

Theodore Roosevelt, Politics, and the Panic of 1907

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ABSTRACT

Can the President affect the nation's short-run economic performance? If so, then by which mechanisms? Quantitative research has produced disparate, conflicting, and sometimes biased answers to these questions. Therefore, this paper presents a qualitative analysis of the two-term administration of Theodore Roosevelt; a "natural experiment" which allows us to generate new theory. During both of his terms, Roosevelt faced very similar national issues. So too did the US economy confront similar circumstances across these years. Interestingly, each term was also buffeted by a recession. The first recession (1903-1904) was relatively shallow. In fact, by the end of his first term, Roosevelt can be said to have been enjoying above average performance across multiple macroeconomic measures. However, Roosevelt's second term was an economic disaster. The second recession (1907-1908) was accompanied by a full-fledged financial panic, which rippled throughout the economy, around the world, and had negative effects on American economic performance for years to come. Roosevelt cannot be said to have directly caused either recession. However, we can identify significant shifts in his leadership, especially in his alliances and trust-building, that clearly contributed to both downturns. Also these shifts were more dramatic during Roosevelt's troublesome second term. They reveal subtle, but powerful ways, that Presidential leadership can affect economic performance.

I. INTRODUCTION

The American president is often credited with or blamed for US economic performance during, or soon after, his administration. Yet the president has few formal mechanisms with which to affect the economy.¹ Therefore it makes sense to ask whether the executive has any substantive responsibility for the nation's economic performance. And if so, then by what means? This paper uses a natural experiment to probe the causal relationship between the presidency and the economy. It is motivated by recent scholarship which evaluated the relative economic performance of all the US presidents from 1789-2009.² Most prior research used either subjective or single measures of economic performance to arrive at disparate and conflicting conclusions. However, when a diverse array of objective, quantitative economic variables was analyzed (e.g. per capita gross domestic product, unemployment, inflation, balance of payments, economic inequality, currency strength, interest rates, and stock market performance), the results were a seemingly random order of success and failure (e.g. Hayes, Harding, McKinley, and FDR rank at the top; Arthur, Harrison, Hoover, and Van Buren occupy the bottom) which fit no existing theories particularly well. And even where existing theories do suggest a statistical relationship overall, the causal effects are small and there are many glaring outliers. This non-result dovetails with decades of research on presidential leadership which has failed to arrive at a consensus over what kinds of presidents, or presidential actions, backgrounds, or beliefs, tend to systematically benefit the economy. In other words, presidents appear to be mostly helpless bystanders; victims of the economic forces of their times.

This paper contradicts both the null hypothesis above and much previous research on the president's relationship with economic performance. It presents a subset of empirical results from a broader project. The broader project asks: what did the most economically successful presidents do (or not do), which the failures did not (or did)? Did the successful executives share any particular beliefs, leadership styles, or policy approaches which the failures did not (and vice versa)? It also investigates whether these results can explain several "natural experiments" in which a two-term president experienced vastly different economic results across his two terms. The research method takes the form of several years of qualitative case-study analysis, relying on primary and secondary resource materials, as well as statistical analysis of quantitative data from sixteen presidential

¹ For a recent summary see Dolan, Chris J., John Fren dreis, and Raymond Tatalovich. 2008. *The Presidency and Economic Policy*. Lanham, MA: Rowman & Littlefield Publishers.

² Taylor, Mark Z. 2012. "An Economic Ranking of the US Presidents, 1789-2009: A Data-Based Approach" *PS: Politics & Political Science* 45(4):596-604.

administrations.³ The results suggest a pattern: *economically successful presidents tend to demonstrate strong vision, action, alliance-building, and trust-building. The failures tend to perform poorly on these same four dimensions. Also, these four components overlap and interact, but the primus inter pares appears to be trust-building. That is, vision, action, and alliance-building matter most when they contribute to, or are the products of, trust-building. When they erode trust, then economic decline often looms.* These findings appear to hold true regardless of time period, initial economic conditions, political party, or the configuration of Congress. Finally, this research is *not* intended as a normative argument about what policies executives should or should not pursue, nor does it remove individual presidents from their historical context and judge them by 21st century standards. Rather it is meant to show that *similar* types of leadership behavior have produced *similar* results, regardless of time period, personal characteristics, political conditions, or economic situation.

These four concepts (vision, action, alliance-building, trust-building) require brief explanations in order to proceed. First, economically successful presidents tend to possess a clear *vision* or destination in mind for the country, with some rules-of-thumb against which they judge all policy decisions. They do not have to possess a highly specified philosophy or policy agenda, but they do have to have a clear destination for where they would like to take the country (e.g. Harding’s “normalcy”, FDR’s experimentation with national planning, Reagan’s moderate libertarianism). This vision should also be flexible, in that successful presidents experiment with policies and institutions, and are willing to ditch failures, try new ideas, and stick with unconventional successes. Of course, flexibility can go too far. To be successful, flexibility must fit credibly within the framework of the president’s vision. Failed presidents either have no clear vision or adhere inflexibly to a particular theory or policy regardless of its consequences. Second, economically successful presidents believe that the Federal government, and the executive himself, have an *active* role to play to improving the economy, be it through the creation of new policies and institutions or the elimination of defunct or inefficient ones. Failed presidents sit back passively waiting for problems to resolve themselves or trusting that the power of free

³ The broader research project examines, in-depth, the six most economically successful presidential administrations (Hayes, McKinley, Harding, FDR, Kennedy, Clinton) and compares them with four relative failures (Arthur, Hoover, Carter, W. Bush), as well as six “natural experiments” in which either a two-term president suffered a major reversal of economic performance (T. Roosevelt, Wilson, Truman, Reagan) or a two-term president bracketed a one-term president facing similar economic conditions (Cleveland-Harrison). Presidents who served prior to the end of Reconstruction were not included in this in-depth investigation because they presided over a decidedly pre-modern economy; however, a *prima-facie* review of the evidence suggests that the same results likely apply to the first eighteen presidents. Obama was not included in the comparison due to lack of adequate or reliable data at the time of writing.

markets will throw some economic prosperity their way.⁴ Even free-market oriented executives recognize that the government, and the presidency, must take action to ensure that markets work properly. Third, economically successful presidents forge strong *alliances* with major actors across the American political-economic system, especially with Congress, the media, major interest groups, and even the general public. This might be done through shared ideas and interests, flattery, deal-making, and logrolling. Even threats and coercion can work *if* executed in support of a clear, limited purpose, and perhaps sweetened with consolation prizes. Failed presidents are divisive leaders. They seek open combat, aimless confrontation, or act with dismissiveness, insult, disdain, or a lack of compassion. Also, advisors and appointees are valuable allies to the executive in that they can often mitigate or create disasters, or be important sources of policy innovation. Finally, *trust-building* is perhaps the most important of the four determinants of presidential economic success or failure. Economically successful presidents all build trust in major American political-economic institutions, including their own office. Failed presidents all increase uncertainty or explicitly damage trust: in themselves, in government, in markets, in either American democracy or capitalism.

The remainder of this paper focuses on the case of Theodore Roosevelt's economic performance. It highlights the role of action and alliances in trust-building, and their combined effects on the economy. The two-term administration of Theodore Roosevelt provides us with a natural experiment in which a relatively solid first-term economy was followed by an objectively dreadful second-term economy. Yet, during both of his terms, the same president faced very similar national issues. So too did the US economy confront similar circumstances across these years. Interestingly, each of Roosevelt's terms was also buffeted by a recession. The first recession (1903-1904) was relatively shallow. In fact, by the end of his first term, Roosevelt can be said to have been enjoying above average economic performance. However, Roosevelt's second term was an economic disaster. The second recession (1907-1908) was accompanied by a full-fledged financial panic, which rippled throughout the economy, around the world, and had negative effects on US economic performance for years to come.

⁴ Paraphrasing Breznitz, Dan. 2007. *Innovation and the State: Political Choice and Strategies for Growth in Israel, Taiwan, and Ireland*. New Haven, CT: Yale University Press: 6.

So what changed during Roosevelt's two terms? Roosevelt cannot be said to have directly caused either recession, but he took little action to fight either downturn. Also, we can find significant discouraging shifts in his leadership, especially in his alliances and overall trust-building, that clearly contributed to both downturns. And these changes were more dramatic during Roosevelt's second term. They reveal the subtle, but powerful ways, that presidential leadership can affect economic performance.

II. BACKGROUND

Theodore Roosevelt Jr. was born into a wealthy New York business family in 1858. His father was a towering figure in New York City who never quite took to the business world, but who excelled at philanthropy.⁵ As a wealthy advocate for honest government, Roosevelt Sr. became so well respected, that when reformers in the Republican party wanted an efficient, incorruptible man to replace inveterate spoilsman Chester Arthur as Collector of Customs of the Port of New York, they turned to Roosevelt Sr. At home, he was a benevolent disciplinarian, and a powerful influence on his son. The young Roosevelt simply adored his father. "My father was the best man I ever knew...[and] he was the only man of whom I was ever really afraid." President Roosevelt later wrote.⁶ He especially sought to emulate his father's vigorous fight against the wealthy and corrupt New York political machines on behalf of government reform.

Theodore Jr. grew up in a world of extreme privilege, but firmly grounded values. He lived in some of the finer homes in New York City. He was schooled by private tutors. As a boy, he travelled Europe and Egypt with his family. Yet despite their great wealth, Roosevelt's parents cultivated amongst their children an atmosphere of fierce competition, good sportsmanship, personal responsibility, and strict Victorian morality. No Roosevelt tolerated laziness or dishonesty. Selfishness and cowardice were seen as shameful. Even Roosevelt's handicapped sister was raised to be strong and intrepid. And despite suffering from childhood asthma, which frequently incapacitated him, Roosevelt's youth was incredibly energetic. He played sports of all kinds. He went hunting. He sometimes aided in charity work. And always there was intense study and hard work. Thus, Roosevelt grew up to become a fearless, highly intelligent, energetic young man of terrific moral rectitude.

⁵ For example, during the Civil War, he met personally with President Lincoln to establish a system by which Union soldiers could redirect a portion of their wages back home to their families. After the war, Roosevelt Sr. was a constantly spinning dynamo of reform and charity in Manhattan. He founded hospitals and, children's aid societies, became a director of the Metropolitan Museum of Art, and helped to create the American Museum of Natural History. See McCullough, David. 1982. *Mornings on Horseback: The Story of an Extraordinary Family, a Vanished Way of Life, and the Unique Child Who Became Theodore Roosevelt*. New York: Simon & Schuster.

⁶ Roosevelt, Theodore. 1913. *An Autobiography*. New York: The MacMillan Company: 8-10.

Roosevelt entered Harvard in 1876 in pursuit of a career in science which, at that time, entailed an adventurous life of travel and specimen collection. He loved the outdoors and natural history; throughout his youth he collected and dissected animals and insects. To the other students, he was a bizarre combination of energy, talent, ambition, and eccentricity. He was also an eternal optimist, seemingly impervious to their opinions. “Most of his classmates simply did not like him” Roosevelt was once told by a college debutant; yet hearing the revelation fazed him not at all.⁷ He became a passionate and successful student. He was also active in rowing, boxing, and the Alpha Delta Phi literary society, edited *The Harvard Advocate*, entered the Delta Kappa Epsilon fraternity, and gained admittance into the elite Porcellian Club. While at college, Roosevelt also met and married his first wife, who soon gave birth to his first daughter.

As an adult, Roosevelt surrendered science for law, and then entered politics as a Republican. Elected into the New York state legislature in 1881, Roosevelt energetically took over his now deceased father’s battle for political reform. “He came in as if he had been ejected by a catapult” a fellow assemblyman later recalled.⁸ He regularly lambasted corruption and inefficiency from the statehouse floor, regarding many of his fellow legislators as “vicious, stupid looking scoundrels.”⁹ He famously tried to unseat a powerful, corrupt party-machine judge. He supported legislation to ease urban working conditions. He toured the notorious city slums with Samuel Gompers, the labor leader, to personally observe the dreadful conditions there. Meanwhile, Roosevelt also found the time to write several books on military history, biography, and natural science.

When his wife and mother both died suddenly in early 1884, Roosevelt consoled himself by heading into the Dakota Badlands, where he became a rancher and cowboy. During his time there, he hardened himself physically and “learned to live on equal terms with men poorer and rougher than himself.”¹⁰ He got into fights, arrested thieves, lived off the land, and socialized with cowboys, ranch hands, and farmers. In 1886, he returned to New York City, launched a failed campaign for mayor, and married his second wife, Edith. For several years, he wrote, travelled, hunted, and served as a U.S. Civil Service Commissioner in Washington, DC.

⁷ McCullough, David. 1982. *Mornings on Horseback: The Story of an Extraordinary Family, a Vanished Way of Life, and the Unique Child Who Became Theodore Roosevelt*. New York: Simon & Schuster. P. 215

⁸ Isaac “Ike” Hunt (Jefferson-R) quoted in McCullough David. 1981. *Mornings on Horseback*. New York: Simon and Schuster p.256

⁹ Quoted in McCullough David. 1981. *Mornings on Horseback*. New York: Simon and Schuster p.254

¹⁰ Morris, Edmund. 1979. *The Rise of Theodore Roosevelt*. New York: Random House:377

While Commissioner, Roosevelt was again a brash, loud, and energetic reformer. He campaigned vigorously against corruption in government, vexing the Cleveland and Harrison administrations, which moved too slowly for him. Roosevelt exposed President Harrison's corrupt Postmaster General and managed to shift tens of thousands of federal jobs from patronage appointments to exam-based hiring. Reformers loved him. But Roosevelt's independence and aggression frightened many in the establishment. Many saw him as irresponsible, displaying "a variety of indiscretions"¹¹, having a "bellicose temperament"¹² and being "a bull in a China shop"¹³, especially in his assaults on the spoils system. His cocky idealism suggested immaturity. "He has what is essentially a boy's mind...and I don't know as he will ever outgrow it." observed a friend.¹⁴ But both Harrison and Cleveland stood by him. It was during this time that Roosevelt also became familiar with official Washington and how it functioned.¹⁵ It was there too that he first set his eye on the Presidency.

In 1895, Roosevelt resigned the Civil Service Commission to become Police Commissioner of New York City, where he received national attention for his police reforms. The NYC police force was then reputed to be one of the most corrupt in America. Immediately upon arriving, Roosevelt instigated a round of aggressive reforms. He performed "midnight rambles" so as to catch policemen asleep or absent from their posts. He implemented regular inspections of firearms and annual physical exams. He shifted hiring qualifications from the applicant's political affiliation to his physical and mental abilities. He created meritorious service medals. He required all officers to report regularly for target practice, thus establishing the foundation of the NYC Police Academy, one of the first in the country. And he worked with his fellow commissioners to create new disciplinary rules.

These reforms upset the New York City political-machine, which had used the police force as a form of patronage and means of local influence. So, in 1896, when Roosevelt campaigned hard for McKinley, he was "rewarded" by being removed from his position. Instead, he was appointed Assistant Secretary of the Navy in the new McKinley administration. There Roosevelt lobbied hard for an expanded, modern navy based upon the

¹¹ Congressman Lemuel Quigg (Aug 1894) quoted in Morris, 1979: 473.

¹² E.L. Godkin, editor of the *Post*. Quoted in Morris, 1979: Random House. P. 527

¹³ John Davis Long, US Secretary of the Navy, diary entry Feb 26, 1898. Quoted in Thomas, Evan. 2010. *The War Lovers: Roosevelt, Lodge, Hearst, and the Rush to Empire, 1898*. New York: Little, Brown & Co.: 218.

¹⁴ Joseph Bucklin Bishop (March 1896) editor of the *Evening Post*. Quoted in Morris, 1979:524

¹⁵ Aunchincloss, Louis. 2001. *Theodore Roosevelt* New York: Times Books. P. 22.

ideas of military theorist Alfred Thayer Mahan.¹⁶ When the Spanish-American War came, Roosevelt left the administration to personally lead a regiment of “Rough Riders” to fight in Cuba.¹⁷ There he proved just as fearless and assertive a soldier as he was a politician. During the war, Roosevelt also openly castigated the military incompetence he observed, and used his contacts in the US Senate to bring it to the attention of the government.

So famous were Roosevelt’s exploits by now that, after the war, the Republican Party was practically obligated to nominate him to become Governor of his home state of New York (1899-1900). Once elected, Roosevelt again pushed an aggressive program of reform. He cleaned up and modernized the management of the state’s canals. He reformed the prison system. He strengthened factory inspections and improved labor laws. In public schools, he outlawed racial segregation. He created new state park and forestry programs. Perhaps most importantly, he convinced the state legislature to tax public utility franchises, bringing in much needed revenues to fund a range of public programs.

