Written by Bob Adelmann on May 9, 2016
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The 1890s: The Ship of State Lists to Port

A series of events during the decade of the 1890s, largely unknown to the citizenry and ignored by contemporary historians, set the stage for the gradual removal of constitutional restraints that once protected our Republic. The Panic of 1893 may be seen as one of the pivotal events in that removal.

The cause of the Panic of 1893 can be traced back to the failure of the wheat crop in Argentina, coupled with a coup in Buenos Aires, in 1890. For years, financiers in the City of London — a privately run, one-square-mile area inside London, England, populated by hundreds of bankers and thousands of lawyers — found Argentina a profitable place to invest. The explosion of the country's economy in the decades before the 1890s nearly matched the same explosion taking place in America. The only limit was capital, and City of London banks, especially the Barings Bank, were more than happy to loan the country all it needed to build infrastructure, including roads, dams, factories, schools, and office and government buildings. The bonds were secured by expected receipts from the country's wheat crop, which was then feeding large parts of the world.

When the wheat crop failed in 1890, the bonds, and Barings, were threatened. It took a gathering of other banks and bankers, including the Bank of England and the Rothschilds, to bail Barings out, but by that time the damage was done. Financiers clipped their wings and started liquidating their investments around the world, including in America, in exchange for the most reliable currency in times of stress: gold.

Thanks to the reimplementation of the gold standard in the United States following the Civil War, dollars were redeemable in gold. Attempts to change the monetary system to one where dollars would also be redeemable in silver failed, but those attempts laid the groundwork for the rise of the "silverites" and the clash that reached its crescendo during the presidential election of 1896.

The U.S. government had more paper dollars outstanding than gold in its reserves. When City of London bankers started demanding redemption, it set in motion the Panic of 1893, triggered by the default of the Philadelphia and Reading Railroad, which had overextended itself financially. This happened just 13 days before the inauguration of Grover Cleveland (the only president to have been elected to two non-consecutive terms — 1884 and 1892), the Bourbon (i.e., traditional conservative) Democrat who still thought the Constitution stood for something. While out of office, his predecessor succumbed to the mounting political pressure from agrarian and silver interests, mostly in the West, and signed into law the Sherman Silver Purchase Act of 1890. The pressure came from farmers who wanted to cheapen the currency in order to pay off loans with cheaper dollars, and silver miners who were interested in a permanent and substantial buyer for their silver output. During the Gilded Age of the 1870s and 1880s, farmers had been left behind, seeing the prices of their produce drop as farming became more and more efficient.

The issue took on political overtones, as workers in cities had little interest in seeing the purchasing power of their wages drop, and bankers who were holding bonds guaranteed by gold were increasingly nervous about having them paid off in paper backed by silver which, at the time, was worth about half the value of the gold behind each dollar. The situation wasn't helped any by the passage of the McKinley Tariff Act of 1890, which raised tariffs by nearly 50 percent, forcing the prices of basic materials imported from abroad to rise substantially, putting further pressure on farmers and cotton growers.

When Cleveland moved into the White House in the spring of 1893, he did what he could to stem the rising financial debacle. He successfully persuaded Congress to repeal the Sherman Silver Purchase Act and then cut tariffs, but it was simply too late. Banks began to fail as railroads (the Northern Pacific Railroad, the Union Pacific Railroad, and the Atchison, Topeka & Santa Fe Railroad, among others) defaulted on their bonds. Over the next three years, 500 banks failed, taking with them more than 15,000 businesses, many of them in the West. The stock market crashed, unemployment spiked to nearly one out of every five workers, and homeowners defaulted on their mortgages in huge numbers.

A single incident will serve to show just how the Panic of 1893 and the resultant recession caused the ship of state to become untethered from its constitutional bonds. Engaging in fractional reserve banking, the U.S. Treasury had issued far more paper receipts for gold than it had gold to back them up. President Cleveland was committed to keeping those gold reserves at no less than $100 million. But during 1894, thanks to the demands of City of London bankers and the operation of Gresham's Law, those reserves had dropped to less than $80 million. By January 1895, gold was leaving the country at such a rate that gamblers watching the gold-laden ships heading for foreign shores were betting on the exact date the Treasury would run out of gold altogether. Cleveland, although a friend of J. Pierpont Morgan, was reluctant to ask Morgan for help and instead asked Congress to issue bonds to replenish the gold supply. Congress was no longer in friendly hands, and turned him down.

