

The Louisiana Funding Bill.

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A REPLY

TO THE

*Protest of Certain New York Bondholders,*

BY

GOVERNOR WM. P. <sup>177</sup>KELLOGG.

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# THE PROTEST OF NEW YORK BONDHOLDERS.

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## GOVERNOR KELLOGG'S REPLY.

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STATE OF LOUISIANA, EXECUTIVE DEPARTMENT,  
New Orleans, February 4, 1874.

To J. & W. Seligman & Co., J. J. Anderson, Morgan & Co., Chester Griswold, John L. Macauley, G. W. Stanton, Jr., John Poudir, Oliver Ames, and others, New York:

GENTLEMEN—A printed document, dated January 16, 1874, with your names attached, and protesting against the funding bill lately passed by the General Assembly of this State, was delivered at my office by some unknown person on the morning of the second instant. It seems, however, that advanced sheets were furnished to the New Orleans Picayune previously, since the substance of your memorial, though addressed to the Governor and Legislature, appeared in that paper some days before I was aware, otherwise, of its existence. I am, therefore, in doubt as to what degree of authenticity should be attached to the document; but, in view of the names appended thereto, and, especially in view of the great importance of the subject, I am induced to waive objections to the suspicious accessories to its presentation, and treat it as a genuine expression of your views on the subject. You will not, I trust, consider it offensive if I use, in my reply, the same plainness of speech that characterizes your protest.

It is evident that you could not have been in possession of the official financial reports of this State for the years 1872 and 1873. It is impossible to reconcile your singularly inaccurate conclusions with the exact and specific evidences to the contrary contained in those reports. I have caused copies of the same to be mailed to each of you, and respectfully invite your attention thereto.

Your statement, taken from my message, that the debt of the State is \$24,283,886 is substantially correct. Your statement that "the actual amount of interest now annually due upon the debt," estimated, I presume, by yourselves, is \$1,493,358, is not correct. The

interest now annually due upon the debt is \$1,577,620. Your quotations from my message, to the effect that the commonwealth had, during the past year, raised a revenue exceeding \$4,000,000, and that my estimate placed the necessary expenses of the State government at \$1,000,000 are correct so far as they go, but your inferences therefrom are wrong. To be more explicit, I quote your tabulated statement:

The actual amount of interest now annually due upon the debt.....	\$1,493,358
The necessary annual expenses of the commonwealth are stated by the Governor, not to exceed.....	1,000,000
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Making a total annual outlay of.....	\$2,493,358
Revenue of the State for 1873-4.....	4,000,000
Necessary outlay, including interest.....	2,493,358
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Excess of income over outlay.....	\$1,506,642

Whereupon, you observe "that it is apparent, therefore, from the message that the State of Louisiana at this moment possesses in her treasury a sum of money largely in excess of her necessary outlay." You will pardon me if I reply, in terms as broad as your insinuation, that no such conclusion is apparent or fairly deducible from the message, or from any other authentic published facts and documents; but the contrary. I refer you for proof to those portions of my message which treat of the subjects of public schools and levees, and to the annual reports for 1873 of the State Auditor and State Treasurer. You can not be ignorant of the fact that our interests are almost entirely agricultural, and depend mainly for their existence upon the protection of our soil from inundation by a vast system of levees, built at a cost of many millions of dollars, and that these levees were destroyed by the war. The State has since been struggling to repair them and build new ones. The cost is immense, and is not included in the estimate of "expenses of the State government." The amount expended for levee purposes in 1873 was \$583,021 45 (see Auditor's report.) Again, our public schools were inadequately sustained by an expenditure in 1873 of \$405,267 04, which item is not included in the estimate of expenses of the State government. You will see from this that your conclusion, above referred to, was erroneous.