Once again, Roosevelt’s reforms upset the state political machine. Therefore, in 1900, when Republican President McKinley was searching for a man to replace his deceased vice president, the New York political bosses combined with Roosevelt’s allies in Congress to force Roosevelt on McKinley as a running mate in the 1900 election. This was against the wishes of McKinley’s campaign manager, Senator Mark Hanna, who thought Roosevelt too unpredictable and not trustworthy. “Don’t any of you realize that there’s only one life between that madman and the Presidency?” he famously pleaded.¹⁸ McKinley did not especially want him either. Roosevelt himself preferred to either remain New York governor or to be named Governor-General of the Philippines. However, McKinley acquiesced to the will of the party regulars, who were almost unanimous in their support for Roosevelt, while Roosevelt accepted the advice of his friends in Congress. Thus, in 1901, Roosevelt was kicked upstairs to become McKinley’s vice president. Many hoped that this would end his political career. But, six months after McKinley’s second inauguration, the president was assassinated. In September 1901, Roosevelt became the youngest chief of state in American history at age forty-two.

¹⁶ In particular, Mahan, Alfred Thayer. 1890. *The Influence of Sea Power Upon History, 1660–1783*. Boston, MA: Little, Brown, & Co.

¹⁷ Contrary to myth, Roosevelt did not instigate the US Navy’s 1898 attack on the Philippines during the absence of Secretary of the Navy, John Davis Long. Rather, Roosevelt merely relayed the orders for a long-established war plan. See Thomas, Evan. 2010. *The War Lovers: Roosevelt, Lodge, Hearst, and the Rush to Empire, 1898*. New York : Little, Brown and Co.

¹⁸ Brands, H. W. 1997. *T. R.: The Last Romantic*. New York: Basic Books: 397

III. VISION

Economically successful presidents tend to enter office with a compelling, but flexible, vision for where they want to take the country. Roosevelt's vision was one of strength, acquired through competition and hard work. He mated this with the stringent ideals of Victorian morality, and a special emphasis on fulfilling duty to one's community and country. But it was not a vision based on any particular policy preferences. In fact, Roosevelt later wrote "In internal affairs, I cannot say that I entered the presidency with any deliberately planned and far-reaching scheme of social betterment. I had, however, certain strong convictions."¹⁹ Rather, what drove Roosevelt's vision were his personal moral and political beliefs. "I don't know the way people *do* feel...I only know how they *ought* to feel" he explained to a family friend.²⁰

At its core, Roosevelt's vision embraced a basic Social Darwinism on the one hand, yet also recognized an American-style *noblesse oblige* on the other. In particular, Roosevelt believed that all social actors should be strong, competitive, and morally rigorous. This included individual men and women, business corporations, even entire nations, And these qualities were to be achieved through self-discipline and hard work. Success, he insisted, comes from "the strenuous life...from danger, from hardship, or from bitter toil."²¹ For America, he sought industrial might and a muscular foreign policy. But these required a government that was strong, centralized, and also ethical. He also believed that the government should have an active role in both domestic and world affairs. In particular, Roosevelt's foreign policy views constituted a distinct break from those of his predecessors. Previous presidents had mostly reacted to world events, avoided entanglements, and preferred Jeffersonian (i.e. purely economic) approaches to international relations. Instead, Roosevelt held that the United States was now a Great Power. As such, it had a responsibility to provide stability, order, and perhaps justice, in a chaotic world. "We have become a great nation, forced by the fact of its greatness into relations with the other nations of the earth, and we must behave as beseems a people of such responsibilities."²²

¹⁹ Roosevelt, Theodore. 1913. *Theodore Roosevelt: An Autobiography*. New York: New York: The MacMillan Company: 420. He continued that "I was on the lookout for every opportunity of realizing those convictions. I was bent upon making the Government the most efficient possible instrument in helping the people of the United States to better themselves in every way, politically, socially, and industrially. I believed with all my heart in real and thoroughgoing democracy, and I wished to make this democracy industrial as well as political, although I had only partially formulated the methods I believed we should follow." Ibid.

²⁰ Quoted in McCullough, David. 1981. *Mornings on Horseback* p. 364

²¹ Speech by Theodore Roosevelt to the Hamilton Club in Chicago, IL (April 10, 1899). "The Strenuous Life." Reproduced in Roosevelt, Theodore. 1900. *The Strenuous Life: Essays and Addresses*. New York: The Century Co. pp 1-18.

²² Roosevelt, Theodore. 1905. Inaugural Address. March 4.

In economic policy, Roosevelt's vision again stressed competition and morality. He accepted that, in the process of bettering themselves, many men, corporations, and nations, would naturally acquire great wealth. This was fine, as long as the wealthy dedicated themselves to their fellow man. Every individual must work hard to make the best of himself (even herself), but also had a duty to contribute to the well-being of his or her community. What Roosevelt despised was greed and selfishness. "There is not in the world a more ignoble character than the mere money-getting American, insensible to every duty...bent only on amassing a fortune, and putting his fortune to the basest uses."²³ In political terms, Roosevelt believed that the pursuit of extreme wealth, or wealth for its own sake, would produce an American despotism run by tycoons. But he felt equally threatened by the poor masses, especially labor, who might rise up to create socialism. Either result would destroy America's productive capabilities. Hence, Roosevelt felt a constant need to navigate American society between what he termed "the Scylla of mob rule and the Charybdis of subjection to plutocracy."²⁴

Roosevelt therefore believed that the government, led by a strong executive, had a vital role to play in regulating Americans' political-economic behavior. To Roosevelt, American capitalism had become too raw. It was in danger of fueling anarchy, socialism, or communism. On the other hand, he conceded that too much government intervention would damage industry, and breed a nation of lazy, timid, and unproductive workers. Roosevelt felt that the state must intervene in the economy only enough to guarantee a "square deal" and "just balance" for all hard-working citizens. This meant a fair profit for those businessmen and investors who worked hard, lent smart, and took risks. But it also meant that workers, consumers, voters, and the poor should be protected against exploitation. Roosevelt particularly despised "the mighty industrial overlords of the country" who felt little obligation to the public interest.²⁵ "These men demanded for themselves an immunity from governmental control which, if granted, would have been as wicked and as foolish as immunity to the barons of the twelfth century. Many of them were evil men."²⁶ Roosevelt believed that these industrial titans should be taught, or forced, by government to pay their share of taxes, invest in their communities, and conduct themselves honestly and responsibly.

²³ Roosevelt, Theodore. 1897. *American Ideals*. New York: PF Collier & Son p. 25

²⁴ Roosevelt letter to George Otto Trevelyan. January 1, 1908. Quoted in Yarbrough, Jean M. 2012. *Theodore Roosevelt and the American Political Tradition*. Lawrence, KS: University Press of Kansas. p. 187.

²⁵ Roosevelt, Theodore. 1913. *An Autobiography*. p. 437

²⁶ Roosevelt, Theodore. 1913. *An Autobiography*. P. 439

In line with the emerging school of Progressive thought, Roosevelt wanted government to forge a compromise amongst America's contending classes, while maintaining vigor in the nation's economy. In particular, he believed that the state must regulate those business activities that might damage competitiveness or destroy public goods. The executive branch must either penalize or regulate business trusts whose only purpose was to amass great wealth. Government must also prohibit the denuding of America's forests and poisoning of her waters. Safety laws and building codes must protect children, labor, medicine, infrastructure, and the food and water supply. Local governments must do their part by providing parks, playgrounds, safe neighborhoods, strict building codes, and rapid transit.

Remarkably, President Roosevelt mostly ignored the traditional economic problems of his time: tariffs and finance. Trade policy had been a signature issue for his predecessor, McKinley, and indeed the entire Republican Party for decades. They saw protective tariffs as a means by which America might industrialize, modernize, grow wealthy, and provide gainful employment to millions of workers. Via reciprocity treaties, trade was also a major tool of Republican foreign policy. But Roosevelt quietly, and almost single-handedly, abandoned all of this. He found tariffs dull, confusing, a likely political quagmire, and of questionable economic value. So he traded his influence on trade policy to senior Republicans, in return for their support on his anti-trust and foreign policy agenda.²⁷ And once in Congress, protectionists there quietly tabled trade reform and reciprocity treaties.²⁸ Financial policy would prove to be a far more serious issue for Roosevelt, but it perplexed and bored him. "I don't give a damn about stocks and bonds..." he quipped early in his Presidency.²⁹ Once again, he deferred on monetary issues to more interested Congressmen in exchange for their votes on matters for which he cared more.³⁰ This was problematic. For banking and finance would prove to be Roosevelt's economic Achilles' heel.

Finally, there were strong racial and gender components to Roosevelt's vision. Like most Americans of his day, Roosevelt maintained that people faced different biological limits on what they could accomplish. For example, he believed in the inferiority of women who, though deserving of equal rights, were physically weak.

²⁷ Lowenstein, Roger. 2015. *America's Bank: The Epic Struggle to Create the Federal Reserve*. New York: Penguin Press.

²⁸ To a certain degree, William McKinley (1897-1901) had accomplished so much in these areas, that Roosevelt also had considerably less do. Still, many considered tariffs too high, a form of unfair corporate favoritism, and therefore damaging to average Americans. Tariff reform therefore remained a perennial political issue throughout the Roosevelt presidency.

²⁹ Quoted in Morris, Edmund. 2001. *Theodore Rex*. New York: Random House. p. 36.

³⁰ Lowenstein, 2015.

They should therefore reserve themselves to the home as the guarantors of a strong moral family.³¹ Men should be the breadwinners, soldiers, and leaders outside the home. Roosevelt also adhered to theories of racial hierarchy.³² African-Americans were “as a race and in the mass...altogether inferior to the whites”³³, though he supported equal political rights for blacks. His racial prejudices also cautioned him against immigrants of “primitive people”³⁴ and “inferior races”³⁵, especially the Chinese whose “presence is ruinous to the white race.”³⁶ As a result, Roosevelt would tighten restrictions on immigration during his Presidency.

Race also pervaded Roosevelt’s thinking about foreign policy. Roosevelt saw a world full of different races wrestling with different stages of development. He reasoned that only “a mighty race, in its vigorous and masterful prime” could rule over weaker races.³⁷ This explained for him the empires of the Teutonic peoples: the Dutch, English, and recently Germans. In fact, it was only right that the dominant races, and those in more advanced stages of development, should rule benevolently over those stuck in the “savage” or “barbarous” stages. Thus, the US was morally justified in its temporary interventions in the Caribbean and the Philippines.³⁸ Roosevelt further believed that “all the great masterful races have been fighting races” and that the warrior ethic was more important than skill at commerce, art, or science.³⁹ He took this so seriously that he frequently stated that he would rather his own children die in war than not fight at all.⁴⁰ He therefore had little patience for international arbitration, which was a major policy goal for liberals and peace advocates. Yet, Roosevelt conceded that racial imperialism would fail if it was done in the service of international exploitation or individual greed. Racial imperialism must be pursued in the “interest of the race as a whole”, with a humane, ethical goal, not a selfish one.⁴¹ It was therefore important for him to demonstrate America’s superiority, for

³¹ Roosevelt admitted that “in the abstract, women should have equal rights with men”, but women were physically weaker than men, therefore they could not physically defend their right to vote. Hence it was not practical for them to have it. He would slowly change this view after he left office. Roosevelt, Theodore. 1880. *The Practicality of Equalizing Men and Women Before the Law*. Senior Thesis. Cambridge, MA: Harvard University; see also Yarbrough 2012.

³² Roosevelt often wrote and spoke of “race” in imprecise terms, it could mean skin color, geographic origins, language, customs, “blood” or ethnic group, or some combination of these. Yarbrough 2012.

³³ Letter to Owen Wister April 27, 1906. Quoted in Rego, Paul M. 2008. *American Ideal: Theodore Roosevelt's Search for American Individualism*. New York: Rowman & Littlefield: 146

³⁴ Yarbrough 2012: 92

³⁵ Roosevelt, Theodore. 1896. Monroe Doctrine. *Bachelor of Arts*. II(4): 438-454

³⁶ Roosevelt, Theodore. 1894. Review of National Life and Character. *The Sewanee Review* 2: 353-376

³⁷ Roosevelt, Theodore. 1896. *The Winning of the West, Volume IV*. New York: GP Putnam & Sons: 2

³⁸ Though not for long because, according to Roosevelt, the white race was not fit for the tropics. See Roosevelt 1894.

³⁹ Roosevelt, Theodore. 1897. Address to the Naval War College – Newport, R.I. June 2,

⁴⁰ Letter from Theodore Roosevelt to Robert Ferguson August 9, 1918

⁴¹ Yarbrough 2012: 75

example by being the first nation to send an entire modern navy around the world, to build the colossal Panama Canal, and to serve as the world's peace mediator in both Asia and colonial Africa.

Roosevelt's vision was a patchwork, composed of elements that did not always fit well together and that could even contradict one another. On one hand, this gave Roosevelt enormous flexibility; on the other, Roosevelt's actions could seem arbitrary and autocratic depending on how people interpreted his vision. In a general sense, Roosevelt's vision was relatively constant throughout his presidency. It guided many of his actions as president, as well as the public's understanding of, and trust in, him. Therefore, from a scientific perspective, the Roosevelt case alone may not provide sufficient variation to bring the casual role of presidential vision into full relief. However, the basic framework of Roosevelt's vision, summarized above, does provide the context necessary to understand his actions, alliances, and trust-building discussed below.

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IV. ACTION (First Term, 1901-1905)

Presidential action is essential for understanding Roosevelt's economic successes and failures. In his era, Roosevelt was perhaps *the* most active president to serve since the nation's founding. Prior to Roosevelt, American presidents had allowed the Constitution to "enumerate" their powers. Even those executives who had attempted to be "active" had mostly worked through Congress or their party (McKinley, Harrison), while overtly passive presidents had simply let Congress or their party work through them (Arthur, Grant). A few presidents had even declined greater executive power when it was offered them (Cleveland).⁴² Regardless, prior US presidents had almost always deferred to, or worked closely with, these other actors in the political system, especially in the public's view. But legislatures, parties, and the bureaucracy were too slow, inefficient, and corruptible for Roosevelt. Therefore, Roosevelt argued that the president must act as a "steward of the people". That is, the executive branch "has the legal right to do whatever the needs of the people demand, unless the Constitution or the laws explicitly forbid him to do it."⁴³ Roosevelt would not let the Constitution determine

⁴² Grover Cleveland was far more passive during his first term, especially the first two years, than during his second term. During these early years, he exercised his power mostly through his veto. He even refused to use his power to alter national monetary policy when he had the opportunity to do so. He told reporters "I did not come here to legislate", while assuring senators that "...I am not at all inclined to meddle with proposed legislation while it is pending in Congress." New York Herald Jan 6, 1886, Cleveland Papers. July 14, 1886. Quoted in Nevins p. 271. See chapters in this volume on Grover Cleveland.

⁴³ Roosevelt, Theodore. 1913. *An Autobiography*. p. 504

what he could do as president; it would merely set the legal limits. He intended to take the lead on policy, and to bend Congress and the Republican party to his will. Only Abraham Lincoln (1861-1865) before him had been allowed to get away with such an expanded conception of executive power, and that was due to the exigencies of the Civil War. President Andrew Johnson (1865-1869) had been repudiated and neutered for daring to act similarly.⁴⁴ And in taking such an active role, Roosevelt transformed the traditionally ancillary American Presidency and the public's expectations of it.

Roosevelt also personalized his administration like no other president since Andrew Jackson (1829-1837). Most presidents had graciously, or gratefully, delegated much policy and administrative work to their cabinet heads. But Roosevelt often sought to supersede his senior bureaucrats. He regularly commandeered major decisions or entire portfolios from the Departments of State, War, Interior, and Agriculture. He interfered in the running of the Post Office, the Government Printing Office, and even preferred to act as his own press secretary. These were impressive feats given that Roosevelt's White House staff numbered fewer than two dozen.⁴⁵ Roosevelt occasionally did find trusted and useful allies in men like Elihu Root (War), Gifford Pinchot (Forestry), James R. Garfield (Interior), Charles Neill (Labor), and Herbert Knox Smith (Commerce) to whom he could delegate freely. But often, Roosevelt *was* his administration. Most policy decisions, and executive action, ultimately flowed from him.

Roosevelt's presidency demonstrates how presidential activism can be either a blessing or a curse for the economy *depending* on how it affects alliances and trust-building. Perhaps the simplest example can be found during Roosevelt's first days in office. At that time, the United States was enjoying a national economic boom. President William McKinley (1897-1901) had ended a terrible four-year depression by convincing Congress to raise tariffs on imports. It was widely believed that McKinley's new tariffs had protected American industry and workers, while simultaneously building the US Treasury's reserves of gold. In 1898, the quick victory of the United States in the Spanish-American War further bolstered confidence at home, and respect abroad, for the US as an emerging Great Power. By 1900, McKinley had also formally placed the US on the

⁴⁴ Trefousse, Hans L. 1989. *Andrew Johnson: A Biography*. New York: W. W. Norton & Company; Gordon-Reed, Annette. 2011. *Andrew Johnson*. New York: Times Books.

