“The Communism of Pelf”:
Grover Cleveland and the Concentration of American Wealth

Today, with the rise of the Occupy Wall Street movement, much of our political discourse has centered on the distribution of the nation’s wealth and the much-maligned one percent of wage-earners, and with Mitt Romney the GOP nominee, the fall campaign will be inundated with such rhetoric. These Occupy protesters believe that the top percentile of Americans control nearly half the wealth in the country, leaving the other half to be divided among the remaining ninety-nine percent. They see this as pure greed centered on Wall Street. Their corrective solution? The federal government should break up the concentration with higher taxes and re-distribute wealth among the masses.

But as good historians and economists know, and what professional protestors, agitators, and liberal pundits obviously don’t, is that a high concentration of wealth develops not from the so-called “excesses of the free market,” but from overbearing government policy. When government power is centralized, society’s wealth becomes centralized and concentrated at the top.

I like to look at present events through the prism of history, and during the late 19th century, Grover Cleveland dealt with the same issue during his two terms in office as President of the United States. As a strict Jeffersonian, Cleveland steadfastly believed in the cardinal principle of “equal and exact justice to all men,” mentioning it often in letters and speeches. This was not just meant for political rights, but economic ones as well.
After losing his re-election bid in 1888, Cleveland used his fourth annual State of the Union message to Congress to discuss the great disparity of wealth in his time. “Upon more careful inspection we find the wealth and luxury of our cities mingled with poverty and wretchedness and unremunerative toil,” he wrote. Because of government action in prior administrations, the vast “fortunes realized by our manufacturers are no longer solely the reward of sturdy industry and enlightened foresight, but...the discriminating favor of the Government and are largely built upon undue exactions from the masses of our people.” As a result, 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.” The wealthy existed under “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.” To Cleveland, this arrangement was simply unfair to the lower classes and, what’s more, it would produce an unstable class-based society. He could clearly see the potential political use of the infamous “class card” we know all too well today.¹

The result of such an unjust system might result in a variety of communism, which to Cleveland was “a hateful thing and a menace to peace and organized government.” However, it would not be the traditional form advocated in Europe but “the communism of combined wealth and capital, the outgrowth of overweening cupidity and selfishness, which insidiously undermines the justice and integrity of
free institutions.” This form, he said, “is not less dangerous than the communism of oppressed poverty and toil, which, exasperated by injustice and discontent, attacks with wild disorder the citadel of rule.” As Cleveland biographer Alyn Brodsky has noted in his book, *Grover Cleveland: A Study in Character*, “No other President before (or since) had spoken so radically on the disparity between the haves and the have nots.” President Cleveland was “prepared...to see the imposition of stringent curbs upon wealth.”

Brodsky’s analysis sounds very leftwing, and makes Cleveland sound like a socialist, a statement that would probably disturb a number of conservatives. However, his evaluation is grossly inaccurate, to put it mildly. No program to limit the accumulation of wealth was ever enunciated by President Cleveland. He believed that the disparity of wealth, with its possible communistic outcome, resulted in those at the bottom of the socio-economic spectrum, the very ones many historians say Grover Cleveland detested, not deriving the same benefits from the government as those at the top. The government, mainly through the high tariff and burdensome taxation, as well as with direct subsidies, aided the rich in gaining more wealth, a situation, Cleveland said, “when fully realized, will surely arouse irritation and discontent.” America’s farmers, who were “struggling in the race of life with the hardest and most unremitting toil, will not fail to see, in spite of misrepresentations and misleading fallacies...that without compensating favor they are forced by the action of the Government to pay for the benefit of others such enhanced prices for the things they need that the scanty returns of their labor fail to furnish their support or leave no margin for accumulation.”
Even in the late 19th century, ideas about the re-distribution of wealth began circulating. President Rutherford B. Hayes, after leaving office in 1881, became what amounted to a communist, pondering in his diary in 1886 for ways “to secure a more equal distribution of property among the people.” He advocated crippling inheritance taxes, a position very close to what Marx and Engels advocated in the *Communist Manifesto*, and with those funds, government could support the elderly. Hayes’ plan called for inheritance to be capped at $500,000. All inherited wealth over half a million dollars would be confiscated by the government to distribute to those less fortunate.5

