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“Henceforth, I Must Have No Friends”

Evaluating the Economic Policies of Grover Cleveland

— ◆ —

BRANDON DUPONT

[Government paternalism] is the bane of republican institutions and the constant peril of our government by the people. It degrades to the purposes of wily craft the plan of rule our fathers established and bequeathed to us as an object of our love and veneration. It perverts the patriotic sentiments of our countrymen and tempts them to pitiful calculation of the sordid gain to be derived from their Government’s maintenance. It undermines the self-reliance of our people and substitutes in its place dependence upon governmental favoritism. It stifles the spirit of true Americanism and stupefies every ennobling trait of American citizenship.

—Grover Cleveland, Second Inaugural Address, March 4, 1893

Grover Cleveland was the first Democrat elected to the presidency since before the Civil War and the only president in U.S. history to have served two nonadjacent terms; he was the twenty-second and twenty-fourth president, in office from March 4, 1885, to March 4, 1889, and from March 4, 1893, to March 4, 1897. Halfway through his first term in office, Cleveland explained his

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The Independent Review, v. 18, n. 4, Spring 2014, ISSN 1086–1653, Copyright © 2014, pp. 559–579.

overall economic philosophy in a message accompanying his veto of proposed federal aid to drought-stricken Texas farmers:

I feel obliged to withhold my approval of the plan as proposed by this bill, to indulge a benevolent and charitable sentiment through the appropriation of public funds for that purpose. I can find no warrant for such an appropriation in the Constitution, and I do not believe that the power and duty of the general government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit. A prevalent tendency to disregard the limited mission of this power and duty should, I think, be steadfastly resisted, to the end that the lesson should be constantly enforced that, though the people support the government, the government should not support the people. The friendliness and charity of our countrymen can always be relied upon to relieve their fellow citizens in misfortune. This has been repeatedly and quite lately demonstrated. Federal aid in such cases encourages the expectation of paternal care on the part of the government and weakens the sturdiness of our national character, while it prevents the indulgence among our people of that kindly sentiment and conduct which strengthens the bonds of a common brotherhood. (“Veto of the Texas Seed Bill” 2009)

The Texas Seed Bill veto may have been his most well known, but Cleveland used his veto power frequently, deploying it no less than 584 times (only 7 of which were overturned by Congress). Clearly, he believed that stopping legislative handouts to special interests was a primary function of the executive, even as he well understood that such an approach would likely be politically harmful; not long before his 1885 inauguration, Cleveland acknowledged that “henceforth, I must have no friends” (qtd. in Brodsky 2000, 107).

His two administrations came in the midst of important structural changes that were occurring in the late-nineteenth-century American economy. It was during that pivotal century that the American economy was transformed from a rural agrarian economy to a rapidly urbanizing industrial superpower. Census data show that the number of urban places rose from 400 in 1860 to 1,737 by the end of the century, and the fraction of Americans living in cities nearly doubled over this period, rising to more than 39 percent. By 1890, the U.S. resident population was 63 million compared to only 31.4 million in 1860, and population densities were rising as a result of both the rapidly increasing population and urbanization. And the population continued its relentless drive to the West: between 1860 and 1890, Chicago displaced Philadelphia as the nation’s second-largest city. By 1890, only 19 percent of GDP was produced in the agricultural sector, and only 40 percent of the labor force worked in agriculture, down from 56 percent in

1860 and from 74 percent in 1800 (Carter et al. 2006, series Ba829–830, Ba814, Ba817).¹ By the latter part of the century, the manufacturing sector itself was undergoing rapid changes associated with mechanization and mass production, and the United States would become the world leader in industry by the turn of the century. Railroad track mileage tripled between 1860 and 1880, revolutionizing Americans’ access to distant places, dramatically lowering transportation costs, and knitting together previously segmented regions of the country. And the pace of innovation was progressing at an astonishing rate by historical standards: nearly 417,000 patents were issued between 1860 and 1890, and the mileage of telegraph lines more than doubled in the decade of the 1880s alone (U.S. Census Bureau 1895, table 93, p. 332).

So the country was changing in fundamental ways as the pivotal nineteenth century drew to a close, and the structural changes inevitably brought promise as well as challenge. There was also political agitation over the distribution of income during this period, so while average material living conditions were improving at a remarkable rate by historical standards (real income per capita nearly doubled between 1860 and 1890), considerable growing pains would manifest in some of the most pressing problems to confront the Cleveland administration; many of Cleveland’s decisions would be driven by the need to react to them.² Among these problems were the great tariff debate of the late 1880s, violent labor unrest, and the devastating 1893 bank panic, which struck only months after Cleveland’s second inauguration.

The remainder of this essay explores the major economic issues of Cleveland’s two administrations, starting with the tariff debates that attracted a great deal of attention in this period, particularly during his first term. Next, I examine the issue of silver agitation and the financial crisis of 1893. Finally, I describe the Pullman labor strike and the administration’s response to it. The paper concludes with an evaluation of the effectiveness of Cleveland’s responses to these issues.

