Grover Cleveland and National Finances

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PRESIDENT ROOSEVELT'S efforts to speed the recovery of the nation recall a preceding Democratic administration of national affairs. But Grover Cleveland held doggedly to the policy of paying out gold upon request. He had no thought of impounding the Treasury's gold, of putting pressure upon hoarders, of placing an embargo on the export of gold, of suspending, by exercise of sovereignty, contractual obligations for payments in gold, or of cutting the gold content of the dollar. He was determined to keep the Government out of the nation's business. He disliked depositing the Treasury's surplus in the banks, since that meant a commingling of public funds with private enterprise, and because it meant taxation of the people he endeavored to diminish the Government's participation by protective tariffs in the indirect subsidization of industry.

When Grover Cleveland first took office the country had passed through a sharp panic, but recovery from the experiences of 1884 was so rapid that he faced, not the problem of raising the nation out of depression but the far more difficult task of holding its pursuit of prosperity within reasonable expectations. It is no severe indictment of him to say that he did not have the understanding for the solution of this problem. His experience had been obtained in the practical politics of an Eastern city and state, communities already grown mature, inviting the solid purpose of a man determined to correct abuses, to give honest and efficient government. And from such endeavor he had advanced to responsibility for the welfare of the whole country, for the West as well as the East, for the newer section, so large a part of which was still callow, eager—no doubt too eager—to raise itself into a mature and balanced economic life.

President Cleveland did not understand the agrarian movement which accompanied the rapid industrialization of this country after the Civil War. Greenbackers, Grangers, Silver Men, Populists, however, sensed the meaning of the persistent decline of commodity prices to lower and lower levels and they were not entirely self-seeking in their demand for expansion of the national currency. There was a genuine need for abundant money to finance the growing country. More properly perhaps this should be termed a need of capital but these Westerners were looking to their Government for assistance, whether called money or capital. They had striven for legislation to that end; they had stopped further withdrawal of greenbacks from circulation in 1868; and had kept the contractionists from eliminating the remainder of greenbacks after the panic of 1873. And, as silver mining increased in the intermountain region, the agrarians had secured the Bland-Allison silver act of 1878 for the purpose of steadily enlarging the supply of a coin which had been money through the ages.

To these Americans in the West the fact that other nations were abandoning silver currency for gold offered no obstacle to an expansion of the currency of their own country upon the bimetallic basis. This European move, they declared, was a conspiracy among the gold-owning nations, the creditors of the world, to increase the price of gold at the expense of debtor nations, particularly the United States, a growing country using borrowed capital to supplement its physical strength and its will to turn empty geographic regions into populous areas of civilization. Foreign capitalists must not be allowed to interfere with their efforts. Failure to expand the currency meant to them contraction and that was oppression, for dearer money would cause still lower prices for their products at a time when they needed every cent of profit to meet their obligations and to invest in additional equipment. What mattered it if they did overreach themselves somewhat at the start? Time and their own determination would overcome initial obstacles. Their creditors should have faith in them; mortgages were made to be renewed; and, as evidence of that faith, rates of interest should be reduced. The aim of these Americans was fixed in the seal of the State of Kansas: *Ad Astra Per Aspera.* But the adversities which they accepted were only those of nature, not those made by man.

To Grover Cleveland there was no conspiracy whatever among the money-lenders of this country or abroad to grind Western farmers in the mills of gold. It may be that he lacked the imagination necessary to appreciate the inner truth of their contention. What, however, he might have done if he had caught the gleam of that truth is futile speculation. His thoughts were absorbed in the particular difficulties of the Treasury as silver coin accumulated there and increasing imports brought greater revenues to enlarge a surplus that threatened seriously to curtail the amount of money in circulation. Then in his second administration the desperate situation of the Treasury's gold reserve following the panic of 1893 completely engrossed his thinking about money.

