countries as Nicaragua and Honduras to help themselves. They are the immediate beneficiaries. The national benefit to the United States is twofold. First, it is obvious that the Monroe doctrine is more vital in the neighborhood of the Panama Canal and the zone of the Caribbean than anywhere else. There, too, the maintenance of that doctrine falls most heavily upon the United States. It is therefore essential that the countries within that sphere shall be removed from the jeopardy involved by heavy foreign debt and chaotic national finances and from the ever-present danger of international complications due to disorder at home. Hence the United States has been glad to encourage and support American bankers who were willing to lend a helping hand to the financial rehabilitation of such countries because this financial rehabilitation and the protection of their customhouses from being the prey of would be dictators would remove at one stroke the menace of foreign creditors and the menace of revolutionary disorder.

The second advantage of the United States is one affecting chiefly all the southern and Gulf ports and the business and industry of the South. The

Republics of Central America and the Caribbean possess great natural wealth. They need only a measure of stability and the means of financial regeneration to enter upon an era of peace and prosperity, bringing profit and happiness to themselves and at the same time creating conditions sure to lead to a flourishing interchange of trade with this country.

I wish to call your especial attention to the recent occurrences in Nicaragua, for I believe the terrible events recorded there during the revolution of the past summer-the useless loss of life, the devastation of property, the bombardment of defenseless cities, the killing and wounding of women and children, the torturing of noncombatants to exact contributions, and the suffering of thousands of human beings-might have been averted had the Department of State, through approval of the loan convention by the Senate, been permitted to carry out its now well-developed policy of encouraging the extending of financial aid to weak Central American States with the primary objects of avoiding just such revolutions by assisting those Republics to rehabilitate their finances, to establish their currency on a stable basis, to remove the customhouses from the danger of revolutions by arranging for their secure administration, and to establish reliable banks.

During this last revolution in Nicaragua, the Government of that Republic having admitted its inability to protect American life and property against acts of sheer lawlessness on the part of the malcontents, and having requested this Government to assume that office, it became necessary to land over 2,000 marines and bluejackets in Nicaragua. Owing to their presence the constituted Government of Nicaragua was free to devote its attention wholly to its internal troubles, and was thus enabled to stamp out the rebellion in a short space of time. When the Red Cross supplies sent to Granada had been exhausted, 8,000 persons having been given food in one day upon the arrival of the American forces, our men supplied other unfortunate, needy Nicaraguans from their own haversacks. I wish to congratulate the officers and men of the United States navy and Marine Corps who took part in reestablishing order in Nicaragua upon their splendid conduct, and to record with sorrow the death of seven American marines and bluejackets. Since the reestablishment of peace and order, elections have been held amid conditions of quiet and tranquility. Nearly all the American marines have now been withdrawn. The country should soon be on the road to recovery. The only apparent danger now threatening Nicaragua arises from the shortage of funds. Although American bankers have already rendered assistance, they may naturally be loath to advance a loan adequate to set the country upon its feet without the support of some such convention as that of June, 1911, upon which the Senate has not yet acted.

ENFORCEMENT OF NEUTRALITY LAWS

In the general effort to contribute to the enjoyment of peace by those Republics which are near neighbors of the United States, the administration has enforced the so-called neutrality statutes with a new vigor, and those statutes were greatly strengthened in restricting the exportation of arms and munitions by the joint resolution of last March. It is still a regrettable fact that certain American ports are made the rendezvous of professional revolutionists and others engaged in intrigue against the peace of those Republics. It must be admitted that occasionally a revolution in this region is justified as a real popular movement to throw off the shackles of a vicious and tyrannical government. Such was the Nicaraguan revolution against the Zelaya regime. A nation enjoying our liberal institutions can not escape sympathy with a true popular movement, and one so well justified. In very many cases, however, revolutions in the

Republics in question have no basis in principle, but are due merely to the machinations of conscienceless and ambitious men, and have no effect but to bring new suffering and fresh burdens to an already oppressed people. The question whether the use of American ports as foci of revolutionary intrigue can be best dealt with by a further amendment to the neutrality statutes or whether it would be safer to deal with special cases by special laws is one worthy of the careful consideration of the Congress.

VISIT OF SECRETARY KNOX TO CENTRAL AMERICA AND THE CARIBBEAN

Impressed with the particular importance of the relations between the United States and the Republics of Central America and the Caribbean region, which of necessity must become still more intimate by reason of the mutual advantages which will be presented by the opening of the Panama Canal, I directed the Secretary of State last February to visit these Republics for the purpose of giving evidence of the sincere friendship and good will which the Government and people of the United States bear toward them. Ten Republics were visited. Everywhere he was received with a cordiality of welcome and a generosity of hospitality such as to impress me deeply and to merit our warmest thanks. The appreciation of the Governments and people of the countries visited, which has been appropriately shown in various ways, leaves me no doubt that his visit will conduce to that closer union and better understanding between the United States and those Republics which I have had it much at heart to promote.

OUR MEXICAN POLICY

For two years revolution and counter-revolution has distraught the neighboring Republic of Mexico. Brigandage has involved a great deal of depredation upon foreign interests. There have constantly recurred questions of extreme delicacy. On several occasions very difficult situations have arisen on our frontier. Throughout this trying period, the policy of the United States has been one of patient nonintervention, steadfast recognition of constituted authority in the neighboring nation, and the exertion of every effort to care for American interests. I profoundly hope that the Mexican nation may soon resume the path of order, prosperity, and progress. To that nation in its sore troubles, the sympathetic friendship of the United States has been demonstrated to a high degree. There were in Mexico at the beginning of the revolution some thirty or forty thousand American citizens engaged in enterprises contributing greatly to the prosperity of that Republic and also benefiting the important trade between the two countries. The investment of American capital in Mexico has been estimated at \$1,000,000,000. The responsibility of endeavoring to safeguard those interests and the dangers inseparable from propinquity to so turbulent a situation have been great, but I am happy to have been able to adhere to the policy above outlined—a policy which I hope may be soon justified by the complete success of the Mexican people in regaining the blessings of peace and good order.

AGRICULTURAL CREDITS

A most important work, accomplished in the past year by the American diplomatic officers in Europe, is the investigation of the agricultural credit system in the European countries. Both as a means to afford relief to the consumers of this country through a more thorough development of agricultural resources and as a means of more sufficiently maintaining the agricultural population, the project to establish credit facilities for the farmers is a concern of vital importance to this Nation. No evidence of prosperity among well-established farmers should blind us to the fact that

lack of capital is preventing a development of the Nation's agricultural resources and an adequate increase of the land under cultivation; that agricultural production is fast falling behind the increase in population; and that, in fact, although these well-established farmers are maintained in increasing prosperity because of the natural increase in population, we are not developing the industry of agriculture. We are not breeding in proportionate numbers a race of independent and independence-loving landowners, for a lack of which no growth of cities can compensate. Our farmers have been our mainstay in times of crisis, and in future it must still largely be upon their stability and common sense that this democracy must rely to conserve its principles of self-government.

The need of capital which American farmers feel to-day had been experienced by the farmers of Europe, with their centuries-old farms, many years ago. The problem had been successfully solved in the Old World and it was evident that the farmers of this country might profit by a study of their systems. I therefore ordered, through the Department of State, an investigation to be made by the diplomatic officers in Europe, and I have laid the results of this investigation before the governors of the various States with the hope that they will be used to advantage in their forthcoming meeting.

INCREASE OF FOREIGN TRADE

In my last annual message I said that the fiscal year ended June 30, 1911, was noteworthy as marking the highest record of exports of American products to foreign countries. The fiscal year 1912 shows that this rate of advance has been maintained, the total domestic exports having a valuation approximately Of \$2,200,000,000, as compared with a fraction over \$2,000,000,000 the previous year. It is also significant that manufactured and partly manufactured articles continue to be the chief commodities forming the volume of our augmented exports, the demands of our own people for consumption requiring that an increasing proportion of our abundant agricultural products be kept at home. In the fiscal year 1911 the exports of articles in the various stages of manufacture, not including foodstuffs partly or wholly manufactured, amounted approximately to \$907,500,000. In the fiscal year 1912 the total was nearly \$1,022,000,000, a gain Of \$114,000,000.

ADVANTAGE OF MAXIMUM AND MINIMUM TARIFF PROVISION

The importance which our manufactures have assumed in the commerce of the world in competition with the manufactures of other countries again draws attention to the duty of this Government to use its utmost endeavors to secure impartial treatment for American products in all markets. Healthy commercial rivalry in international intercourse is best assured by the possession of proper means for protecting and promoting our foreign trade. It is natural that competitive countries should view with some concern this steady expansion of our commerce. If in some instance the measures taken by them to meet it are not entirely equitable, a remedy should be found. In former messages I have described the negotiations of the Department of State with foreign Governments for the adjustment of the maximum and minimum tariff as provided in section 2 of the tariff law of 1909. The advantages secured by the adjustment of our trade relations under this law have continued during the last year, and some additional cases of discriminatory treatment of which we had reason to complain have been removed. The Department of State has for the first time in the history of this country obtained substantial most-favored-nation treatment from all the countries of the world. There are, however, other instances which,

while apparently not constituting undue discrimination in the sense of section 2, are nevertheless exceptions to the complete equity of tariff treatment for American products that the Department of State consistently has sought to obtain for American commerce abroad.

NECESSITY FOR SUPPLEMENTARY LEGISLATION

These developments confirm the opinion conveyed to you in my annual message of 1911, that while the maximum and minimum provision of the tariff law of 1909 has been fully justified by the success achieved in removing previously existing undue discriminations against American products, yet experience has shown that this feature of the law should be amended in such way as to provide a fully effective means of meeting the varying degrees of discriminatory treatment of American commerce in foreign countries still encountered, as well as to protect against injurious treatment on the part of foreign Governments, through either legislative or administrative measures, the financial interests abroad of American citizens whose enterprises enlarge the market for American commodities.

I can not too strongly recommend to the Congress the passage of some such enabling measure as the bill which was recommended by the Secretary of State in his letter of December 13, 1911. The object of the proposed legislation is, in brief, to enable the Executive to apply, as the case may require, to any or all commodities, whether or not on the free list from a country which discriminates against the United States, a graduated scale of duties up to the maximum Of 25 per cent ad valorem provided in the present law. Flat tariffs are out of date. Nations no longer accord equal tariff treatment to all other nations irrespective of the treatment from them received. Such a flexible power at the command of the Executive would serve to moderate any unfavorable tendencies on the part of those countries from which the importations into the United States are substantially confined to articles on the free list as well as of the countries which find a lucrative market in the United States for their products under existing customs rates. It is very necessary that the American Government should be equipped with weapons of negotiation adapted to modern economic conditions, in order that we may at all times be in a position to gain not only technically just but actually equitable treatment for our trade, and also for American enterprise and vested interests abroad.

BUSINESS SECURED TO OUR COUNTRY BY DIRECT OFFICIAL EFFORT

As illustrating the commercial benefits of the Nation derived from the new diplomacy and its effectiveness upon the material as well as the more ideal side, it may be remarked that through direct official efforts alone there have been obtained in the course of this administration, contracts from foreign Governments involving an expenditure of \$50,000,000 in the factories of the United States. Consideration of this fact and some reflection upon the necessary effects of a scientific tariff system and a foreign service alert and equipped to cooperate with the business men of America carry the conviction that the gratifying increase in the export trade of this country is, in substantial amount, due to our improved governmental methods of protecting and stimulating it. It is germane to these observations to remark that in the two years that have elapsed since the successful negotiation of our new treaty with Japan, which at the time seemed to present so many practical difficulties, our export trade to that country has increased at the rate of over \$1,000,000 a month. Our exports to Japan for the year ended June 30, 1910, were \$21,959,310, while for the year ended June 30, 1912, the exports were \$53,478,046, a net increase in the sale of American products of nearly 150 per cent.

