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THE PRESIDENT'S MESSAGE

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Should Allow National Banks to Issue Notes.

DUTY TO SPAIN AND CUBA

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Reasons Given for Annexation-- Importance of the Canal-- Bimetallism Is Treated at Length on Its Merits.

Washington, Dec. 6.—The Fifty-first congress convened today and the joint committee of the house and senate waited upon the president. President McKinley delivered his message to congress, which is in part as follows:

To the Senate and House of Representatives: It gives me pleasure to extend greeting to the Fifty-first congress assembled in regular session at the seat of government with many of whose senators and representatives I have been associated in the legislative service. Their meeting occurs under favorable conditions, justifying sincere congratulations and calling for my grateful acknowledgments to a blessed providence, which has so signally blessed and prospered us as a nation. Peace and goodwill with all the nations of the earth continue unbroken.

A matter of genuine satisfaction is the growing feeling of fraternal regard and recognition of all sections of our country, the incompleteness of which has long delayed realization of the highest blessings of the union. The spirit of patriotism is universal and is ever increasing in fervor. The public questions which now most engage us are lifted far above sectional differences. They affect every part of our common country alike and permit of no division on ancient lines. Questions of foreign policy, of revenue, the soundness of the currency, the inviolability of national obligations, the improvement of the public service, appeal to the individual conscience of every earnest citizen to whatever party he belongs, or in whatever section of the country he may reside.

The extra session of this congress which closed during July last, effected important legislation and while its final effects have not been realized, what it has already accomplished assures us of its wisdom and wisdom. To test its permanent value, further time will be required and the people, satisfied with its operation and results thus far, are in no mind to withhold from it a fair trial.

THE CURRENCY. Tariff legislation having been settled by the extra session of congress, the question next pressing for consideration is that of the currency. The work of putting our finances upon a sound basis

difficult as it may seem, will appear when we recall the financial operations of the government since 1866. On the 30th day of June of that year we had outstanding demand liabilities in the sum of \$728,969,474. On the 1st of July, 1872, these liabilities had been reduced to \$443,859,058. Of our interest-bearing obligations, the figures are even more striking. On July 1, 1866, the principal of the interest-bearing debt of the government was \$2,322,331,258. On the 1st day of July, 1897, this sum has been reduced to \$340,719,000, an aggregate reduction of \$1,981,612,258. The interest-bearing debt of the United States on the 1st of December, 1897, was \$472,262,000. The government money now outstanding (the number 1st) consists of \$45,000,000 of United States notes; \$97,282,280 of treasury notes issued by authority of the act of 1863; \$34,821,201 of silver certificates; and \$40,290,720 of standard silver dollars.

With the great resources of the government and with the time-honored example of the past before us, we ought not to hesitate to enter upon currency revision which will make our demand obligations less onerous to the government and relieve our financial laws from ambiguity and doubt.

The brief review of what was accomplished from the date of the war until 1865 makes unambiguous and unobscured any distant view of our financial ability or resources, while the situation from 1865 to 1897 most abundantly shows the immediate necessity for so legislating as to make the means of the conditions then prevailing imperative.

There are many plans proposed as a remedy for the evil. Before we can find the true remedy we must appreciate the evil itself. It is not that our currency of every kind is not good, but because the government's pledge is not to keep it so, and that pledge will not be broken. However, the guaranty of our purpose to keep the pledge will be best shown by advancing toward its fulfillment.

The evil of the present system is found in the great cost to the government of maintaining the parity of our different forms of money; that is, keeping all of them at par with gold. We surely cannot be longer a nation of the world, given under fairly prevailing conditions, while the past four years have demonstrated that it is not only an expensive charge upon the government, but a dangerous menace to the national credit.