So Cleveland went to the Rothschilds and asked them for help. They offered help, but only if Morgan would represent them on the American side of the deal. This would further cement into the Populist mind just how close the banks and the bankers were to the president, and so Cleveland begged off.

Still the run on the Treasury continued.

Morgan decided that it was time for Cleveland to face the music: Deal with him or watch the country descend into bankruptcy. Imperiously, Morgan and his attorney took a private train down to Washington to call on the president. Cleveland refused to see them. Morgan declared: "I have come down to see the president and I am going to stay until I see him."

Morgan rented a hotel room nearby and spent the night readying himself for the inevitable meeting by playing solitaire. Cleveland finally allowed Morgan in. Morgan remained quiet while the president, his attorney general, and his treasury secretary debated what to do. A clerk entered the meeting and told them that the Treasury now had less than $9 million in gold left in its vaults.

At this moment Morgan piped up, saying that he knew about a $10 million draft that was about to be presented for payment. Said Morgan: “If that $10 million draft is presented, you can’t meet it. It will all be over before 3 o’clock.” Asked the president: “What suggestions have you to make, Mr. Morgan?”

Morgan’s suggestion involved gathering some 3.5 million ounces of gold from bankers in the City of London and elsewhere in exchange for $65 million in 30-year U.S. government bonds backed by gold and not callable for 30 years. When the bonds were issued, the gold was transferred to the Treasury, and Morgan and his bankers sold the bonds in the open market the next day. For their successful rescue efforts, the bankers were rewarded handsomely. According to Ron Chernow, author of *The House of Morgan*, “In just twenty-two minutes, the bankers had booked a $6 or $7 million in profits.”

The economic implosion of the Panic of 1893 set the stage for the growth of the Populist movement (later to morph into the Progressive movement), with all manner of suggested remedies, not only to restore the country’s economic health but to punish the bankers who were blamed for the panic and the following recession.

In addition to pressuring Congress to pass the Sherman Silver Purchase Act, Populists wanted more democracy in the form of the direct election of U.S. senators (at the time senators were elected by state legislatures), an eight-hour workday, a federal agency to oversee and settle labor disputes in favor of the workers, women’s suffrage, prohibition, and a federal income tax. Some of the more radical proposals included government ownership of primary industries.

The Populist movement reflected a fundamental shift away from the philosophy and ideas that informed the Founding Fathers, as explained by Charles Merriam, a prominent Progressive intellectual of the time. In his *A History of American Political Theories*, first published in 1903, he wrote of that widening gulf:

The individualistic ideas of the natural right school of political theory, endorsed in the [American] Revolution, are discredited and repudiated. The notion that political society and government are based upon a contract between independent individuals and that such a contract is the sole source of political obligation, is regarded [by Progressives] as no longer tenable….

It is of vital importance to notice that liberty is not a natural right which belongs to every human being without regard to the state or society under which he lives. On the contrary, it is logically true and may be historically demonstrated that the state is the source of individual liberty. It is the state that makes liberty possible, determines what its limits shall be, guarantees and protects it….

It is denied that any limit can be set to governmental activity [because the natural rights theory of the U.S. Constitution] no longer seem[s] sufficient.

Once that intellectual bridge was crossed by enough voters, the slipping of the constitutional hawsers holding the Republic in place became inevitable. Although Cleveland, the Bourbon Democrat who opposed high tariffs, free (or cheap) silver and its resultant inflation, empire building, and subsidies to businesses or farmers, won reelection handily in 1892, his party suffered one of the worst defeats in history in the mid-term elections in 1894, and set the stage for the battle royal between the two philosophies expounded by Merriam.