SPECIAL CLAIMS ARBITRATION WITH GREAT BRITAIN

Under the special agreement entered into between the United States and Great Britain on August 18, 1910, for the arbitration of outstanding pecuniary claims, a schedule of claims and the terms of submission have been agreed upon by the two Governments, and together with the special agreement were approved by the Senate on July 19, 1911, but in accordance with the terms of the agreement they did not go into effect until confirmed by the two Governments by an exchange of notes, which was done on April 26 last. Negotiations, are still in progress for a supplemental schedule of claims to be submitted to arbitration under this agreement, and meanwhile the necessary preparations for the arbitration of the claims included in the first schedule have been undertaken and are being carried on under the authority of an appropriation made for that purpose at the last session of Congress. It is anticipated that the two Governments will be prepared to call upon the arbitration tribunal, established under this agreement, to meet at Washington early next year to proceed with this arbitration.

FUR SEAL TREATY AND NEED FOR AMENDMENT OF OUR STATUTE

The act adopted at the last session of Congress to give effect to the fur-seal convention Of July 7, 1911, between Great Britain, Japan, Russia, and the United States provided for the suspension of all land killing of seals on the Pribilof Islands for a period of five years, and an objection has now been presented to this provision by the other parties in interest, which raises the issue as to whether or not this prohibition of land killing is inconsistent with the spirit, if not the letter, of the treaty stipulations. The justification of establishing this close season depends, under the terms of the convention, upon how far, if at all, it is necessary for protecting and preserving the American fur-seal herd and for increasing its number. This is a question requiring examination of the present condition of the herd and the treatment which it needs in the light of actual experience and scientific investigation. A careful examination of the subject is now being made, and this Government will soon be in possession of a considerable amount of new information about the American seal herd, which has been secured during the past season and will be of great value in determining this question; and if it should appear that there is any uncertainty as to the real necessity for imposing a close season at this time I shall take an early opportunity to address a special message to Congress on this subject, in the belief that this Government should yield on this point rather than give the slightest ground for the charge that we have been in any way remiss in observing our treaty obligations.

FINAL SETTLEMENT OF NORTH ATLANTIC FISHERIES DISPUTE

On the 20th of July last an agreement was concluded between the United States and Great Britain adopting, with certain modifications, the rules and method of procedure recommended in the award rendered by the North Atlantic Coast Fisheries Arbitration Tribunal on September 7, 1910, for the settlement hereafter, in accordance with the principles laid down in the award, of questions arising with reference to the exercise of the American fishing liberties under Article I of the treaty of October 20, 1818, between the United States and Great Britain. This agreement received the approval of the Senate on August 1 and was formally ratified by the two Governments on November 15 last. The rules and a method of procedure embodied in the award provided for determining by an impartial tribunal the reasonableness of any new fishery regulations on the treaty coasts of

Newfoundland and Canada before such regulations could be enforced against American fishermen exercising their treaty liberties on those coasts, and also for determining the delimitation of bays on such coasts more than 10 miles wide, in accordance with the definition adopted by the tribunal of the meaning of the word "bays" as used in the treaty. In the subsequent negotiations between the two Governments, undertaken for the purpose of giving practical effect to these rules and methods of procedure, it was found that certain modifications therein were desirable from the point of view of both Governments, and these negotiations have finally resulted in the agreement above mentioned by which the award recommendations as modified by mutual consent of the two Governments are finally adopted and made effective, thus bringing this century-old controversy to a final conclusion, which is equally beneficial and satisfactory to both Governments.

IMPERIAL VALLEY AND MEXICO

In order to make possible the more effective performance of the work necessary for the confinement in their present channel of the waters of the lower Colorado River, and thus to protect the people of the Imperial Valley, as well as in order to reach with the Government of Mexico an understanding regarding the distribution of the waters of the Colorado River, in which both Governments are much interested, negotiations are going forward with a view to the establishment of a preliminary Colorado River commission, which shall have the powers necessary to enable it to do the needful work and with authority to study the question of the equitable distribution of the waters. There is every reason to believe that an understanding upon this point will be reached and that an agreement will be signed in the near future.

CHAMIZAL DISPUTE

In the interest of the people and city of El Paso this Government has been assiduous in its efforts to bring to an early settlement the long-standing Chamizal dispute with Mexico. Much has been accomplished, and while the final solution of the dispute is not immediate, the favorable attitude lately assumed by the Mexican Government encourages the hope that this troublesome question will be satisfactorily and definitively settled at an early day.

INTERNATIONAL COMMISSION OF JURISTS

In pursuance of the convention of August 23, 1906, signed at the Third Pan American Conference, held at Rio de Janeiro, the International Commission of jurists met at that capital during the month of last June. At this meeting 16 American Republics were represented, including the United States, and comprehensive plans for the future work of the commission were adopted. At the next meeting fixed for June, 1914, committees already appointed are instructed to report regarding topics assigned to them.

OPIUM CONFERENCE-UNFORTUNATE FAILURE OF OUR GOVERNMENT TO ENACT RECOMMENDED LEGISLATION

In my message on foreign relations communicated to the two Houses of Congress December 7, 1911, I called especial attention to the assembling of the Opium Conference at The Hague, to the fact that that conference was to review all pertinent municipal laws relating to the opium and allied evils, and certainly all international rules regarding these evils, and to the

-fact that it seemed to me most essential that the Congress should take immediate action on the anti-narcotic legislation before the Congress, to which I had previously called attention by a special message.

The international convention adopted by the conference conforms almost entirely to the principles contained in the proposed anti-narcotic legislation which has been before the last two Congresses. It was most unfortunate that this Government, having taken the initiative in the international action which eventuated in the important international opium convention, failed to do its share in the great work by neglecting to pass the necessary legislation to correct the deplorable narcotic evils in the United States as well as to redeem international pledges upon which it entered by virtue of the above-mentioned convention. The Congress at its present session should enact into law those bills now before it which have been so carefully drawn up in collaboration between the Department of State and the other executive departments, and which have behind them not only the moral sentiment of the country, but the practical support of all the legitimate trade interests likely to be affected. Since the international convention was signed, adherence to it has been made by several European States not represented at the conference at The Hague and also by seventeen Latin-American Republics.

EUROPE AND THE NEAR EAST

The war between Italy and Turkey came to a close in October last by the signature of a treaty of peace, subsequently to which the Ottoman Empire renounced sovereignty over Cyrenaica and Tripolitania in favor of Italy. During the past year the Near East has unfortunately been the theater of constant hostilities. Almost simultaneously with the conclusion of peace between Italy and Turkey and their arrival at an adjustment of the complex questions at issue between them, war broke out between Turkey on the one hand and Bulgaria, Greece, Montenegro, and Servia on the other. The United States has happily been involved neither directly nor indirectly with the causes or questions incident to any of these hostilities and has maintained in regard to them an attitude of absolute neutrality and of complete political disinterestedness. In the second war in which the Ottoman Empire has been engaged the loss of life and the consequent distress on both sides have been appalling, and the United States has found occasion, in the interest of humanity, to carry out the charitable desires of the American people, to extend a measure of relief to the sufferers on either side through the impartial medium of the Red Cross. Beyond this the chief care of the Government of the United States has been to make due provision for the protection of its national resident in belligerent territory. In the exercise of my duty in this matter I have dispatched to Turkish waters a special-service squadron, consisting of two armored cruisers, in order that this Government may if need be bear its part in such measures as it may be necessary for the interested nations to adopt for the safeguarding of foreign lives and property in the Ottoman Empire in the event that a dangerous situation should develop. In the meanwhile the several interested European powers have promised to extend to American citizens the benefit of such precautionary or protective measures as they might adopt, in the same manner in which it has been the practice of this Government to extend its protection to all foreign residents in those countries of the Western Hemisphere in which it has from time to time been the task of the United States to act in the interest of peace and good order. The early appearance of a large fleet of European warships in the Bosphorus apparently assured the protection of foreigners in that quarter, where the presence of the American stationnaire the U. S. S. Scorpion sufficed, under the circumstances, to represent the United States. Our cruisers were thus left

free to act if need be along the Mediterranean coasts should any unexpected contingency arise affecting the numerous American interests in the neighborhood of Smyrna and Beirut.

SPITZBERGEN

The great preponderance of American material interests in the sub-arctic island of Spitzbergen, which has always been regarded politically as "no man's land," impels this Government to a continued and lively interest in the international dispositions to be made for the political governance and administration of that region. The conflict of certain claims of American citizens and others is in a fair way to adjustment, while the settlement of matters of administration, whether by international conference of the interested powers or otherwise, continues to be the subject of exchange of views between the Governments concerned.

LIBERIA

As a result of the efforts of this Government to place the Government of Liberia in position to pay its outstanding indebtedness and to maintain a stable and efficient government, negotiations for a loan of \$1,700,000 have been successfully concluded, and it is anticipated that the payment of the old loan and the issuance of the bonds of the 1912 loan for the rehabilitation of the finances of Liberia will follow at an early date, when the new receivership will go into active operation. The new receivership will consist of a general receiver of customs designated by the Government of the United States and three receivers of customs designated by the Governments of Germany, France, and Great Britain, which countries have commercial interests in the Republic of Liberia.

In carrying out the understanding between the Government of Liberia and that of the United States, and in fulfilling the terms of the agreement between the former Government and the American bankers, three competent ex-army officers are now effectively employed by the Liberian Government in reorganizing the police force of the Republic, not only to keep in order the native tribes in the hinterland but to serve as a necessary police force along the frontier. It is hoped that these measures will assure not only the continued existence but the prosperity and welfare of the Republic of Liberia. Liberia possesses fertility of soil and natural resources, which should insure to its people a reasonable prosperity. It was the duty of the United States to assist the Republic of Liberia in accordance with our historical interest and moral guardianship of a community founded by American citizens, as it was also the duty of the American Government to attempt to assure permanence to a country of much sentimental and perhaps future real interest to a large body of our citizens.

MOROCCO

The legation at Tangier is now in charge of our consul general, who is acting as charge d'affaires, as well as caring for our commercial interests in that country. In view of the fact that many of the foreign powers are now represented by charges d'affaires it has not been deemed necessary to appoint at the present time a minister to fill a vacancy occurring in that post.

THE FAR EAST

The political disturbances in China in the autumn and winter of 1911-12 resulted in the abdication of the Manchu rulers on February 12, followed by

the formation of a provisional republican government empowered to conduct the affairs of the nation until a permanent government might be regularly established. The natural sympathy of the American people with the assumption of republican principles by the Chinese people was appropriately expressed in a concurrent resolution of Congress on April 17, 1912. A constituent assembly, composed of representatives duly chosen by the people of China in the elections that are now being held, has been called to meet in January next to adopt a permanent constitution and organize the Government of the nascent Republic. During the formative constitutional stage and pending definite action by the assembly, as expressive of the popular will, and the hoped-for establishment of a stable republican form of government, capable of fulfilling its international obligations, the United States is, according to precedent, maintaining full and friendly de facto relations with the provisional Government.

The new condition of affairs thus created has presented many serious and complicated problems, both of internal rehabilitation and of international relations, whose solution it was realized would necessarily require much time and patience. From the beginning of the upheaval last autumn it was felt by the United States, in common with the other powers having large interests in China, that independent action by the foreign Governments in their own individual interests would add further confusion to a situation already complicated. A policy of international cooperation was accordingly adopted in an understanding, reached early in the disturbances, to act together for the protection of the lives and property of foreigners if menaced, to maintain an attitude of strict impartiality as between the contending factions, and to abstain from any endeavor to influence the Chinese in their organization of a new form of government. In view of the seriousness of the disturbances and their general character, the American minister at Peking was instructed at his discretion to advise our nationals in the affected districts to concentrate at such centers as were easily accessible to foreign troops or men of war. Nineteen of our naval vessels were stationed at various Chinese ports, and other measures were promptly taken for the adequate protection of American interests.

It was further mutually agreed, in the hope of hastening an end to hostilities, that none of the interested powers would approve the making of loans by its nationals to either side. As soon, however, as a united provisional Government of China was assured, the United States joined in a favorable consideration of that Government's request for advances needed for immediate administrative necessities and later for a loan to effect a permanent national reorganization. The interested Governments had already, by common consent, adopted, in respect to the purposes, expenditure, and security of any loans to China made by their nationals, certain conditions which were held to be essential, not only to secure reasonable protection for the foreign investors, but also to safeguard and strengthen China's credit by discouraging indiscriminate borrowing and by insuring the application of the funds toward the establishment of the stable and effective government necessary to China's welfare. In June last representative banking groups of the United States, France, Germany, Great Britain, Japan, and Russia formulated, with the general sanction of their respective Governments, the guaranties that would be expected in relation to the expenditure and security of the large reorganization loan desired by China, which, however, have thus far proved unacceptable to the provisional Government.