It is manifest that we must devise some plan to protect the government against loans issued for repeated redemptions. We must either curtail the opportunity for speculation, made easy by the multiplied redemptions of our demand obligations, or increase the gold reserve for their redemption. We have \$200,000,000 of currency which the government by solemn enactment has undertaken to keep at par with gold. Nobody is obliged to redeem in gold but the government. The banks are not required to redeem in gold. The government is obliged to keep equal with gold all its outstanding currency and coin obligations, while its receipts are not required to be paid in gold. They are paid in every kind of money but gold, and the only means by which the government can with certainty get gold is by borrowing it. It can get it in no other way which it most needs it. The government without any fixed gold revenue is pledged to maintain gold redemption which it has steadily and faithfully done and which under the authority now given it will continue to do.

The law which requires the government, after having redeemed its notes, to pay them out again as current funds demands a constant replenishment of the gold reserve. This is especially so in times of business panic and when the revenues are insufficient to meet the expenses of the government. At such times the government has no other way to supply its deficit and maintain redemption but through the increase of its bonded debt. At the urgent administration of my predecessor, when \$262,315,000 of four and one-half per cent bonds were issued and sold the proceeds were used to pay expenses of the government and sustain the gold reserve. While it is true that the greater part of the proceeds of these bonds were used to supply deficient revenues, a considerable portion was required to maintain the gold reserve. With our revenues equal to our expenses, there would be no deficit requiring the issuance of bonds. But if the gold reserve falls below \$100,000,000, how will it be replenished, except by selling bonds? Is there any other way practicable under existing law? The serious question then is, shall we continue the policy that has been pursued in the past; that is, when the gold reserve reaches the point of danger, issue more bonds and supply the needed gold, or shall we provide other means to prevent these recurring drains upon the gold reserve. If no further legislation is had and the policy of selling bonds is to be continued, then congress should give the secretary of the treasury authority to sell bonds

at long or short periods, bearing a less rate of interest than is now authorized by law. I earnestly recommend as soon as the receipts of the government are quite sufficient to pay all the expenses of the government that when any of the United States notes are presented for redemption in gold and are redeemed in gold, such notes shall be kept and only paid out in exchange for gold. This is an obvious duty. If the holder of the United States note prefers gold from the government, he should receive back from the government a United States note without paying gold in exchange for it. The reason for this is made all the more apparent when the government issues an interest-bearing debt to provide gold for the redemption of United States notes—a non-interest-bearing debt should be issued and not pay them out again, except on demand and for gold. If they are put out in any other way they may return again to be followed by another bond issue to redeem them—another interest-bearing debt to redeem a non-interest-bearing debt.

In my view, it is of the utmost importance that the government should be relieved from the burden of providing for all the gold required for exchanges on export. This responsibility is alone borne by the government without any of the usual and necessary banking means to help itself. The banks do not feel the strain of gold redemption. The strain rests upon the government, and the strain of the gold reserve in the treasury has come to be with or without reason, the signal of danger or security. This ought to be stopped.

If we are to have in our possession in the country with sufficient receipts for the expenses of the government, we may feel no immediate embarrassment from our present currency, but the danger still exists and will be ever present, menacing us as long as the existing currency continues. And, besides, it is in times of adequate revenues and intense prosperity that the government should prepare for the worst. We cannot avoid, without serious consequences, the wise consideration and prompt solution of this question.

THE GOLD RESERVE. The secretary of the treasury has outlined a plan in great detail for the purpose of restoring the threatened existence of a depleted gold reserve and saving us from future embarrassment on that account. This plan I invite your careful consideration.

I concur with the secretary of the treasury in his recommendation that national banks be allowed to issue notes to the face value of the bonds which they deposited for circulation and that the issue of such notes be reduced to one-half of one per cent per annum. I also join him in recommending that authority be given for the establishment of national banks with a minimum capital of \$25,000.

This will enable the smaller villages and agricultural regions of the country to be supplied with currency to meet their demands. I recommend that the issue of national bank notes be restricted to the denomination of two dollars and upward. If the securities I have herein made shall have the approval of congress, then I would recommend that national banks be required to redeem their notes in gold.