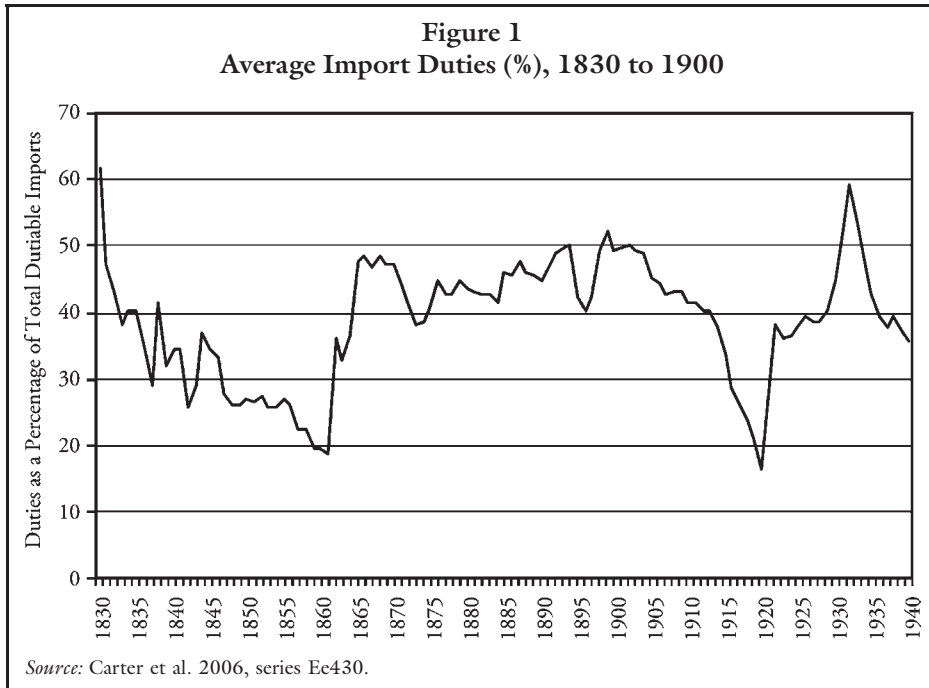
Tariff Policy

Congress maintained relatively high tariff rates in the years following the Civil War in part to generate revenues that were needed to pay off the wartime debt (see figure 1).³ The highest tariffs were placed on imported manufactured products and various consumption goods (see table 1), although quite a few products entered American markets duty free when they did not compete with American manufacturing industries (among the duty-free imports were Indian rubber, tropical fruits,

1. The 1800 and 1860 figures are given as a percentage of the total labor force and thus include slave labor.

2. The GDP per capita data are from Williamson 2013.

3. The tariff was the most important source of federal revenue in the post-Civil War period, accounting for more than half of all revenue collected.



coffee, and tea) (Irwin 2007). But by the 1880s, the federal budget surplus was substantial: revenue was nearly 42 percent higher than the level of federal spending in 1888. In response, Cleveland’s Democratic Party proposed lower tariffs to reduce revenue, whereas the Republicans proposed higher protective tariffs, which they believed would reduce imports, lower customs revenues, and protect American industry from foreign competition. This fundamental disagreement on the direction of future tariff policy laid the groundwork for the “Great Tariff Debate of 1888.”

The president’s December 1887 message to Congress was devoted entirely to the tariff issue, and the tone was urgent from the outset. In it, he argued for lowering the tariff rate given the sizable surplus revenue the federal government was collecting and that such an approach was required for the limited role ascribed to the federal government by the Constitution:

When we consider that the theory of our institutions guarantees to every citizen the full enjoyment of all the fruits of his industry and enterprise, with only such deduction as may be his share toward the careful and economical maintenance of the Government which protects him, it is plain that the exaction of more than this is indefensible extortion and a culpable betrayal of American fairness and justice. . . . The public Treasury . . . becomes a hoarding place for money needlessly

Table 1
Average Tariff Rates (%) on Imports

Category	1879	1889	1899
Distilled spirits, liquors, wine	79	71	70
Tobacco manufactures	74	81	113
Wool manufactures	60	67	95
Silk manufactures	57	50	54
Sugar, confectionery, molasses	45	70	76
Glass manufactures	42	58	60
Earthen, stone, and chinaware	41	57	59
Cotton manufactures	37	40	56
Chemicals, drugs, dyes, etc.	26	32	32
Flax, hemp, jute manufactures	36	34	42
Wool, unmanufactured	36	33	47
Leather manufactures	33	31	36
Iron and steel manufactures	27	39	44
Breadstuffs	27	15	33
Fruit, nuts, etc.	24	28	47
Flax, hemp, jute, unmanufactured	16	13	15
Total, dutiable merchandise	45	45	52
Total, all imported merchandise	30	30	29

Source: Data compiled from Irwin 2007.

withdrawn from trade and the people’s use, thus crippling our national energies, suspending our country’s development, preventing investment in productive enterprise, threatening financial disturbance, and inviting schemes of public plunder. (Cleveland 1887)

The message was a pointed and outspoken advocacy for lowering tariffs and removing duties on raw materials. Cleveland did not go so far as to advocate a complete dismantling of tariffs, apparently to diffuse the issue of protectionism, but he had nonetheless positioned himself and his party as solidly in favor of lower import duties.

The Great Tariff Debate became the central issue of the 1888 presidential election, but Cleveland was on the losing end of that debate and the election (he won the popular vote but lost in the electoral college to Benjamin Harrison).⁴

4. In following tradition, Cleveland refused to directly campaign in the 1888 election; by contrast, Harrison mounted an energetic campaign by the standards of the time.

Nonetheless, the president's clear position resonated with many and represented perhaps the boldest statement of the period regarding the limited role of the state in economic affairs.