You take the revenue of 1873, namely, \$4,000,000, and subtract therefrom your estimate of interest for 1874, and a partial and greatly reduced estimate of expenditures for 1874, which does not include levees and schools, deducting in that way a balance which you call "excess of income over outlay," and spread before the public as the amount which "the State of Louisiana at this moment possesses in her treasury," at the same time clothing your statements in such language that persons who have seen only your address would infer that they were a transcript of my message. I am certain that the gentlemen whose names I have before me could not all have carefully considered the purport of what they were signing. The following is a true statement of "income" and "outlay" for 1873. (See official reports):

Income . . . . .	\$4,016,000 00
Outlay, instead of \$1,000,000, as assumed in the address, the ordinary State expenditures, not including interest, schools and levees, were.	\$1,649,832 05
Expenses for account of interest, schools, and levees, were. . . . .	2,047,080 87— 3,696,912 92
Balance . . . . .	<u>\$319,087 08</u>

From this balance must be deducted more than \$300,000 of past due interest of 1872, paid from the income of 1873. It should also be remembered that a considerable portion of the revenue of 1873 was collected in outstanding warrants of previous years, which reduced the floating debt by that amount, but was not available for any other purpose.

A fair statement of the probable outlay for the year 1874, estimating interest on the debt as it now stands, would be:

For interest . . . . .	\$1,577,620 00
Necessary expenses for general purposes . . . . .	1,000,000 00
Necessary expenses for levee purposes . . . . .	600,000 00
Necessary expenses for school purposes . . . . .	400,000 00
Total outlay . . . . .	<u>\$3,577,620 00</u>

This would leave our floating debt wholly unprovided for, and our necessary expenses for general purposes may, notwithstanding our best exertions to prevent it, reach the sum of \$1,200,000. It is

thus plain that we should have to collect for 1874 nearly \$4,000,000 in cash. It does not follow that because this was done in 1873, it is easy or even possible to do it again. The results of the past year were obtained by the rigid enforcement of severe laws, and were attended with hardships so great that no person of ordinary humanity could witness them without the desire to relieve them; yet with the debt at its present amount we should be compelled to resort again to the same course. I stated in my message, and repeat, that I was and am utterly opposed to this for several cogent reasons, the most conclusive of which, to our creditors at least, being that a few more repetitions would result in our hopeless bankruptcy. During the past year large sales of real estate have been made in all parts of the State, and a large amount of property adjudicated to the State for taxes, penalties and costs thereon. This is not the result of unwillingness to pay, but of sheer inability. Many, by straining every nerve, paid taxes in 1873, who can not do so again at the rate of that year. In one parish alone sixty-five plantations were forfeited for taxes. All this land is of no use to the State government. It produces no income and is eliminated from the assessment rolls.

Your statement in regard to the rate of taxation in New York, thirty-four mills, can hardly be regarded as conclusive in any respect. I presume that is the total for State and city. The mention in my message of our tax being twenty-one and a half mills, had reference only to State taxes. Local taxation is equal or greater throughout the State. The city of New Orleans, which pays five-eighths of all the taxes collected in Louisiana, has a municipal debt of more than \$23,000,000, and the total of its city and State tax is fifty-one and a half mills, and this on a very full assessment. The drain is so exhaustive that no improvements can be made either here or in the country. Many bayous and streams heretofore navigable and penetrating fertile districts, are choked with logs and drift, and we can spare no portion of our revenue to clear them out. Large tracts of rich lands might be redeemed from overflow and cultivated, had we more means to repair old levees and build new ones. Thousands of children throughout the State are without schools because we have no money to sustain them. In your State your people have an incentive to pay, which we have not here. Your debt is measurably represented by splendid and

wealth-producing improvements. For our debts we have almost no improvements, the chief evidences of the expenditure—notably that portion incurred since the war—being the visits of the tax collector.