Even before taking office Cleveland had listened to conservative advices and had publicly opposed the compulsory coinage of silver into dollars. His first annual message to Congress declared that the Government would have all of its gold displaced by silver if this coinage continued; that private hoarding of gold had already begun; that the attempt to establish the bimetallic standard by international agreement had failed. He recognized the need of facilities for increasing the volume of currency but he preferred national-bank notes for that purpose. The ceaseless stream of silver coinage threatened to overflow the land; the Bland-Allison law should be repealed. With this message Cleveland took the position which he was to defend grimly throughout his career. He admitted within his defenses the interests of creditors, business men, and wage-earners, but he had no room there really for the interests of the farmers and the producers of raw materials in the West who were contributing so much to the development of the country in his own time. They were expected perhaps to work out their salvation with their individualistic inheritance from the first pioneers. Instead, they took collective action that Cleveland never comprehended. After such an expression of conviction the President might have been expected to set out aggressively to his objective. But Cleveland dropped the leadership which he had just assumed, deferred to Congress, and put himself suddenly on the defensive. By means of certificates of small denominations his Secretary of the Treasury did find a way of getting more silver into circulation. But aside from that the Administration made no constructive moves. An obstreperous Congress, dominated by Westerners and Southerners, debated a free-coinage bill, demanded an explanation of the Treasury's dealings with banks in New York, and in other ways discomfited the Administration. In the end, to be sure, the President suffered little from these annoyances but he had wasted a good opportunity to force his views beyond Congress into the minds of the people.

Taking into account what was happening throughout the country in these booming years prior to the crash of 1893 one can readily appreciate how valuable might have been a vigorous and constant exposition before the public of the dangers in undue expansion. Over-exertion leads inevitably to exhaustion, even if but momentary. There was great danger in discounting the future with so much enthusiasm and daring. Even those commitments made with the best of intentions and with fair expectations might be impossible to meet at their date of maturity. And a very great part of these commitments in the eighties was made to English capitalists. If these foreign holders of American securities, farm mortgages, railroad stocks, municipal bonds, and other evidences of debt were to become alarmed at conditions in this country or subjected to stress by a bad turn of affairs in their own, a marked withdrawal of funds from American enterprises would certainly occur, to the serious injury if not complete destruction of these enterprises. Rather than point this out to his countrymen and devise ways for the Government to meet the situation if it should occur, President Cleveland concentrated upon the problem of the rising surplus in the Treasury and upon the tariff which, in his opinion, lay at the root of many another political disease.

The Treasury paid off the Government's bonds subject to call but the surplus continued to accumulate. Then Treasury funds were deposited in selected banks. This expedient got much of the surplus into commercial use but it was expensive for the banks and Cleveland did not like the policy for it fostered, he declared, "an unnatural reliance in private business upon public funds." He preferred to have the Treasury buy the unmatured bonds of the United States in the open market, even if that practise forced those bonds to an expensive premium. But such purchases drew the bonds from under the note-issues of the national banks, curtailing their circulation, and gave premiums to wealthy bondholders at a time when Western communities were dependent to a great degree upon foreign capital. Cleveland's conviction, however, that public funds should be divorced from private affairs repelled any thought that the Government might solve the problem of the surplus by sending it, for the purpose of replacing foreign investments, directly into communities financed by foreign investments. The President's real desire was to reduce the surplus by cutting down the revenue obtained from taxation. Excessive revenues, he said, invited "schemes of public plunder." Of these excessive revenues after 1886, fully 60 per cent came from the customs duties. The tradition of the Democratic party, moreover, was to seek lower tariffs. Grover Cleveland took the issue of the surplus and the tariff to the polls in 1888—and lost.

The succeeding Republican administration continued Cleveland's policy of dispersing the surplus by the purchase of bonds but reversed his policies with respect to the tariff, silver coinage, and economical government. Appropriations for public works, pensions, and other expenditures brought the Treasury to the verge of exhaustion. Far from having an uncomfortable surplus, it was so bound to future obligations that it could not have relieved the money markets of the country in case of need—even if the Government had wished to do so. And the need appeared almost immediately. For the English banking-house of Baring Brothers was faced with imminent failure in 1890 on account of heavy losses in Argentina and was saved only by the aid of the British Government. Many English investors, as a consequence, were forced to liquidate their American securities. Large failures resulted in the United States as gold poured out and credit became stringent. But by the sudden bounty of nature, an extraordinary wheat crop in 1891 that was sold at good prices in the world market because of a European shortage, the country was rescued from a major panic and to the relief of the Treasury and credits in New York, gold flowed back into the United States.