SPECIAL MISSION OF CONDOLENCE TO JAPAN

In August last I accredited the Secretary of State as special ambassador to

Japan, charged with the mission of bearing to the imperial family, the Government, and the people of that Empire the sympathetic message of the American Commonwealth on the sad occasion of the death of His Majesty the Emperor Mutsuhito, whose long and benevolent reign was the greater part of Japan's modern history. The kindly reception everywhere accorded to Secretary Knox showed that his mission was deeply appreciated by the Japanese nation and emphasized strongly the friendly relations that have for so many years existed between the two peoples.

SOUTH AMERICA

Our relations with the Argentine Republic are most friendly and cordial. So, also, are our relations with Brazil, whose Government has accepted the invitation of the United States to send two army officers to study at the Coast Artillery School at Fort Monroe. The long-standing Alsop claim, which had been the only hindrance to the healthy growth of the most friendly relations between the United States and Chile, having been eliminated through the submission of the question to His Britannic Majesty King George V as "amiable compositeur," it is a cause of much gratification to me that our relations with Chile are now established upon a firm basis of growing friendship. The Chilean Government has placed an officer of the United States Coast Artillery in charge of the Chilean Coast Artillery School, and has shown appreciation of American methods by confiding to an American firm important work for the Chilean coast defenses.

Last year a revolution against the established Government of Ecuador broke out at the principal port of that Republic. Previous to this occurrence the chief American interest in Ecuador, represented by the Guayaquil & Quito Railway Co., incorporated in the United States, had rendered extensive transportation and other services on account to the Ecuadorian Government, the amount of which ran into a sum which was steadily increasing and which the Ecuadorian Government had made no provision to pay, thereby threatening to crush out the very existence of this American enterprise. When tranquillity had been restored to Ecuador as a result of the triumphant progress of the Government forces from Quito, this Government interposed its good offices to the end that the American interests in Ecuador might be saved from complete extinction. As a part of the arrangement which was reached between the parties, and at the request of the Government of Ecuador, I have consented to name an arbitrator, who, acting under the terms of the railroad contract, with an arbitrator named by the Ecuadorian Government, will pass upon the claims that have arisen since the arrangement reached through the action of a similar arbitral tribunal in 1908.

In pursuance of a request made some time ago by the Ecuadorian Government, the Department of State has given much attention to the problem of the proper sanitation of Guayaquil. As a result a detail of officers of the Canal Zone will be sent to Guayaquil to recommend measures that will lead to the complete permanent sanitation of this plague and fever infected region of that Republic, which has for so long constituted a menace to health conditions on the Canal Zone. It is hoped that the report which this mission will furnish will point out a way whereby the modicum of assistance which the United States may properly lend the Ecuadorian Government may be made effective in ridding the west coast of South America of a focus of contagion to the future commercial current passing through the Panama Canal.

In the matter of the claim of John Celestine Landreau against the Government of Peru, which claim arises out of certain contracts and

transactions in connection with the discovery and exploitation of guano, and which has been under discussion between the two Governments since 1874, I am glad to report that as the result of prolonged negotiations, which have been characterized by the utmost friendliness and good will on both sides, the Department of State has succeeded in securing the consent of Peru to the arbitration of the claim, and that the negotiations attending the drafting and signature of a protocol submitting the claim to an arbitral tribunal are proceeding with due celerity.

An officer of the American Public Health Service and an American sanitary engineer are now on the way to Iquitos, in the employ of the Peruvian Government, to take charge of the sanitation of that river port. Peru is building a number of submarines in this country, and continues to show every desire to have American capital invested in the Republic.

In July the United States sent undergraduate delegates to the Third International Students Congress held at Lima, American students having been for the first time invited to one of these meetings.

The Republic of Uruguay has shown its appreciation of American agricultural and other methods by sending a large commission to this country and by employing many American experts to assist in building up agricultural and allied industries in Uruguay.

Venezuela is paying off the last of the claims the settlement of which was provided for by the Washington protocols, including those of American citizens. Our relations with Venezuela are most cordial, and the trade of that Republic with the United States is now greater than with any other country.

CENTRAL AMERICA AND THE CARIBBEAN

During the past summer the revolution against the administration which followed the assassination of President Caceres a year ago last November brought the Dominican Republic to the verge of administrative chaos, without offering any guaranties of eventual stability in the ultimate success of either party. In pursuance of the treaty relations of the United States with the Dominican Republic, which were threatened by the necessity of suspending the operation under American administration of the customhouses on the Haitian frontier, it was found necessary to dispatch special commissioners to the island to reestablish the customhouses and with a guard sufficient to insure needed protection to the customs administration. The efforts which have been made appear to have resulted in the restoration of normal conditions throughout the Republic. The good offices which the commissioners were able to exercise were instrumental in bringing the contending parties together and in furnishing a basis of adjustment which it is hoped will result in permanent benefit to the Dominican people.

Mindful of its treaty relations, and owing to the position of the Government of the United States as mediator between the Dominican Republic and Haiti in their boundary dispute, and because of the further fact that the revolutionary activities on the Haitian-Dominican frontier had become so active as practically to obliterate the line of demarcation that had been heretofore recognized pending the definitive settlement of the boundary in controversy, it was found necessary to indicate to the two island Governments a provisional de facto boundary line. This was done without prejudice to the rights or obligations of either country in a final settlement to be reached by arbitration. The tentative line chosen was one

which, under the circumstances brought to the knowledge of this Government, seemed to conform to the best interests of the disputants. The border patrol which it had been found necessary to reestablish for customs purposes between the two countries was instructed provisionally to observe this line.

The Republic of Cuba last May was in the throes of a lawless uprising that for a time threatened the destruction of a great deal of valuable property-much of it owned by Americans and other foreigners-as well as the existence of the Government itself. The armed forces of Cuba being inadequate to guard property from attack and at the same time properly to operate against the rebels, a force of American marines was dispatched from our naval station at Guantanamo into the Province of Oriente for the protection of American and other foreign life and property. The Cuban Government was thus able to use all its forces in putting down the outbreak, which it succeeded in doing in a period of six weeks. The presence of two American warships in the harbor of Habana during the most critical period of this disturbance contributed in great measure to allay the fears of the inhabitants, including a large foreign colony.

There has been under discussion with the Government of Cuba for some time the question of the release by this Government of its leasehold rights at Bahia Honda, on the northern coast of Cuba, and the enlargement, in exchange therefor, of the naval station which has been established at Guantanamo Bay, on the south. As the result of the negotiations thus carried on an agreement has been reached between the two Governments providing for the suitable enlargement of the Guantanamo Bay station upon terms which are entirely fair and equitable to all parties concerned.

At the request alike of the Government and both political parties in Panama, an American commission undertook supervision of the recent presidential election in that Republic, where our treaty relations, and, indeed, every geographical consideration, make the maintenance of order and satisfactory conditions of peculiar interest to the Government of the United States. The elections passed without disorder, and the new administration has entered upon its functions.

The Government of Great Britain has asked the support of the United States for the protection of the interests of British holders of the foreign bonded debt of Guatemala. While this Government is hopeful of an arrangement equitable to the British bondholders, it is naturally unable to view the question apart from its relation to the broad subject of financial stability in Central America, in which the policy of the United States does not permit it to escape a vital interest. Through a renewal of negotiations between the Government of Guatemala and American bankers, the aim of which is a loan for the rehabilitation of Guatemalan finances, a way appears to be open by which the Government of Guatemala could promptly satisfy any equitable and just British claims, and at the same time so improve its whole financial position as to contribute greatly to the increased prosperity of the Republic and to redound to the benefit of foreign investments and foreign trade with that country. Failing such an arrangement, it may become impossible for the Government of the United States to escape its obligations in connection with such measures as may become necessary to exact justice to legitimate foreign claims.

In the recent revolution in Nicaragua, which, it was generally admitted, might well have resulted in a general Central American conflict but for the intervention of the United States, the Government of Honduras was especially menaced; but fortunately peaceful conditions were maintained

within the borders of that Republic. The financial condition of that country remains unchanged, no means having been found for the final adjustment of pressing outstanding foreign claims. This makes it the more regrettable that the financial convention between the United States and Honduras has thus far failed of ratification. The Government of the United States continues to hold itself ready to cooperate with the Government of Honduras, which it is believed, can not much longer delay the meeting of its foreign obligations, and it is hoped at the proper time American bankers will be willing to cooperate for this purpose.

NECESSITY FOR GREATER GOVERNMENTAL EFFORT IN RETENTION AND EXPANSION OF OUR FOREIGN TRADE

It is not possible to make to the Congress a communication upon the present foreign relations of the United States so detailed as to convey an adequate impression of the enormous increase in the importance and activities of those relations. If this Government is really to preserve to the American people that free opportunity in foreign markets which will soon be indispensable to our prosperity, even greater efforts must be made. Otherwise the American merchant, manufacturer, and exporter will find many a field in which American trade should logically predominate preempted through the more energetic efforts of other governments and other commercial nations.

There are many ways in which through hearty cooperation the legislative and executive branches of this Government can do much. The absolute essential is the spirit of united effort and singleness of purpose. I will allude only to a very few specific examples of action which ought then to result. America can not take its proper place in the most important fields for its commercial activity and enterprise unless we have a merchant marine. American commerce and enterprise can not be effectively fostered in those fields unless we have good American banks in the countries referred to. We need American newspapers in those countries and proper means for public information about them. We need to assure the permanency of a trained foreign service. We need legislation enabling the members of the foreign service to be systematically brought in direct contact with the industrial, manufacturing, and exporting interests of this country in order that American business men may enter the foreign field with a clear perception of the exact conditions to be dealt with and the officers themselves may prosecute their work with a clear idea of what American industrial and manufacturing interests require.

CONCLUSION

Congress should fully realize the conditions which obtain in the world as we find ourselves at the threshold of our middle age as a Nation. We have emerged full grown as a peer in the great concourse of nations. We have passed through various formative periods. We have been self-centered in the struggle to develop our domestic resources and deal with our domestic questions. The Nation is now too matured to continue in its foreign relations those temporary expedients natural to a people to whom domestic affairs are the sole concern. In the past our diplomacy has often consisted, in normal times, in a mere assertion of the right to international existence. We are now in a larger relation with broader rights of our own and obligations to others than ourselves. A number of great guiding principles were laid down early in the history of this Government. The recent task of our diplomacy has been to adjust those principles to the conditions of to-day, to develop their corollaries, to

find practical applications of the old principles expanded to meet new situations. Thus are being evolved bases upon which can rest the superstructure of policies which must grow with the destined progress of this Nation. The successful conduct of our foreign relations demands a broad and a modern view. We can not meet new questions nor build for the future if we confine ourselves to outworn dogmas of the past and to the perspective appropriate at our emergence from colonial times and conditions. The opening of the Panama Canal will mark a new era in our international life and create new and worldwide conditions which, with their vast correlations and consequences, will obtain for hundreds of years to come. We must not wait for events to overtake us unawares. With continuity of purpose we must deal with the problems of our external relations by a diplomacy modern, resourceful, magnanimous, and fittingly expressive of the high ideals of a great nation.

Part II.[On Fiscal, judicial, Military and Insular Affairs.] THE WHITE HOUSE, December 6, 1912. To the Senate and House of Representatives:

On the 3d of December I sent a message to the Congress, which was confined to our foreign relations. The Secretary of State makes no report to the President or to Congress, and a review of the history of the transactions of the State Department in one year must therefore be included by the President in his annual message or Congress will not be fully informed of them. A full discussion of all the transactions of the Government, with a view to informing the Congress of the important events of the year and recommending new legislation, requires more space than one message of reasonable length affords. I have therefore adopted the course of sending three or four messages during the first ten days of the session, so as to include reference to the more important matters that should be brought to the attention of the Congress.