⁴⁵ In 1901, Roosevelt entered office with one personal secretary, two assistant secretaries, two executive clerks, eleven clerks, and seven messengers. Three additional clerks and two messengers would be added by the following summer. Gould, 2011: 13-14.

international gold standard. Partly as a result of these actions, the US dollar became more trusted around the world. Industry boomed. America's trade balance and budget deficits shifted into surplus. Unemployment plummeted. The stock market soared. Federal debt fell rapidly. Furthermore, McKinley had been so thoughtful, kind, even fatherly in his approach to political leadership, that he had become the most beloved president since Grant (1869-1877). Even McKinley's assassin later admitted that he felt no personal ill will towards the president himself, only the capitalist system that McKinley represented.⁴⁶

McKinley's assassination, in mid-September 1901, threatened this prosperity and stability. Not only was McKinley, the "faithful and helpful servant of his country,"⁴⁷ now gone, but he was being replaced by "that damned cowboy", Roosevelt.⁴⁸ Certainly many in the public loved Roosevelt's brash pugnacity. But the financial and business communities, as well as the political establishment, feared his recklessness. "He is quick, impulsive, and likely to cause a sensation at any time." worried the *Richmond Dispatch*.⁴⁹ The more sober *Nation* agreed "the apprehension which assailed the public mind...when Mr. McKinley was struck down, was that the Vice-President [Roosevelt] had too much initiative, and that he would probably hasten to substitute new policies in place of those already in operation."⁵⁰ Some newspapers warned of resignations, perhaps forced, of widely respected cabinet members. Chaos in government seemed to be at hand. Fear immediately hit the stock market. The relatively new Dow Jones Index, created five years earlier, dropped 4.5 percent when news of McKinley's shooting first broke; then it fell another 4.4 percent when McKinley died a week later.

When he received the news of McKinley's death, Roosevelt moved quickly to restore a sense of stability in the Presidency. He rushed from his summer mountain-climbing expedition to take the oath of office in Albany where McKinley's body lay. Before the oath was even administered, Roosevelt took care to publicly declare "...in this hour of deep and terrible national bereavement I wish to state that it shall be my aim to continue absolutely unbroken the policy of President McKinley...."⁵¹ He then quickly met with his cabinet, after which he announced to the press that all of McKinley's top men would stay on. He even reached out to reassure

⁴⁶ Seibert, Jeffrey W. 2001. *"I Done My Duty": The Complete Story of the Assassination of President McKinley*. Bowie, MD: Heritage Books.

⁴⁷ "Wm. McKinley." September 19, 1901. *Journal and Herald* 35(35):4. Springville, New York.

⁴⁸ Senator Mark Hanna, quoted in Morris 2001: 30

⁴⁹ "Washington Waking." November 24, 1901. *Richmond Dispatch*. n15792: 2

⁵⁰ "The Week." *Nation* 26 Sept. 1901. 73(1891): 235-37.

⁵¹ Morris 2001: 14

key McKinley allies. To demonstrate his own confidence and openness, Roosevelt also rejected the tight cordon of police protection that local law enforcement sought to provide. Roosevelt's energetic, strong signals of continuity worked. The markets stabilized the next trading day. The media applauded him.

However, like all presidents, his executive activism could backfire when it damaged his alliances or eroded trust. President Roosevelt was particularly vulnerable on this point. After all, he had already accumulated decades of well-publicized disregard for traditional political behavior. Even minor actions by the new president could be interpreted as dangerous new policy agendas. For example, during his first month in office, Roosevelt ham-fistedly invited Booker T. Washington to dine at the White House, twice. The initial meeting was kept secret. And in it Roosevelt merely informed Washington that he would not appoint "a large number of colored people"⁵² to federal positions in the South. But when the second dinner was disclosed to the public, it shocked the nation. For Washington was the first black dinner guest at the White House in history. African Americans celebrated it as "the beginning of a new order".⁵³ However, newspapers across the South blasted the visit as a "most damnable outrage"; an act that "has destroyed the kindly, warm regard and personal affection for him which were growing up fast in the South."⁵⁴ Worse yet, rumors leaked of possible follow-up dinner planned during Roosevelt's visit to Yale. A brief national scandal ensued. Even Mark Twain privately admonished the president for his lack of subtlety.⁵⁵ Any chance of winning the trust of white Southerners diminished almost overnight. Others argued that Roosevelt had put Southern blacks at risk of violent retaliation. To millions of Americans who had embraced scientific racism and reconciliation with the South, the new president seemed disorderly and tactless.

Hence, Roosevelt's first annual message to Congress in early December 1901 was widely expected to be a bombshell.⁵⁶ Given Roosevelt's history of reform, and reputation for unpredictability, the country prepared itself for a litany of major policy changes. They were pleasantly disappointed. Roosevelt's first message remains amongst the longest and most rambling in US history. He eulogized McKinley and raged against anarchism. He hailed the strong industrial economy. He cautiously suggested greater anti-trust regulation, but he emphasized

⁵² Morris 2001: 47

⁵³ Quoted in Morris, 2001: 54

⁵⁴ Quoted in Morris, 2001: 54-55.

⁵⁵ Morris 2001: 56

⁵⁶ Then delivered in writing and read aloud to Congress by a House clerk, as was commonly done since Thomas Jefferson's first message in December 1801.

investigations and fact-gathering rather than legal action. He called for tighter restrictions on immigrants. He discussed trade and tariffs at length, but with little apparent purpose. He called for a stronger navy, a trans-ocean canal, a permanent census bureau, and better stewardship of America's forests and natural resources. Perhaps the only issue that Roosevelt ignored was civil rights for African-Americans. In other words, the essay was designed *not* to offend. It was scattered, vague, and full of caveats. It was also well within the confines of McKinley's policy agenda. It therefore relieved most Congressmen, many of whom had been consulted in its writing. Most newspapers also supported it. The *New York Evening Post* happily reported that "The 'Rough Rider' and the 'Jingo', the impetuous youth of a year ago, has disappeared."⁵⁷ The young president seemed either to be maturing or had been brought under control by Republican party elders. But Roosevelt would soon dash these tranquil expectations.

Coal Strike of 1902 (First Term)

One early, positive example of Roosevelt's economic activism was the 1902 coal strike. That spring, some 150,000 coal miners went on strike in the heart of the Pennsylvania coal district. The strikers demanded wage increases, a shorter work day, consistent production metrics, and formal recognition of their labor union. The corporations which formed the coal mining cartel, one of the most powerful trusts in America, refused to recognize the union. By summer, thousands more miners had joined the strike. Soon, with no coal shipments flowing across the nation's roads and rail systems, another 50,000 transportation workers were laid off. As summer 1902 progressed, close to 1 million workers either joined the strike or were made idle by it. It had snowballed into the largest work stoppage in American history.

An economic disaster loomed. As the weather cooled, and the first winter coal orders were placed, the price of coal on the New England market began to surge. Newspapers warned of a winter coal famine. Meanwhile, violence increased in mine country as owners struggled to protect their property from strikers, and as strikers sought to scare off scab workers. "[The strikers] were said to be constantly drilling with arms in the town and secretly banded to resist [Federal] troops and deputies" reported one national guardsman.⁵⁸ The worried stock market started to wander into decline. Soon mayors and governors across New England and the

⁵⁷ Quoted in Gould, Lewis L. 2011. *The Presidency of Theodore Roosevelt*. 2nd edition. Lawrence, KS: University Press of Kansas: 44

⁵⁸ Culin, Stewart. 1903. *A Trooper's Narrative of Service in the Anthracite Coal Strike, 1902*. Philadelphia, PA: George W. Jacobs & Co.:

mid-Atlantic appealed to Roosevelt for action. They were joined by Republican party leaders who feared a mid-term election debacle. Roosevelt himself became concerned that a coal strike during the coming winter freeze might rouse wider support for socialism.

In legal terms, the coal strike was a private dispute between management and labor; therefore, the federal government had no constitutional grounds upon which to intervene, unless formally requested by a state governor. Roosevelt skirted these proscriptions by “inviting” the leaders of the coal trusts and the miners’ union to an unprecedented meeting at the White House in early October 1902. Roosevelt admitted his constitutional limits to his guests. He also refused to act as judge or jury for the disputants. Instead, he sternly urged them to reconcile so as to avoid the “future terrors” and “evil possibilities” of a winter coal strike.⁵⁹ But the corporations refused to budge. Union recognition was a non-starter for the coal cartel. As for the strikers’ grievances, the coal firms defiantly insisted that “The rights and interests of the laboring man will be protected and cared for—not by the labor agitators, but by the Christian men to whom God in his infinite wisdom has given the control of the property interests of this country...”⁶⁰ The cartel even demanded that Roosevelt use troops to force the strikers back to work. To Roosevelt, this was yet another demonstration of the destructive arrogance and cold self-interest of the country’s “mighty industrial overlords”.⁶¹ The coal trusts expressed no concern, either for their workers or for the public interest. With no compromise in sight, the meeting stretched on for weeks

In frustration, Roosevelt ordered a contingency plan for federal troops to seize and operate the mines. Such federal interference in private markets was unheard of. Even during the unprecedented labor riots of the 1870s and 1890s, troops had been used sparingly, and only to restore order, protect federal property, and ensure mail delivery. Never had a president used armed force to take over a private industry. A senior Republican privately challenged Roosevelt on the Constitutionality of domestic military action. Roosevelt did not care. He shot back “The Constitution was made for the people, not the people for the Constitution!”⁶² He then leaked his plan to the *New York Evening Post*. To further strengthen his hand, Roosevelt pressured the financial titan J.P. Morgan to use his influence over the coal cartel to forge a compromise. The president also sent details of the

⁵⁹ Morris 2001: 157

⁶⁰ Morris 2001: 137

⁶¹ Roosevelt 1913: 465.

⁶² Morris 2001: 165

negotiations to the newspapers, so as to embarrass the coal trusts into concessions. The mine cartel was unexpectedly caught between the threat of nationalization, a whirlwind of bad press fueled by Roosevelt, and pressure from JP Morgan. The mine owners caved in after only a few days. They agreed to allow Roosevelt to appoint an expert commission to study the situation, and then to abide by its recommendations. The miners' union concurred. The strike was over. Roosevelt's constructive activism had averted a major political-economic crisis.

Environment & Conservation (First Term)

Roosevelt also prioritized "conservation" throughout his Presidency, an issue ignored by most previous presidents.⁶³ Having grown up an avid outdoorsman and amateur natural scientist, he had come to believe that Americans were slowly destroying, or using up, their vital natural resources. Therefore, he argued that conservation was important, not just for the sake of popular recreation, natural beauty, and species preservation, but also for its economic value. Forests and waterways in particular must be scientifically managed by the federal government in order to sustain timber-based industries and agriculture. "Forest protection is not an end of itself; it is a means to increase and sustain the resources of our country and the industries which depend upon them," he declared.⁶⁴ The problem, according to Roosevelt, was irresponsible exploitation by big business. Timber, railroad, and mining cartels had acquired or abused millions of acres of public lands and water rights for private gain and at little cost. As for state and local conservation efforts, they were plagued by laxity, fraud, and outright theft. Within months of becoming president, Roosevelt made public his intent to become the "steward" of the nation's resources in a thick, aspirational section on conservation in his first annual message to Congress. But it was generally ignored.

During his first term, Roosevelt moved more discretely and harmoniously on the environment than in his second term. In 1901, he asked Congress to unify federal forestry functions within a single Bureau of Forestry. He also called for national forest and animal preserves, federal water projects, and land reclamation.

⁶³ An important exception is Benjamin Harrison (1889-1893), who was perhaps America's first "environmental President". Harrison supported the Forest Reserve Act of 1891 and used it to create seventeen national forest reserves, withdrawing 13 million acres of federal land for forest conservation. Harrison also created some of America's first national parks (Sequoia, Yosemite), first military park (Chickamauga and Chattanooga, GA), first urban park (Rock Creek, Washington DC), and the first prehistoric Indian ruins to be granted federal protection. But Theodore Roosevelt was the first president to make conservation a top priority throughout both his administrations. See Graham, Otis L. 2015. *Presidents and the American Environment*. Lawrence, Kansas: University Press of Kansas.

⁶⁴ Roosevelt, Theodore. 1901. Annual Message to Congress. Dec 3.

Then, in 1902, Roosevelt quietly worked with Congressman Francis G. Newlands (NV-S)⁶⁵ to pass a Reclamation Act, which used federal land sales to pay for the construction of reservoirs and irrigation projects so as to promote agriculture in the Western desert states. In early 1903, Roosevelt then used an executive order to create the first national wildlife refuge, Pelican Island, in Florida. He also added to the Bureau of Forestry the functions of the General Land Office and the US Geological Survey. This new Public Lands Office, run by conservation activists, would become the headquarters of Roosevelt's conservation program. To advertise his environmental program, Roosevelt took a highly publicized tour of the Badlands, Yellowstone, Yosemite, and the Grand Canyon. While on the tour, he used hundreds of speeches, interviews, and photo shoots to educate the public and build support for his conservation agenda. At first, large timber firms supported Roosevelt's programs, at least to the extent that it benefited them. So too did farmers and developers support federal irrigation projects to aid the West. In line with his vision, Roosevelt was taking action to build trust and alliances in previously neglected parts of the economy. It was all fairly successful. But this would change in future years.

Anti-Trust (Background)

However, Roosevelt's activism on anti-trust and federal regulation began to severely divide Americans, thereby damaging alliances and trust over time. The public generally cheered him on. So too did the growing Progressive movement within the Republican party. On the other hand, the business and financial communities regularly interpreted Roosevelt's activism, including his unprecedented intervention in the coal strike, as an assault on the *laissez-faire* system that had allowed them to gradually dominate the US economy. To them, Roosevelt was ushering in class warfare rather than preventing it. And here his activism rapidly degraded trust in and within the large-business sector.

Some history here is useful. At the core of antebellum American economic philosophy were two concepts: private property and the liberty of contracts for trading one's property, including one's labor. The framers of the US Constitution had intended that both rights be vigorously protected. Private property and liberty of contract were thought to act like a shield that protected individual citizens, and their small businesses, against predatory government. In fact, many Americans believed that a citizen could *not* vote freely if he did not

⁶⁵ Newland was a member of the Silver Party from 1893-1903, after which he joined the Democratic Party

possess private property and liberty of contract. Otherwise, voters would be dependent on, and beholden to, wealthy property owners. Therefore, any systemic infringements upon private property or liberty of contracts would threaten democracy itself, leading to an American oligarchy or monarchy.

During the 1840s, the advent of railroads altered this calculation. Before railroads, unless one had easy access to a river or port, it was difficult for American businesses to transport goods beyond a few dozen miles.⁶⁶ Therefore a “large” business might only dominate a city or county. But the rails slowly knit the fragmented American economy into a single national market, one that could be monopolized by a handful of large producers. Indeed, the railroads themselves were natural monopolies. And after the Civil War, they gradually became a public necessity for long-distance transportation and shipment. In an economy hitherto dominated by small agriculture, this transportation revolution slowly changed the balance of power between millions of small farmers and laborers and a few thousand firms and investors. Farmers began to complain to their state legislatures that the railroads were using their monopoly on transportation to extract ever higher payments, especially during harvest season. So too did the enormous grain silos, built nearby the rail stations to store grain for shipment and often owned by the railroads, use their monopoly on storage to exploit farmers. Railroads had also benefited from generous give-aways of public lands to become essential carriers of food, coal, mail, and passengers. Thus, the rails were now clothed in a public interest. But the railroads used property rights and liberty of contract to shield themselves against government action. Farmers argued that these shields were being abused. As America industrialized, factory workers and consumers soon hurled similar criticisms at the massive new industry cartels. Monopolies, not monarchs, now seemed to pose the primary threat to individual rights, and perhaps to democracy itself.

Big business countered that there was such a thing as “ruinous competition”. When new business opportunities appeared, hordes of investors piled in seeking fantastic returns. Companies then battled each other for limited markets by slashing prices. But low prices could be made profitable only by over-producing. As ever more goods and services swamped the market with supply, prices were forced ever downwards in a destructive spiral. In this environment, some firms would inevitably go bankrupt, unable to pay their creditors or suppliers. And if enough bankruptcies hit the banks, or merely threatened the right bank, then they set off mass financial

⁶⁶ Taylor, George Rogers. 1951. *The Transportation Revolution, 1815-1860*. New York: M.E. Sharpe.

panics and economic recessions. Worse yet, these cycles were often triggered by irresponsible speculators. The oil titan J.D. Rockefeller complained “oftentimes the most difficult competition comes, not from the strong, the intelligent, the conservative competitor, but from the man who is holding on by the eyelids and is ignorant of his costs, and anyway he's got to keep running or bust.”⁶⁷ Responsible businessmen therefore *should* cooperate. They should form cartels, pools, monopolies, and market agreements in order to prevent overcapacity and to maintain “fair” prices. Many Congressmen agreed.