The Republican silver act of 1890 put the Treasury under the strain of redeemable note-issues for continuous purchases of bullion. Under this act the Treasury was required to expand rigidly the obligations of the United States subject to redemption in coin at the will of the note-holders. And, although the act seemed to give the Secretary discretion in the use of either gold or silver coin for redemption, it stated that gold and silver were to be kept at a parity according to the existing legal ratio. As a matter of fact, therefore, the Secretary had little discretion, for he had virtually to meet the request of the note-holder, whether for silver or for gold. Such a measure would need fair financial weather for proper trial. But the new Republican tariff made any estimate of probable revenues uncertain and, as Grover Cleveland took office for the second time, the speculative boom of the past seven years collapsed in the crash of 1893.

The President-elect watched anxiously while Harrison's administration staggered through January and February to its end. Cleveland knew that the gold which the New York banks had turned over to the Treasury in exchange for legal tender notes would hardly keep the gold reserve above the minimum until March 4. When he inquired in New York as to the possibility of selling bonds abroad in order to secure gold he was told that leading financiers expected soon a reversal of conditions in foreign trade which would bring gold back again into the United States. But the financiers had little foresight, for instead gold continued to flow out of the country, while a very considerable amount disappeared into private hoards in the country. By April it had become so scarce that the Treasury was hard pressed to redeem legal tenders with gold and the rumor spread that Secretary Carlisle would issue only silver coin in redeeming the notes of 1890. He tried on the 20th to check this suspicion by stating that the Government would continue to pay gold as long as it had gold lawfully available for that purpose, but his qualification only increased uncertainty. If the Secretary wavered, however, the President did not. On the 23d Cleveland declared to the press that the policy of maintaining parity between the two metals dictated the redemption of legal tender with gold.

Reassured by the optimism of Wall Street, perhaps, President Cleveland chose, not to investigate the multiple causes for the drain of gold that had persisted since 1891 in spite of some importation, but to attack the silver purchase law as the raider of the Treasury and the destroyer of public confidence. His case against the law as a measure favoring one sectional interest at the expense of the whole people, however, was weakened by the fact that he was playing the hand of another sectional interest, that of creditors, bankers, and business men who feared the effect of silver money upon their investments. He seemed to be more concerned with their possessions, their peace of mind, with maintaining their confidence in the stability of public credit than with the hopes and aspirations of those who were struggling to establish themselves in the newer areas of the country. And as a matter of fact there were already in circulation sufficient greenbacks to withdraw the gold reserve from the Treasury without the aid of the notes of 1890.

In the midst of a most trying personal experience with an operation for cancer, successfully kept from the public, President Cleveland summoned Congress to repeal the silver law and urged that other legislation might place beyond doubt "the intention and the ability of the Government to fulfill its pecuniary obligations in money universally recognized by all civilized countries." But he did not take the lead and make specific suggestions as to what that legislation should be. There was no proposal of an act authorizing the Government to search out and to check domestic hoarding of gold as a matter of public policy for the benefit of the Treasury. There was no request for power to regulate the flow of gold abroad. Grover Cleveland's forte was to hammer at apparent evils until he had eliminated them rather than to pentrate into dangerous trends, to anticipate their consequences, and to construct new measures for arresting their progress.