Tariff policy got even worse during the Harrison administration (1889–93), at least from Cleveland's perspective. In 1890, the protectionist McKinley Tariff increased the average ad valorem tariff rate to more than 48 percent (see figure 1), although it reduced or eliminated some tariffs (notably, on raw sugar imports).⁵ Partly due to the unpopularity of Harrison's tariff policies, Cleveland easily defeated Harrison in the 1892 election. In 1894, a compromise revenue act, the Wilson–Gorman Tariff, lowered average tariff rates slightly (it also imposed a 2 percent income tax on the wealthy, although the Supreme Court struck down the tax provision in the following year); Cleveland, who was then serving his second term, opposed the Wilson–Gorman Tariff but allowed it to become law without his signature, arguing that it was at least a slight improvement over the McKinley Tariff.

“Free Silver” and the Panic of 1893

When Grover Cleveland was sworn into office for the second time on March 4, 1893, the U.S. economy was literally on the cusp of one of the most serious banking crises in its history outside of the Great Depression. Within a few months, 503 (or 4.2 percent) of the nation's commercial banks had suspended convertibility of deposits into cash. The unemployment rate reached at least 12 percent, and real gross domestic product (GDP) per capita fell by an estimated 8 percent in 1893 and by nearly 7 percent in 1894 (see table 2).⁶

The silver agitation that played a role in the crisis had begun years earlier. During Harrison's administration, the federal government had begun a policy of purchasing 4.5 million ounces of silver every month in an effort to appease western silver-mining interests who had agitated for silver based on the “Crime of 1873.”⁷ The U.S. Coinage Act of that year had eliminated the free coinage of silver, effectively placing the nation on a gold standard. At the height of Andrew Jackson's war on the Second Bank of the United States, new coinage laws were passed that would change the official U.S. gold–silver exchange rate to match the world market rate (or, as Milton Friedman [1990] suggests, were passed as a “golden club” that Jackson could use to beat up on the Second

5. Ironically, the McKinley Tariff legislation was a compromise measure that was passed in exchange for Republican support on the Sherman Silver Purchase Act of 1890, which was a factor in the 1893 Panic and was repealed by Cleveland in his second term as president.

6. The severity of the crisis is measured in terms of bank suspension rates, which were slightly higher (4.3 percent) only in the September–October 1931 bank crisis. See Wicker 2006.

7. See Friedman 1990 for a nice discussion of the history of the “Crime of 1873.”

Table 2
Unemployment and Growth in Real GDP per Capita, 1890 to 1900

Year	Unemployment Rate (%)	Real GDP per Capita	
		2005 Dollars	% Growth
1890	4.0	5,060	7.7
1891	4.8	5,011	-1.0
1892	3.7	5,147	2.7
1893	8.1	4,737	-8.0
1894	12.3	4,418	-6.7
1895	11.1	4,841	9.6
1896	12.0	4,687	-3.2
1897	12.4	4,804	2.5
1898	11.6	5,246	9.2
1899	8.7	5,515	5.1
1900	5.0	5,557	0.8

Sources: Data compiled from Romer 1986; Williamson 2013.

Bank, weakening it by making gold coins an effective substitute for its notes).⁸ The new ratio of sixteen ounces of silver per ounce of gold meant that very little silver was coined between the 1834 Coinage Act and the Civil War. Gold coins became the de facto standard over this period, but things changed with the fiat money “greenbacks” that were issued during the Civil War, and the gold standard was at least temporarily ended. The greenback paper money was not backed by gold or silver, although gold continued to circulate in parts of the country; the greenbacks and gold circulated at a market-determined exchange rate during this period (although greenbacks were the dominant currency). By 1873, there was a powerful political movement for the resumption of a gold standard, and the Coinage Act of that year was an effort to do just that by listing the coins that were to be minted by the Treasury. Although not immediately noticed, the list omitted the silver dollar, effectively ending the period of de jure bimetallism that had been initiated by Alexander Hamilton three-quarters of a century earlier; full resumption of the gold standard happened by January 1, 1879. As Friedman points out, “Had that fateful line not been omitted from the act of 1873, resumption in 1879 would almost surely have been on the basis

8. Friedman (1990) explains that the new sixteen-to-one ratio was a golden club in 1834, but a silver club by the 1890s; however, it was wielded in both cases by the largely rural southern and western supporters of Jackson in 1834 and of William Jennings Bryan in 1896 against the bankers and eastern industrialists.

of silver, not gold. Hence, ‘the crime of ’73’ in the eyes of the proponents of silver” (1990, 1165).

The Bland–Allison Silver Purchase Act was implemented in February 1878 over President Rutherford B. Hayes’s veto. It directed the Treasury to purchase between \$2 and \$4 million of silver each month at the prevailing market price, which was then to be coined into silver dollars at the old ratio of sixteen to one. The act was, in many respects, inadequate for those on either side of the silver issue. It was neither fully bimetallic nor monometallic as the Treasury found it impossible to get a sufficient quantity of silver circulating in the economy. The federal government paid its obligations in gold, and people in the eastern United States typically used silver to pay taxes, but not much else. According to Paul Studenski and Herman Edward Krooss, the Treasury had coined \$41.3 million in silver by July 1879, but \$33.2 million of it sat in the vaults ([1952] 2003, 190).