BUSINESS CONDITIONS

The condition of the country with reference to business could hardly be better. While the four years of the administration now drawing to a close have not developed great speculative expansion or a wide field of new investment, the recovery and progress made from the depressing conditions following the panic of 1907 have been steady and the improvement has been clear and easily traced in the statistics. The business of the country is now on a solid basis. Credits are not unduly extended, and every phase of the situation seems in a state of preparedness for a period of unexampled prosperity. Manufacturing concerns are running at their full capacity and the demand for labor was never so constant and growing. The foreign trade of the country for this year will exceed \$4,000,000,000, while the balance in our favor-that of the excess of exports over imports-will exceed \$500,000,000. More than half our exports are manufactures or partly manufactured material, while our exports of farm products do not show the same increase because of domestic consumption. It is a year of bumper crops; the total money value of farm products will exceed \$9,500,000,000. It is a year when the bushel or unit price of agricultural products has gradually fallen, and yet the total value of the entire crop is greater by over \$1,000,000,000 than we have known in our history.

CONDITION OF THE TREASURY

The condition of the Treasury is very satisfactory. The total interest-bearing debt is \$963,777,770, of which \$134,631,980 constitute the Panama Canal loan. The noninterest-bearing debt is \$378,301,284.90, including \$346,681,016 of greenbacks. We have in the Treasury \$150,000,000

in gold coin as a reserve against the outstanding greenbacks; and in addition we have a cash balance in the Treasury as a general fund of \$167,152,478.99, or an increase of \$26,975,552 over the general fund last year.

RECEIPTS AND EXPENDITURES

For three years the expenditures of the Government have decreased under the influence of an effort to economize. This year presents an apparent exception. The estimate by the Secretary of the Treasury of the ordinary receipts, exclusive of postal revenues, for the year ending June 30, 1914, indicates that they will amount to \$710,000,000. The sum of the estimates of the expenditures for that same year, exclusive of Panama Canal disbursements and postal disbursements payable from postal revenues, is \$732,000,000, indicating a deficit Of \$22,000,000. For the year ending June 30, 1913, similarly estimated receipts were \$667,000,000, while the total corresponding estimate of expenditures for that year, submitted through the Secretary of the Treasury to Congress, amounted to \$656,000,000. This shows an increase of \$76,000,000 in the estimates for 1914 over the total estimates of 1913. This is due to an increase Of \$25,000,000 in the estimate for rivers and harbors for the next year on projects and surveys authorized by Congress; to an increase under the new pension bill Of \$32,500,000; and to an increase in the estimates for expenses of the Navy Department Of \$24,000,000. The estimate for the Navy Department for the year 1913 included two battleships. Congress made provision for only one battleship, and therefore the Navy Department has deemed it necessary and proper to make an estimate which includes the first year's expenditure for three battleships in addition to the amount required for work on the uncompleted ships now under construction. In addition to the natural increase in the expenditures for the uncompleted ships, and the additional battleship estimated for, the other increases are due to the pay required for 4,000 or more additional enlisted men in the Navy; and to this must be added the additional cost of construction imposed by the change in the eight-hour law which makes it applicable to ships built in private shipyards.

With the exceptions of these three items, the estimates show a reduction this year below the total estimates for 1913 of more than \$5,000,000.

The estimates for Panama Canal construction for 1914 are \$17,000,000 less than for 1913.

OUR BANKING AND CURRENCY SYSTEM

A time when panics seem far removed is the best time for us to prepare our financial system to withstand a storm. The most crying need this country has is a proper banking and currency system. The existing one is inadequate, and everyone who has studied the question admits it.

It is the business of the National Government to provide a medium, automatically contracting and expanding in volume, to meet the needs of trade. Our present system lacks the indispensable quality of elasticity.

The only part of our monetary medium that has elasticity is the bank-note currency. The peculiar provisions of the law requiring national banks to maintain reserves to meet the call of the depositors operates to increase the money stringency when it arises rather than to expand the supply of currency and relieve it. It operates upon each bank and furnishes a motive for the withdrawal of currency from the channels of trade by each bank to

save itself, and offers no inducement whatever for the use of the reserve to expand the supply of currency to meet the exceptional demand.

After the panic of 1907 Congress realized that the present system was not adapted to the country's needs and that under it panics were possible that might properly be avoided by legislative provision. Accordingly a monetary commission was appointed which made a report in February, 1912. The system which they recommended involved a National Reserve Association, which was, in certain of its faculties and functions, a bank, and which was given through its governing authorities the power, by issuing circulating notes for approved commercial paper, by fixing discounts, and by other methods of transfer of currency, to expand the supply of the monetary medium where it was most needed to prevent the export or hoarding of gold and generally to exercise such supervision over the supply of money in every part of the country as to prevent a stringency and a panic. The stock in this association was to be distributed to the banks of the whole United States, State and National, in a mixed proportion to bank units and to capital stock paid in. The control of the association was vested in a board of directors to be elected by representatives of the banks, except certain ex-officio directors, three Cabinet officers, and the Comptroller of the Currency. The President was to appoint the governor of the association from three persons to be selected by the directors, while the two deputy governors were to be elected by the board of directors. The details of the plan were worked out with great care and ability, and the plan in general seems to me to furnish the basis for a proper solution of our present difficulties. I feel that the Government might very properly be given a greater voice in the executive committee of the board of directors without danger of injecting politics into its management, but I think the federation system of banks is a good one, provided proper precautions are taken to prevent banks of large capital from absorbing power through ownership of stock in other banks. The objections to a central bank it seems to me are obviated if the ownership of the reserve association is distributed among all the banks of a country in which banking is free. The earnings of the reserve association are limited in percentage to a reasonable and fixed amount, and the profits over and above this are to be turned into the Government Treasury. It is quite probable that still greater security against control by money centers may be worked into the plan.

Certain it is, however, that the objections which were made in the past history of this country to a central bank as furnishing a monopoly of financial power to private individuals, would not apply to an association whose ownership and control is so widely distributed and is divided between all the banks of the country, State and National, on the one hand, and the Chief Executive through three department heads and his Comptroller of the Currency, on the other. The ancient hostility to a national bank, with its branches, in which is concentrated the privilege of doing a banking business and carrying on the financial transactions of the Government, has prevented the establishment of such a bank since it was abolished in the Jackson Administration. Our present national banking law has obviated objections growing out of the same cause by providing a free banking system in which any set of stockholders can establish a national bank if they comply with the conditions of law. It seems to me that the National Reserve Association meets the same objection in a similar way; that is, by giving to each bank, State and National, in accordance with its size, a certain share in the stock of the reserve association, nontransferable and only to be held by the bank while it performs its functions as a partner in the reserve association.

The report of the commission recommends provisions for the imposition of a graduated tax on the expanded currency of such a character as to furnish a motive for reducing the issue of notes whenever their presence in the money market is not required by the exigencies of trade. In other words, the whole system has been worked out with the greatest care. Theoretically it presents a plan that ought to command support. Practically it may require modification in various of its provisions in order to make the security against abuses by combinations among the banks impossible. But in the face of the crying necessity that there is for improvement in our present system, I urgently invite the attention of Congress to the proposed plan and the report of the commission, with the hope that an earnest consideration may suggest amendments and changes within the general plan which will lead to its adoption for the benefit of the country. There is no class in the community more interested in a safe and sane banking and currency system, one which will prevent panics and automatically furnish in each trade center the currency needed in the carrying on of the business at that center, than the wage earner. There is no class in the community whose experience better qualifies them to make suggestions as to the sufficiency of a currency and banking system than the bankers and business men. Ought we, therefore, to ignore their recommendations and reject their financial judgment as to the proper method of reforming our financial system merely because of the suspicion which exists against them in the minds of many of our fellow citizens? Is it not the duty of Congress to take up the plan suggested, examine it from all standpoints, give impartial consideration to the testimony of those whose experience ought to fit them to give the best advice on the subject, and then to adopt some plan which will secure the benefits desired?

A banking and currency system seems far away from the wage earner and the farmer, but the fact is that they are vitally interested in a safe system of currency which shall graduate its volume to the amount needed and which shall prevent times of artificial stringency that frighten capital, stop employment, prevent the meeting of the pay roll, destroy local markets, and produce penury and want.

THE TARIFF

I have regarded it as my duty in former messages to the Congress to urge the revision of the tariff upon principles of protection. It was my judgment that the customs duties ought to be revised downward, but that the reduction ought not to be below a rate which would represent the difference in the cost of production between the article in question at home and abroad, and for this and other reasons I vetoed several bills which were presented to me in the last session of this Congress. Now that a new Congress has been elected on a platform of a tariff for revenue only rather than a protective tariff, and is to revise the tariff on that basis, it is needless for me to occupy the time of this Congress with arguments or recommendations in favor of a protective tariff.

Before passing from the tariff law, however, known as the Payne tariff law of August 5, 1909, I desire to call attention to section 38 of that act, assessing a special excise tax on corporations. It contains a provision requiring the levy of an additional 50 per cent to the annual tax in cases of neglect to verify the prescribed return or to file it before the time required by law. This additional charge of 50 per cent operates in some cases as a harsh penalty for what may have been a mere inadvertence or unintentional oversight, and the law should be so amended as to mitigate the severity of the charge in such instances. Provision should also be made for the refund of additional taxes heretofore collected because of such

infractions in those cases where the penalty imposed has been so disproportionate to the offense as equitably to demand relief.

BUDGET

The estimates for the next fiscal year have been assembled by the Secretary of the Treasury and by him transmitted to Congress. I purpose at a later day to submit to Congress a form of budget prepared for me and recommended by the President's Commission on Economy and Efficiency, with a view of suggesting the useful and informing character of a properly framed budget.

WAR DEPARTMENT

The War Department combines within its jurisdiction functions which in other countries usually occupy three departments. It not only has the management of the Army and the coast defenses, but its jurisdiction extends to the government of the Philippines and of Porto Rico and the control of the receivership of the customs revenues of the Dominican Republic; it also includes the recommendation of all plans for the improvement of harbors and waterways and their execution when adopted; and, by virtue of an Executive order, the supervision of the construction of the Panama Canal.

ARMY REORGANIZATION

Our small Army now consists of 83,809 men, excluding the 5,000 Philippine scouts. Leaving out of consideration the Coast Artillery force, whose position is fixed in our various seacoast defenses, and the present garrisons of our various insular possessions, we have to-day within the continental United States a mobile Army of only about 35,000 men. This little force must be still further drawn upon to supply the new garrisons for the great naval base which is being established at Pearl Harbor, in the Hawaiian Islands, and to protect the locks now rapidly approaching completion at Panama. The forces remaining in the United States are now scattered in nearly 50 Posts, situated for a variety of historical reasons in 24 States. These posts contain only fractions of regiments, averaging less than 700 men each. In time of peace it has been our historical policy to administer these units separately by a geographical organization. In other words, our Army in time of peace has never been a united organization but merely scattered groups of companies, battalions, and regiments, and the first task in time of war has been to create out of these scattered units an Army fit for effective teamwork and cooperation.

To the task of meeting these patent defects, the War Department has been addressing itself during the past year. For many years we had no officer or division whose business it was to study these problems and plan remedies for these defects. With the establishment of the General Staff nine years ago a body was created for this purpose. It has, necessarily, required time to overcome, even in its own personnel, the habits of mind engendered by a century of lack of method, but of late years its work has become systematic and effective, and it has recently been addressing itself vigorously to these problems.

A comprehensive plan of Army reorganization was prepared by the War College Division of the General Staff. This plan was thoroughly discussed last summer at a series of open conferences held by the Secretary of War and attended by representatives from all branches of the Army and from Congress. In printed form it has been distributed to Members of Congress and throughout the Army and the National Guard, and widely through institutions of learning and elsewhere in the United States. In it, for the

first time, we have a tentative chart for future progress.