SPAIN AND CUBA. The most important problem with which this country is now called upon to deal, that pertaining to its foreign relations, concerns its duty toward Spain and the Cuban insurrection. Problems and conditions more or less in common with those now existing have confronted this government at various times in the past. The story of Cuba for many years has been one of unrest, growing discontent, an effort toward the larger enjoyment of liberty and self-control, of organized resistance to the mother country; of depression and warfare and of ineffectual settlement to be followed by renewed revolt. For an enduring period since the enfranchisement of the continental possessions of Spain in the Western continent has the condition of Cuba or the policy of Spain towards Cuba caused concern to the United States. The prospect from time to time that the weakness of Spain's hold upon the island and the political vicissitudes and embarrassments of the home government might lead to the transfer of Cuba to the continental power called forth, between 1823 and 1895, various emphatic declarations of the United States to permit no disturbances of Cuba's connection with Spain unless in the direction of independence or acquisition by the United States through purchase, nor has there been any change of this declared policy since upon the part of the government.

The revolution which began in 1895 and lasted for two years, despite the strenuous efforts of the successive peninsular governments to suppress it. Then, as now, the government of the United States affirmed its grave concern and offered its aid to put an end to bloodshed in Cuba. The overtures made by General Grant were refused and the war dragged on, entailing great loss of life and treasure, and increased injury to American interests, besides throwing enhanced burdens of neutrality upon this government. In 1893 peace was brought about by the treaty of Zanjon, obtained by negotiations between the Spanish commander, Martini de Campos, and the insurgent leaders.

The present insurrection broke out in February, 1895. It is not my purpose at this time to recall its remarkable increase or to characterize its tenacious resistance against the enormous forces massed against it by Spain. The revolt and the efforts to subdue it carried destruction to every quarter of the island, developing wide proportions and defying the efforts of Spain for its suppression. The civilized code of warfare has been disregarded no less so by the Spaniards than by the Cubans. The existing conditions cannot but fill this government and the American people with apprehension. There is no desire on the part of our people to profit by the misfortune of Spain. We have only the desire to see the Cubans prosperous and contented, enjoying that measure of self-control which is the inalienable right of man, protected in their right to reap the benefit of the exhaustless treasures of their country.

The offer made by my predecessor in April, 1894, tendering the friendly offices of this government, failed and mediation on our part was not accepted. In brief, the answer read: "There is no effectual way to pacify Cuba unless it begins with the actual submission of the rebels to the mother country."

Then, only could Spain act in the prompt direction of her own motion, and after her own motion, and after her own plans.

The cruel policy of concentration was initiated February 16, 1895. The productive districts controlled by the Spanish armies were depopulated and the agricultural inhabitants were herded in and about the cañon towns, their lands laid waste and their dwellings destroyed. This policy the late cabinet of Spain justified as a necessary measure of war and as a means of cutting off supplies from the insurgents. It has utterly failed as a war measure. It was not civilized warfare. It was extermination.

Against this abuse of the rights of war I have felt constrained to repeat occasions to enter the firm and earnest protest of this government. There was such a public condemnation of the treatment of American citizens by alleged judicial proceedings. I felt it my first duty to make instant demand for the release or speedy trial of all American citizens under arrest. Before the change of the Spanish cabinet in October, twenty-five prisoners, citizens of the United States, had been given their freedom. For the relief of our own citizens suffering because of the conflict, the aid of congress was sought in a special message and under the appropriation of April 4, 1895, effective aid was sent to American citizens in Cuba and many of them at their own request have been returned to the United States.

MINISTERS' INSTRUCTION. The instructions given to our new minister to Spain before his departure for his post directed him to impress upon that government the serious wish of this country to find in the end toward ending the war in Cuba, by reaching a peaceful and lasting result, just and honorable alike to Spain and the Cuban people.

These instructions recited the character and duration of the contest, the widespread loss it entails, the burdens and restraint it imposes upon us, with constant disturbance of national interests, and the injury resulting from an indefinite continuance of this state of things. It was stated that at this juncture our government was constrained to seriously inquire if the time was not ripe when Spain, of her own volition, moved by her own interests and every sentiment of humanity, should put a stop to this destructive war and make proposals of settlement honorable to herself and just to her Cuban colony. It was urged that as a neighboring nation with large interests in Cuba, we could be required to wait only a reasonable time for the mother country to establish its authority and restore peace and order within the borders of the island; that we could not contemplate an indefinite period for the accomplishment of these results.