In late 1889, representatives from thirty different states met to demand that Congress allow unlimited minting of silver. Political support for free silver had grown markedly since the admission of six new western states to the union, all of which supported the silver interests (one of the six states, Montana, produced nearly 30 percent of the nation’s total silver in 1890 (U.S. Census Bureau 1891, table 27). Farmers, who were eager to reverse falling agricultural prices and who were generally debtors who correctly foresaw that inflation could help lower the real burden of their debts, joined the political efforts for free silver. The outcome of this new political pressure was the Sherman Silver Purchase Act of 1890, which was designed to supplant the Bland–Allison Act. The Sherman Act authorized the U.S. Treasury to purchase 4.5 million ounces of silver every month, roughly twice the amount that had been authorized in 1878 (the new level of purchases would absorb most, if not all, of the output of the western silver mines). Although Cleveland was out of office during the debate over the Sherman Act, he jumped into the fray with his widely circulated “Silver Letter” of 1891: “If we have developed an unexpected capacity for the assimilation of a largely increased volume of this currency, and even if we have demonstrated the usefulness of such an increase, these conditions fall far short of insuring us against disaster if, in the present situation, we enter upon the dangerous and reckless experiment of free, unlimited, and independent silver coinage” (qtd. in Brodsky 2000, 264).

Cleveland’s letter was widely denounced by members of his own Democratic Party, many of whom continued to demand that he “do something for silver” after his second inauguration. This became a defining moment in Cleveland’s presidency and an example of his “courageous” political stands, which were sometimes at odds with his own short-term political interests. Given his position on silver, Cleveland’s declaration in his second Inaugural Address that “nothing is more vital to our supremacy as a nation . . . than a sound and stable currency” (Cleveland 1893) would have come as no surprise.

Cleveland argued that compulsory silver coinage should be suspended, basing his reasoning on Gresham’s Law—that undervalued money would be driven out of circulation by overvalued money: “[I]f this silver coinage be continued, we may reasonably expect that gold and its equivalent will abandon the field of circulation to silver alone. This, of course, must produce a severe contraction of our circulating medium, instead of adding to it. It will not be disputed that any attempt . . . to cause the circulation of silver dollars worth 80 cents side by side with gold dollars worth 100 cents . . . to be successful must be seconded by the confidence of the people that both coins will retain the same purchasing power and be interchangeable at will” (qtd. in McElroy 1923, 2:18). Although Cleveland’s appeals went unheeded, his prediction would soon become reality as uncertainty over the nation’s ability to maintain the gold standard contributed to the developing economic crisis of the 1890s. The Sherman Act of 1890 had created considerable uncertainty as to whether the United States would be able to maintain gold–silver parity as the law required (this provision effectively prevented the Treasury from redeeming notes in silver even though the Sherman Act stated that the Treasury could legally redeem notes in either silver or gold coins at the discretion of the Treasury secretary). The Treasury’s gold reserves fell to dangerously low levels by early 1893 and would have fallen below its own \$100 million threshold had the Treasury secretary not managed to sell greenbacks for gold to a group of New York bankers led by J. P. Morgan.

Cleveland’s second inauguration could thus not have come at a worse time—only a few months after his second swearing in, the nation was gripped by waves of bank runs in the summer of 1893. The crisis was the result of a number of complex, interrelated factors, but silver agitation played a role.⁹ Cleveland successfully marshaled public opinion against the Sherman Silver Purchase Act, which he blamed for the crisis, and he appealed to a joint session of Congress on August 6, 1893, for its repeal. The repeal legislation passed the House of Representatives quickly, but filibustering pro-silver senators delayed it in the Senate. Nonetheless, a compromise was passed on October 20 that extended government silver purchases for one year and required coining the Treasury’s silver holdings, but that would thereafter end the government’s silver purchases. Cleveland resisted the compromise measure, demanding nothing short of a full and immediate repeal of the law. His strategy worked; the day after he circulated a letter stating his position, the filibustering senators agreed to drop their opposition, and the full repeal was passed on October 30.¹⁰ Cleveland had for a time won the fight over free silver and helped to restore confidence in the American monetary

9. For more on the causes of the 1893 Panic, see C. Hoffman 1956, Carlson 2005, Wicker 2006, Dupont 2009, and Ramirez 2009.

10. See K. Hoffman 2002 for an interesting explanation of the rhetorical devices that led to such a sudden reversal in the Senate.

system. Woodrow Wilson, who was then at Princeton University, interpreted events this way:

It was the President's victory that the law was at last repealed, and everyone knew it. He had forced the consideration of the question; he had told Senators plainly, almost passionately, when they approached him, that he would accept no compromise,—that he would veto anything less than absolute repeal, and let them face the country as best they might afterwards. Until he came on the stage, both parties had dallied and coquetted with the advocates of silver. Now he had brought both to a parting of the ways. The silver men were forced to separate themselves and look their situation in the face, choose which party they should plan to bring under their will and policy, if they could, and no longer camp in the tents of both. Such a stroke settled what the course of Congressional politics should be throughout the four years of Mr. Cleveland's term, and made it certain that at the end of that term he should either have won his party to himself or lost it altogether. It was evident that any party that rejected the gold standard for the currency must look upon him as its opponent. (qtd. in McElroy 1923, 2:43–44)