Under the influence of this study definite and effective steps have been taken toward Army reorganization so far as such reorganization lies within the Executive power. Hitherto there has been no difference of policy in the treatment of the organization of our foreign garrisons from those of troops within the United States. The difference of situation is vital, and the foreign garrison should be prepared to defend itself at an instant's notice against a foe who may command the sea. Unlike the troops in the United States, it can not count upon reinforcements or recruitment. It is an outpost upon which will fall the brunt of the first attack in case of war. The historical policy of the United States of carrying its regiments during time of peace at half strength has no application to our foreign garrisons. During the past year this defect has been remedied as to the Philippines garrison. The former garrison of 12 reduced regiments has been replaced by a garrison of 6 regiments at full strength, giving fully the same number of riflemen at an estimated economy in cost of maintenance of over \$1,000,000 per year. This garrison is to be permanent. Its regimental units, instead of being transferred periodically back and forth from the United States, will remain in the islands. The officers and men composing these units will, however, serve a regular tropical detail as usual, thus involving no greater hardship upon the personnel and greatly increasing the effectiveness of the garrison. A similar policy is proposed for the Hawaiian and Panama garrisons as fast as the barracks for them are completed. I strongly urge upon Congress that the necessary appropriations for this purpose should be promptly made. It is, in my opinion, of first importance that these national outposts, upon which a successful home defense will, primarily, depend, should be finished and placed in effective condition at the earliest possible day.

THE HOME ARMY

Simultaneously with the foregoing steps the War Department has been proceeding with the reorganization of the Army at home. The formerly disassociated units are being united into a tactical organization of three divisions, each consisting of two or three brigades of Infantry and, so far as practicable, a proper proportion of divisional Cavalry and Artillery. Of course, the extent to which this reform can be carried by the Executive is practically limited to a paper organization. The scattered units can be brought under a proper organization, but they will remain physically scattered until Congress supplies the necessary funds for grouping them in more concentrated posts. Until that is done the present difficulty of drilling our scattered groups together, and thus training them for the proper team play, can not be removed. But we shall, at least, have an Army which will know its own organization and will be inspected by its proper commanders, and to which, as a unit, emergency orders can be issued in time of war or other emergency. Moreover, the organization, which in many respects is necessarily a skeleton, will furnish a guide for future development. The separate regiments and companies will know the brigades and divisions to which they belong. They will be maneuvered together whenever maneuvers are established by Congress, and the gaps in their organization will show the pattern into which can be filled new troops as the Nation grows and a larger Army is provided.

REGULAR ARMY RESERVE

One of the most important reforms accomplished during the past year has been the legislation enacted in the Army appropriation bill of last summer, providing for a Regular Army reserve. Hitherto our national policy has

assumed that at the outbreak of war our regiments would be immediately raised to full strength. But our laws have provided no means by which this could be accomplished, or by which the losses of the regiments when once sent to the front could be repaired. In this respect we have neglected the lessons learned by other nations. The new law provides that the soldier, after serving four years with colors, shall pass into a reserve for three years. At his option he may go into the reserve at the end of three years, remaining there for four years. While in the reserve he can be called to active duty only in case of war or other national emergency, and when so called and only in such case will receive a stated amount of pay for all of the period in which he has been a member of the reserve. The legislation is imperfect, in my opinion, in certain particulars, but it is a most important step in the right direction, and I earnestly hope that it will be carefully studied and perfected by Congress.

THE NATIONAL GUARD

Under existing law the National Guard constitutes, after the Regular Army, the first line of national defense. Its organization, discipline, training, and equipment, under recent legislation, have been assimilated, as far as possible, to those of the Regular Army, and its practical efficiency, under the effect of this training, has very greatly increased. Our citizen soldiers under present conditions have reached a stage of development beyond which they can not reasonably be asked to go without further direct assistance in the form of pay from the Federal Government. On the other hand, such pay from the National Treasury would not be justified unless it produced a proper equivalent in additional efficiency on the part of the National Guard. The Organized Militia to-day can not be ordered outside of the limits of the United States, and thus can not lawfully be used for general military purposes. The officers and men are ambitious and eager to make themselves thus available and to become an efficient national reserve of citizen soldiery. They are the only force of trained men, other than the Regular Army, upon which we can rely. The so-called militia pay bill, in the form agreed on between the authorities of the War Department and the representatives of the National Guard, in my opinion adequately meets these conditions and offers a proper return for the pay which it is proposed to give to the National Guard. I believe that its enactment into law would be a very long step toward providing this Nation with a first line of citizen soldiery, upon which its main reliance must depend in case of any national emergency. Plans for the organization of the National Guard into tactical divisions, on the same lines as those adopted for the Regular Army, are being formulated by the War College Division of the General Staff.

NATIONAL VOLUNTEERS

The National Guard consists of only about 110,000 men. In any serious war in the past it has always been necessary, and in such a war in the future it doubtless will be necessary, for the Nation to depend, in addition to the Regular Army and the National Guard, upon a large force of volunteers. There is at present no adequate provision of law for the raising of such a force. There is now pending in Congress, however, a bill which makes such provision, and which I believe is admirably adapted to meet the exigencies which would be presented in case of war. The passage of the bill would not entail a dollar's expense upon the Government at this time or in the future until war comes. But if war comes the methods therein directed are in accordance with the best military judgment as to what they ought to be, and the act would prevent the necessity for a discussion of any legislation and the delays incident to its consideration and adoption. I earnestly urge its passage.

CONSOLIDATION OF THE SUPPLY CORPS

The Army appropriation act of 1912 also carried legislation for the consolidation of the Quartermaster's Department, the Subsistence Department, and the Pay Corps into a single supply department, to be known as the Quartermaster's Corps. It also provided for the organization of a special force of enlisted men, to be known as the Service Corps, gradually to replace many of the civilian employees engaged in the manual labor necessary in every army. I believe that both of these enactments will improve the administration of our military establishment. The consolidation of the supply corps has already been effected, and the organization of the service corps is being put into effect.

All of the foregoing reforms are in the direction of economy and efficiency. Except for the slight increase necessary to garrison our outposts in Hawaii and Panama, they do not call for a larger Army, but they do tend to produce a much more efficient one. The only substantial new appropriations required are those which, as I have pointed out, are necessary to complete the fortifications and barracks at our naval bases and outposts beyond the sea.

PORTO RICO

Porto Rico continues to show notable progress, both commercially and in the spread of education. Its external commerce has increased 17 per cent over the preceding year, bringing the total value up to \$92,631,886, or more than five times the value of the commerce of the island in 1901. During the year 160,657 Pupils were enrolled in the public schools, as against 145,525 for the preceding year, and as compared with 26,000 for the first year of American administration. Special efforts are under way for the promotion of vocational and industrial training, the need of which is particularly pressing in the island. When the bubonic plague broke out last June, the quick and efficient response of the people of Porto Rico to the demands of modern sanitation was strikingly shown by the thorough campaign which was instituted against the plague and the hearty public opinion which supported the Government's efforts to check its progress and to prevent its recurrence.

The failure thus far to grant American citizenship continues to be the only ground of dissatisfaction. The bill conferring such citizenship has passed the House of Representatives and is now awaiting the action of the Senate. I am heartily in favor of the passage of this bill. I believe that the demand for citizenship is just, and that it is amply earned by sustained loyalty on the part of the inhabitants of the island. But it should be remembered that the demand must be, and in the minds of most Porto Ricans is, entirely disassociated from any thought of statehood. I believe that no substantial approved public opinion in the United States or in Porto Rico contemplates statehood for the island as the ultimate form of relations between us. I believe that the aim to be striven for is the fullest possible allowance of legal and fiscal self-government, with American citizenship as to the bond between us; in other words, a relation analogous to the present relation between Great Britain and such self-governing colonies as Canada and Australia. This would conduce to the fullest and most self-sustaining development of Porto Rico, while at the same time it would grant her the economic and political benefits of being under the American flag.

PHILIPPINES

A bill is pending in Congress which revolutionizes the carefully worked out scheme of government under which the Philippine Islands are now governed and which proposes to render them virtually autonomous at once and absolutely independent in eight years. Such a proposal can only be founded on the assumption that we have now discharged our trusteeship to the Filipino people and our responsibility for them to the world, and that they are now prepared for self-government as well as national sovereignty. A thorough and unbiased knowledge of the facts clearly shows that these assumptions are absolutely without justification. As to this, I believe that there is no substantial difference of opinion among any of those who have had the responsibility of facing Philippine problems in the administration of the islands, and I believe that no one to whom the future of this people is a responsible concern can countenance a policy fraught with the direst consequences to those on whose behalf it is ostensibly urged.

In the Philippine Islands we have embarked upon an experiment unprecedented in dealing with dependent people. We are developing there conditions exclusively for their own welfare. We found an archipelago containing 24 tribes and races, speaking a great variety of languages, and with a population over 80 per cent of which could neither read nor write. Through the unifying forces of a common education, of commercial and economic development, and of gradual participation in local self-government we are endeavoring to evolve a homogeneous people fit to determine, when the time arrives, their own destiny. We are seeking to arouse a national spirit and not, as under the older colonial theory, to suppress such a spirit. The character of the work we have been doing is keenly recognized in the Orient, and our success thus far followed with not a little envy by those who, initiating the same policy, find themselves hampered by conditions grown up in earlier days and under different theories of administration. But our work is far from done. Our duty to the Filipinos is far from discharged. Over half a million Filipino students are now in the Philippine schools helping to mold the men of the future into a homogeneous people, but there still remain more than a million Filipino children of school age yet to be reached. Freed from American control the integrating forces of a common education and a common language will cease and the educational system now well started will slip back into inefficiency and disorder.

An enormous increase in the commercial development of the islands has been made since they were virtually granted full access to our markets three years ago, with every prospect of increasing development and diversified industries. Freed from American control such development is bound to decline. Every observer speaks of the great progress in public works for the benefit of the Filipinos, of harbor improvements, of roads and railways, of irrigation and artesian wells, public buildings, and better means of communication. But large parts of the islands are still unreached, still even unexplored, roads and railways are needed in many parts, irrigation systems are still to be installed, and wells to be driven. Whole villages and towns are still without means of communication other than almost impassable roads and trails. Even the great progress in sanitation, which has successfully suppressed smallpox, the bubonic plague, and Asiatic cholera, has found the cause of and a cure for beriberi, has segregated the lepers, has helped to make Manila the most healthful city in the Orient, and to free life throughout the whole archipelago from its former dread diseases, is nevertheless incomplete in many essentials of permanence in sanitary policy. Even more remains to be accomplished. If freed from American control sanitary progress is bound to be arrested and all that has been achieved likely to be lost.

Concurrent with the economic, social, and industrial development of the islands has been the development of the political capacity of the people. By their progressive participation in government the Filipinos are being steadily and hopefully trained for self-government. Under Spanish control they shared in no way in the government. Under American control they have shared largely and increasingly. Within the last dozen years they have gradually been given complete autonomy in the municipalities, the right to elect two-thirds of the provincial governing boards and the lower house of the insular legislature. They have four native members out of nine members of the commission, or upper house. The chief justice and two justices of the supreme court, about one-half of the higher judicial positions, and all of the justices of the peace are natives. In the classified civil service the proportion of Filipinos increased from 51 per cent in 1904 to 67 per cent in 1911. Thus to-day all the municipal employees, over 60 per cent of the provincial employees, and 60 per cent of the officials and employees of the central government are Filipinos. The ideal which has been kept in mind in our political guidance of the islands has been real popular self-government and not mere paper independence. I am happy to say that the Filipinos have done well enough in the places they have filled and in the discharge of the political power with which they have been intrusted to warrant the belief that they can be educated and trained to complete self-government. But the present satisfactory results are due to constant support and supervision at every step by Americans.

If the task we have undertaken is higher than that assumed by other nations, its accomplishment must demand even more patience. We must not forget that we found the Filipinos wholly untrained in government. Up to our advent all other experience sought to repress rather than encourage political power. It takes long time and much experience to ingrain political habits of steadiness and efficiency. Popular self-government ultimately must rest upon common habits of thought and upon a reasonably developed public opinion. No such foundations for self-government, let alone independence are now present in the Philippine Islands. Disregarding even their racial heterogeneity and the lack of ability to think as a nation, it is sufficient to point out that under liberal franchise privileges only about 3 per cent of the Filipinos vote and only 5 per cent of the people are said to read the public press. To confer independence upon the Filipinos now is, therefore, to subject the great mass of their people to the dominance of an oligarchical and, probably, exploiting minority. Such a course will be as cruel to those people as it would be shameful to us.