Cleveland believed, as he had long advocated, in the free market, that most of these problems could be corrected, not by any program on the part of the government to re-distribute wealth, but by a fairer system of taxation, as well as an end to government paternalism of any kind. Though he just recently lost his bid for re-election on that very issue, he continued to ardently champion lower tariffs and taxes, and an end to the unjust inequality found in the current system. “Instead of limiting the tribute drawn from our citizens to the necessities of its economical administration,” he told Congress, “the Government persists in exacting from the substance of the people millions which, unapplied and useless, lie dormant in its Treasury” in the form of a surplus. The present system “is not equality before the law,” he said.

The largest single item in this unequal tax system was the high protective tariff, an early form of corporate welfare aimed at aiding those at the very top of society’s ladder, notably the major industrialists. The tariff was the heart of the
Republican Party's platform. Cut it out and the party was as good as dead. They planted their flag on the hill of high protection and would not budge from that position. From the enactment of the Morrill Tariff in 1861, Republicans controlled the government and with it tariff rates, keeping them at a very high level. Low tariff Democrats had no chance to cut taxes. From Lincoln's election in 1860, no Democrat occupied the White House until Cleveland in 1885.

But once in office, Cleveland took on the Republican sacred cow head-on. Seeing that there was no need to continue piling up these huge surpluses, aside from providing Congress with ample reason to splurge, he advocated a lower tariff rate, sufficient to gain only enough revenue to fund the essentials of the federal government, applying such taxes, including excises, to luxury items while removing them from raw materials and goods deemed essential for day-to-day living, which would benefit the working classes. Furthermore, in the late 19th century, American industry was “no longer infantile,” the president believed. It stood on its own two feet and needed no further protection. American products dominated the domestic market, as well as that of most foreign nations. No other country, not even the British, threatened American manufacturing supremacy. So protective tariffs, in this case, were simply political payoffs to mercantilist fat cats who bankrolled the GOP. Even the New York Times referred to the Republican tariff act as the "McKinley abomination," to which every “monopolist and tax eater in the land...has been pouring into the corruption fund of the Republican Party a part of the iniquitous tax he has been able to levy through Republican favor.”4 This was Cleveland’s whole
point, that GOP policies made the rich richer in order to support Republican domination of the government.

In June 1887, Cleveland wrote to Tammany Hall on his tariff position. “Our Government belongs to the people. They have decreed its purposes, and it is their clear right to demand that its cost shall be limited by frugality and that its burden of expenses shall be limited by its actual needs.” The surplus, continually piling up in the treasury, is nothing more than “extortion on the part of the Government.” It was over-taxation, pure and simple. His plan would return money to the taxpayers and help those at the bottom on society's rung the most. Yet the opponents of tariff reform “attempt to disturb our workingmen with the cry that their wages and their employment are threatened,” but they “advocate the system which benefits certain classes of our citizens at the expense of every householder in the land – a system which breeds discontentment because it permits the duplication of wealth without corresponding additional recompense to labor.” A high tariff “enhances the cost of living beyond the laborers' hard-earned wages.” Politicians then attempt “to divert the attention of the people from the evils of such a scheme of taxation by branding those who seek to correct these evils as free traders and enemies of our workingmen and our industrial enterprises. That is so far from the truth that there can be no chance for such deception to succeed.”

Later that year, Cleveland took the unprecedented step of sending Congress his annual message on only one subject, the tariff. The year before, a tariff bill had already met defeat in the House. But Cleveland would not be moved by political
expediency. He sought tariff reform for philosophical and economic reasons, crafting a message that was a brilliant tribute to Jeffersonian political economy.