No solution was proposed to which the slightest idea of humiliation to Spain could attach. All that was asked or expected was that some safe way might be speedily provided and permanent peace restored. It so chanced that the consideration of this offer addressed to the Spanish administration which had declined the tenders of my predecessor and which for more than two years had poured more treasure into Cuba in the fruitless effort to suppress the revolt, fell to others. Between the departure of General Woodford, the new envoy, and his arrival in Spain, the statesman who had shaped the policy of his country fell by the hand of an assassin and although the cabinet of the late premier still held office and received from our envoy the proposals he bore, that cabinet gave place within a few days thereafter to a new administration under the leadership of Sagasta.

Spain the control of the foreign relations, the army and navy and the judicial administration.

To accomplish this the present government proposes to modify existing legislation by decree, leaving the Spanish cortes with the aid of Cuban senators and deputies to solve the economic problems and properly distribute the existing debt.

In the absence of a declaration of the measure that the government proposes to take in carrying out its professed good offices, it suggests that Spain be left free to conduct military operations and grant political reforms while the United States, for its part, shall enforce its neutral obligations, and cut off the assistance which it is asserted the insurgents receive from this country. The supposition of an indefinite prolongation of the war is denied. It is asserted that the Western provinces are already widely reclaimed; that the planting of cane and tobacco therein has been resumed and that by force of arms and new and ample reforms very early and complete pacification is hoped for.

The immediate amelioration of existing conditions under the new administration of Cuban affairs is predicted and there will be all the disturbance and all occasion for any change of attitude on the part of the United States.

Discussion of the question of international duties and responsibilities of the United States as Spain understands them, is presented with an apparent disposition to charge us with failure in this regard. This charge is without any basis in fact. It could not have been made had Spain been cognizant of the economic state of this government and by the employment of the administrative machinery at the national command to perform its full duty according to the law of nations. That it has successfully prevented the departure of a single military expedition, or armed vessel from our shores in violation of our laws would seem to be a sufficient answer. But on this aspect of the Spanish note it is not necessary to speak further now. Firm in the conviction of a wholly proper obligation, the response to this charge has been made in diplomatic issues throughout all these horrors and dangers to our own peace, this government has never in any way abrogated its sovereign prerogative of reserving to itself the determination of its policy and course according to its own high sense of right and in consonance with the desires and convictions of our own people should the prolongation of the strife so demand.

THE UNTRIED MEASURES. Of the untried measures, there remain only: "Recognition of the insurgents as belligerents; recognition of the independence of Cuba; neutral intervention to end the war by imposing a national compromise between the contestants; and intervention in favor of one or the other party."

I speak not of forcible annexation, for that cannot be thought of. That by our code of right would be criminal aggression. Recognition of belligerency of the Cuban insurgents has often been canvassed as a possible, if not inevitable step both in regard to the previous ten years' struggle and during the present war. I am not unmindful that the two houses of congress in the spring of 1888 expressed the opinion by concurrent resolutions that a recognition of public war related requiring or justifying the recognition of a state of belligerency in Cuba, and during the extra session the senate voted a joint resolution of like import, which, however, was not brought to a vote in the house. In the presence of these significant expressions of the sentiment of the legislative branch, it behoves the executive to soberly consider the conditions under which so important a measure must needs rest for justification. It is to be seriously considered whether the Cuban insurrection possesses beyond dispute the attributes of statehood which alone can demand the recognition of belligerency in its favor. Possession, short of the essential qualifications of sovereignty, by the insurgents of the commerce of all commercial nations, but that of the United States more than any other, by reason of proximity and larger trade and intercourse. At that juncture General Grant uttered these words, which now, as then, sum up the elements of the problem:

GRANT'S VIEWS. "A recognition of the independence of Cuba being in my mind impracticable and indefensible, the question which next presents itself is that of the recognition of belligerent rights in the parties to the contest. In a former message to congress I had occasion to consider this question and reached the conclusion that the conflict in Cuba, dreadful and devastating as were its incidents, did not rise to the fearful dignity of war. . . . It is possible that the acts of foreign powers and even acts of Spain herself of this very nature might be pointed to in defense of such recognition. But now, as in its past history, the United States should carefully avoid the false lights which might lead it into the maze of doubtful law and of unquestionable propriety and adher-

ence to the rule which has been its guide of doing only that which is right and honest and of good report. The question of according or withholding rights of belligerency must be judged in every case, in view of the particular attending facts. Unless justified by necessity, it is always, and justly regarded as an ungrateful and as a gratuitous demonstration of moral support to the rebellion. It is necessary and it is required when the interests and rights of another government, or if six people so far affected by pending civil conflict as to require a definition of its relations to the parties thereto. But this conflict must be one which will be recognized in the sense of international law as war.

"Belligerency, too, is a fact. The mere existence of contending armed bodies and their occasional conflicts do not constitute war in the sense referred to. Applying to the existing condition of affairs in Cuba, the tests recognized by publicists and writers on international law and which have been observed by nations of dignity, honesty and power when free from sensitive and unworthy motives, I fail to find in the insurrection the existence of such a substantial political organization, real, palpable and manifest to the world as having the forms and capable of organization functions of ordinary government towards its own people and to other states with courts for the administration of justice, with a local habitation, possessing such organization of force, such material, such occupation of territory as to take the contest out of the category of a mere rebellious insurrection, or occasional skirmisher and place it on the terrible footing of war, to which a recognition of belligerency would aim to elevate it."

"The contest, moreover, is solely on land; the insurrection has not possessed itself of a single seaport where it may send forth its flag, nor has it any means of communication with foreign powers except through the military lines of its adversaries. No apprehension of any of these sudden and difficult complications which a war upon the ocean is apt to precipitate upon the vessels, both commercial and naval, and upon the consular officers of other powers, calls for the definition of their relations to the parties to the contest. Considered as a question of expediency, I regard the acceptance of belligerent rights still to be as unwise and premature as I regard it to be, as present indefensible as a measure of right."

"Such recognition entails upon the country according the rights which flow from its difficult and complicated duties and requires the exclusion from the contending parties of the strict observance of their rights and obligations. It confers the rights of search upon the high seas by vessels of both parties; it would subject the carrying of arms and munitions of war, which now may be transported freely and without interruption in vessels of the United States to detention and to possible seizure; it would give rise to countless vexatious questions; it would render the present government of responsibility for acts done by the insurgents and would invest Spain with the right to exercise the supervision recognized by our treaty of 1763 over our commerce on the high seas, a very large part of which is its traffic between the Atlantic and the gulf states and between all of them and the states on the Pacific ocean, and through the waters which wash the shores of Cuba. The exercise of this supervision could scarce fail to lead, if not to abuses, certainly to collisions, perilous to the peaceful relations of the two states. There can be little doubt as to what result such supervision would be before long. It would be unworthy of the United States to inaugurate the possibility of such result by a measure of questionable right or expediency, or by any indirection."

BELLIGERENCY. Turning to the practical aspects of a recognition of belligerency and reviewing its consequences and possible danger are further pertinent considerations appearing. In the code of nations there is no such thing as a naked recognition of belligerency unaccompanied by the assumption of national neutrality. Such recognition without more will not confer upon either party to a domestic conflict a status not heretofore actually possessed, or affect the relation of either party to other states. The act of recognition usually takes the form of a solemn proclamation of neutrality which recites the de facto condition of belligerency as its motive. It announces a domestic law of neutrality in the declaring state. It assumes the international obligations of a neutral in the presence of a state of war. It warns all citizens and others within the jurisdiction of claimant that they violate these rigorous obligations at their own peril and cannot expect to be shielded from the consequence. The right of visit and search and seizure of vessels and cargoes and contraband of war under admiralty law must under international law be admitted as a legitimate consequence of a proclamation of belligerency. While according to equal belligerent rights afforded by public law to each party in our ports disfavor would be impossible to both, which while nominally equal, would weigh heavily in behalf of Spain herself. Possessing a navy and claiming the ports of Cuba her maritime rights could be asserted not only for the military investment of the island, but up to the margin of our own territorial waters, and a condition of things would exist for which the Cubans could not hope to create a parallel; while its creation through sympathy from within our domain would be even more impossible than now with an additional obligation of international neutrality we would performance.