Our true course is to pursue steadily and courageously the path we have thus far followed; to guide the Filipinos into self-sustaining pursuits; to continue the cultivation of sound political habits through education and political practice; to encourage the diversification of industries, and to realize the advantages of their industrial education by conservatively approved cooperative methods, at once checking the dangers of concentrated wealth and building up a sturdy, independent citizenship. We should do all this with a disinterested endeavor to secure for the Filipinos economic independence and to fit them for complete self-government, with the power to decide eventually, according to their own largest good, whether such self-government shall be accompanied by independence. A present declaration even of future independence would retard progress by the dissension and disorder it would arouse. On our part it would be a disingenuous attempt, under the guise of conferring a benefit on them, to relieve ourselves from the heavy and difficult burden which thus far we have been bravely and consistently sustaining. It would be a disguised policy of scuttle. It would make the helpless Filipino the football of oriental politics, tinder

the protection of a guaranty of their independence, which we would be powerless to enforce.

REGULATION OF WATER POWER

There are pending before Congress a large number of bills proposing to grant privileges of erecting dams for the purpose of creating water power in our navigable rivers. The pendency of these bills has brought out an important defect in the existing general dam act. That act does not, in my opinion, grant sufficient power to the Federal Government in dealing with the construction of such dams to exact protective conditions in the interest of navigation. It does not permit the Federal Government, as a condition of its permit, to require that a part of the value thus created shall be applied to the further general improvement and protection of the stream. I believe this to be one of the most important matters of internal improvement now confronting the Government. Most of the navigable rivers of this country are comparatively long and shallow. In order that they may be made fully useful for navigation there has come into vogue a method of improvement known as canalization, or the slack-water method, which consists in building a series of dams and locks, each of which will create a long pool of deep navigable water. At each of these dams there is usually created also water power of commercial value. If the water power thus created can be made available for the further improvement of navigation in the stream, it is manifest that the improvement will be much more quickly effected on the one hand, and, on the other, that the burden on the general taxpayers of the country will be very much reduced. Private interests seeking permits to build water-power dams in navigable streams usually urge that they thus improve navigation, and that if they do not impair navigation they should be allowed to take for themselves the entire profits of the water-power development. Whatever they may do by way of relieving the Government of the expense of improving navigation should be given due consideration, but it must be apparent that there may be a profit beyond a reasonably liberal return upon the private investment which is a potential asset of the Government in carrying out a comprehensive policy of waterway development. It is no objection to the retention and use of such an asset by the Government that a comprehensive waterway policy will include the protection and development of the other public uses of water, which can not and should not be ignored in making and executing plans for the protection and development of navigation. It is also equally clear that inasmuch as the water power thus created is or may be an incident of a general scheme of waterway improvement within the constitutional jurisdiction of the Federal Government, the regulation of such water power lies also within that jurisdiction. In my opinion constructive statesmanship requires that legislation should be enacted which will permit the development of navigation in these great rivers to go hand in hand with the utilization of this by-product of water power, created in the course of the same improvement, and that the general dam act should be so amended as to make this possible. I deem it highly important that the Nation should adopt a consistent and harmonious treatment of these water-power projects, which will preserve for this purpose their value to the Government, whose right it is to grant the permit. Any other policy is equivalent to throwing away a most valuable national asset.

THE PANAMA CANAL

During the past year the work of construction upon the canal has progressed most satisfactorily. About 87 per cent of the excavation work has been completed, and more than 93 per cent of the concrete for all the locks is in place. In view of the great interest which has been manifested as to

some slides in the Culebra Cut, I am glad to say that the report of Col. Goethals should allay any apprehension on this point. It is gratifying to note that none of the slides which occurred during this year would have interfered with the passage of the ships had the canal, in fact, been in operation, and when the slope pressures will have been finally adjusted and the growth of vegetation will minimize erosion in the banks of the cut, the slide problem will be practically solved and an ample stability assured for the Culebra Cut.

Although the official date of the opening has been set for January 1, 1915, the canal will, in fact, from present indications, be opened for shipping during the latter half of 1913. No fixed date can as yet be set, but shipping interests will be advised as soon as assurances can be given that vessels can pass through without unnecessary delay.

Recognizing the administrative problem in the management of the canal, Congress in the act of August 24, 1912, has made admirable provisions for executive responsibility in the control of the canal and the government of the Canal Zone. The problem of most efficient organization is receiving careful consideration, so that a scheme of organization and control best adapted to the conditions of the canal may be formulated and put in operation as expeditiously as possible. Acting under the authority conferred on me by Congress, I have, by Executive proclamation, promulgated the following schedule of tolls for ships passing through the canal, based upon the thorough report of Emory R. Johnson, special commissioner on traffic and tolls:

1. On merchant vessels carrying passengers or cargo, \$1.20 per net vessel ton-each 100 cubic feet-of actual earning capacity. 2. On vessels in ballast without passengers or cargo, 40 per cent less than the rate of tolls for vessels with passengers or cargo. 3. Upon naval vessels, other than transports, colliers, hospital ships, and supply ships, 50 cents per displacement ton. 4. Upon Army and Navy transports, colliers, hospital ships, and supply ships, \$1.20 per net ton, the vessels to be measured by the same rules as are employed in determining the net tonnage of merchant vessels. Rules for the determination of the tonnage upon which toll charges are based are now in course of preparation and will be promulgated in due season.

PANAMA CANAL TREATY

The proclamation which I have issued in respect to the Panama Canal tolls is in accord with the Panama Canal act passed by this Congress August 24, 1912. We have been advised that the British Government has prepared a protest against the act and its enforcement in so far as it relieves from the payment of tolls American ships engaged in the American coastwise trade on the ground that it violates British rights under the Hay-Pauncefote treaty concerning the Panama Canal. When the protest is presented, it will be promptly considered and an effort made to reach a satisfactory adjustment of any differences there may be between the two Governments.

WORKMEN'S COMPENSATION ACT

The promulgation of an efficient workmen's compensation act, adapted to the particular conditions of the zone, is awaiting adequate appropriation by Congress for the payment of claims arising thereunder. I urge that speedy provision be made in order that we may install upon the zone a system of settling claims for injuries in best accord with modern humane, social, and industrial theories.

PROMOTION FOR COL. GOETHALS

As the completion of the canal grows nearer, and as the wonderful executive work of Col. Goethals becomes more conspicuous in the eyes of the country and of the world, it seems to me wise and proper to make provision by law for such reward to him as may be commensurate with the service that he has rendered to his country. I suggest that this reward take the form of an appointment of Col. Goethals as a major general in the Army of the United States, and that the law authorizing such appointment be accompanied with a provision permitting his designation as Chief of Engineers upon the retirement of the present incumbent of that office.

NAVY DEPARTMENT

The Navy of the United States is in a greater state of efficiency and is more powerful than it has ever been before, but in the emulation which exists between different countries in respect to the increase of naval and military armaments this condition is not a permanent one. In view of the many improvements and increases by foreign Governments the slightest halt on our part in respect to new construction throws us back and reduces us from a naval power of the first rank and places us among the nations of the second rank. In the past 15 years the Navy has expanded rapidly and yet far less rapidly than our country. From now on reduced expenditures in the Navy means reduced military strength. The world's history has shown the importance of sea power both for adequate defense and for the support of important and definite policies.

I had the pleasure of attending this autumn a mobilization of the Atlantic Fleet, and was glad to observe and note the preparedness of the fleet for instant action. The review brought before the President and the Secretary of the Navy a greater and more powerful collection of vessels than had ever been gathered in American waters. The condition of the fleet and of the officers and enlisted men and of the equipment of the vessels entitled those in authority to the greatest credit.

I again commend to Congress the giving of legislative sanction to the appointment of the naval aids to the Secretary of the Navy. These aids and the council of aids appointed by the Secretary of the Navy to assist him in the conduct of his department have proven to be of the highest utility. They have furnished an executive committee of the most skilled naval experts, who have coordinated the action of the various bureaus in the Navy, and by their advice have enabled the Secretary to give an administration at the same time economical and most efficient. Never before has the United States had a Navy that compared in efficiency with its present one, but never before have the requirements with respect to naval warfare been higher and more exacting than now. A year ago Congress refused to appropriate for more than one battleship. In this I think a great mistake of policy was made, and I urgently recommend that this Congress make up for the mistake of the last session by appropriations authorizing the construction of three battleships, in addition to destroyers, fuel ships, and the other auxiliary vessels as shown in the building program of the general board. We are confronted by a condition in respect to the navies of the world which requires us, if we would maintain our Navy as an insurance of peace, to augment our naval force by at least two battleships a year and by battle cruisers, gunboats, torpedo destroyers, and submarine boats in a proper proportion. We have no desire for war. We would go as far as any nation in the world to avoid war, but we are a world power. Our population, our wealth, our definite policies, our responsibilities in the

Pacific and the Atlantic, our defense of the Panama Canal, together with our enormous world trade and our missionary outposts on the frontiers of civilization, require us to recognize our position as one of the foremost in the family of nations, and to clothe ourselves with sufficient naval power to give force to our reasonable demands, and to give weight to our influence in those directions of progress that a powerful Christian nation should advocate.

I observe that the Secretary of the Navy devotes some space to a change in the disciplinary system in vogue in that branch of the service. I think there is nothing quite so unsatisfactory to either the Army or the Navy as the severe punishments necessarily inflicted by court-martial for desertions and purely military offenses, and I am glad to hear that the British have solved this important and difficult matter in a satisfactory way. I commend to the consideration of Congress the details of the new disciplinary system, and recommend that laws be passed putting the same into force both in the Army and the Navy.

I invite the attention of Congress to that part of the report of the Secretary of the Navy in which he recommends the formation of a naval reserve by the organization of the ex-sailors of the Navy.

I repeat my recommendation made last year that proper provision should be made for the rank of the commander in chief of the squadrons and fleets of the Navy. The inconvenience attending the necessary precedence that most foreign admirals have over our own whenever they meet in official functions ought to be avoided. It impairs the prestige of our Navy and is a defect that can be very easily removed.

DEPARTMENT OF JUSTICE

This department has been very active in the enforcement of the law. It has been better organized and with a larger force than ever before in the history of the Government. The prosecutions which have been successfully concluded and which are now pending testify to the effectiveness of the departmental work.

The prosecution of trusts under the Sherman antitrust law has gone on without restraint or diminution, and decrees similar to those entered in the Standard Oil and the Tobacco cases have been entered in other suits, like the suits against the Powder Trust and the Bathtub Trust. I am very strongly convinced that a steady, consistent course in this regard, with a continuing of Supreme Court decisions upon new phases of the trust question not already finally decided is going to offer a solution of this much-discussed and troublesome issue in a quiet, calm, and judicial way, without any radical legislation changing the governmental policy in regard to combinations now denounced by the Sherman antitrust law. I have already recommended as an aid in this matter legislation which would declare unlawful certain well-known phases of unfair competition in interstate trade, and I have also advocated voluntary national incorporation for the larger industrial enterprises, with provision for a closer supervision by the Bureau of Corporations, or a board appointed for the purpose, so as to make more certain compliance with the antitrust law on the one hand and to give greater security to the stockholders against possible prosecutions on the other. I believe, however, that the orderly course of litigation in the courts and the regular prosecution of trusts charged with the violation of the antitrust law is producing among business men a clearer and clearer perception of the line of distinction between business that is to be encouraged and business that is to be condemned, and that in this quiet way

the question of trusts can be settled and competition retained as an economic force to secure reasonableness in prices and freedom and independence in trade.

REFORM OF COURT PROCEDURE

I am glad to bring to the attention of Congress the fact that the Supreme Court has radically altered the equity rules governing the procedure on the equity side of all Federal courts, and though, as these changes have not been yet put in practice so as to enable us to state from actual results what the reform will accomplish, they are of such a character that we can reasonably prophesy that they will greatly reduce the time and cost of litigation in such courts. The court has adopted many of the shorter methods of the present English procedure, and while it may take a little while for the profession to accustom itself to these methods, it is certain greatly to facilitate litigation. The action of the Supreme Court has been so drastic and so full of appreciation of the necessity for a great reform in court procedure that I have no hesitation in following up this action with a recommendation which I foreshadowed in my message of three years ago, that the sections of the statute governing the procedure in the Federal courts on the common-law side should be so amended as to give to the Supreme Court the same right to make rules of procedure in common law as they have, since the beginning of the court, exercised in equity. I do not doubt that a full consideration of the subject will enable the court while giving effect to the substantial differences in right and remedy between the system of common law and the system of equity so to unite the two procedures into the form of one civil action and to shorten the procedure in such civil action as to furnish a model to all the State courts exercising concurrent jurisdiction with the Federal courts of first instance.