In 1896, the Republicans nominated pro-high-tariff congressman William McKinley for president, while the Democrats foundered, seeking someone who could take the fight to the big-business party that was perceived to have sunk the country into the recession by its inflexible stance on gold. The Republican Party platform was straightforward: the gold standard, high tariffs to protect American industry and its workers, and no imperialist adventures abroad. From the front porch of his home in Canton, Ohio, McKinley reiterated the risks of implementation of the Populist movement while promoting his party's platform that hewed more closely to the principles of the Constitution:

My fellow citizens, recent events have imposed upon the patriotic people of this country a responsibility and a duty greater than that of any since the Civil War. Then it was a struggle to preserve the government of the United States. Now it is a struggle to preserve the financial honor of that government.

Our creed embraces an honest dollar, an untarnished national credit, adequate revenues for the uses of the government, protection to labor and industry, preservation of the home market, and reciprocity which will extend our foreign markets.

Upon this platform we stand, and submit its declaration to the sober and considerate judgment of the American people.

That "sober and considerate judgment," however, had shifted considerably to the left, and McKinley soon recognized the battle royal shaping up. So did McKinley's campaign manager, Mark Hanna, a wealthy businessman who saw the threat as clearly as did McKinley. In 1895, Hanna left his business and became McKinley's full-time manager and financier. Hanna changed American politics forever with his successful efforts to threaten businessmen with extinction by the Democrats and then encourage them by offering them a way to salvation through contributions to the Republican Party. He explained that the Democrat Party would win the election and then asked just how much it was worth to business owners not to have a Democrat in the White House. Then he suggested an amount appropriate to the size of the business and said he would be glad to take a check.

Hanna raised $3.5 million, an astonishing amount for the day. He spent the money on bringing crowds to McKinley's front door. He ordered millions of pamphlets printed and distributed. He outspent the Democrats nearly seven to one.

It wasn't until the fifth ballot at its presidential nominating convention that the Democrat Party finally found its savior: the golden-throated orator from Nebraska, William Jennings Bryan. By happenstance, Bryan was the final speaker for the day, and the audience had been bored to tears by the previous speakers. Bryan saw his opportunity, and he took it. He had been working on his speech for days before the convention, and when he was asked by a reporter just before his speech if it was going to be memorable, Bryan just smiled and said, "You will not be disappointed."

When he stood to speak, he made clear that the old ways were gone, that the new ways were open:

The income tax is a just law. It simply intends to put the burdens of government justly upon the backs of the people. I am in favor of an income tax. When I find a man who is not willing to pay his share of the burden of government which protects him, I find a man who is unworthy to enjoy the blessings of a government like ours.

He expounded on his view of government:

There are two ideas of government. There are those who believe that if you just legislate to make the well-to-do prosperous, that their prosperity will leak through to those below. The Democratic idea has been that if you legislate to make the masses more prosperous, their prosperity will find its way up and through every class that rests upon it.

He attacked those supporting the gold standard:

You come to us and tell us that the great cities are in favor of the gold standard. I tell you that the great cities rest upon these broad and fertile prairies. Burn down your cities and leave our farms, and your cities will spring up again as if by magic. But destroy our farms and the grass will grow in the streets of every city in the Union.

Bryan by now was in full throat, leaving no room for argument or debate about the matter:

If they [supporters of the gold standard] care to come out in the open field and defend the gold standard as a good thing, we shall fight them to the uttermost, having behind us the producing masses of the nation and the world. Having behind us the commercial interests and the laboring interests and all the toiling masses, we shall answer their demands for a gold standard by saying to them: you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold!

An observer noted that Bryan then stretched his arms out in the form of Christ's cross, lowered his head, and waited.

He didn't have to wait for long. Within a few seconds the convention hall erupted with a sound that, wrote one reporter, "came like one great burst of artillery." Those attending, wrote another, "like demented things, divested themselves of their coats and flung them high in the air." The crowd broke through the cordon of police surrounding Bryan and lifted him on their shoulders and carried him around the hall, disrupting proceedings for 25 minutes. In that moment, wrote Richard Bensel in his *Passion and Preferences: William Jennings Bryan and the 1896 Democratic National Convention*, "The transfer of sentiment from silver as a policy to Bryan as a presidential candidate took place."