The President was mistaken in his statement that the financial plight of the country was "not the result of untoward events nor of conditions related to our natural resources" or "traceable to any of the afflictions which frequently check national growth and prosperity." Certainly the movement of gold in and out of the country was traceable in considerable part to the amounts of wheat and corn produced here and to the demand or lack of market for them abroad. Foreign capital, furthermore, was disturbed not only by the agitation for silver money but also by the disclosure of mismanagement and rash promotion of American railroads. There was a temporary import of gold in August 1893, attracted by the very profitable discounts on certified checks paid in New York for gold or any kind of currency in order to obtain cash; but after that the export of gold was resumed and continued for many months, thanks to the failure of the corn crop, the weakness of the foreign demand for wheat, and especially to the withdrawal of European capital from American investment. While Congress quarreled over the repeal of the silver law on into the fall of 1893, revenues from customs duties so declined that the Treasury had to use gold for current expenses, even dipping into the $100,000,000 of gold guarded by the statute of 1882 and reserved by long practise for the redemption of greenbacks. The fact was that, whether or not Cleveland obtained the repeal of the silver law, the Government could not in those dark days following the panic of 1893 maintain the gold standard without expenditure for that purpose. The Administration had either to buy gold or to stop payments upon the regular appropriations authorized by Congress. And the latter course would seem to have been utterly impossible. It would have brought the Government itself practically to a standstill.

The President and his Secretary of the Treasury should have put the question squarely before the American people: was their Treasury to have enough gold, the only medium of international exchange, to meet their national obligations? Their suspicions, doubts, and fears might have been reduced to the cold, hard truth that the entire country was in the grip of distressing international conditions from which they could best extricate themselves in time if they acted as a whole people regardless of class, area, occupation, or degree of wealth. But instead of making known the fact that the Treasury was forced to draw upon the gold reserve to meet current expenses, instead of exhorting the public to rescue the Treasury from the danger of bankruptcy by purchasing its bonds with gold, Cleveland and Carlisle temporized until they could obtain the repeal of the silver-purchase law and start the movement for revision of the tariff to which the Administration was pledged by the election of 1892. Perhaps they read the temporary influx of gold in August to mean that the depression of 1893 was going to be as short-lived as that of 1884. Cleveland's message to Congress in December, 1893, merely stated the deficit of the Treasury, noted the amount of gold and silver bullion in the Treasury, surveyed the wreckage of the national banks, expressed confidence that the repeal of the silver law would have salutary results, remarked that a safe path to a permanently sound currency would be found when confidence was restored, and urged Congress to amend the existing statutes in regard to the issuance of bonds.

Secretary Carlisle was impeded by the requirements in the act of 1875 which designated the kinds of bonds issuable for coin to redeem the greenbacks, but he was more hampered by his own misgiving as to whether he had legal power to issue bonds without consulting Congress. Congress, disorganized and embittered by the struggle over the silver law, swayed by the feeling of many that the distress of the

Treasury afforded an excellent chance to establish the silver standard, ignored the importunities of the Secretary. Meanwhile the gold reserve shrank so alarmingly that something had to be done. At last in January 1894 Cleveland and Carlisle took up the plan for a bond-issue which Harrison's administration had been considering in the previous February. Had Carlisle, however, been less deferential to a Congress which had already defied the Administration to the last possible moment he could have found long since in Section 3700 of the Revised Statutes of 1878 ample justification for going ahead in an emergency without that Congress. He needed no further authorization to issue bonds for maintaining the gold reserve. Had he promoted the bond-sale of 1894 as a matter of vital concern to the nation—as Jay Cooke had sold the Government's bonds during the Civil War—he might have had some success with the sale to the public which he desired. But it lagged and threatened to fail. He was forced to call upon the bankers of Wall Street. They responded patriotically and, it is said, lost money on the transaction. The Treasury, however, had replenished its gold reserve for a while.

Grover Cleveland now was optimistic. He had gold in the Treasury and a limit upon its obligation to redeem silver notes with gold. But he did not appreciate the full significance of the decline of revenues or of the export of gold. Europe was still liquidating American holdings and gold would continue to leave the country until that liquidation ceased or Europe found itself greatly in need of American products, such as wheat. A single bond-issue was but a temporary check. By November 1894 the gold reserve was again sinking rapidly. Another bond-issue restored it momentarily, but a large part of the gold paid into the Treasury for these bonds had been drawn from the Treasury itself through the redemption of legal-tender notes and by January 1895 a third bond-issue was imperative. In a politic message Cleveland once more appealed to Congress for cooperation. He must have known, however, that the appeal was useless. He should have spared himself the effort and given the time to a direct appeal to the people. There were few business men and financiers who did not already understand the precarious condition of the Treasury but the people as a whole needed to know the truth and to be roused to concerted action for there were large resources of national loyalty and pride yet to be tapped.