But the fight over free silver was not yet over. William Jennings Bryan, once a loyal Cleveland supporter and a Democratic representative from Nebraska, soon emerged as Cleveland's most vocal opponent on the silver question. In Bryan's view, Cleveland's opposition to free silver coinage was nothing but a result of his being completely under the influence of the New York bankers. Bryan accused the president of having put "gold men" into his cabinet, effectively silencing the voices of the silver interests in the White House (McElroy 1923, 2:34). Bryan would capture the Democratic nomination for president in the 1896 election, reflecting a significant power shift in the party away from Cleveland's "gold Democrats." Partly because of the internal turmoil in the Democratic Party, Bryan was defeated by William McKinley, who ran on a platform that favored the gold standard until such time as international agreement could be reached for coining gold and silver at a fixed ratio; such international coordination could in principle work, but the practical difficulties made the reality of an international agreement unlikely. In March 1900, the gold standard finally triumphed with the passage of the Gold Standard Act, which declared the gold dollar to be the official monetary standard and required a \$150 million Treasury reserve for redeeming paper money.

Labor Unrest: The Pullman Strike

During his first term, Cleveland responded to the railroad strike of 1886 (against the Union Pacific and Missouri Pacific Railroads) with a special message to Congress

on labor legislation. He suggested setting up a board for arbitrating labor disputes, arguing that the federal government had such authority because labor disputes could “seriously threaten the business interests of the country” (qtd. in Vexler 1968, 49). In his second term, Cleveland would be confronted with just such a threat in the crippling Pullman Strike of 1894.

In Chicago, 150,000 striking railroad workers were bringing the national railroad system to a halt. The strike originated in George Pullman’s company town just outside of Chicago. Pullman’s town was intended to be a model company town, with a variety of amenities for employees, including housing, churches, and a library. By 1893, the population hit about 12,500 but fell sharply after the bank crisis—down to 8,000 by 1895. Although the town seemed to work reasonably well initially, the depression forced the company to lay off two-thirds of its workers and reduce wages for those who kept their jobs. The average 25 percent wage reduction was unannounced, and it was not accompanied by lower rents in the company town, which were already 20 to 25 percent higher than rents on comparable housing units in nearby Chicago.¹¹ In addition to the substantial wage reductions, hours were reduced.

The Pullman workers, who had recently joined the American Railway Union (ARU), demanded a number of concessions, including investigation of shop abuses, lower housing rent, and restoration of wages to precrisis levels. The railroad companies summarily rejected the laborers’ demands, and the workers went on strike May 11, 1894. The strike began at Pullman but quickly spread after the ARU voted to boycott all Pullman cars beginning on June 26. Within a few days, striking railway workers on the Southern Pacific Line between Portland and San Francisco were reportedly obstructing the mail and were refusing to allow trains that included Pullman-manufactured cars to run at all. The standoff between the ARU and the General Managers’ Association (an association of the heads of the twenty-four railroads) quickly extended into twenty-seven states and territories. The effects of the labor strike were severe, which is not surprising given the importance of Chicago as a national railway hub: the transportation of food, manufactured products, and other freight ground to a halt. By July 1, Cleveland faced a serious national crisis: a great part of the freight traffic in the western United States had been stopped, mass demonstrations were occurring in and around Chicago, and there were widespread fears of violence (Nevins 1938, 614).

Cleveland decided to dispatch federal troops to Chicago based on what he saw as threats to mail transportation, interstate commerce, and the protection of private property. Indeed, the strike had turned violent as striking workers overturned railroad cars to block the rail lines, although the union and its supporters claimed that there were few acts of violence before the deployment of federal

11. For more on the situation in Pullman town, see United States Strike Commission 1894 and Lindsey 1943.

troops (Carwardine 1894). The U.S. Constitution compelled the federal government to protect against domestic violence, and Cleveland argued that “there was plenty of domestic violence in the city of Chicago and in the State of Illinois during the early days of July, 1894” (Cleveland 1904, 93–94). Shortly after receiving a request for federal troops from the United States Marshals office in Chicago on July 3, 1894, the order was issued. An executive proclamation was widely published in the Chicago area with Cleveland’s warning that those who were acting as “public enemies” of the United States by destroying private or government property, interfering with the functions of the government, or obstructing the law would be stopped by federal troops starting at noon on July 9, 1894. Soon thereafter Eugene V. Debs, the president of the ARU, was arrested for obstructing the mail and interstate commerce. With this arrest, the strike was essentially broken, as Debs himself explained: “As soon as the employees found that we were arrested and taken from the scene of the action they became demoralized, and that ended the strike” (qtd. in Cleveland 1904, 108).

The Pullman strike bookended a near decade-long period of labor unrest, which included notable and infamous episodes of violence, such as the Haymarket riot of 1886 as well as strikes against the Carnegie Corporation, numerous railroad strikes, and a longshoreman’s strike in New Orleans. Cleveland’s supporters argued that he had forcefully stopped threats of socialism and anarchy by arresting strike leaders on charges of conspiracy to obstruct interstate commerce in violation of the 1890 Sherman Antitrust Act. Both Congress and the media generally praised the president’s actions, although state officials in Illinois and union representatives strongly objected to what they saw as executive overreach.

After four months of idleness, the Pullman railway shops finally reopened in August 1894 according to the terms set forth by the company, including the same rental rates on housing and workers’ surrender of membership in the ARU. George Pullman died in 1897, and in the following year the Illinois Supreme Court determined that the town was in violation of the Pullman corporate charter. Over the next few years, Pullman’s “noble experiment” was consigned to the history books.