Change came during the 1860s and 1870s, when farmers organized to force individual state legislatures to pass “Granger Laws.”⁶⁸ These statutes instructed state governments to regulate railroad fares and grain elevator rates. When these laws were challenged in the courts, the Supreme Court ruled that such regulations were constitutional (*Munn v. Illinois*, 1877). But the state Granger Laws were later judged in violation of the constitution when they attempted to control *interstate* commerce, which was under jurisdiction of the federal government (*Wabash v. Illinois* 1886).⁶⁹ This prompted Congress to pass the Interstate Commerce Act (1887). This was the first federal regulation of business in the United States. It mandated that railroad companies must publish their rates and banned railroads from differential pricing. It also created the Interstate Commerce Commission to regulate the rates of railroads and ensure that the rates remained “reasonable and just”.

However, by the 1880s, the tremendous reach of the railroads had permitted other industries to concentrate into national, or at least regional, monopolies. Armour & Company monopolized beef production, from cattle herding to slaughter to processing to transportation to retail meat sales. The electrical machinery market was mostly split between Thomas Edison and George Westinghouse. Carnegie Steel dominated the American steel industry. The infamous Standard Oil trust came to control over 90 percent of US oil refining. Similarly large trusts dominated other industries which permeated the US economy and the daily lives of most Americans: coal, chemicals, rope, seed oils, salt, leather, sugar, telegraphs, telephones, and whiskey.⁷⁰

Therefore, starting in 1888, Congress began to discuss a more general federal anti-trust law. After two years of debate, and likely involving concessions to support higher tariffs, Congress passed the Sherman

⁶⁷ Quoted in Chernow, Ron. 1998. *Titan: The Life of John D. Rockefeller, Sr.* New York: Random House: 150

⁶⁸ Nicknamed after their primary supporters, the members of the National Grange of the Patrons of Husbandry, an association representing farmers.

⁶⁹ As determined by the Courts in *Gibbons v. Ogden* (1824)

⁷⁰ Bunting, David. 1986. *The Rise of Large American Corporations 1889-1919.* New York: Garland Publishing.

Antitrust Act of 1890. In brief, vague language, the Sherman Act banned monopolies, attempts to monopolize, and contracts in restraint of trade. It also took a common-law approach. That is, custom and judicial precedents were to guide decision-making rather than detailed statutes. The Act was passed by a rare unanimous vote in the House, and an astounding Senate vote of 51 to 1, then signed into law by President Benjamin Harrison.⁷¹

This type of economic regulation was new to Americans. It also seemed contrary to traditional American views about freedom of contracts. Therefore, regulators and the courts were often confused and conflicted about how to apply the Sherman Act. At first, judges took a literal interpretation. They allowed large businesses to use the Sherman Act to breakup strikes and end union activities because, technically, organized labor acted in restraint of trade. This was an ironic application of a law meant to restrain the power of big business to exploit individuals. The courts also displayed considerable inconsistency over which kinds of business combinations were permitted under Sherman. For example, the first Sherman cases, against a coal firm and a railroad, resulted in injunctions against these combinations. But in *E. C. Knight* (1895), the Supreme Court ruled that mergers and holding companies were not by themselves unlawful. It was the actual restraint of trade (e.g. pooling, price-fixing, price discrimination, agreements to restrict supply) that was illegal.

The *E.C. Knight* (1895) decision proved to be a watershed. It kicked off a tidal wave of mergers and holding companies. For if pooling and price-fixing were illegal, then only through mergers into massive single entities, known as “trusts”, could firms hope to limit destructive competition. Previously, such business consolidations had been rare, numbering only one or two dozen per year. Now, thousands of mergers took place during the decade following *E.C. Knight*, rising to a sustained crescendo after 1897. More ominously, these mergers resulted in an unprecedented concentration of market power in a small number of firms. More than one-third of the mergers during 1895-1904 created trusts that controlled 70 percent or more of their markets. By 1901, 65 percent of all American wealth was controlled by trusts.⁷² By 1904, just 150 firms controlled over 40 percent of all US industrial capital.⁷³ Thousands of small and medium-sized businesses simply disappeared, absorbed into massive trusts. Also, the majority of these holding companies were incorporated in just a few

⁷¹ Stigler, George J. 1985. The Origin of the Sherman Act. *The Journal of Legal Studies* 14(1):1-12; Peritz, Rudolph J.R. 2001. *Competition Policy in America, 1888-1992*. New York, US: Oxford University Press.

⁷² Morris, 2001: 29

⁷³ Prechel, Harland. 2000. *Big Business and the State: Historical Transitions and Corporate Transformations, 1880s-1990s*. Albany, NY: State University of New York Press: 64.

Eastern states. For, amidst a state fiscal crisis, and in anticipation of the Sherman Act, New Jersey had passed pro-merger laws meant to attract holding companies in 1889. A few neighboring states followed suit. As a result, during the decade following *E.C. Knight*, just under 80 percent of all US business consolidations took place in New Jersey, followed by New York (9.7 percent), Pennsylvania (7.2 percent), and Delaware (3.8 percent).⁷⁴

The White House during the Gilded Age cared little about antitrust. This is surprising because both political parties had formally adopted anti-monopoly platforms during the 1880s. President Harrison (1889-1893) had himself signed the Sherman Act. But in his speeches and writings, Harrison had shown little interest in applying the Act. Nor did his Department of Justice possess the staff, or the budget, with which to take much action. The Harrison administration filed just seven anti-trust cases. And these were mostly at the initiative of state district attorneys rather than the Justice Department; only one prosecution was successfully concluded before Harrison left office. President Cleveland was similarly apathetic.⁷⁵ His second administration (1893-1897) initiated only eight new cases, but again these were mostly due to the activism of a handful of district attorneys. Cleveland was far more interested in monetary and trade issues. President McKinley (1897-1901) had further dithered on anti-trust, filing only three cases. In McKinley's defense, his Attorney General repeatedly claimed that the *E.C. Knight* ruling prevented him from prosecuting mergers or holding companies, which by now were the most popular form of monopoly. It is also likely that McKinley simply viewed monopolies as a necessary, and temporarily acceptable, evil of industrialization.

Anti-Trust (First Term)

Roosevelt saw monopolies as morally offensive and a dire national threat. For if they exploited their power for selfish gains, then monopolies fueled support for socialism and anarchy. America's mass of farmers and lower-class had already demonstrated their power by launching the quasi-socialist demagogue, William Jennings Bryan, to national prominence during the 1896 elections.⁷⁶ Roosevelt now feared that they could throw their weight behind a socialist, like Eugene V. Debs. Also, monopolies could become destructively predatory or

⁷⁴ Prechel, 2000: 64.

⁷⁵ This applies only to Cleveland's second term (1893-1897), because the Sherman Act did not yet exist during his first term (1885-1889).

⁷⁶ Urban industrial labor tended to support McKinley in 1896 because many believed that his pro-industry protectionism would guarantee workers better employment at higher pay.

make themselves, and their nation, weak and flabby, because “great fortune if used wrongly is a menace to society”.⁷⁷ Therefore monopolies needed to be tutored, perhaps even forced, by Roosevelt to behave responsibly and in the public interest.⁷⁸

At first, Roosevelt tread lightly. After entering office, he attacked prior anti-trust legislation as “mischievous” and “ineffective”. But instead of demanding that Congress take action, he merely asked for the “right to inspect and examine the workings of the great corporations engaged in interstate business.”⁷⁹ For, he argued, “Publicity is the only sure [anti-trust] remedy which we can now invoke.”⁸⁰ And his major policy statements were, at least initially, relatively mild.

Then, in late February 1902, President Roosevelt shocked the country. He announced a major anti-trust lawsuit against the Northern Securities Company. Created just a few months earlier by J.P. Morgan and two rail leviathans, Northern Securities was a holding company that merged the majority of shares in three major railroad companies, together with a handful of smaller associated rails. It created a single massive rail network, comprising nearly all of the central and northern track headed west out of Chicago. It was perfectly legal. And hitherto, no president had yet been especially passionate about anti-trust enforcement. But anti-trust flowed from Roosevelt’s vision of vigorous competition and civic-minded wealth. He felt that he could use his Presidency to teach corporate America, and the general public, about the proper role of big business.⁸¹ To Roosevelt, the Northern Securities Company was a perfect example of egregious wealth and market power. Roosevelt therefore instructed his Attorney General to use it as a means by which to overturn *E.C. Knight* and thereby deliver new anti-trust powers to the president. His strategy was to leverage the Sherman Act of 1890, together with a battery of fierce public rhetoric, to force the big business into his “square deal”. While such anti-trust actions are commonplace today, they were vanishingly rare at the turn of the 20th century. The business world went wild with rumor and apprehension.

It did not help matters that, within forty-eight hours, the architect of Northern Securities, J.P. Morgan, personally came to the White House to negotiate a deal with the president. “If we have done anything wrong,

⁷⁷ Roosevelt, Theodore. 1902. Speech in front of Providence City Hall. Providence, RI. August 23.

⁷⁸ Dorsey 1995.

⁷⁹ Roosevelt, Theodore. 1901. Annual Message to Congress. Dec 3.

⁸⁰ Roosevelt, Theodore. 1901. Annual Message to Congress. Dec 3.

⁸¹ Dorsey, Leroy G. 1995. Theodore Roosevelt and Corporate America, 1901-1909: A Reexamination. *Presidential Studies Quarterly* 25(4):725-739

send your man to my man and they can fix it up” Morgan suggested blithely.⁸² Roosevelt and his attorney general told Morgan, “We don’t want to fix it up, we want to stop it!”⁸³ To Roosevelt, this attempt at backroom dealing merely illustrated the hubris of wealth. Morgan and the trusts viewed the federal government as just another company with which to cartel. Roosevelt meant to put them back in their place.

In doing so, Roosevelt launched an entirely new approach by the federal government towards business. In April 1902, news leaked that Roosevelt was preparing two additional anti-trust cases, against the “beef trust” firms, Swift and Armour. That summer, Roosevelt also turned up the public rhetoric. He conducted a tour throughout New England during which he gave fiery speeches blasting abusive monopolies and justifying federal intervention: “trusts are the creatures of the State, and the State not only has the right to control them, but it is in duty bound to control them...”⁸⁴ Then, the following January 1903, he called on Congress to give him more power to regulate business: a federal law banning special rebates from railroads, increased funding for federal anti-trust prosecution, and a Department of Commerce & Labor equipped with an investigatory bureau.⁸⁵ All were rapidly achieved. By February 1903, the press had crowned Roosevelt “the original ‘trust-buster’”.⁸⁶ Reformers and the public applauded him. But the force and unpredictability of his anti-trust program shook the business world and investor confidence. If the trusts were to be regulated, or broken up, or had to pay egregious legal fees to defend themselves against Roosevelt, then trust stocks and bonds might be worth only a fraction of their current values. Unsure of the president’s agenda, the markets began to trend downwards, as did general business activity. Soon recession and panic loomed.

V. TRUST-BUILDING (First Term, 1901-1905)

The Rich Man’s Panic and the Recession of 1902-1904 (First Term)

Roosevelt’s sudden assault on big business was followed by a recession which struck between September 1902 and August 1904 (peak to trough),⁸⁷ and triggered a “rich man’s panic” on Wall Street in July

⁸² Morris, 2001: 91

⁸³ Brands, 1998: 437

⁸⁴ Roosevelt, Theodore. 1902. Speech in front of Providence City Hall. Providence, RI. August 23.

⁸⁵ Roosevelt achieved this goal with the Elkins Act of 1903. Rebates were a forced concession, popular amongst the industrial trusts, but hated by the railroads, and reviled by the farmers, travelers, and small business who often had to pay for them through higher rates. The Elkins Act banned rebates, empowered the federal courts to abolish rate discrimination, but upheld the existing rates published by the Interstate Commerce Commission. It was therefore generally supported by the railroad trusts.

⁸⁶ Morris, 2001: 208

⁸⁷ National Bureau of Economic Research. 2012. US Business Cycle Expansions and Contractions. Cambridge, MA: NBER. An alternate dating estimate places this recession from July 1903 (peak) to March 1904 (trough), see Romer, Christina D. 1999. Changes in Business Cycles: Evidence and Explanations. *Journal of Economic Perspectives* 13(2):23–44.

1903.⁸⁸ Wheat prices were depressed. Money and credit dried up. Interest rates spiked. Railroads cut back on orders for track and rolling stock. Bankruptcies and business closures increased. Even immigration fell. Industrial production dropped by 4.7 percent. Economic growth fell both absolutely (-3.5%) and per capita (-5.3%) between 1903 and 1904. The stock market, which had moved mostly sideways since Roosevelt took office, was forced into decline after April 1903 and then plummeted that summer. Stocks did not begin to recover until early summer 1904. The rest of the economy took several months longer to heal.

The primary driver of the 1902-1904 recession was the business cycle. After five years of uninterrupted economic growth, a pause was natural. There had built up considerable over-capacity, unproductive speculation, and surplus production by 1902. The stock market was perhaps most vulnerable. With monopolies eliminating their domestic competition, and the high Dingley tariffs (1897-1909) preventing much foreign competition, trust stocks had become a highly lucrative investment. Investors and speculators piled in, bidding up the stock market to record highs, with purchases sometimes funded by generous loans and credit. It only worsened matters that the stock market was still unregulated, allowing all sorts of trickery, obfuscation, and price manipulation. Nor did businesses yet face in-depth, regular reporting requirements. These conditions created an impenetrable “black box” of information, which prompted investors and incentives to flee when selling hit. The result was a classic cycle of mania-panic-crash.⁸⁹

But Roosevelt worsened the severity of the crash by creating an environment of fear and uncertainty about the economy. Due to his surprising anti-trust crusade, by late 1902, it appeared to many in the business and investor communities that Roosevelt was in fact the “perfect bull in a China shop” about which his critics had warned.⁹⁰ He had initially called for mere fact-finding, but then launched federal prosecutions. He had eagerly manipulated the press to investigate and embarrass the trusts. Roosevelt even appeared to take the side of strikers and labor unions. As a result, general support for labor, as well as strike activity, had soared

⁸⁸ During the first twelve months of Roosevelt’s presidency the US economy had performed fairly well. Economic growth had continued throughout 1901 and most of 1902, averaging over 5 percent per year (in real terms). Of course, immigration and high birthrates meant a rapidly growing population, so per capita growth was somewhat less impressive (just over 3 percent). Industrial production also showed considerable strength, increasing 7-8 percent per year during 1901-1902. Prices were tame. Overall, inflation hovered around 1-2 percent throughout Roosevelt’s first term, though it ran hot for consumer items (5-6 percent) during 1901-1902. Labor enjoyed wage increases every year, for a total of over 7 percent during 1901-1905. The stock market however was relatively flat, with episodes of extreme volatility. The Dow Jones index had dropped immediately in response to McKinley’s shooting and death, but remained stable thereafter until April 1903.

⁸⁹ Kindleberger, Charles Poor. 1978. *Manias, Panics, and Crashes: A History of Financial Crises*. New York: Basic Books.

⁹⁰ Morris, 2001: 699.

nationwide. And Roosevelt actually seemed to savor confrontations with big business, and the disorder which resulted. He was seen as so unpredictable, that by the end of 1903 industry heads were frightened that “he might wreck the country any morning before breakfast.”⁹¹

In particular, Roosevelt’s anti-trust program created fear and uncertainty regarding the status of American corporations, the indispensable agents of the nation’s ongoing industrial revolution. The American economy had by now become heavily bound up in trust activities. For decades, the industrial and transportation sectors had also operated on the premise that the federal government was unsympathetic to labor unions. The future of this entire system was now suddenly called into question by Roosevelt. Until the Supreme Court ruled on the *Northern Securities* case, it was not clear what kind of trust activities would be legal, nor whether the president had the constitutional authority to regulate them. For if trusts were broken up, then the extra profits generated by their monopolies, and the net efficiencies gained from their economies of scale, would simply evaporate. Worse yet, the “destructive competition” of the 1870s, with all the bankruptcies and loan defaults that historically accompanied it, might return to plague the American economy. And if Congress and the courts granted the executive branch full anti-trust authority, then there was no telling where or when Roosevelt might strike next. Finally, if the president was willing to use the full weight of his office, including the military, to give labor a seat at the table, then businesses might have untold costs to bear.