In the 19th century, federal taxes came, essentially, in two types – tariffs and excise taxes, both a direct and indirect form. The tariff was the main source, accounting for 56.1 percent of federal revenue in 1885. But Cleveland believed current tariff rates were “the vicious, inequitable, and illogical source of unnecessary taxation,” he told Congress in his message, and “ought to be at once revised and amended.” And by “revised and amended,” he meant downward, to ease the burden on the backs of the people who bought manufactured goods, products that rose in price with high tariffs. He also wanted excise taxes to remain on expensive items, those bought by the rich and not deemed necessary for one to depend upon, and reduced on the essentials for every day living. “The taxation of luxuries presents no features of hardship; but the necessaries of life used and consumed by all the people, the duty upon which adds to the cost of living in every home, should be greatly cheapened.” With the president squarely behind the effort with his tariff message, a second attempt, the Mills Bill, survived a House vote in the spring of 1888 but met defeat in the Senate, where all tariff reduction proposals went to die in those days.

During Cleveland’s second term, in 1894, the Democratic Congress did manage to pass a tariff reform bill, the Wilson-Gorman Tariff Act, but, sadly, the final version did not contain much reform. The House bill cut tariff rates by a modest amount, 15 percent across the board, but also included a small income tax, of just two percent, on the wealthy, the first in peacetime in American history. The Senate,
however, debated the issue for months, and in the end, the “aristocratic club of millionaires,” noted one congressman, tacked on some 634 amendments, taking away most of the tax cuts and rewarding favored constituent groups. The Senate also kept the income tax provision in place, which Cleveland hated. But rather than have an all-out fight over the issue, the House, in shades of the 2010 Obama Healthcare Bill fight, simply passed the Senate’s tariff bill and sent it to the president for his signature.

The income tax of 1894 established a rate of just two percent on incomes of $4,000 or more, which would also apply to corporations, who did not get any exemptions. Its proponents claimed that it would effectively exempt over 99 percent of the population. Only the very rich would be affected. Sound familiar? With more than 12 million households across the nation, the tax would touch just the 85,000 that had incomes of $4,000 or more. This made the 1894 income tax much different in scope than its 1862 wartime predecessor, which touched almost everyone. “For the first time in American history,” writes economic historian John Steele Gordon, “a tax was seemingly proposed on a particular class of citizens, a class defined by economic success.” Critics used this feature to attack the tax proposal as “socialism.” Cleveland’s longtime antagonist, New York Senator David B. Hill, blamed the tax on what he called “little squads of anarchists, communists and socialists” from Europe infecting America with foreign ideas.

But supporters of the tax pointed to the massive concentration of wealth to make their case. “The tax proposed on incomes,” wrote former Congressman Roger Q. Mills in its defense, “is but a light touch on the monumental piles of wealth, for the
protection of which the government is standing guard.” Mills argued that continued wealth accumulation might lead to “an upheaval” not unlike that of Revolutionary France in 1789 when the nobility “persistently refused to bear any burden of taxation to support the government.”

Thomas G. Shearman, a political economist and founder of the Shearman and Sterling Law Firm in New York City, conducted a study on the concentration of wealth in America, which he published in The Forum under the title “The Owners of the United States of America” in 1889. Like today, such studies were used to argue in favor of the income tax. Shearman contended that just 70 persons owned a combined wealth of $2.7 billion. Some 50,000 families owned half the nation’s wealth, while four-fifths of the people earned less than $500 a year. Although he represented such prominent American figures as Jay Gould, Henry Ford, and John D. Rockefeller and Standard Oil, Shearman supported an income tax “upon rents and corporations having exclusive privileges.” The tax burden, Shearman noted, was disproportionally placed upon the poor, who paid taxes equivalent to 75 to 80 percent of their savings while corporations and the wealthy paid only 8 to 10 percent. Federal taxes had increased sixfold since the Civil War, he maintained, while untaxed corporations saw their profits soar tenfold. This had to change, he believed, and the solution should be more government.