A Review and Assessment

Cleveland’s economic policies were squarely in the classical-liberal tradition, but he was not always effective at the required political maneuvering. His success was sometimes limited by tactical political mistakes, and although his reputation would later recover, he was an unpopular president as he left office. According to biographer Robert McElroy, “[H]e was, in short, in the unenviable position of a leader determined to lead, at the head of a band of followers who refused to follow, and this at a time when the situation was most perplexing and difficult” (1923, 2:11). He was often not a loyal party man—a strength, to be sure, but

one that undoubtedly made his leadership more tenuous. He appointed both Republicans and Democrats to various positions, guided apparently by his judgment of their competence for the job rather than by their party affiliations.

Veto of Texas Seed Bill

Cleveland's refusal to provide federal aid to the Texas farmers in his first term certainly drew criticism, but it was generally in line with both state and federal policies prior to the New Deal. In fact, the first direct federal involvement in drought relief apparently took place in 1874 when the army was used to distribute surplus food in Nebraska. There were a few other state-level efforts to provide drought relief in the 1870s, but voluntary contributions represented the vast majority of relief funds from 1850 to 1900 (Wilhite 1983). Indeed, the farmers in the 1887 drought ended up receiving as much as ten times more in private charity than the relatively small amount of federal aid in the bill that Cleveland vetoed (Reed 2006).

The general philosophy that governed Cleveland's policy here, and one that was fairly widespread at the time, was to oppose laws that favored certain groups over others. He opposed using class distinctions to formulate federal policy in the long Jeffersonian tradition of fearing that a paternalistic government would come to do the bidding of special interests. (Cleveland, however, would end up on the tail end of this tradition as more progressive views began to dominate by the early twentieth century.)

Tariff Policy

Cleveland's tariff policy was consistent with the principles of free international trade, which has near unanimous support among current economists.¹² He was a tireless advocate of tariff reduction, starting with his stand in the Great Tariff Debate of 1888, his opposition to the McKinley Tariff, and what he saw as the insufficient reduction of those tariffs in 1896. In his impassioned 1887 address to Congress, Cleveland echoed Adam Smith's principles of taxation in arguing that taxes should be open, equitable, and minimal; tariff duties were, by contrast, hidden in higher prices of imports and domestically produced goods.

The infant-industry argument for protective tariffs was the basis for Republican support of high tariffs; here again, Cleveland seems to have been on the right side of the issue. Douglas Irwin (2000) finds that although the McKinley Tariff accelerated the development of the tinplate industry (an industry that did not have significant tariff protection after the Civil War, but for which duties were significantly

12. According to a survey, 87.5 percent of economists agree that the United States should eliminate remaining tariffs and other trade barriers (Whaples 2006).

increased in 1890), the trade protection did not pass a cost–benefit test. Irwin’s welfare calculations suggest that the initial large reduction in consumer surplus from the tariff was not offset by the profits that accrued to domestic producers. Even though the change in consumer surplus became positive by the late 1890s (as U.S. prices fell below U.K. prices), this change was still insufficient to compensate for the initial consumer losses. The industry would have developed without the protections, albeit more slowly, but the costs they imposed on consumers outweighed the benefits.

Why then did the tinsplate industry not develop in the United States until after the McKinley Tariff? Irwin points to the importance of the price of raw material inputs and the lack of prior production experience. Iron and steel inputs represented “nearly three-quarters of the cost of producing tinsplate and about two-thirds of the value of tinsplate” (2000, 343). Partly because of the high import tariffs, U.S. producers faced iron and steel prices that were significantly higher than those faced by foreign competitors. Despite the fact that American firms were able to recruit skilled labor from Europe, thus enabling them to draw on proven production techniques, and both technology and experience were easily transferable, “a 2.5 percent decline in the price of iron bars would have had the same effect on costs as a doubling of cumulative output,” according to Irwin (2000, 348). Thus, the effect of experience in production seems to have been trivial. J. Bradford DeLong finds that the high tariffs of the late nineteenth century made a variety of investment goods more expensive, and those higher-priced capital goods significantly depressed the rate of capital accumulation: “[T]he damaging effects of the tariff on investment were extremely important for nineteenth century growth. In the long run, a reduction in the real investment share of national product of 2 to 4 percent carries with it a reduction in the capital-output ratio of 10 to 20 percent—and a reduction in productivity and real wages of 5 percent or more” (1998, 369–70).

Cleveland’s tariff policy also echoed the earlier sentiments of Adam Smith with regard to concerns over collusion and rent seeking. Just as Smith had strenuously objected to the business–government alliances of his time, Cleveland argued in his 1888 fourth Annual Message (State of the Union Address) that tariff protections promoted corporate interests at the expense of the average man:

We discover that the fortunes realized by our manufacturers are no longer solely the reward of sturdy industry and enlightened foresight, but that they result from the discriminating favor of the Government and are largely built upon undue exactions from the masses of our people. The gulf between employers and the employed is constantly widening, and classes are rapidly forming, one comprising the very rich and powerful, while in another are found the toiling poor. As we view the achievements of aggregated capital, we discover the existence

of trusts, combinations, and monopolies, while the citizen is struggling far in the rear or is trampled to death beneath an iron heel. Corporations, which should be the carefully restrained creatures of the law and the servants of the people, are fast becoming the people’s masters. (Cleveland 1888)

The president went so far as to define a communism of combined wealth and capital that was “the outgrowth of overweening cupidity and selfishness, which insidiously undermines the justice and integrity of free institutions” (qtd. in Richman 2012). As Joanne Reitano puts it, “Not since Lincoln issued the Emancipation Proclamation in 1863 had a presidential document [Cleveland’s fourth State of the Union Address] been received with such excitement and acclaim. . . . [W]ith one blow, the president put protectionism on the defensive” (1994, 11).