I reiterate the declaration in my message, that the people of Louisiana are willing to pay every dollar of their just debts that they are able to pay. I may add that they are equally determined not to be forced into bankruptcy. They have made to the world a *bona fide* exhibit of their abilities, and are willing to give every possible guarantee that they will pay accordingly. You speak of what you confidently assume to be a temporary impairment of our ability. I beg to remind you that more than one-third of our bonded debt was created before the late war, when the slave property in the State constituted more than half the assessment, and half the security on which those bonds were predicated. That portion of the security is not “temporarily impaired” it is annihilated. Since the war other values have decreased so much that the remaining security for all bonds is seriously impaired. Wherein then does our case differ from that of the debtor whose assets have depreciated through no fault of his, and who tenders to his creditors, in settlement, all he is able to pay? Our only remedy,—in which our creditors are equally concerned—is to lighten our burdens, and arrest the decay of our assets.

You ask what assurance creditors will have that our bonds may not be again funded at a still further reduction? I answer by referring you to the bill itself. I am satisfied that the people can and will cheerfully pay the tax provided for therein, and I do not hesitate to assure creditors that the bonds authorized by the bill will be guaranteed in the constitution. If they are not thus rendered unquestionable, it will be impossible for the State of Louisiana to make a good bond. With the prospect of diminishing taxation before the people, I believe all our interests will be stimulated into new life, and that we may reasonably hope for an era of permanent and increasing prosperity. But while the present status continues, with financial ruin impending, your exhortation to the people to maintain their “honor and credit” by paying your bonds in full, is a species of mockery not calculated to secure a temperate consideration of your claims.

I have pursued the argument thus far on the presumption that

the bonds you hold are valid and unchallenged. I, however, have information, which I believe to be reliable, to the effect that several of the gentlemen who have signed this protest, if not the majority, hold bonds of one series only, that series being the \$4,000,000 of Chattanooga railroad bonds, which are popularly believed to be tainted with fraud, and are now under investigation in the courts. Am I uncharitable if I suggest that this may in part account for your declaration that you, "as American citizens, felt a sense of shame on reading these (my) recommendations in the guise of a funding bill?"

Two and a half millions of these bonds were issued without any of the safeguards required by law. The bill providing for their issue was hurried through the Legislature during the last hours of the session. It was kept by my predecessor for several weeks, and was finally signed one day, promulgated the next, and the bonds issued the next. They were delivered by the Secretary of State at his house, in the night, without the Governor's signature, the Secretary of State having been required first to sign them and attach the seal of State. They were signed by the Governor in a hurried and surreptitious manner and immediately removed from the State. It is even asserted, and I believe can be substantiated, that they were signed on a train of cars between this city and Mobile. No record was made of the issue of these bonds in the offices where the law directs such records to be kept, nor does such record now exist. Only a *fac simile* of the Treasurer's signature was attached to them.

The State has received no consideration for these bonds. It is believed they were not originally purchased in good faith, though I may do you the justice to say I do not know that you became possessed of them in any other way. In truth, some of them were not purchased at all, but were distributed as the proceeds and in aid of a scheme of plunder. Some were paid away under previous arrangements entered into to secure the passage of the act under which they were issued, and others were turned over to persons at that time connected with a leading conservative journal of this city, as the price of the silence or covert support of that paper.

I do not wish to do you injustice. If I am correct in my supposition in regard to the class of securities you hold, I submit that you are justly open to the charge of seeking, by an ostentatious show of hostility to the funding bill, to secure for your bonds an exemption

from that scrutiny which they will receive if brought within the provisions of the funding law. While there is no thought on the part of the government I represent of impeding the collection of just claims against the State, the opposition to the funding of doubtful bonds will not be relaxed until their validity shall be first established in the courts of last resort.

I have urged the passage of the funding bill, believing it to be an imperative necessity, and the best and fairest adjustment for all parties that it was possible to obtain. In this I believe I am sustained by the majority of our most meritorious creditors, and by the almost unanimous voice of the people; and, since the bill has become a law, I propose to spare no exertion to secure the results contemplated.

I have the honor to remain, gentlemen,

Very respectfully, your obedient servant,

WILLIAM P. KELLOGG. *CAS*