The angry business media openly accused Roosevelt of demagoguery. They condemned his “destructive menacing of corporations” as a selfish ploy to whip up public frenzy for votes and to embellish his own political power. Business editors regularly compared him to the quasi-socialist firebrand William Jennings Bryan. For example, the *New York Sun* excoriated the president in an instantly scandalous editorial: “A regiment of Bryans could not compete with Mr. Roosevelt in harrying the trusts, in bringing wealth to its knees...He is the leader of the labor unions...Mr. Roosevelt has put them above the law and above the constitution...”⁹² The editors went on to place Roosevelt amongst the ranks of dictators Kaiser Wilhelm and Napoleon Bonaparte.

⁹¹ Philadelphia *Press*. Dec 10, 1903 quoted in Morris, 2001: 303-304.

⁹² “Might Makes Right” *New York Sun* April 22, 1903: 8. During the Gilded Age, William Jennings Bryan was the greatest political threat to the business community, especially banking and finance. He was an extremely charismatic, populist Democrat who ran for President on a pro-inflation, anti-gold platform in 1896. Conducting his campaign like religious revival, he barnstormed across America generating massive support. At a time when presidential candidates were not supposed to campaign for their own election, but leave that work to supporters, Bryan was perceived by conservatives and business alike as an unpredictable and dangerous demagogue.

Worst of all, rather than fight the recession, Roosevelt largely refused to take action. In particular, during July 1903, Roosevelt began to receive urgent warnings about an ongoing stock market correction and an imminent bank panic. The problem was an “inelastic currency”: the nation’s supply of money and credit could not respond quickly enough to either rapid growth or financial crises. A central bank was needed. Or at least greater legal authority for the Treasury Department to behave like one during times of crisis. Roosevelt took little interest. After discussing the issue briefly with senior Republican senators, he dropped it. Like most Americans, though surprising for a man of such intellect and education, the financial world was a mystery to Roosevelt. As with trade policy, he left these matters to more committed Congressmen in exchange for their support on anti-trust, foreign policy, and eventually business regulation.⁹³ As predicted, the “rich man’s” panic struck days later. By November 1903, the stock market had lost over one-third its value for the year, and stood at roughly fifty percent below its June 1901 peak under McKinley. Yet, despite this rout, Roosevelt showed no interest in taking action to prevent future panics. Instead, he pled impotence and blamed it on Wall Street. “[T]here is nothing I or anyone else can do,” he wrote to a Senate ally, “The panic is due chiefly, almost solely, to the speculative watering of stocks on a giant scale.”⁹⁴ And so the recession continued.

In March 1904, after months of deliberation, the Supreme Court finally ruled against Northern Securities. The judgement was mixed. In a 5-4 decision, and written in multiple separate opinions, the Court ruled that Northern Securities was an illegal merger and ordered it dissolved. In fact, all holding companies and trusts were declared open to anti-trust prosecution. *E.C. Knight* was dead, just as Roosevelt had hoped. However, a minority of only four justices held that *all* such mergers were illegal by definition. This touched off years of turmoil within the Courts over what exactly constituted an illegal trust.⁹⁵ But the conservative press had no such doubts. They denounced the *Northern Securities* judgement as “the vindication of national control”

⁹³ Lowenstein, 2015.

⁹⁴ Roosevelt, Theodore. Letter to Henry Cabot Lodge. August 6, 1903. “Stock watering” was a fraudulent practice by which a company’s balance sheet was altered so as to inflate claims about its assets or profits, therefore artificially driving up the price of its stock. It derives from an old ranchers’ trick of bloating livestock with water just before a sale so as to drive up their weight, and therefore price.

⁹⁵ The Supreme Court wrestled with competing interpretations of the Sherman Act until they converged on the “Rule of Reason” in *Standard Oil* (1911). Here, the Supreme Court ruled that some actions, like price fixing, are anti-competitive by definition. However other actions, like monopolies, must be analyzed as to their effects on the market. Only if they are found to unreasonably restrain trade should they then be considered illegal. In response, during 1914, Woodrow Wilson worked with a Democratic Congress to pass the Clayton Act which limited or banned the most infamous monopolistic practices: discriminatory pricing, tie-in selling, exclusive dealing, anticompetitive mergers, and interlocking directorates. Peritz, Rudolph J.R. 2001. *Competition Policy in America, 1888-1992*. New York: Oxford University Press.

which empowered “the Demagogue as President, armed with all the legitimate power of an office grown greater than man had dreamed possible.”⁹⁶ No president had ever sought so much power over private business.

Having achieved his main purpose in the *E.C. Knight* case, Roosevelt now offered an olive branch to business. He instructed his Attorney General to publicly declare that there would be “no running amok” on anti-trust cases.⁹⁷ Indeed, the administration had not filed an anti-trust case in almost two years, and would not do so until safely after Roosevelt’s 1904 election. For with the markets in turmoil, and the business community nervous, Roosevelt began to worry about his ballot prospects. He had also begun to receive complaints from Republican party members anxious about corporate campaign contributions, voter turnout, and retaining their own seats. Therefore, after he filed his two “Beef Trust” cases in May 1902, Roosevelt quietly suspended his anti-trust prosecutions, though he pressed on with his anti-trust rhetoric and legislative programs. Then, in September 1903, he even dealt a blow against labor by refusing to allow closed-shop unions within the federal government. Once again, Roosevelt seemed tamed by party elders and corporate donors. The Republicans, including big business, were slowly convinced to reunite behind him.

Roosevelt had finally made the right moves. By November 1904, the stock markets had calmed and the economy was well on its way to recovery.⁹⁸ Overall, it was a fairly long recession, though not a deep one. By election time, the dreadful incident was largely forgotten. Better yet, the Republican party’s 1904 official platform was perfectly bland. Strong statements about anti-trust, labor, or regulation had been stricken. Even civil rights for African Americans, a signature issue for the “party of Lincoln”, were given only platitudes. Roosevelt himself boasted about his accomplishments, but he avoided controversial proclamations about trusts, unions, or government control. To win back the trust of Republican conservatives, Roosevelt left the selection of his vice president to party regulars. They chose conservative Senator Charles W. Fairbanks (IA-R), an informal advisor to McKinley and a friend of Wall Street. Big business seemed satisfied, including the former heads of Northern Securities. Trust in the executive branch began to return to the business community. Corporate donors

⁹⁶ Quoted in Morris, 2001:316.

⁹⁷ Quoted in Morris, 2001:304.

⁹⁸ Industrial production and economic growth began to rebound during September 1904.

continued their support of the Republican party, including Roosevelt's campaign, contributing over \$2 million to his election (or roughly \$120 million in 2015 dollars).⁹⁹

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VI. ALLIANCES (First Term, 1901-1905)

It is worth taking a look at how Roosevelt achieved his bold legislative program, and sustained support for it, over time. Who were his allies? Presidents who are economically successful often work through their party in order to achieve their legislative goals. But this was rarely an option for Roosevelt. He could not dependably rely on his party because, except to the emerging Progressive movement within a few state Republican parties, Roosevelt was seen as a party outsider. For decades, Republicans had accepted Roosevelt mostly because he won elections. But he was *not* viewed as a trusted party regular. He was especially loathed by conservative Republicans who saw Roosevelt as sophomoric, a joke, and "in need of adult supervision"¹⁰⁰. Over time, he was increasingly despised by Congress, which tended to resent the power of *any* president, but especially one who lectured and harangued them as Roosevelt did. Also, with McKinley the master politician gone, many in Congress now wanted to reassert their body's former influence over the national political agenda.

Instead, for Roosevelt, the key to getting his policy agenda passed often rested upon his public support. For if the public backed him strongly enough, then the Republican Congress could oppose Roosevelt only at their own peril. In fact, with Roosevelt leading the charge, individual Congressmen who might otherwise founder in legislative impotence could get their own bills passed.¹⁰¹ Therefore, Roosevelt made considerable effort to cultivate a strong personal rapport with the American people. Here again, Roosevelt broke with tradition. During the 19th century, presidents had been mostly distant figures. They appeared in the press, or in front of the public, during ceremonial functions or in times of national crisis, but otherwise they tended to fade into the background. This was not in Roosevelt's nature. His daughter Alice remarked "Father always wanted to be the bride at every wedding, the corpse at every funeral, and the baby at every christening."¹⁰² As president, he launched a never-ending public relations campaign. A constant barrage of speeches, letters, photo opportunities,

⁹⁹ Though some may have contributed out of fear of future anti-trust investigations should they oppose Roosevelt.

¹⁰⁰ Gould, 2011: 50.

¹⁰¹ Examples here might include Senators Stephen Benton Elkins and Francis G. Newlands.

¹⁰² Ward, Geoffrey C. and Ken Burns. 2014. *The Roosevelts: An Intimate History*. New York: Alfred A. Knopf: 119

political events,¹⁰³ and newspaper stories put Roosevelt in front of the American people on an almost daily basis. Roosevelt was not just the face of his administration, he was also its brand. Years of his adventures, fearlessness, and appetite for drama had already made Roosevelt a national celebrity. He recognized how powerful this celebrity was. Now, as president, he used it well to attract media attention, win public support, and even to deflect unwanted attention away from scandals or sensitive issues.¹⁰⁴

The public thrilled to read about his exploits. For example, Roosevelt would regularly disappear into the wilderness on hunting trips or hiking adventures, which generated endless stories in the press. When he refused to kill a wounded bear during a hunt, the public cheered his sportsmanship, and toy stores began to produce instantly popular “Teddy bears”. Through escapades like these, Roosevelt was able to regularly portray himself as the cowboy, the soldier, the Rough Rider coming to save the American public from villains hiding in Congress, on Wall Street, or amongst big business. Similarly, in foreign policy, he successfully cast himself as the dynamic leader of a great nation, bringing democracy, justice, and stability to a dangerous world.

Roosevelt even played up his rowdy, but firmly Protestant, family life. In a time before television soap operas, Americans lined up at newsstands to read about the amusing antics of the Roosevelt household. They were regularly treated to stories about rambunctious children horsing around with their father, family pets gone wild in the White House, and noisy lunches full of family and friends.¹⁰⁵ They were proof that the unusual Teddy Roosevelt was just like every other American husband and father. He was a regular guy, someone the public could relate to and support. “It is this transparency, this direct, out-and-out, unequivocal character of him that is one source of his popularity.” wrote one observer.¹⁰⁶ Occasionally, Roosevelt family members themselves could be useful allies. For example, his wife Edith used her position as first lady shrewdly. She met with the cabinet wives regularly, sometimes acting as a back channel to smooth rough edges or head off brewing disputes amongst their husbands. She made the White House a cultural center, hosting musicians, poets, writers, scientists, and other luminaries. At times, Edith acted as an unofficial diplomat, trafficking in communications

¹⁰³ For example, Presidential messages to Congress, executive orders, formal events, etc.

¹⁰⁴ Walsh, Kenneth T. 2015. *Celebrity in Chief: A History of the Presidents and the Culture of Stardom*. Boulder, CO: Paradigm Publishers; Arnold, Peri E. 2009. *Remaking the Presidency: Roosevelt, Taft, and Wilson, 1901-1916*. Lawrence, KS: University Press of Kansas; Tulis, Jeffrey. 1987. *The Rhetorical Presidency*. Princeton, N.J.: Princeton University Press.

¹⁰⁵ Hoover, Irwin Hood. 1934. *Forty-Two Years in the White House*. New York: Houghton Mifflin Company; Seale, William. 1986. *The President's House: A History, Volume II*, Washington, D.C. : White House Historical Association. See also Whitcomb, John. 2000.. *Real Life at the White House: Two Hundred Years of Daily Life at America's Most Famous Residence*. New York: Routledge.

¹⁰⁶ Burroughs, John. May 1906. Camping with President Theodore Roosevelt. *The Atlantic*

not suited for the official record. Even their children got into the act. A teenaged Alice Roosevelt relished becoming a president's daughter, using the publicity to become the nation's first child celebrity. Her dresses touched off fashion trends. She blatantly disregarded social mores against women.¹⁰⁷ She even represented her father as an unofficial delegate on trips around the Pacific and at semi-formal gatherings at home. This was all a great success. Overall, the public simply loved Roosevelt and his family. And such adoration put enormous pressure on Congress to work with the president, and severe limits on how much they could critique him. A top newsman privately observed at the end of 1901, "he holds the confidence of the country to a marvelous extent...even the politicians, who did not really like him, do not dare say a word publicly to his disparagement."¹⁰⁸ This would remain true for much of Roosevelt's time in office.

Over time, Roosevelt's direct appeals to the public ushered in what has become known as the "rhetorical presidency".¹⁰⁹ Whereas past executives had mostly used written communications, and usually addressed to Congress, to express their policy preferences, Roosevelt began to go "over the heads" of Congress to campaign directly to the American people for his legislative program. For example, most previous US presidents had avoided travel, and few had discussed their policies in public while on tour. It appeared too demagogic. Even Hayes and Harrison, noted for their extensive presidential travel, had tended to give only bland patriotic statements when speaking to large crowds while on tour. But when Roosevelt made his national tours around the country, he gave powerful policy and political speeches which drew thousands of spectators.

Roosevelt also understood the need to target specific segments of American society and amongst the political elite. To this end, he played upon his geographic origins and personal travels, declaring "I am half Southern and I have lived in the West, so that I feel I can represent the whole country."¹¹⁰ He wrote thousands of heartfelt letters to Americans in all walks of life, usually expecting his missives to become public. To deepen his appeal, Roosevelt diversified federal appointments across geographic, ethnic (European), and religious lines. He was so supportive of Catholics during a time of rising anti-Catholic sentiment, that Archbishop John Ireland of

¹⁰⁷ Alice smoked cigarettes in public, rode with men in cars, stayed out late drinking and dancing, carried a pet snake (which she named Emily Spinach) in her purse, and placed bets at horse races. Carol Felsenthal. 1988. *Alice Roosevelt Longworth*. New York: Putnam; Cordery, Stacy A. 2008. *Alice: Alice Roosevelt Longworth, from White House Princess to Washington Power Broker*. New York: Penguin.

¹⁰⁸ Albert Shaw quoted in Gould, 2011: 28

¹⁰⁹ Tullis, Jeffrey K. 1987. *The Rhetorical Presidency*. Princeton, NJ: Princeton University Press.

¹¹⁰ Roosevelt's mother grew up in Georgia and her brothers had actively supported the Confederacy during the Civil War.

St. Paul, Minnesota, declared in 1902 that no president had been “more fair-minded and impartial in religious matters than Theodore Roosevelt.” He even met with Jewish leaders to protest Russian violence against Jews in Kishnev. Roosevelt was willing to work with Democrats, or almost anyone who favored his policy of the moment. And he was willing to keep the cooperation secret if it was politically damaging to either himself or his partners. He tried to form bipartisan teams to work on treaties and other legislation. He even recruited men from corporate America to help design his anti-trust campaign and to attempt consensus and cooperation with the business community. Then, to win the support of labor, he pardoned jailed strikers. He frequently tried to satisfy all sides in his Square Deal, by which he meant “...fair play under the present rules of the game...[and] a more substantial equality of opportunity and of reward for equally good service.”¹¹¹

Roosevelt also advanced a muscular foreign policy, consistent across both his terms, which further strengthened his standing amongst the American people. To them, he seemed to use American power to demonstrate American greatness and nobility. To us, it also demonstrates Roosevelt’s skill as an active executive. First, he allowed tariff reform to peter out so as to keep his Republican party united around his anti-trust and foreign policy agenda. With great dexterity and discretion, Roosevelt quietly threatened the use of force to impose the Monroe Doctrine against German incursions into Venezuela (1902-1903). This would evolve into his famous Roosevelt Corollary when a similar problem threatened the Dominican Republic in 1904.¹¹² He orchestrated both the domestic legislation and a foreign revolution that would result in the construction of the Panama Canal. In order to maintain a balance of power in East Asia, and to maintain America’s “Open Door” policy in China¹¹³, Roosevelt negotiated an end to the Russo-Japanese War (1904-1905). He then played a similar role in the Algeiras Conference (1906), which prevented a war between France, Germany, and possibly Great Britain, over Morocco. He supported reforms of the US army, militia, and national guard. He continued to modernize and enlarge the US naval fleet. He then sent it around the world (1907-1909),

¹¹¹ Quoted in DiNunzio, Mario. 1994. *Theodore Roosevelt: An American Mind*. New York: Penguin Books. 141–142.

¹¹² In response to military threats against Latin American and Caribbean nations from European governments attempting to collect on international debts, the Roosevelt Corollary holds that the United States will directly intervene in Latin America in order to enforce the both the legitimate claims of the European powers and the Monroe Doctrine. “Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power.” Roosevelt, Theodore. 1904. Annual Message to Congress. December 6.