The 1893 Crisis

Cleveland’s response to the Panic of 1893 was to repeal the Sherman Silver Purchase Act of 1890, which he saw as undermining confidence and ultimately to blame for the crisis. The Sherman Act, like the Bland–Allison Act that it supplanted, raised neither the market price of silver nor the price of farm products in the long term; thus, it failed in both of its primary objectives. And although there is some uncertainty as to just how significant the Sherman Silver Purchase Act was to the 1893 crisis, there is no question that it played a part. The silver agitation that led to the policy in the first place had no doubt raised grave concerns in European markets about the American financial system. By the time Cleveland took office in 1893, European investors were selling U.S. securities and obtaining gold through redemptions at the Treasury, fearing that the value of the dollar would decline due to American silver policies. According to Studenski and Krooss, \$72.3 million in gold was exported from the United States to Europe in fiscal year 1893, the largest amount recorded up to that time ([1952] 2003, 218). American investors were also presenting notes for gold redemption, but the Sherman Silver Purchase Act forced the Treasury into an undesirable position: “The Treasury was not permitted to retire the redeemed greenbacks but was compelled to reissue them while constantly adding new notes under the Sherman Act. Thus, the Treasury was in the center of an endless chain. It was paying out paper money at the front door, redeeming it in gold at the backdoor, and paying it out again at the front door” (Studenski and Krooss [1952] 2003, 218). The silver advocates wanted the Treasury to pay out silver rather than gold, which was permitted under the Sherman Act; however, Cleveland’s Treasury secretary resisted, arguing that it would effectively mean the adoption of a silver standard and the abandonment of gold. The result was a rapid depletion of the Treasury’s gold reserves, which

fell to less than \$100 million in late April 1893. The first stages of the financial crisis began the next month. The repeal of Sherman did not stop the hemorrhaging altogether, however; it only halted issuing new notes, but it did not provide for retiring the existing notes. It at least represented a clear statement that the U.S. government was determined to maintain the gold standard. The law would eventually reflect this policy officially in the 1900 Gold Standard Act, which finally ended the late-nineteenth-century monetary struggles in favor of the gold advocates, who had in no small part been led by Cleveland.

Cleveland's objective in repealing the silver purchase legislation was to restore confidence in the American monetary system. Whether the repeal did so or not in the short run and thus whether it actually contributed to recovery or impeded it are ultimately unknowable; however, the long-term benefits of a stable monetary system seem clear. As Milton Friedman and Anna Jacobson Schwartz point out, "In retrospect, it seems clear that either acceptance of a silver standard at an early stage or an early commitment to gold would have been preferable to the uneasy compromise that was maintained, with the uncertainty about the ultimate outcome and the consequent wide fluctuations to which the currency was subjected" (1963, 134). Ironically enough, the free silver agitation may well have contributed to the very deflationary pressure the silver supporters sought to alleviate, as Friedman and Schwartz (1963) and Richard Timberlake Jr. (1978) emphasize. Had free silver coinage been enacted, the price of gold would have been expected to rise relative to silver, and that rise would have prompted capital outflows. According to Timberlake, "Holders of any fixed-dollar claims payable in dollars tried to get rid of them before the quasi devaluation of the gold dollar occurred. This activity further reduced the level of prices in the United States consistent with external equilibrium" (1978, 43).

Cleveland's political opponents blamed the depression on him, but the historical evidence suggests that this accusation is baseless. We know that the downturn actually began before Cleveland took office in March 1893: building construction, for example, peaked a year before the inauguration; pig iron production peaked in February 1892; stock prices peaked in late 1892. Moreover, the European economy had been in deep recession since 1890 and was certainly acting as a drag on American markets. According to the National Bureau of Economic Research (2010), the recession actually ended in June 1894, only slightly more than a year after Cleveland took office. The recovery from the Panic of 1893 was initially rapid; by 1895, the economy had grown past its prior peak, but the rapid recovery was halted by a double dip as the economy slid back into recession in December 1895 (that recession would persist until June 1897). The depth of the initial collapse and the double dip meant that real income per capita did not surpass its 1892 level until 1899. The recovery after 1896 was not due to any economic policies, but rather to rapid world expansion in gold output and a fortuitous combination of strong harvests in the United States and poor harvests abroad (Friedman and

Schwartz 1963, 140). Joseph H. Davis, Christopher Hanes, and Paul W. Rhode (2009) concluded that most of the major recessions of the late nineteenth century were due to fluctuations in the cotton harvest, which were clearly beyond the control of any American president. And these events were happening prior to the era of short-term Keynesian policy, so Cleveland simply waited for the economy to correct itself rather than taking the interventionist approaches that would come to dominate twentieth-century economic policy. Ultimately, the silver issue was secondary to the 1893 crisis, so although the Cleveland administration's response, repealing the Sherman Silver Purchase Act, resolved concerns over the stability of the gold standard, it did not immediately bring recovery. Cleveland's persistent emphasis on confidence alone was likely insufficient under the circumstances, but he did introduce a renewed urgency for fundamental banking reform that would have allowed for a more flexible currency and, ultimately, a lender of last resort. Even though the depression continued, Cleveland had managed to preserve the gold standard, restore some confidence in the monetary standard, and set the stage for fundamental banking-system reforms.