Under the statute now in force the common-law procedure in each Federal court is made to conform to the procedure in the State in which the court is held. In these days, when we should be making progress in court procedure, such a conformity statute makes the Federal method too dependent upon the action of State legislatures. I can but think it a great opportunity for Congress to intrust to the highest tribunal in this country, evidently imbued with a strong spirit in favor of a reform of procedure, the power to frame a model code of procedure, which, while preserving all that is valuable and necessary of the rights and remedies at common law and in equity, shall lessen the burden of the poor litigant to a minimum in the expedition and cheapness with which his cause can be fought or defended through Federal courts to final judgment.

WORKMAN'S COMPENSATION ACT

The workman's compensation act reported by the special commission appointed by Congress and the Executive, which passed the Senate and is now pending in the House, the passage of which I have in previous messages urged upon Congress, I venture again to call to its attention. The opposition to it which developed in the Senate, but which was overcome by a majority in that body, seemed to me to grow out rather of a misapprehension of its effect than of opposition to its principle. I say again that I think no act can have a better effect directly upon the relations between the employer and employee than this act applying to railroads and common carriers of an interstate character, and I am sure that the passage of the act would greatly relieve the courts of the heaviest burden of litigation that they have, and would enable them to dispatch other business with a speed never before attained in courts of justice in this country.

THE WHITE HOUSE, December 19, 1912. To the Senate and House of Representatives:

This is the third of a series of messages in which I have brought to the attention of the Congress the important transactions of the Government in each of its departments during the last year and have discussed needed reforms.

HEADS OF DEPARTMENTS SHOULD HAVE SEATS ON THE FLOOR OF CONGRESS

I recommend the adoption of legislation which shall make it the duty of heads of departments--the members of the President's Cabinet--at convenient times to attend the session of the House and the Senate, which shall provide seats for them in each House, and give them the opportunity to take part in all discussions and to answer questions of which they have had due notice. The rigid holding apart of the executive and the legislative branches of this Government has not worked for the great advantage of either. There has been much lost motion in the machinery, due to the lack of cooperation and interchange of views face to face between the representatives of the Executive and the Members of the two legislative branches of the Government. It was never intended that they should be separated in the sense of not being in constant effective touch and relationship to each other. The legislative and the executive each performs its own appropriate function, but these functions must be coordinated. Time and time again debates have arisen in each House upon issues which the information of a particular department head would have enabled him, if present, to end at once by a simple explanation or statement. Time and time again a forceful and earnest presentation of facts and arguments by the representative of the Executive whose duty it is to enforce the law would have brought about a useful reform by amendment, which in the absence of such a statement has failed of passage. I do not think I am mistaken in saying that the presence of the members of the Cabinet on the floor of each House would greatly contribute to the enactment of beneficial legislation. Nor would this in any degree deprive either the legislative or the executive of the independence which separation of the two branches has been intended to promote. It would only facilitate their cooperation in the public interest.

On the other hand, I am sure that the necessity and duty imposed upon department heads of appearing in each house and in answer to searching questions, of rendering upon their feet an account of what they have done, or what has been done by the administration, will spur each member of the Cabinet to closer attention to the details of his department, to greater familiarity with its needs, and to greater care to avoid the just criticism which the answers brought out in questions put and discussions arising between the Members of either House and the members of the Cabinet may properly evoke.

Objection is made that the members of the administration having no vote could exercise no power on the floor of the House, and could not assume that attitude of authority and control which the English parliamentary Government have and which enables them to meet the responsibilities the English system thrusts upon them. I agree that in certain respects it would be more satisfactory if members of the Cabinet could at the same time be Members of both Houses, with voting power, but this is impossible under our system; and while a lack of this feature may detract from the influence of the department chiefs, it will not prevent the good results which I have described above both in the matter of legislation and in the matter of

administration. The enactment of such a law would be quite within the power of Congress without constitutional amendment, and it has such possibilities of usefulness that we might well make the experiment, and if we are disappointed the misstep can be easily retraced by a repeal of the enabling legislation.

This is not a new proposition. In the House of Representatives, in the Thirty-eighth Congress, the proposition was referred to a select committee of seven Members. The committee made an extensive report, and urged the adoption of the reform. The report showed that our history had not been without illustration of the necessity and the examples of the practice by pointing out that in early days Secretaries were repeatedly called to the presence of either Rouse for consultation, advice, and information. It also referred to remarks of Mr. Justice Story in his Commentaries on the Constitution, in which he urgently presented the wisdom of such a change. This report is to be found in Volume I of the Reports of Committees of the First Session of the Thirty-eighth Congress, April 6, 1864.

Again, on February 4, 1881, a select committee of the Senate recommended the passage of a similar bill, and made a report, in which, while approving the separation of the three branches, the executive, legislative, and judicial, they point out as a reason for the proposed change that, although having a separate existence, the branches are "to cooperate, each with the other, as the different members of the human body must cooperate, with each other in order to form the figure and perform the duties of a perfect man."

The report concluded as follows: This system will require the selection of the strongest men to be heads of departments and will require them to be well equipped with the knowledge of their offices. It will also require the strongest men to be the leaders of Congress and participate in debate. It will bring these strong men in contact, perhaps into conflict, to advance the public weal, and thus stimulate their abilities and their efforts, and will thus assuredly result to the good of the country.

If it should appear by actual experience that the heads of departments in fact have not time to perform the additional duty imposed on them by this bill, the force in their offices should be increased or the duties devolving on them personally should be diminished. An undersecretary should be appointed to whom could be confided that routine of administration which requires only order and accuracy. The principal officers could then confine their attention to those duties which require wise discretion and intellectual activity. Thus they would have abundance of time for their duties under this bill. Indeed, your committee believes that the public interest would be subserved if the Secretaries were relieved of the harassing cares of distributing clerkships and closely supervising the mere machinery of the departments. Your committee believes that the adoption of this bill and the effective execution of its provisions will be the first step toward a sound civil-service reform which will secure a larger wisdom in the adoption of policies and a better system in their execution. (Signed) GEO. H. PENDLETON. W. B. ALLISON. D. W. VOORHEES. J. G. BLAINE. M. C. BUTLER. JOHN J. INGALLS. O. H. PLATT. J. T. FARLEY. It would be difficult to mention the names of higher authority in the practical knowledge of our Government than those which are appended to this report.

POSTAL SAVINGS BANK SYSTEM

The Postal Savings Bank System has been extended so that it now includes 4,004 fourth-class post offices', as well as 645 branch offices and

stations in the larger cities. There are now 12,812 depositories at which patrons of the system may open accounts. The number of depositors is 300,000 and the amount of their deposits is approximately \$28,000,000, not including \$1,314,140 which has been withdrawn by depositors for the purpose of buying postal savings bonds. Experience demonstrates the value of dispensing with the pass-book and introducing in its place a certificate of deposit. The gross income of the postal savings system for the fiscal year ending June 30, 1913, will amount to \$700,000 and the interest payable to depositors to \$300,000. The cost of supplies, equipment, and salaries is \$700,000. It thus appears that the system lacks \$300,000 a year of paying interest and expenses. It is estimated, however, that when the deposits have reached the sum of \$50,000,000, which at the present rate they soon will do, the system will be self-sustaining. By law the postal savings funds deposited at each post office are required to be redeposited in local banks. State and national banks to the number of 7,357 have qualified as depositories for these funds. Such deposits are secured by bonds aggregating \$54,000,000. Of this amount, \$37,000,000 represent municipal bonds.

PARCEL POST

In several messages I have favored and recommended the adoption of a system of parcel post. In the postal appropriation act of last year a general system was provided and its installation was directed by the 1st of January. This has entailed upon the Post Office Department a great deal of very heavy labor, but the Postmaster General informs me that on the date selected, to wit, the 1st of January, near at hand, the department will be in readiness to meet successfully the requirements of the public.

CLASSIFICATION OF POSTMASTERS

A trial, during the past three years, of the system of classifying fourth-class postmasters in that part of the country lying between the Mississippi River on the west, Canada on the north, the Atlantic Ocean on the east, and Mason and Dixon's line on the south has been sufficiently satisfactory to justify the postal authorities in recommending the extension of the order to include all the fourth-class postmasters in the country. In September, 1912, upon the suggestion of the Postmaster General, I directed him to prepare an order which should put the system in effect, except in Alaska, Guam, Hawaii, Porto Rico, and Samoa. Under date of October 15 I issued such an order which affected 36,000 postmasters. By the order the post offices were divided into groups A and B. Group A includes all postmasters whose compensation is \$500 or more, and group B those whose compensation is less than that sum. Different methods are pursued in the selection of the postmasters for group A and group B. Criticism has been made of this order on the ground that the motive for it was political. Nothing could be further from the truth. The order was made before the election and in the interest of efficient public service. I have several times requested Congress to give me authority to put first-, second-, and third-class postmasters, and all other local officers, including internal-revenue officers, customs officers, United States marshals, and the local agents of the other departments under the classification of the civil-service law by taking away the necessity for confirming such appointments by the Senate. I deeply regret the failure of Congress to follow these recommendations. The change would have taken out of politics practically every local officer and would have entirely cured the evils growing out of what under the present law must always remain a remnant of the spoils system.

COMPENSATION TO RAILWAYS FOR CARRYING MAILS

It is expected that the establishment of a parcel post on January 1st will largely increase the amount of mail matter to be transported by the railways, and Congress should be prompt to provide a way by which they may receive the additional compensation to which they will be entitled. The Postmaster General urges that the department's plan for a complete readjustment of the system of paying the railways for carrying the mails be adopted, substituting space for weight as the principal factor in fixing compensation. Under this plan it will be possible to determine without delay what additional payment should be made on account of the parcel post. The Postmaster General's recommendation is based on the results of a far-reaching investigation begun early in the administration with the object of determining what it costs the railways to carry the mails. The statistics obtained during the course of the inquiry show that while many of the railways, and particularly the large systems, were making profits from mail transportations, certain of the lines were actually carrying the mails at a loss. As a result of the investigation the department, after giving the subject careful consideration, decided to urge the abandonment of the present plan of fixing compensation on the basis of the weight of the mails carried, a plan that has proved to be exceedingly expensive and in other respects unsatisfactory. Under the method proposed the railway companies will annually submit to the department reports showing what it costs them to carry the mails, and this cost will be apportioned on the basis of the car space engaged, payment to be allowed at the rate thus determined in amounts that will cover the cost and a reasonable profit. If a railway is not satisfied with the manner in which the department apportions the cost in fixing compensation, it is to have the right, under the new plan, of appealing to the Interstate Commerce Commission. This feature of the proposed law would seem to insure a fair treatment of the railways. It is hoped that Congress will give the matter immediate attention and that the method of compensation recommended by the department or some other suitable plan will be promptly authorized.

DEPARTMENT OF THE INTERIOR

The Interior Department, in the problems of administration included within its jurisdiction, presents more difficult questions than any other. This has been due perhaps to temporary causes of a political character, but more especially to the inherent difficulty in the performance of some of the functions which are assigned to it. Its chief duty is the guardianship of the public domain and the disposition of that domain to private ownership under homestead, mining, and other laws, by which patents from the Government to the individual are authorized on certain conditions. During the last decade the public seemed to become suddenly aware that a very large part of its domain had passed from its control into private ownership, under laws not well adapted to modern conditions, and also that in the doing of this the provisions of existing law and regulations adopted in accordance with law had not been strictly observed, and that in the transfer of title much fraud had intervened, to the pecuniary benefit of dishonest persons. There arose thereupon a demand for conservation of the public domain, its protection against fraudulent diminution, and the preservation of that part of it from private acquisition which it seemed necessary to keep for future public use. The movement, excellent in the intention which prompted it, and useful in its results, has nevertheless had some bad effects, which the western country has recently been feeling and in respect of which there is danger of a reaction toward older abuses unless we can attain the golden mean, which consists in the prevention of the mere exploitation of the public domain for private purposes while at

the same, time facilitating its development for the benefit of the local public.