¹¹³ Advanced by Secretary of State, John Hay, while under President McKinley (1897-1901), the “Open Door” policy sought to preserve the administrative integrity of China and to safeguard principles of equal and impartial foreign trade throughout all China.

the first modern navy capable of making such a voyage, quite a feat for the young navy and a clear sign of America's emerging Great Power status. In his strict immigration policies, he appeared to defend the white American worker against hordes of "yellow" immigrants from unrecognizable Asian cultures. Americans generally reveled in Roosevelt's foreign policy. His strong speeches, assertiveness, and military buildups appealed to jingoists; while his peace negotiations and avoidance of actual conflict satisfied pacifists. And while critics attacked him as war-monger, Roosevelt never sent any American soldiers into combat, nor did the United States military suffer any battle deaths, during his Presidency.¹¹⁴

Because his relationship with the public, and his image, were his strongest political assets, Roosevelt's next most powerful ally was the press. In particular, newspapers and magazines were Roosevelt's primary means for maintaining his bond with Americans. He was a master at using, even manipulating, the press to whip up public support.¹¹⁵ On his first day in the White House, he called in the heads of the major press agencies to develop a code of conduct. Roosevelt threatened to ban any reporter, and perhaps their entire newspaper, if he was misquoted or betrayed. In fact, Roosevelt's unofficial comments were not to be quoted at all. Even paraphrasing would require White House approval. He was also careful to time press releases for maximum coverage. For example, he made key announcements on Sundays so as to dominate the Monday morning headlines. He regularly used carefully timed leaks to force his opponents into action. During the 1902 coal strike, he had published the meeting's proceedings so as to pressure its unruly participants to compromise, as well as to boost his own public image as the citizens' neutral arbiter. During a fight over an anti-monopoly bill, the president used the press to insinuate that John D. Rockefeller was manipulating Congress to oppose the measure. Roosevelt gave background interviews and exclusives to both influence the news, and to create a friendlier press corps. To further instill their loyalty to him, Roosevelt privately consulted reporters and newspaper editors for their personal advice on politics and policy. He called reporters by their first names and even reserved for them a dedicated White House press room in which to work. This made them feel part of the administration, and therefore possessing a stake in its success.

¹¹⁴ American military forces were sent into to provide protection, police duties, and shows of force in and around the Caribbean, Korea, and the Middle East. See Torreon, Barbara Salazar. 2016. *Instances of Use of United States Armed Forces Abroad, 1798-2016*. Washington, D.C.: Congressional Research Service. 7-5700, R42738.

¹¹⁵ Roosevelt may even have exceeded his predecessor, William McKinley (1897-1901), at press relations; though Roosevelt avoided the new motion-picture media, and even the telephone, which McKinley had embraced.

In his communications, Roosevelt understood that the public latched onto clear, compelling statements of political ideas. He therefore coined popular phrases like “the square deal”, “speak softly and carry a big stick”, “malefactors of great wealth” and “we are the government, you and I”. He also reveled in playful imagery like “muckrakers”, “Rough Rider”, “White House”, or exclamations such as “bully” and “deee-lighted!” But more than anything else, Roosevelt gave reporters stories that sold papers. And reporters who betrayed or criticized the administration too harshly could be frozen out of this bounty of fascinating drama, a slow death for any newspaperman. “The President is a great ‘news man’” a journalist once summarized “but he wants to give out the news himself—to control the source of information.”¹¹⁶

However, Roosevelt had none of his predecessor’s mastery over individual men. McKinley had been a patient listener and subtle manipulator. He had also used compromise and empathy first to inculcate himself, then to gradually lead his adversaries to adopt McKinley’s ideas as their own. Roosevelt simply barked. “Tell me what you have to say, quickly quickly!”¹¹⁷ If he disagreed, then he was blunt and righteous about it. Even to Senators, he could be rude. “I don’t give a damn for the Legislature of Texas!” he yelled at one Senator seeking a favor for his state; about others, he loudly grouched within their earshot “They are boring me.”¹¹⁸ Even to his friends, Roosevelt could be dogmatic and condescending. His ally Senator Henry Cabot Lodge complained “He lectures me on history as though he were a high school pedagogue”¹¹⁹ A loyal friend and newspaper editor lamented “talking with Roosevelt often does no good, because he does all the talking.”¹²⁰

Thus, his alliance with Congress was often testy, and deteriorated severely over time. Not that Roosevelt ever tolerated any rivals well. Congressmen who agreed with Roosevelt were glad to have an energetic, active ally in the policy-making process. But Roosevelt was openly contemptuous of Congress, which he thought full of “scoundrels”, “crooks”, and “fools”. He used all sorts of maneuvers to extract cooperation from them. First, he used his constitutional powers to keep Congress at work or to pass special measures. For example, during 1903-1905, he called Congress into special session twice, and supported a third regular session. Roosevelt then constantly prodded Congress while it was in session. In addition to his formal appeals to the legislature (e.g.

¹¹⁶ Quoted in Gould, 2011: 20

¹¹⁷ Quoted in Morris, 2001: 65

¹¹⁸ Quoted in Morris, 2001: 66

¹¹⁹ Quoted in Morris, 2001: 82

¹²⁰ Quoted in Gould, 2011: 8

State of the Union addresses), he issued a never-ending assault of presidential messages, threats of special sessions, requests for private meetings, and public speeches all directed at Congress. Sometimes, he floated extreme bills in order to maneuver Congress into supporting his own more moderate reforms. He also used federal investigations to embarrass opponents or as leverage for support on legislation. Roosevelt could also be gracious. He invited Congressmen and Senators for summer visits to the Roosevelt compound on Oyster Bay. When contentious bills required negotiations, Roosevelt would sometimes act like a Senator-without-portfolio, shuttling the bill between various factions in Congress until they had forged consensus.¹²¹

Roosevelt also knew how to play the patronage game to win and keep political allies. He often refused to appoint crooks, but sometimes he did anyway. He attempted to use patronage appointments to drum up support amongst Southerners, blacks, and Catholics. He even tried to use federal appointments to heal factional disputes with his Republican party. On the other hand, he increased the use of civil service exams so that they were required for two-thirds of federal civilian jobs by the time he left office.¹²² Thus, Roosevelt was able to use patronage for political purposes, but he also managed to not anger, and even appease, civil reformers and progressives.

To his cabinet, Roosevelt appointed talented and reliable men and took advice from those with whom he agreed. There Roosevelt found key allies in his Secretaries of State (John Hay, Elihu Root), War (Elihu Root, William H. Taft) and his Attorneys General (Philander Knox, William Moody, Charles Bonaparte). All would be valued advisors and key actors in Roosevelt's efforts to modernize the US military, lower the age for military pensions, adopt a foreign policy that was both peaceful but also more fitting of a Great Power, and launch an effective trust-busting campaign. Another primary source of advice was his informal "tennis cabinet" of trusted advisors with whom he could confer casually and confidentially about important matters. Overall, Roosevelt made sure that people loyal to his agenda, and who thought similarly about anti-trust, regulation, and the environment, were appointed to run sub-departments and agencies responsible for these programs. Within the Department of Interior, James R. Garfield and Gifford Pinchot were especially valuable agents who pushed the limits of executive power.

¹²¹ The 1906 Hepburn Act serves as a particular example.

¹²² Up from 46 percent in 1901.

Given the devastating effect of market panics on his economy, and Roosevelt's disinterest in finance, his allies here were invaluable. These were his treasury secretaries, who were far more attentive to monetary policy than the president. Lyman Gage (1901-1902), who Roosevelt had inherited from McKinley, was arguably one of America's better Treasury Secretaries. He had adroitly financed the Spanish-American War without incurring major debt or tax hikes, helped pass the Gold Standard Act of 1900 which eliminated a source of recurring debt panics, and advised McKinley on major banking reforms. When necessary, Secretary Gage had also acted like a one-man central bank. When market panics or economic downturns threatened, Gage aggressively purchased US Treasuries or deposited Treasury reserves into hundreds of commercial banks around the country, so as to inject additional cash into the financial system. Also, during summers, Gage would quietly withdraw money from circulation so as to build the necessary reserves for autumn harvest loans, thereby preventing interest rate spikes and as well as circumventing wasteful stock speculation. However, Roosevelt dismissed Gage, partly out of mutual distrust between the two men, and partly to make room for a patronage appointment, former governor Leslie Shaw. Secretary Shaw (1902-1907), continued Gage's practices, but even more aggressively and with less discretion, which unnerved private bankers who interpreted them as unwarranted government intervention. Roosevelt would replace Shaw during his second term, just weeks before a second financial panic struck.

* * *

VII. ROOSEVELT'S SECOND TERM (1905 –1909)

Roosevelt won his second term by a tremendous landslide, the greatest by any president since Andrew Jackson in 1828. He took 56.4 percent of the popular vote, more than the adored McKinley ever had. Roosevelt "the Demagogue" may have made Congress and business nervous, but voters loved him. And Roosevelt's electoral coattails were long. Republicans gained forty-one seats in the House, increasing their majority there from an already solid 55 percent to an overwhelming 65 percent. Gains in the Senate were smaller, only two seats, but resulted in a similarly large majority. Also, much of the Republican gains in Congress came from freshmen who had run on Roosevelt's increasingly Progressive platform. In fact, even the Democratic Party had by now either adopted, or remained carefully silent on, much of Roosevelt's policy agenda. With such marvelous support, Roosevelt was now more powerful than ever. And he knew it.

Therefore, during his second term, Roosevelt stepped up his assaults on the status quo. He pressed for a federal income tax, an inheritance tax, as well as the first federal limits on political contributions by private firms. He escalated Federal actions on conservation. He initiated a record number of anti-trust prosecutions. He pushed for volumes of new business regulations. One midwestern journalist warned in early 1905, “Mr. Roosevelt is now advocating what the country contended against with a shudder when Mr. [William Jennings] Bryan was a candidate for President.”¹²³ It did not help that Roosevelt now also more openly denounced corporate America, ridiculed Congress, and even attacked his own Republican party.

These unprecedented Federal interventions into the private sector, combined with Roosevelt’s unpredictable and thundering approach to leadership, began to damage trust in, and between, major US political-economic institutions. Part of the problem was that Roosevelt himself began to assume ever more personal control over the federal government. He used executive power broadly. And when he could not find statutory authority for his actions in existing legislation, Roosevelt drew upon the “implied” authority of the presidency. This was a doctrine of questionable Constitutionality. As Roosevelt’s actions became more aggressive and more arbitrary, to some observers they appeared dictatorial; they increasingly seemed to represent, not some grand vision, but a man now dedicated to a single principle: his own power. As a result, Roosevelt’s actions began to fray, then break, his alliances across the political spectrum and to harm trust in major political-economic institutions, including the presidency itself, culminating in the devastating Panic of 1907. Roosevelt did not cause the economic crisis, but he took little action to solve it. In fact, he even appeared to revel in it. And Roosevelt’s damage to the general trust created a more permissive environment for economic catastrophe. The remainder of this paper examines, in rough chronological order, the interplay of Roosevelt’s actions, alliances, and trust-building (or trust-damaging) on an issue-by-issue and institution-by-institution basis during his second term.

Corporate America (Second Term)

In 1905, with the election now safely behind him, Roosevelt renewed his attacks on big business. His trust-busting program had lain dormant for years, since early 1902, when Roosevelt had filed his beef prosecutions. After that, he had backed away, seemingly satiated or brought under control. Now suddenly, and

¹²³ Henry Loomis Nelson, February 28, 1905. Quoted in Gould, 2011:147.

with greatly increased vigor, prosecutions streamed out of the Department of Justice. Roosevelt filed suits against the Chicago meat packers (July 1905), the Terminal Railroad Association (December 1905), Standard Oil (November 1906), American Tobacco (July 1907), DuPont (July 1907), Union Pacific (November 1907), and twenty-nine other trusts during his second term!¹²⁴ Roosevelt singled out the railroads for special treatment. Responding to public anger over recent railroad rate increases, he used public appearances and impassioned speeches about corporate power, especially railroad abuses, to whip up public anger for the remainder of the year. The problem, according to Roosevelt, was that the courts were too slow, too mild, and too independent to effect real change. Roosevelt therefore directed this public groundswell at Congress to drive passage of the Hepburn Act of 1906. It empowered the Interstate Commerce Commission, rather than the courts, to set maximum railroad rates, standardize railroad accounting practices, and create annual reporting requirements. Roosevelt's war on corporate America was back on.

Roosevelt's sudden onslaught of anti-trust prosecutions was considered a tremendous betrayal to the business community. After accepting millions of dollars in campaign donations from industry titans, Roosevelt then bit the corporate hands that had fed his 1904 election. Henry Clay Frick, the steel baron, complained, "He [Roosevelt] got down on his knees to us! We bought the son of a bitch and then he did not stay bought."¹²⁵ The public saw Roosevelt as a brave warrior fighting for the people and the country, but the investment and business community now found him dangerously erratic. The president himself joked about "this belief in Wall Street that I am a wild-eyed revolutionist."¹²⁶ But with no need for re-election, Roosevelt refused to moderate, not even his "amazingly indiscreet" comments.¹²⁷ He openly accused business leaders of boasting that they "could buy Congress...[or] the judiciary".¹²⁸ In his annual messages to Congress, he continued to fume about "unscrupulous and reckless" businessmen who "commit their misdeeds with impunity".¹²⁹ Coming from the president, these constant fusillades further eroded the public's already meagre trust in corporate America, while mostly destroying corporate America's trust in both Roosevelt and the executive branch.

¹²⁴ George Bittlingmayer. 1996. Antitrust and Business Activity: The First Quarter Century. *Business History Review* 70: 363-401.

¹²⁵ Quoted in Gould, Lewis L. 2014. *The Republicans: A History of the Grand Old Party*. New York: Oxford University Press: 113.

¹²⁶ Klein, Maury. 2000. *The Life & Legend of E.H. Harriman*. Chapel Hill, N.C. : University of North Carolina Press: 399.

¹²⁷ Reporter Lincoln Steffens quoted in Gould, 2011: 148

¹²⁸ Klein, 2000: 369.

¹²⁹ Roosevelt, Theodore. Seventh Annual Message December 3, 1907

In yet another fresh assault on business, Roosevelt supported a vast program of new federal regulations. Food and drug safety took priority here. For months, sensational magazine exposés in *McClure's*, *World's Work*, *Cosmopolitan*, and *Collier's* had detailed horrific stories of tainted food products, unsafe medicines, and corrupt political deals with industry. Many of these stories had the quiet support, sometimes even the explicit cooperation, of the Roosevelt administration. The president himself had read with dismay Upton Sinclair's novel *The Jungle* (1906), a nauseating dramatization of food industry malpractices.¹³⁰ Shocking government probes of corporate abuse further energized pro-regulation forces. Therefore, in June 1906, with considerable pressure from Roosevelt, Congress passed the Meat Inspection Act. It regulated the industry for cattle, pigs, sheep, goats, and horses. The Act required that these animals be slaughtered and processed in sanitary conditions. It also required that all livestock, including horses, be inspected by the US Department of Agriculture, both while they were housed alive and again after processing for human consumption. Roosevelt simultaneously signed the Pure Food & Drug Act for “preventing the manufacture, sale, or transportation of adulterated or misbranded or poisonous or deleterious foods, drugs, medicines, and liquors, and for regulating traffic therein...”¹³¹ It created fines and prison terms for people convicted of selling, importing, or shipping adulterated or misbranded food. It also directed the Department of Agriculture to conduct inspections and recommend prosecutions.

Roosevelt now took presidential activism to new levels. By the end of 1906, there seemed to be no area of government or private life which Roosevelt did not seek to regulate or improve. He asked Congress to enact corporal punishment for DC husbands who beat their wives. He advocated bans on dog racing. He hosted a White House summit to discuss how to make college football less dangerous. He ordered changes to the spelling practices at the Government Printing Office. He endorsed government support for the arts, yet he also published angry articles in which he furiously denounced fiction writers who attributed emotions or reason to wild animals. He personally assisted in redesigning the national currency, leaving off “In God We Trust”, which resulted in a brief national firestorm. The river of his interventions seemed endless and without any sensible boundaries. When Roosevelt presented a new list of demands in his 1907 message to Congress, the Republican Speaker of the House erupted in frustration “That fellow [Roosevelt]...wants everything from the birth of Christ

¹³⁰ Published in serial form the previous year in the socialist newspaper *Appeal to Reason*.

¹³¹ Federal Food and Drugs Act of 1906. Public Law Number 59-384, 34 Stat. 768 (1906).

to the death of the devil.”¹³² The newspapers agreed. One editorial described Roosevelt’s second-term policy agenda as “the most amazing program of centralization that any President of the United States has ever recommended.”¹³³ As if to prove them right, Roosevelt even selected his own successor to the Presidency, William Howard Taft (1909-1913) via a campaign of marketing, promotion, and personal pressure.