Rebuffed by Congress, Cleveland and Carlisle turned finally, much against their will, to accept the aid of a private banking syndicate that for some time had been ready to offer its services—for a price. The condition of the Treasury was actually such that the last dollar's worth of gold in the New York sub-treasury was about to depart. By means of its connections with foreign financial houses the Morgan-Belmont syndicate could accomplish at that particular moment what the United States Government with all its sovereignty could not—the protection of the Treasury against foreign withdrawals of gold. The Morgan loan enabled the Administration to make gold payments for another period of months. The public credit was saved. But, however effective in the immediate crisis, the arrangement did not solve the problem of the Treasury. By July 1895 the syndicate had lost control of the market in foreign exchange. With gold flowing out as before the Treasury had to resort to a fourth bond-issue in January 1896. This time Secretary Carlisle found courage to increase the public debt by $100,000,000—twice the amount of the previous public issues. And even though legal tenders again drew gold from the Treasury for payments to the Treasury for new bonds, the results were heartening. The two earlier issues to the public had been placed only after urgent appeal to the banks. The Morgan loan was a hard bargain. But this fourth issue brought response from over 4000 bidders for more than $560,000,000. Domestic conditions, to be sure, had improved; the experiences of August 1893 were receding into memories; public confidence was returning in spite of the continued flow of gold from the country. But also, realization of the Treasury's dire need had spread—good evidence that President Cleveland and Secretary Carlisle should have made the predicament of the Treasury clear to the people in the fall of 1893. That such publicity could have made the situation worse does not seem possible. The chances were, rather, that the truth would have hastened relief of the Treasury, subdued the clamor of many a sectional Congressman, and steeled the public as a whole to greater endurance until international conditions could improve.

Those conditions were suddenly transformed in 1897. European production of wheat fell short approximately a third whereas the United States had a huge crop. Western farmers found an excellent market for their product and gold to the amount of $120,000,000 poured into this country from abroad. Once again the bounty and caprice of nature had served the American people. And while William McKinley held the Presidency in place of Grover Cleveland, new discoveries in Africa and the development of the cyanide process for reducing lower-grade ores greatly increased the world's stock of gold. Consequently the underlying factors of the monetary problem over which Cleveland had contended with the agrarians in Congress from the West had been changed. The price-level of commodities entered upon a general rise that gave great encouragement to debtors. The inflationists had lost their best argument for the bimetallic standard. There now was an abundant supply of money—in the form of gold.

Grover Cleveland retired to private life with the personal satisfaction that, even if he had failed to maintain the gold standard without incurring debts at the expense of the taxpayers, he had yielded not an inch to the forces endeavoring to depreciate the American dollar in order to meet other conditions, and he soon observed the gold standard act of 1900, as a product of his efforts and experience, set apart the gold reserve in a distinct fund, fix its minimum at $150,000,000, forbid its use to meet deficits in revenues, require public loans for its maintenance, and provide that notes redeemed by it were to remain in the Treasury until reissued for gold. Although enthusiasts for the bimetallic theory might still declare that no invidious comparison would be made if the Government freely used silver at a stipulated par with gold, to him human nature was unchangeable; the choice of dearer or cheaper money would drive the dearer money into hiding despite the fiat of the Government. In his own words the line of battle was "drawn between the forces of safe currency and those of silver monometallism." On that front Grover Cleveland fought to the end, giving no quarter. There remained, nevertheless, fair question whether it had been adequately conceived and executed to meet the real issue of his time—whether it was the proper financial course for the Government of a debtor nation rapidly expanding into new areas, rising from one temporary depression to rush headlong into another.