The land laws need complete revision to secure proper conservation on the one hand of land that ought to be kept in public use and, on the other hand, prompt disposition of those lands which ought to be disposed in private ownership or turned over to private use by properly guarded leases. In addition to this there are not enough officials in our Land Department with legal knowledge sufficient promptly to make the decisions which are called for. The whole land-laws system should be reorganized, and not until it is reorganized, will decisions be made as promptly as they ought, or will men who have earned title to public land under the statute receive their patents within a reasonably short period. The present administration has done what it could in this regard, but the necessity for reform and change by a revision of the laws and an increase and reorganization of the force remains, and I submit to Congress the wisdom of a full examination of this subject, in order that a very large and important part of our people in the West may be relieved from a just cause of irritation.

I invite your attention to the discussion by the Secretary of the Interior of the need for legislation with respect to mining claims, leases of coal lands in this country and in Alaska, and for similar disposition of oil, phosphate, and potash lands, and also to his discussion of the proper use to be made of water-power sites held by the Government. Many of these lands are now being withheld from use by the public under the general withdrawal act which was passed by the last Congress. That act was not for the purpose of disposing of the question, but it was for the purpose of preserving the lands until the question could be solved. I earnestly urge that the matter is of the highest importance to our western fellow citizens and ought to command the immediate attention of the legislative branch of the Government.

Another function which the Interior Department has to perform is that of the guardianship of Indians. In spite of everything which has been said in criticism of the policy of our Government toward the Indians, the amount of wealth which is now held by it for these wards per capita shows that the Government has been generous; but the management of so large an estate, with the great variety of circumstances that surround each tribe and each case, calls for the exercise of the highest business discretion, and the machinery provided in the Indian Bureau for the discharge of this function is entirely inadequate. The position of Indian commissioner demands the exercise of business ability of the first order, and it is difficult to secure such talent for the salary provided.

The condition of health of the Indian and the prevalence in the tribes of curable diseases has been exploited recently in the press. In a message to Congress at its last session I brought this subject to its attention and invited a special appropriation, in order that our facilities for overcoming diseases among the Indians might be properly increased, but no action was then taken by Congress on the subject, nor has such appropriation been made since.

The commission appointed by authority of the Congress to report on proper method of securing railroad development in Alaska is formulating its report, and I expect to have an opportunity before the end of this session to submit its recommendations.

DEPARTMENT OF AGRICULTURE

The far-reaching utility of the educational system carried on by the Department of Agriculture for the benefit of the farmers of our country calls for no elaboration. Each year there is a growth in the variety of facts which it brings out for the benefit of the farmer, and each year confirms the wisdom of the expenditure of the appropriations made for that department.

PURE-FOOD LAW

The Department of Agriculture is charged with the execution of the pure-food law. The passage of this encountered much opposition from manufacturers and others who feared the effect upon their business of the enforcement of its provisions. The opposition aroused the just indignation of the public, and led to an intense sympathy with the severe and rigid enforcement of the provisions of the new law. It had to deal in many instances with the question whether or not products of large business enterprises, in the form of food preparations, were deleterious to the public health; and while in a great majority of instances this issue was easily determinable, there were not a few cases in which it was hard to draw the line between a useful and a harmful food preparation. In cases like this when a decision involved the destruction of great business enterprises representing the investment of large capital and the expenditure of great energy and ability, the danger of serious injustice was very considerable in the enforcement of a new law under the spur of great public indignation. The public officials charged with executing the law might do injustice in heated controversy through unconscious pride of opinion and obstinacy of conclusion. For this reason President Roosevelt felt justified in creating a board of experts, known as the Remsen Board, to whom in cases of much importance an appeal might be taken and a review had of a decision of the Bureau of Chemistry in the Agricultural Department. I heartily agree that it was wise to create this board in order that injustice might not be done. The questions which arise are not generally those involving palpable injury to health, but they are upon the narrow and doubtful line in respect of which it is better to be in some error not dangerous than to be radically destructive. I think that the time has come for Congress to recognize the necessity for some such tribunal of appeal and to make specific statutory provision for it. While we are struggling to suppress an evil of great proportions like that of impure food, we must provide machinery in the law itself to prevent its becoming an instrument of oppression, and we ought to enable those whose business is threatened with annihilation to have some tribunal and some form of appeal in which they have a complete day in court.

AGRICULTURAL CREDITS

I referred in my first message to the question of improving the system of agricultural credits. The Secretary of Agriculture has made an investigation into the matter of credits in this country, and I commend a consideration of the information which through his agents he has been able to collect. It does not in any way minimize the importance of the proposal, but it gives more accurate information upon some of the phases of the question than we have heretofore had.

DEPARTMENT OF COMMERCE AND LABOR

I commend to Congress an examination of the report of the Secretary of Commerce and Labor, and especially that part in which he discusses the office of the Bureau of Corporations, the value to commerce of a proposed trade commission, and the steps which he has taken to secure the

organization of a national chamber of commerce. I heartily commend his view that the plan of a trade commission which looks to the fixing of prices is altogether impractical and ought not for a moment to be considered as a possible solution of the trust question.

The trust question in the enforcement of the Sherman antitrust law is gradually solving itself, is maintaining the principle and restoring the practice of competition, and if the law is quietly but firmly enforced, business will adjust itself to the statutory requirements, and the unrest in commercial circles provoked by the trust discussion will disappear.

PANAMA-PACIFIC INTERNATIONAL EXPOSITION

In conformity with a joint resolution of Congress, an Executive proclamation was issued last February, inviting the nations of the world to participate in the Panama-Pacific International Exposition to be held at San Francisco to celebrate the construction of the Panama Canal. A sympathetic response was immediately forthcoming, and several nations have already selected the sites for their buildings. In furtherance of my invitation, a special commission visited European countries during the past summer, and received assurance of hearty cooperation in the task of bringing together a universal industrial, military, and naval display on an unprecedented scale. It is evident that the exposition will be an accurate mirror of the world's activities as they appear 400 years after the date of the discovery of the Pacific Ocean.

It is the duty of the United States to make the nations welcome at San Francisco and to facilitate such acquaintance between them and ourselves as will promote the expansion of commerce and familiarize the world with the new trade route through the Panama Canal. The action of the State governments and individuals assures a comprehensive exhibit of the resources of this country and of the progress of the people. This participation by State and individuals should be supplemented by an adequate showing of the varied and unique activities of the National Government. The United States can not with good grace invite foreign governments to erect buildings and make expensive exhibits while itself refusing to participate. Nor would it be wise to forego the opportunity to join with other nations in the inspiring interchange of ideas tending to promote intercourse, friendship, and commerce. It is the duty of the Government to foster and build up commerce through the canal, just as it was the duty of the Government to construct it.

I earnestly recommend the appropriation at this session of such a sum as will enable the United States to construct a suitable building, install a governmental exhibit, and otherwise participate in the Panama-Pacific International Exposition in a manner commensurate with the dignity of a nation whose guests are to be the people of the world. I recommend also such legislation as will facilitate the entry of material intended for exhibition and protect foreign exhibitors against infringement of patents and the unauthorized copying of patterns and designs. All aliens sent to San Francisco to construct and care for foreign buildings and exhibits should be admitted without restraint or embarrassment.

THE DISTRICT OF COLUMBIA AND THE CITY OF WASHINGTON

The city of Washington is a beautiful city, with a population of 352,936, of whom 98,667 are colored. The annual municipal budget is about \$14,000,000. The presence of the National Capital and other governmental structures constitutes the chief beauty and interest of the city. The

public grounds are extensive, and the opportunities for improving the city and making it still more attractive are very great. Under a plan adopted some years ago, one half the cost of running the city is paid by taxation upon the property, real and personal, of the citizens and residents, and the other half is borne by the General Government. The city is expanding at a remarkable rate, and this can only be accounted for by the coming here from other parts of the country of well-to-do people who, having finished their business careers elsewhere, build and make this their permanent place of residence.

On the whole, the city as a municipality is very well governed. It is well lighted, the water supply is good, the streets are well paved, the police force is well disciplined, crime is not flagrant, and while it has purlieus and centers of vice, like other large cities, they are not exploited, they do not exercise any influence or control in the government of the city, and they are suppressed in as far as it has been found practicable. Municipal graft is inconsiderable. There are interior courts in the city that are noisome and centers of disease and the refuge of criminals, but Congress has begun to clean these out, and progress has been made in the case of the most notorious of these, which is known as "Willow Tree Alley." This movement should continue.

The mortality for the past year was at the rate of 17.80 per 1,000 of both races; among the whites it was 14.61 per thousand, and among the blacks 26.12 per thousand. These are the lowest mortality rates ever recorded in the District.

One of the most crying needs in the government of the District is a tribunal or public authority for the purpose of supervising the corporations engaged in the operation of public utilities. Such a bill is pending in Congress and ought to pass. Washington should show itself under the direction of Congress to be a city with a model form of government, but as long as such authority over public utilities is withheld from the municipal government, it must always be defective.

Without undue criticism of the present street railway accommodations, it can be truly said that under the spur of a public utilities commission they might be substantially improved.

While the school system of Washington perhaps might be bettered in the economy of its management and the distribution of its buildings, its usefulness has nevertheless greatly increased in recent years, and it now offers excellent facilities for primary and secondary education.

From time to time there is considerable agitation in Washington in favor of granting the citizens of the city the franchise and constituting an elective government. I am strongly opposed to this change. The history of Washington discloses a number of experiments of this kind, which have always been abandoned as unsatisfactory. The truth is this is a city governed by a popular body, to wit, the Congress of the United States, selected from the people of the United States, who own Washington. The people who come here to live do so with the knowledge of the origin of the city and the restrictions, and therefore voluntarily give up the privilege of living in a municipality governed by popular vote. Washington is so unique in its origin and in its use for housing and localizing the sovereignty of the Nation that the people who live here must regard its peculiar character and must be content to subject themselves to the control of a body selected by all the people of the Nation. I agree that there are certain inconveniences growing out of the government of a city by a

national legislature like Congress, and it would perhaps be possible to lessen these by the delegation by Congress to the District Commissioners of greater legislative power for the enactment of local laws than they now possess, especially those of a police character.

Every loyal American has a personal pride in the beauty of Washington and in its development and growth. There is no one with a proper appreciation of our Capital City who would favor a niggardly policy in respect to expenditures from the National Treasury to add to the attractiveness of this city, which belongs to every citizen of the entire country, and which no citizen visits without a sense of pride of ownership. We have had restored by a Commission of Fine Arts, at the instance of a committee of the Senate, the original plan of the French engineer L'Enfant for the city of Washington, and we know with great certainty the course which the improvement of Washington should take. Why should there be delay in making this improvement in so far as it involves the extension of the parking system and the construction of greatly needed public buildings?

Appropriate buildings for the State Department, the Department of justice, and the Department of Commerce and Labor have been projected, plans have been approved, and nothing is wanting but the appropriations for the beginning and completion of the structures. A hall of archives is also badly needed, but nothing has been done toward its construction, although the land for it has long been bought and paid for. Plans have been made for the union of Potomac Park with the valley of Rock Creek and Rock Creek Park, and the necessity for the connection between the Soldiers' Home and Rock Creek Park calls for no comment. I ask again why there should be delay in carrying out these plans. We have the money in the Treasury, the plans are national in their scope, and the improvement should be treated as a national project. The plan will find a hearty approval throughout the country. I am quite sure, from the information which I have, that, at comparatively small expense, from that part of the District of Columbia which was retroceded to Virginia, the portion including the Arlington estate, Fort Myer, and the palisades of the Potomac can be acquired by purchase and the jurisdiction of the State of Virginia over this land ceded to the Nation. This ought to be done.

The construction of the Lincoln Memorial and of a memorial bridge from the base of the Lincoln Monument to Arlington would be an appropriate and symbolic expression of the union of the North and the South at the Capital of the Nation. I urge upon Congress the appointment of a commission to undertake these national improvements, and to submit a plan for their execution; and when the plan has been submitted and approved, and the work carried out, Washington will really become what it ought to be--the most beautiful city in the world.

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