The enforcement of this enlarged and onerous code of neutrality would only be influential within our own jurisdiction of land and sea and applicable by our own instrumentalities. It could imperil to the United States no jurisdiction between

Spain and the insurgents. It would give us no right of intervention to enforce the conduct of the strife within the paramount authority of Spain according to the international code of war.

For these reasons I regard the recognition of the belligerency of the Cuban insurgents as no unwise and heretofore inadmissible. Should that step hereafter be deemed wise, as a measure of right and duty, the executive will take it.

Intervention upon humane grounds has been frequently suggested and it has not failed to receive my most anxious and earnest consideration. But should such a step be now taken when it is apparent that a hopeful change has supervened in the policy of Spain toward Cuba?

A new government has taken office in the mother country. It is pledged in advance to the declaration that all the effort in the world cannot suffice to maintain peace in Cuba by the bayonet; that vague promises of reform after subjugation afford no solution of the insular problem; that with a substitution of commanders must come a change of the past system of warfare for one in harmony with a new policy which shall no longer aim to drive the Cubans "to the horrible alternative of taking to the thicket or succumbing in misery"; that reforms must be instituted in accordance with the needs and circumstances of the time and that these reforms while designed to give full autonomy to the colony and create a virtual entity and self-controlled administration shall yet conserve and affirm the sovereignty of Spain by a just distribution of powers and burdens upon a basis of mutual interest untainted by methods of selfish expediency.

The first acts of the new government lie in these honorable paths. The policy of cruel rapine and extermination that so long shocked the universal sentiment of humanity has been reversed. Under the new military commander a broad clemency is professed. Measures have already been set on foot to relieve the horrors of starvation. The power of the Spanish armies, it is asserted, is to be used, not to spread ruin and desolation, but to protect the resumption of peaceful agricultural pursuits and productive industry. That past methods are futile to force a peace by subjugation is freely admitted and that ruin without conciliation must inevitably fail to win for Spain the fidelity of a contented dependency.

Decrees in application of the forsworn reforms have already been promulgated. The full text of these decrees have not been received, but as furnished in a telegraphic summary from our minister are:

SPAIN'S DECREES. All civil and electoral rights of peninsular Spaniards are, in virtue of existing constitutional assembly, forthwith extended to colonial Spaniards. A scheme of autonomy has been proclaimed by decree to become effective upon ratification by the cortes. It creates a Cuban parliament, which, with the insular executive, can consider and vote upon all questions affecting local order and interests, possessing unlimited powers save as to matters of state, war and navy, as to which the governor-general acts by his own authority as the delegate of the central government. This parliament receives the oath of the governor-general to preserve faithfully the liberties and privileges of the colony and to it the colonial secretaries are responsible. It has the right to propose to the central government through the governor-general modifications of a charter and to initiate new projects of law or executive measures in the interest of the colony.

Besides its local powers it is competent, first, to regulate electoral registration and procedure and prescribe the qualifications of electors and the manner of exercising suffrage; second, to organize courts of justice with native judges from members of the local bar; third, to frame the insular budget both as to expenditures and revenues to meet the Cuban share of the national budget, which latter will be voted by the national cortes with the assistance of Cuban senators and deputies; fourth, to initiate or take part in the negotiations of the national government for commercial treaties which may affect Cuban interests; fifth, to accept or reject commercial treaties which the national government may have concluded without the participation of the Cuban government; sixth, to frame the colonial tariff, acting in accord with the peninsular government in scheduling articles of mutual commerce between the mother country and the colonies. Before introducing or voting upon a bill the Cuban government or the chambers will pay the project before the central government and hear its opinion thereon; all the correspondence in such regard being public. Finally, all conflicts of jurisdiction arising between the different municipal provincial and insular assemblies, or between the latter and the insular executive power, and which from their nature may

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