Democratic and Republican newspapers alike opposed the idea of an income tax, even one that predominantly affected the very wealthy. It was “a most undesirable mode of raising revenue,” wrote the editors of the New Orleans Daily Picayune, and “will lean most heavily upon the possessors of moderate incomes, as
the very rich generally have their wealth in such shape as best enables them to conceal its real extent.” The Chicago Tribune believed the insistence of the tax’s proponents that only 85,000 households would be affected was nothing but hot air. The new tax “would be collected not merely from thousands but indirectly from millions of citizens. It would ‘hit’ the poor as well as the rich in spite of all asseverations to the contrary.” The Boston Evening Transcript reminded Washington that the federal government “is a government of the people, not of the rich people nor the poor people, but the people.” The income tax proposal is “foreign to the whole spirit of our institutions and government.” There “are no classes in this country, and there never will be so long as this country remains a democracy.”

Cleveland could not have agreed more. He believed in helping those poorer individuals and fighting against the favored status of the wealthy, the ones who benefited exclusively from governmental paternalism. But he could not bring himself to sign the tariff reform bill, particularly with an income tax provision, which would mean “party dishonor.” He was upset with the actions of the Senate, calling it nothing more than a “deadly blight of treason.” And he knew just who to blame for it.

As he had in his 1888 message, he went after the wealthy and their influence over legislation. It was “the trusts and combinations – the communism of pelf – whose machinations have prevented us from reaching the success we deserved,” he wrote Mississippi Congressman Thomas C. Catchings. The tariff law, though flawed, “presents a vast improvement to existing conditions” and lightens “many tariff
burdens that now rest heavily upon the people. It is not only a barrier against the return of mad protection, but it furnishes a vantage-ground from which must be waged further aggressive operations against protected monopoly and governmental favoritism.” This bill was a step in the right direction, he contended, but because it had provisions “which are not in line with honest tariff reform,” with “inconsistencies and crudities which ought not to appear in tariff laws or laws of any kind,” he could not and would not sign it. It became law without his signature.\textsuperscript{13}

But President Cleveland had good reason to believe the Supreme Court, in a time when the justices actually looked out for the Constitution, would not allow the income tax to remain in place. During his first term in 1888, he appointed Melville Fuller, a steadfast Jeffersonian, as Chief Justice. Though little known, Fuller was quite possibly the best chief justice in American history, ruling on many serious constitutional questions, including the Sherman Antitrust Act, and always upholding the original intent of the Founders. Unsurprisingly, the Fuller Court struck down the income tax provision in 1895 in \textit{Pollock v. Farmers’ Loan & Trust Co} by a 5 to 4 vote. Justice Stephen J. Field prophesied about the future days of class warfare in a harsh concurring opinion. He saw the real danger in such a tax. “The present assault on capital is but the beginning,” he wrote. “It will be but the stepping-stone to others, larger and more sweeping, till our political contests will become a war of the poor against the rich; a war constantly growing in intensity and bitterness.”\textsuperscript{14}

Though the concentration of wealth was a major issue in Cleveland’s time, I actually believe it is worse today, because our government, with its oppressive economic policies, has made it so. Not only does the wealthy have advantages over
the rest of the country, but the more the government taxes and regulates, the more
the rich horde and hide their wealth, rather than risk investing it. Lower taxes and
regulation means more investment, which means the creation of more jobs and
opportunity for others. That is the only sure-fire way to grow the money pie and
raise the standard of living for all.

Grover Cleveland’s economic policy sought to return to “the principles of true
Democracy,” he wrote, for “they are founded in patriotism and upon justice and
fairness toward all interests.” He sought a system that favored no one and a
government that treated everyone fairly and equally. This ideal alone would ensure
an equitable system. That was Grover Cleveland’s only goal and it should be ours as
well.

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John Sharp Williams to Davie Crompton, February 14, 1894, John Sharp Williams Papers, Mississippi Department of Archives and History, Jackson, MS; Welch, 134.


*Cleveland to Wilson, July 2, 1894, Nevins, Letters, 354-357; Cleveland to Congressman Thomas C. Catchings, August 27, 1894, Thomas C. Catchings Papers, Tulane University.*

*Cleveland to Catchings, August 27, 1894, in Catchings Papers, Tulane.*