Roosevelt also modified his antitrust strategy, creating a new source of presidential caprice. As 1906 wore on, he began to lose faith in the Sherman Act. He complained that its prosecutions dragged on for years while corrupt corporations continued their illegal practices. And often only the most blatant cases of abuse had any chance of success at trial. So instead, Roosevelt turned to informal agreements with the trusts. He would quietly agree not to prosecute them, if they would agree to alter their practices. The result was confusion. The public saw Roosevelt as a crusader against monopolies, therefore the public suits, angry rhetoric, and prosecutions had to continue in order to maintain that image. But this made Roosevelt an untrustworthy negotiator with business. Meanwhile the lawsuits seemed to do little good beyond fortifying Roosevelt’s reputation as a “trustbuster”. Worse yet, Roosevelt had long believed that there were “good” trusts (which worked efficiently to innovate and deliver quality goods at fair prices) and “bad” trusts (which used their economic power to amass great wealth and political power at the expense of consumers, labor, and government). Roosevelt felt that only the latter must be stopped. However, there were no formal laws nor public guidelines with which to distinguish “good” from “bad” trusts. And, other than himself, Roosevelt could see no law, nor policymaker, that might do the job properly. Therefore, Roosevelt alone was to be judge and jury. The result was inconsistent, muddled, and unclear anti-trust policies. For example, Roosevelt championed an attack on the Standard Oil trust, but he tried to stop prosecutions against International Harvester, and he explicitly supported the enlargement of the US Steel trust. To many, Roosevelt’s anti-trust agenda was becoming highly personal, improvised, and contradictory.

Roosevelt took a similarly personal approach towards his other policy programs. In food and drug regulations, sometimes Roosevelt himself was the deciding regulator. For example, during a 1908 dispute over safe ketchup ingredients, experts argued that saccharin was “extremely injurious to health”; but Roosevelt

¹³² House Speaker Joe Cannon quoted in McGerr, Michael. 2003. *A Fierce Discontent: The Rise and Fall of the Progressive Movement in America, 1870-1920*. New York: Free Press: 80

¹³³ *New York World* .Dec 6, 1905. . Ricard, Serge. 2011. *A Companion to Theodore Roosevelt*. New York: Wiley-Blackwell: 105.

dismissed that finding as ridiculous and personally appointed a board to review the decision.¹³⁴ Admittedly, even without the president's intervention, the new food and drug regulations were often arbitrary. Someone had to decide what was considered "safe", but health science was still too immature. Therefore, all too frequently, the result of the Pure Food & Drug Act was a confused and lengthy process of hearings, rulings, and disputes over which products caused harm. Growth in the processed food and drink industry, then a budding "high-tech" sector, suffered as a result.¹³⁵

Environment & Conservation (Second Term)

After his election, Roosevelt also accelerated his environmental program, but in a manner that also began to alarm the private sector. In 1905, he finally convinced Congress to concentrate forest management within a new US Forest Service (USFS). Unlike other agencies, the USFS was equipped with its own revenue stream and policing powers, and was run by conservation activists loyal to Roosevelt's vision. They immediately plunged into regulating the nation's forests and expanding federal control over them. And as the president's "scientific management" program evolved into large transfers of property and power from local and business interests to the Roosevelt administration, support from the timber companies, ranchers, and farmers turned into rage. "From that time on, it was fight, fight, fight." recalled the USFS head, "...it aroused the big [industry] men to fury."¹³⁶ The Roosevelt administration proceeded to exempt from development millions of acres of public lands. The president also set aside land for forests, animal preserves, and national parks. In those public lands where development was permitted, Roosevelt subjected new occupants, homesteaders, and lumber interests to regulations and limits on irrigation, cattle grazing, and timber yields. Starting in 1906, Roosevelt also used executive orders to create fifty-one wild bird preserves in seventeen states and three territories.¹³⁷ He then got Congress to pass the Antiquities Act (1906), which made it a federal crime to damage "any historic or prehistoric ruin or monument, or any object of antiquity". The Act gave the president authority to declare any object of "historic or scientific interest" on federal lands to be a protected landmark. Roosevelt then used this

¹³⁴ Gould, 2011: 210

¹³⁵ Annual growth in the processed foods industry slowed from roughly 4.4 percent (1899-1904) to 4 percent (1904-1909); in the processed beverage industry, annual growth slowed from around 5 percent to 2.75 percent. Source: US Department of Commerce 1949. *Historical Statistics of the United States 1789-1945*, Series J 15-29. Physical Output: Indexes for Major Groups of Manufacturing Industries (NBER): 1899 to 1939. Bureau of the Census: Washington DC. p. 180

¹³⁶ Pinchot, Gifford. 1947, 1998. *Breaking New Ground*. Washington DC: Island Press. 259

¹³⁷ After having established a new Bureau of Biological Survey (1905) to manage them and plan for new ones

authority to withdraw eighteen sites from economic development, including the highly sought after Grand Canyon. Before he left office, Roosevelt had increased the amount of federally protected land by over 400 percent to approximately 230 million acres of public land.¹³⁸ This included 150 new national forests, five national parks, and four national game preserves. In 1907, he announced an even more far-reaching scheme to “prepare and report a comprehensive plan for the improvement and control of the river system of the United States.”¹³⁹ With this plan, Roosevelt hoped to also bring *all* the nation’s rivers under federal management.

Conservation policy was run more scientifically, but also more dictatorially. As the nation’s environmental steward, Roosevelt himself dictated grazing fees, water rights, and corporate activities on public lands. Often using executive orders, Roosevelt single-handedly withdrew vast sections of productive land and waterways from development by private industry and farmers. His federal environmental program thereby took power away from state and local governments, and concentrated it in the hands of small a coterie of unelected bureaucrats in Washington D.C. Local residents often had no recourse, no appeals process, no due process. For example, Roosevelt invested an extraordinary amount of authority in Gifford Pinchot, the unelected chief of the newly created US Forest Service. Allies and friends since 1899, the two men saw eye-to-eye on forests, reclamation, and irrigation. Therefore Roosevelt took almost all aspects of forest management away from other parts of government, and consolidated them under Pinchot’s authority. Pinchot then acted imperiously. He created regulations, arrested violators, and could often out-manuever far more senior policymakers. When Congress balked at giving more conservation authority to either Roosevelt or Pinchot, the latter launched his own aggressive public relations campaign to whip up public support.¹⁴⁰ It was rare for a mid-level bureaucrat to wield such power and act so brazenly. Timber companies began to object, opposing the withdrawal of entire forests from their domain. Farmers and developers also complained about profitable lands now suddenly off-limits to them. Ranchers especially resented new fees for grazing and water rights which had hitherto been minimal or nonexistent. Federal arrests and legal prosecutions were also new, and seemed to defy local traditions and democratic ideals. It all seemed so capricious.

¹³⁸ US National Park Service. 2016. Theodore Roosevelt and Conservation. <https://www.nps.gov/thro/learn/historyculture/theodore-roosevelt-and-conservation.htm> Accessed November 12, 2016.

¹³⁹ Gould, 2011: 197.

¹⁴⁰ Miller, Char. 2013. *Seeking The Greatest Good: The Conservation Legacy of Gifford Pinchot*. Pittsburgh, PA: University of Pittsburgh Press; Steen, Harold K. (ed.). 2001. *The Conservation Diaries of Gifford Pinchot*. Durham, N.C. : The Forest History Society.

Republican Party (Second Term)

Roosevelt's more aggressive policy agenda also threatened alliances and trust within his own Republican Party. Since the 1890s, the Progressive movement for more responsible, scientific government had attracted many Republicans. They fought against patronage and the machine system. Yet they also advocated for a more powerful and interventionist government to address market failures and social ills. Roosevelt had always agreed with these policy goals, but he had also stayed loyal to traditional conservative small-government Republicans. However, during his second term, Roosevelt leaned heavily into the Progressive camp. He also became less willing to consult old-school conservative Republicans in Congress. And since Roosevelt was so influential, his growing intransigence damaged trust in, and within, the Republican party.

Matters worsened during the 1906 midterm elections. As big business and the Roosevelt administration swerved towards open combat, corporate donations to Republicans everywhere began to dry up. As a result, the Democrats gained thirty-two seats in the House, frightening the Republican establishment. Roosevelt appeared to be dividing the party for his personal political gain. Neither side entirely trusted Roosevelt, and the acrimony went both ways. Conservatives believed that Roosevelt had over-reached and done so irresponsibly. But he could also frustrate Progressives with his arbitrary policymaking. As early as May 1906, a New York Democrat observed with irony "At this moment, the only support in either House of Congress which Mr. Roosevelt [a Republican] can depend on with certainty is the Democratic vote."¹⁴¹ Soon the Republican party showed signs of a break-up. Conservative and Progressive factions emerged, both at the state and national levels, often at war with one another. Only Roosevelt's full-throated support of Taft, an uncontroversial strict legalist who leaned conservative, prevented an overt split during the 1908 elections.

Congress (Second Term)

Trust also broke down between Roosevelt and Congress; and with it went his ability to ally with the legislature. He sent so many presidential messages to Congress during his Presidency—over four hundred—that by his second term they had become an annoyance to all. And these messages became ever more demanding and imperious. Even the British Ambassador took note, writing to his superiors in London that the president "sends

¹⁴¹ Quoted in Gould, 2011: 164.

too many Messages, and they are too long, and the tone of them is resented as didactic if not dictatorial.”¹⁴²

Roosevelt also began to openly insult Congress. “I do not much admire the Senate...it is such a helpless body” was typical of his more mild abrasions. More offensive were his frequent cracks about “scoundrels”, “criminals”, and the occasional “horrible, bigoted, narrow minded selfish voluptuary” amongst the legislators.¹⁴³

During his second administration, Roosevelt also expanded his theory of extra-constitutional power, usually at the expense of Congress and the states. In 1906, he argued that “an inherent power rested in the Nation outside of the enumerated powers conferred upon it by the Constitution” in those cases where the individual states were impotent, but might normally wish to act as a collective sovereign.¹⁴⁴ In other words, when the state governments were too weak, the federal government, embodied by the steward president, must act, regardless of his enumerated powers. Even where Congress had legislated, Roosevelt showed diminishing respect for traditional limits on presidential power. Laws and regulations endorsed by Congress meant to guide the president were seen by Roosevelt as obstacles to be overcome. For example, rather than allowing Congress to formulate national policy, Roosevelt created his own commissions to do so instead, without seeking Congressional authorization. He formed commissions on the Panama Canal, labor relations, rural affairs, conservation, housing, public lands, and myriad other policy issues. One particularly worrisome habit was Roosevelt’s use of the Secret Service to investigate individual Congressmen, often with considerable publicity. He claimed that it was simply the president’s duty to scrutinize corruption in government. But Roosevelt used his criminal investigations to pressure, even embarrass Congress, into action. This tactic generated enormous bad will in the legislative branch, who resented the public ire which Roosevelt could arouse at them. It also eroded public trust in both the Congress and the Presidency. By the end of 1906, Roosevelt’s relationship with Congress was near irreparably damaged.

Congress began to fight back. From the Senate floor came angry reprimands against Roosevelt’s manipulations. “[The President] has become puffed to such a degree that he strides the world like a colossus,” complained one rebellious Senator, “and we smaller men—you, thank God, not I—crawl around between his

¹⁴² Gould, Lewis L. 2005. *The Most Exclusive Club: A History of the Modern United States Senate*. New York: Basic Books: 42.

¹⁴³ The “selfish voluptuary” in question was Senator Eugene Hale (R-MA). Gould, 2005: 26.

¹⁴⁴ Roosevelt, Theodore. 1906. Address Delivered at the Dedication Ceremonies of the new State Capitol of Pennsylvania in Harrisburg. October 4.

legs hunting for yourselves dishonorable graves or a piece of pork”¹⁴⁵ Congressional opposition to Roosevelt’s conservation program grew particularly fierce. They refused to fund Roosevelt’s commission on river systems, stopped a bill giving him power to regulate coal lands, and put formal constraints on bureaucrats like Gifford Pinchot. In early 1907, Congress deprived Roosevelt of his power to create national forests from the public domain in the West. By January 1908, “The feeling at the capitol against anything and everything the President wants is very bitter.”¹⁴⁶ For example, with a new Hepburn Bill, Roosevelt sought to dramatically increase his power and discretion to break up trusts. But the public cringed and Congress killed it in committee. Congress also ignored Roosevelt’s calls for campaign finance reform, labor dispute regulations, and power to censor radical and libelous publications. Congress then began to attack the president’s commissions, defunding some and limiting his ability to create new ones.

The Presidency (Second Term)

While great swaths of voters remained loyal to him, many important segments of the American public also began to lose their trust in Roosevelt, even the executive branch itself, during his second term, and increasingly so from 1906 onwards. By placing so much power in himself and his bureaucrats, Roosevelt damaged trust in the democratic process. It implied that anti-trust, regulation, and conservation were too difficult for the people to manage, therefore the Roosevelt administration would take over these tasks. This frightened many conservative Americans who held traditional libertarian and states’ rights sensibilities. They recognized how Roosevelt often got his way by whipping up public opinion, manipulating the media, or using his Secret Service to investigate opponents. It seemed to them that Roosevelt led with a disturbing touch of demagoguery and autocracy.

The change in Roosevelt’s approach to corruption serves as but one example. During his first term, in 1903, scandals had plagued the executive branch. Corruption was revealed in the US Post Office, Indian Affairs, the Department of Agriculture, and the administration of the Philippines. Offenses included fraud, the destruction of official documents, the use of appointments and spending for partisan purposes, and embezzlement of funds. Roosevelt covered up nothing. He promptly investigated and those found guilty were

¹⁴⁵ Senator Tillman (D-SC), paraphrasing Cassius in Act 1, Scene 2 of William Shakespeare’s *Julius Caesar*, on the Senate Floor in January 1906. Quoted in Morris, 2001: 430.

¹⁴⁶ Progressive leader and Roosevelt ally George W. Perkins, writing in March 16, 1908. Quoted in Gould, 2011: 270

swiftly fired. The public was impressed. But during his second term, these investigations seemed increasingly personal and political. For example, in 1906, Roosevelt badly bungled a prosecution of the meat-packing industry. With meat prices skyrocketing throughout the country, Roosevelt suspected an informal price-fixing cartel. He had his Department of Commerce & Labor launch an investigation. They found the meat-packers innocent of price gouging. But Roosevelt instructed them to prosecute anyway. Then, the handful of indictments that did occur later fell apart after the suspects were granted immunity by the Roosevelt administration. It looked like a terrific mess to the public.

Roosevelt therefore tightened his control over press and the media in his second term. He started by reminding his cabinet that they had a “moral obligation” to keep White House affairs confidential.¹⁴⁷ Then he ratcheted up his warnings to reporters during his second term, “you must not print news objectionable to me, or censorious of the administration, especially from the White House, or you will get disliked, and will probably suffer for it.”¹⁴⁸ To this end, Roosevelt created a blacklist of journalists who had betrayed or contradicted him, which he nicknamed “the Ananias Club”. Some of its members were even barred from the White House altogether. By early 1906, reporters could be heard complaining that “It is becoming more difficult to get uncolored news [from the White House]...”¹⁴⁹ He used the press to attack corporations and corrupt politicians. But when Roosevelt needed to appease conservatives, he could just as eagerly throw reporters under the bus. For example, in the midst of the fight over the Hepburn Act, Roosevelt infuriated the very same investigative reporters upon whom he relied to generate evidence and support for his entire Progressive program, by pillorying them as “muckrackers” in long speech to the journalists’ Gridiron Club in March 1906.