After being nominated, Bryan's work began in earnest. Being outspent by the McKinley campaign many times over, Bryan launched a personal nationwide speaking campaign that beggars description. Before the invention of the airplane, Bryan traveled 18,000 miles in three months during his campaign, spoke as often as 10 times a day, and reached an estimated five million voters.

In the end, it wasn't enough. McKinley won the eastern cities, beating Bryan 51 percent to 47 percent, and in the electoral college by 271 to 176.

But the shift of the ship of state to port continued. The Populists disappeared into both political parties, setting the stage for events and decisions that are being felt even today. McKinley worked to pass the Gold Standard Act of 1900, which, according to historians of the time, appeared to settle the issue: that gold would be the exclusive backing for the dollar. But a close reading of the act reveals that its language not only provided that the dollar be redeemable exclusively in gold but also for "other purposes." Those other purposes were exposed by Professor Murray Rothbard in his monumental *A History of Money and Banking in the United States*, where he noted that while "the reformers exulted over the passage of the Gold Standard Act, [they] took the line that this was only the first step on the much-needed path to fundamental banking reform." Harvard professor Frank Taussig declared that, for all the fanfare surrounding the passage of the bill into law, "the changes … are not such as to make possible any considerable expansion … or to render the community the full service of which it is capable" and, as a result, "It is well-nigh certain that eventually Congress will have to consider once more the further remodeling of the national bank system."

In his review of the election of 1896, liberal professor Charles A. Beard, in his *Basic History of the United States*, saw what had happened: "Judged by such performances, the two major parties were becoming as much alike in their interests and sentiments as two bottles of the same size and shape, differing only in their labels."

Reveling in his victory, William McKinley enjoyed turning the Republic toward empire building. The faux annexation of Hawaii in 1892, completed and formalized in 1898, followed by the sinking of the battleship *Maine* in Havana's harbor in 1898 that led to the 10-week long Spanish-American war, added significantly to the country's empire. To the territory of Hawaii were added the Philippines, Guam, and Puerto Rico.

In retrospect, the listing to port of the American ship of state that had gathered momentum in the decade of the 1890s resulted in the passing of the 16th Amendment (the federal income tax) and the 17th Amendment (direct election of senators) in 1913, the 18th Amendment (prohibition) in 1919, and the 19th Amendment (women's right to vote) in 1920. In addition, as predicted by Harvard professor Frank Taussig, Congress was manipulated into passing the Federal Reserve Act in 1913, paving the way (and providing the financing) for the progressive president Woodrow Wilson to enter the "war to end all wars." Additionally, the so-called fourth branch of government, the regulatory agencies, beginning with the Interstate Commerce Act of 1887 (the first federal law to regulate a private industry, the railroads), expanded during the 1890s and continues to plague private industry to this day.

The election of 1896 also taught businessmen just how much electoral influence they could purchase with their dollars, a lesson they have never forgotten.

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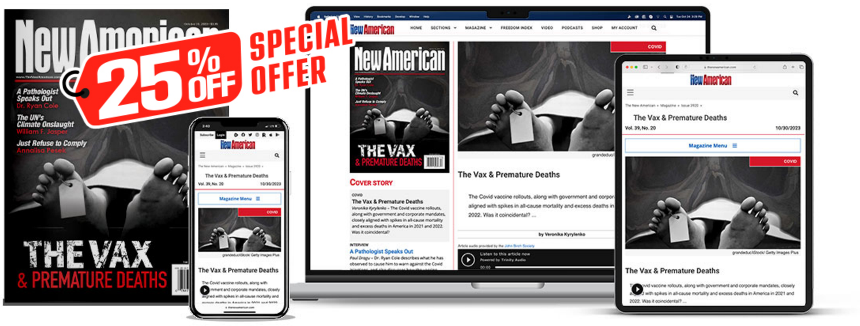

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