It should be noted that whether a gold standard is desirable is not the question here. As Friedman (1962) argues, a true gold standard, even if desirable, may not be feasible because it requires using real resources to add to the supply of money and because governments are simply unwilling to fully abandon control over domestic monetary policy. And Barry Eichengreen (1992), who persuasively argues that the interwar gold standard was crucial in the Great Depression because it transmitted shocks between countries, points to the credible commitment, international cooperation, and relative stability of the prewar classical gold standard. It was that prewar standard that Cleveland sought to preserve; moreover, it is important to remember that the choice facing Cleveland in 1893 was fundamentally between a stable monetary system that was used throughout most of the world (gold) or an abandonment of that system for a silver standard simply to placate agricultural and mining interests.

The Pullman Strike

Cleveland's response to the Pullman Strike was generally praised at the time, although some criticized him for overreach (Nevins 1938, 624). As with any historical analysis, it is easy to fall into the trap of judging the federal troop deployment from our modern perspective; however, it is important to keep the context of the times in mind and to weigh the president's decision in that light. There is no doubt that revolutionary fervor was bubbling up in reaction not only to the 1893 crisis, but also to the broader structural changes that were painful for many people. The International Socialist Conference had just met in Zurich, electing Friedrich Engels as its honorary president; bread riots had broken out in Buffalo; and even before the Pullman Strike, *Bradstreet's* magazine had expressed alarm

over the waves of labor unrest across the country. According to a United States Strike Commission report, there had been at least some property damage prior to the troop arrival—thousands of dollars worth before July 6 (1894, xviii–xix). Moreover, it had not been all that long since the violent 1877 railroad strikes, which were in many respects a prelude to the 1894 strikes. Like those in 1894, the strikes in 1877 also began locally (they originated on the Baltimore and Ohio Railroad in West Virginia) and quickly spread nationwide. And as in 1894, the 1877 strikers blocked railroad cars from moving, which prompted the deployment of state militias and federal troops to put down the strikes. Property damage in 1877 was extensive throughout Chicago, Baltimore, Pittsburgh, and other cities, and more than one hundred people were killed.

Although the 1894 strike began in Illinois, it soon became a national crisis as the strikers joined the American Railway Union. The strike had completely obstructed mail routes on the Southern Pacific Lines and in other parts of the western United States. By June 30, freight traffic in and out of Chicago had ground to a virtual halt. According to Allan Nevins (1938), a crowd of around one thousand striking workers and their supporters stopped the New York Limited on the Chicago & Erie in Indiana and forced the crew to detach two Pullman cars. The atmosphere in Chicago was clearly deteriorating when the federal intervention, which was based on a court-issued injunction to protect private property, was initiated.¹³ Cleveland had determined that the actions of the strikers constituted illegal obstruction.

As federal troops arrived, the rhetoric grew to a fever pitch. Eugene Debs warned, “The first shots fired by regular soldiers at the mobs here will be a signal for civil war. I believe this as firmly as I believe in the ultimate success of our course. Bloodshed will follow, and ninety percent of the people of the United States will be arrayed against the other ten percent. And I would not care to be arrayed against the laboring people in the contests, or find myself out of the ranks of labor when the struggle ended” (qtd. in Jeffers 2000, 301). Violence escalated on July 7 when seven men were killed; the following day Cleveland put the city under martial law, outlawing all unlawful assemblages.

The troop deployment to put an end to the strike was certainly effective even if it raises questions about when and how the federal government should directly intervene in labor disputes. There is no question, however, that the strike was of unprecedented magnitude and threatened serious disruptions to national commerce and private property. It should also be noted that the Pullman defeat had an influence on Eugene Debs, who became a national symbol for labor struggles by the mid-1890s (he would also run five times as presidential candidate for the Socialist Party of America).

13. Attorney General Olney had been urging immediate deployment of federal troops to Chicago even without a court order, but Cleveland insisted that a legal order be issued before federal involvement.

Conclusion

Presidents and their economic policies are often judged by history according to what they have proactively accomplished. We naturally tend to remember the things that presidents do: Roosevelt’s New Deal, Eisenhower’s interstate highways, and Reagan’s military buildup. But sometimes success can be achieved by the things that presidents prevent or undo, and it is in this light that Cleveland’s presidency might best be judged. He was guided less by what a president should accomplish than by the executive’s responsibility to act as a check on the power of special interests working through the legislature. He believed that the Constitution clearly limited the authority of the president and the federal government, and his economic policies reflected these principles.

H. L. Mencken was effusive when he wrote that it was unlikely “we shall see [Cleveland’s] like again, at least in the present age. The Presidency is now closed to the kind of character that he had so abundantly” (qtd. in Higgs 2003). Cleveland was more imperfect than Mencken suggests here, but he did demonstrate a consistent willingness to stand more squarely on principle (and that principle can rightly be called classical liberal) than on devotion to party or politics, often to his own detriment. That may well be the greatest testament to the man’s tenure in public office.

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