Roosevelt also repeatedly mishandled race issues, even to the point of losing the trust of African-Americans. He had initially won accolades from black leaders as “a stalwart friend of ours” during his first term.¹⁵⁰ This was partly due to his early meetings with Booker T. Washington, but also the result of two highly publicized cases in which Roosevelt had defended the appointment of qualified blacks to a Mississippi post office and the Charleston customs house in South Carolina. Of course, this decimated trust in Roosevelt amongst

¹⁴⁷ Memorandum to George B. Cortelyou, October 1905 quoted in Gould, 2011: 149

¹⁴⁸ Roosevelt January 1906, quoted in Gould, 2011: 149

¹⁴⁹ Walter E. Clark to Erastus Brainerd. January 26, 1906. Quoted in Gould, 2011:149

¹⁵⁰ African American ex-Congressman George Washington Murray speaking in 1904. quoted in Williamson, Joel. 1984. *The Crucible Race: Black-White Relations in the American South Since Emancipation*. New York, Oxford University Press: 352.

white Southerners. They viewed his patronage practices as a “tyrannical and unconstitutional” attempt at social engineering.¹⁵¹ Then, in summer 1906, a racial confrontation in Brownsville, Texas between black soldiers and white locals resulted in the wounding of one white civilian and the death of another. Roosevelt personally discharged without honor, nor trial, the entire 167-man regiment of African-American soldiers.¹⁵² When Booker T. Washington attempted to intercede, Roosevelt refused to meet with him. Many in the black community now also began to realize that Roosevelt had cut back on overall appointments of African-Americans to federal offices and had steadfastly refused to actively support civil rights in the South. “Within a few days, I might almost say hours...the songs of praise of ten millions of [black] people were turned into a chorus of criticism and censure” recalled Washington.¹⁵³

Even Roosevelt’s attempt to shore up the financial system engendered mistrust. For years, the US Treasury had been intervening in private money markets. Every summer, Secretary Gage had quietly absorbed gold into the Treasury in preparation for the annual autumn spike in demand for agricultural loans. Then, during harvest, he would inject money into the financial markets via bond purchases. Gage had also moved US deposits around the country in an attempt to spread the supply of credit to areas poorly served by private banks. But the markets saw Gage as overstepping his authority. His actions were also seen as unnecessary, even harmful. For gold held in the Treasury, or locked up in some distant state bank, was gold not available for trade or loans in the nation’s commercial centers. Furthermore, Roosevelt’s second Treasury Secretary, Leslie Shaw, was a man with clear political ambitions. Shaw bragged openly about his market interventions while at Treasury and called for even more power to be centralized in his office. However, Shaw’s audacity and innovations upset both Wall Street and Progressive reformers.¹⁵⁴ By Roosevelt’s second term, they had come to see Shaw’s actions as unprecedented and likely illegal “meddling by a Government officer in a market where he had no business

¹⁵¹ Morris, 2011: xx

¹⁵² Congress reopened the case during the early 1970s. After several independent investigations found the soldiers to be innocent, Congress reversed Roosevelt’s order and exonerated the soldiers.

¹⁵³ Washington, Booker T. 1911. *My Larger Education: Being Chapters from My Experience*. Garden City, New York: Doubleday, Page & Company.

¹⁵⁴ For detail, see Timberlake, Richard H. 1993. *Monetary Policy in the United States: An Intellectual and Institutional History*. Chicago, IL: University of Chicago Press: 186-197.

whatever.”¹⁵⁵ And with Roosevelt at the helm, they doubted that this meddling was in the interest of bankers or industry.

VIII. RECESSION AND THE PANIC OF 1907

Amidst the fraying alliances, increasing political conflict, and decreasing trust, a far more systemic economic crisis hit. In May 1907, the US entered into a steep recession, accompanied by a full scale financial crisis during October-November.¹⁵⁶ Known collectively as “The Panic of 1907”, it was one of the worst economic events in US history. The trigger was the San Francisco Earthquake which struck in April 1906, causing fires which destroyed half the city. Damages were expected to be around 1.2-1.7 percent of US GNP at the time. The New York Stock Exchange immediately dropped over 12 percent, with sympathetic declines hitting the world’s financial center, London. In order to meet their obligations to pay San Francisco policy holders, insurance companies began to liquidate assets. In particular, British insurance companies had sold policies to perhaps half of San Francisco’s claimants. As British assets were converted into specie and shipped to America, record gold payments began to flow out of London. With England’s gold reserves rapidly declining, soon the stability of London banks and investment houses were at risk. In an attempt to slow the outward flows of gold, the Bank of England began to raise British interest rates. Competing for the same deposits, central banks in France and Germany acted likewise.

In the US, money and credit were also drying up. Gold was flowing out of New York and into San Francisco to pay for insurance and reconstruction. The autumn harvest in the US, the world’s largest farm economy, brought its regular, massive demand for loans and credit. Soon a severe money shortage set upon the US financial system. As a result, the US stock market began a slow, steady decline that lasted for months. In March 1907, the situation worsened when stocks experienced sudden, precipitous drops as nervous investors liquidated their shares. The US Treasury began to deposit federal funds into national banks in order to provide liquidity, offering a temporary solace. But selling slowly crept back into the market. Reports of bankruptcies increased, especially in manufacturing. The spring planting season then brought its heavy demand for loans and credit. But with money short, and interest rates high, in both the US and Europe, farmers began to feel the pinch.

¹⁵⁵ *Nation* 83 (1906): 216-217. Quoted in Timberlake, 1993: 190.

¹⁵⁶ US Business Cycle Expansions and Contractions. NBER; However, Christina Romer estimates a later start date of July 1907.

Three powerful blows then struck the American financial system. First, during summer 1907, in an effort to restore its own reserves of gold, the Bank of England prohibited most gold loans to the US. This cut off the primary source of specie flows into the US. In fact, gold now began to flow out of America and into London, in the form of payments on existing loans. As a result, US gold reserves began to drop, adding to the contraction of money and credit already underway there. Major industrial firms reported declines in orders. New York City became unable to finance its debts. Meanwhile, the coming autumn harvest season threatened its usual peak demand on the money supply. Second, in early August 1907, Standard Oil was hit with a record anti-trust fine. This was a major blow to the largest trust in America, and one with perhaps a million employees and stockholders. Finally, in October 1907, a scheme by speculators to corner the stock of a prominent copper firm failed in spectacular fashion. It not only immediately bankrupted the investors involved, but also took down the brokerage which they had enlisted and cast doubts on the solvency of their entire financial network. Soon banks across the country fell under suspicion, especially the major financial trusts in New York City. Frightened depositors began to make runs on banks vulnerable to the copper scheme. With no central bank to coordinate a rescue, and Roosevelt blasting away at trusts and bankers, a full-scale financial panic now ensued.

Roosevelt did not cause the Panic of 1907, but he took no action to address it. In fact, he fueled the crisis and then cheered it on. He viewed the financial panic alternately as a plot by plutocrats to stain his own popularity, or as just another example of bankers' greed and mismanagement of the financial system. Regardless, calming words, or decisive action, from a trusted president might have mitigated the damage. In fact, a president as powerful and unorthodox as Roosevelt might have affected economic outcomes *if* he had taken aggressive action. For while the US Treasury department did what it could to increase liquidity, the speed and enormity of the crisis was simply beyond its capacity.

Instead, Roosevelt used the crisis as a political opportunity to bludgeon his opponents, ignoring warnings that he was scaring the markets and damaging investment. Throughout the recession, Roosevelt continued to lambaste the "predatory man of wealth" in his public appearances. He implied that additional anti-trust prosecutions and regulations were coming, especially for the railroads and industry. During the credit-crunch of summer 1907, Roosevelt openly blamed the trusts and bankers for causing the slump. He suggested that Wall Street was punishing America for his trust-busting and regulatory agenda; using economic pain to

damage his good relations with the public. In August, the courts hit the Standard Oil trust with a record-setting fine. It seemed so egregious, even to anti-trust proponents, that the *New York Times* blasted the judgement as an act “of vindictive savagery toward corporations.”¹⁵⁷ But the Roosevelt administration only snickered. The Attorney General even mockingly told reporters that “both Mr. Roosevelt and I are naturally very sorry for the poor old Standard Oil.”¹⁵⁸

Wall Street and the business community openly blamed the panic on the uncertainty created by Roosevelt’s anti-trust and regulatory crusade. *The Commercial and Financial Chronicle* argued that “Owing to the assaults of [Roosevelt and his fellow trust-busters]...No one is willing to buy [stocks] at what appear like ridiculously low prices because no one can tell what the future may bring forth.”¹⁵⁹ Many in the mainstream press agreed. For example, *Harper’s Magazine* wrote “The President has talked too much and threatened too much, and his words have produced direful effects.”¹⁶⁰ To opponents, “He was [seen as] either drunk or crazy” remembered one journalist.¹⁶¹ Independent observers theorized that Roosevelt might even be mad or addicted to opium, citing a controversial early 1908 special message to Congress that “reads like the ravings of a disordered mind”.¹⁶² Some began to talk fearfully of a third term for Roosevelt, and what damage he might do with it.

As for the Treasury Department, it was both overwhelmed and uncomfortable with the role of lender of last resort. Leslie Shaw, Roosevelt’s Secretary of the Treasury for five years, had left office in early March 1907 to prepare a run for president. He was replaced by one of Roosevelt’s (and McKinley’s) closest advisors, George B. Cortelyou. Secretary Cortelyou worked hard to rescue the financial system during the Panic of 1907 that struck just weeks after his appointment. But overall, he was far less enthusiastic about playing central banker than his predecessors. Writing during the 1907 crisis, Secretary Cortelyou complained, “The present head of the [Treasury] department has not assumed the obligation [of central bank] willingly and would be glad to be relieved of it at least in part by suitable legislation.”¹⁶³

¹⁵⁷ Quoted in Morris, 2001: 495.

¹⁵⁸ *The Sun* (New York), August 10, 1907, p. 1

¹⁵⁹ June 1, 1907. Quoted in Bruner, Robert F. and Sean D. Carr. 2007. *The Panic of 1907: Lessons Learned from the Market's Perfect Storm*. New York: Wiley: 26

¹⁶⁰ Nov 9, 1907. Quoted in Bruner and Carr, 2007:164.

¹⁶¹ Blythe, Samuel. 1923. A Calm Review of a Calm Man. *Saturday Evening Post*. July 28, 1923,

¹⁶² Day, James Roscoe (Chancellor of Syracuse University) writing in reference to Roosevelt, Theodore. 1908. (January 31). Message Regarding Amending the Employer's Liability Act. Quoted in Morris, 2001: 508

¹⁶³ Lowenstein, 2015.

In October 1907, as the economy descended into chaos, Roosevelt compounded the problem by taking a lax, even rueful, attitude towards the crisis. He disappeared on a two-week hunting trip to Louisiana, where he remained out of contact for days. When the president finally emerged from the thickets, he told reporters that the stock market crash was caused by speculators, saying “that man [the speculator] is doing all that he can to bring down in ruin the fabric of our institutions.”¹⁶⁴ When Roosevelt returned to the White House, he bragged to his staff, “I’ve got them [Wall Street] on the run.”¹⁶⁵ Only in retrospect, and after being admonished by his Treasury Secretary, did Roosevelt publicly alter his tone or recognize the actions of the banking community to end the panic. Late that November, he admitted “...I do think that very possibly the assaults and exposures which I made...have brought on the panic a year or two sooner than would otherwise have been the case.”¹⁶⁶ But he rationalized his role. He even attempted to justify the recession itself as a necessary evil in his war against the trusts. In his following message to Congress, he explained away the Panic as “a momentary check to healthy seeming prosperity” done to “cut out the rottenness from the body politic.”¹⁶⁷

In 1908, when he realized full extent of the economic damage, Roosevelt finally returned to the constructive activism which had served him so well in the past. He used two special messages to Congress to help pass the controversial Aldrich-Vreeland Act (May 1908). The debate was heated, with contending legislation battling for votes, and many criticizing the entire effort as a favor to Wall Street. But Roosevelt worked closely with senior Congressmen to negotiate passage of the Act. It allowed banks to use bonds to secure emergency currency during a crisis. But it would not be invoked until the outbreak of World War I, long after Roosevelt left office. The Act also set up a monetary commission to study the crisis and recommend more comprehensive solutions. Its work would eventually result in the creation of the Federal Reserve System in 1913.¹⁶⁸

However, the Panic of 1907 and the recession which accompanied it destroyed America’s overall economic performance during Roosevelt’s second term. Interest rates skyrocketed, with short-term rates hitting

¹⁶⁴ Oct 22, 1907. Speech in Nashville, TN. Quoted in Bruner and Carr 2007:109.

¹⁶⁵ Quoted in Morris, 2001: 498.

¹⁶⁶ But Roosevelt continued to maintain that his policies had not caused the panic, and that the crisis would have been far worse had he not acted as he did. Letter to Hamlin Garland, Nov 23, 1907. Quoted in Bruner and Carr 2007:184.

¹⁶⁷ Roosevelt, Theodore. 1908. Message to Congress on Worker’s Compensation. January 31.

¹⁶⁸ Wicker, Elmus. 2005. *The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed*. Columbus, OH: The Ohio State University Press.

100 percent on the worst days. The stock market collapsed, falling to half its January 1906 peak. Only when J. P. Morgan & Company formed a rescue package, and banks restricted the convertibility of their deposits into cash, did the financial turmoil ease.¹⁶⁹ But the economy slumped for months afterwards. Bankruptcies surged to peak levels. Industrial output declined 17 percent in 1908, and real GNP fell by 12 percent.¹⁷⁰ Commodity prices dropped to 1904 levels. Imports fell by 26 percent. Unemployment nearly tripled in a matter of weeks. Immigration shrank by one-third. The ripples then spread out to affect the global economy. Through networks of trade, investment, loans, and overall market psychology, the US crisis contributed to similar panics in Germany, Italy, Denmark, the Netherlands, Egypt, and Chile. The loss of US investment flows into Mexico City may even have contributed to the Mexican Revolution in 1910.¹⁷¹ The American economy began to recover during June 1908, but it would not regain its pre-recession levels until after Roosevelt left office. Economically, the second Roosevelt administration ranks amongst the worst in all US history. Since the Civil War, only Herbert Hoover's single administration, which endured the Great Depression, has performed worse.

IX. CONCLUSION

No single case can prove a theory, nor should one serve as the sole basis for creating new theory. The Roosevelt case must be compared against other presidencies that possess significant variation in vision, action, alliance-building, and trust-building. However, the Roosevelt case does illustrate how presidential actions can affect the economy via their impact on alliances and trust. Where Roosevelt took action that adhered to his vision, built or maintained alliances, and improved trust, especially in response to crises, then the economy appeared to benefit. However, when Roosevelt failed to act in the face of crises, then his inaction enabled, even fostered, economic disaster. Also, when Roosevelt's actions strayed from his vision, damaged alliances, or undermined trust in major political-economic institutions, then these actions increased the likelihood and scope of bad economic outcomes by raising uncertainty amongst investors, consumers, savers, lenders, and entrepreneurs. Perhaps Roosevelt's greatest economic failure was that he refused to use his considerable power to defend the financial system. When panics hit the markets, he either ignored them or applauded them.

¹⁶⁹ The actions of French banks to accelerate gold payments for US agricultural exports also may have played a role in ending the panic. See Rogers, Mary T. and James E. Payne. 2014. How the Bank of France Changed U.S. Equity Expectations and Ended the Panic of 1907. *The Journal of Economic History* 74(02):420-448.

¹⁷⁰ Tallman, Ellis W. and Jon R. Moen. 1990. Lessons from the Panic of 1907. *Economic Review* 75 (May/June): 2-13. Federal Reserve Bank of Atlanta.

¹⁷¹ Bruner and Sean, 2007.

Put another way, trust is the *sine qua non* of a successful economy. Roosevelt relied heavily on his personal celebrity, and the trust forged between himself and the American voting public, to accomplish his legislative goals and win elections. As long as Roosevelt did not damage the public's faith in himself, or in major political-economic institutions, his very violations of tradition often served as a source of political strength. This was most true during his first term. Roosevelt's economic activism was at its best when he led from behind, forged alliances, and restored trust, as in the 1902 coal strike. But, during his second term, as time wore on, Roosevelt's behavior grew wearisome. Some resented his activism. He bolstered himself by systematically attacking American confidence in Congress, Wall Street, corporations, the judiciary, and even unions. He also fed into the increasingly divisive racism of his time. He even hastened the split of his own Republican party. As his actions grew increasingly aggressive, arbitrary, and personalized over time, they seemed to derive less and less from a coherent, consistent vision, and more from a personal desire for more power. "Roosevelt adopted a rhetoric of alarm and exaggeration—that is, of untruth..." observes one scholar.¹⁷² Hence, many accused him of demagoguery. And after having gathered hitherto inconceivable power in the executive branch, he thereby proceeded to undermine trust in the Presidency itself by seemingly erratic and unfettered personal policymaking.

It is true that much of the American public never turned on Roosevelt. He was loud. He spoke his mind. He got things done. He showed little tolerance for cowards, fools, flabbiness, or tricksters. Many Americans simply found Roosevelt thrilling. And he was skillfully able to redirect much of the public's anger toward Congress and corporate America instead of himself. In fact, as late as summer 1908, the media was still reporting "In a marked degree, the President rather than Congress possesses the confidence of the people."¹⁷³ Yet what was politically successful had become economically disastrous. Roosevelt's tactics for expanding his personal control over government and industry at all levels had slowly eroded trust in the country's primary political and economic institutions. Therefore, when the 1907 crisis loomed, there existed no coalition of actors, no reliable institutions, and no trusted leader to prevent it. Indeed, Roosevelt's erosion of trust helped precipitate, and worsen, the very economic storm which battered his second term.

¹⁷² Tullis, 1987: 112.

¹⁷³ 1908. An Unpopular Congress. *Literary Digest* 36 (June 6). Quoted in Gould, 2011:274.