Lake Effects

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ECONOMIC DEVELOPMENT AND URBAN GROWTH DEVALUED

Continued economic development seemed certain to Populist Regime decision makers, even if they were uncertain about the direction it would take. As a result, much of the energy of the Populist Regime was given over to managing the unforeseen distributive and redistributive consequences of the Merchant Regime urban growth policy of annexation. What followed was a rapid reordering of priorities. Just how rapid the reordering was can be seen in the municipal budget.

THE MUNICIPAL BUDGET AS A GUIDE TO POLICY CHANGE

Deep Throat, Bob Woodward’s unidentified nocturnal informant, advised the young reporter “to follow the money” to the end of the Watergate mystery. By following the money, we track the passing of the Merchant Regime but also the sudden shift in policy priorities made by the emergent Populist Regime.

The money in this case was legitimately in the Cleveland municipal budget. The municipal budget, however, was a tattered laundry list of two dozen or more line items perversely arranged in alphabetical order. When the line items are rearranged under more useful taxonomies corresponding to the four areas of urban policy, trends announcing a realignment of policy priorities are evident. For our purposes, the budget taxonomies are Economic Development and Urban Growth, Service Distribution, Wealth Redistribution, and Interest. The 1870 and the 1880 budgets can now be compared in terms of total expenditures and in terms of the new taxonomies (table 3.1). Comparison discloses a shift in regime policy priorities.¹
The Merchant Regime practiced a tightfisted fiscal policy in 1870. The $6.97 per capita spending figure was among the lowest rates in the country. When compared to such places as New York, Philadelphia, or Boston, the per capita debt carried by the city pales to insignificance. The merchants took considerable pride in their vigilance over the public purse.

The budget also clearly spells out the policy priorities of the Merchant Regime. In 1870, the Merchant Regime spent money primarily on Economic Development and Urban Growth, some 43 percent of the budget. Service Distribution—the money spent on such services as police and fire protection and water supply—was a distant second line priority, amounting to only 27 percent of the budget, even after two decades of public pressure to improve these services.

The 1880 budget, by contrast, displays a stunning reversal of urban policy priorities. Economic Development and Urban Growth declined from 43 percent of the 1870 budget to just 23 percent of the 1880 budget. Service Distribution increased from 27 percent to 36 percent. The dollar increases are even more imposing. Economic Development and Urban Growth spending increased by only $16,000 during the decade; but the dollars spent on Service Distribution swelled by $285,200, a 162 percent increase over 1870. The per capita budget increased only 14.7 percent during the decade, underscoring the radical reordering of the line item policy priorities from Economic Development and Urban Growth to the new emphasis on Service Distribution.

Not all the new spending could be met from current revenues. Debt also increased. Money spent on debt service increased fourfold over the decade, and per capita debt increased 130 percent from $26.93 to $62.05. Some of this borrowed money went to finance the water system, which supported

### Table 3.1
Municipal budgets, 1870 and 1880 (values in $1,000)

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>1870</th>
<th>Percentage of Budget</th>
<th>1880</th>
<th>Percentage of Budget</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and Growth</td>
<td>279.5</td>
<td>43.2</td>
<td>295.5</td>
<td>22.9</td>
<td>&gt;5.7</td>
</tr>
<tr>
<td>Distribution</td>
<td>176.2</td>
<td>27.2</td>
<td>461.4</td>
<td>35.9</td>
<td>&gt;167.8</td>
</tr>
<tr>
<td>Redistribution</td>
<td>14.0</td>
<td>2.0</td>
<td>39.0</td>
<td>3.0</td>
<td>&gt;178.6</td>
</tr>
<tr>
<td>Interest</td>
<td>101.5</td>
<td>15.6</td>
<td>402.0</td>
<td>31.3</td>
<td>&gt;296.0</td>
</tr>
<tr>
<td>Total</td>
<td>571.2</td>
<td></td>
<td>1,200</td>
<td></td>
<td>&gt;110.0</td>
</tr>
<tr>
<td>Per Capita Expenditures</td>
<td>$6.97</td>
<td></td>
<td>$8.00</td>
<td></td>
<td>&gt;14.8</td>
</tr>
<tr>
<td>Per Capita Debt</td>
<td>$26.93</td>
<td></td>
<td>$62.05</td>
<td></td>
<td>&gt;130.4</td>
</tr>
</tbody>
</table>

Source: See Methodological Note 1.
the fire department and sanitation. The remainder financed such urban growth infrastructure projects as bridges, street extensions, paving, and lighting. The money trail led to a new array of policy priorities.

**ECONOMIC DEVELOPMENT POLICY**

The commercial era economy was nearly a relic when the Populist Regime took power in the late 1870s, but the new industrial order still had not come into full flower. Manufacturing was the wave of the future, a trend that had been evident since the 1850s, but manufacturing itself was at a crossroads. Would Cleveland be a manufacturing center of durable or non-durable goods? Populist Regime economic development policy was inhibited by this uncertainty. An economic development policy in support of a nondurable goods manufacturing sector was quite different from an economic development policy supporting durable goods manufacturing. As the industrial era unfolded, it became apparent that durable and nondurable goods would be produced on altogether different organizational scales. Nondurable goods manufacturing organizations proved substantially smaller in scale than the giant organizations manufacturing durables.

Small-scale organizations producing nondurable goods are usually locally owned. Organizations manufacturing durable goods evolved into corporations owned by anonymous stockholders and directed from corporate headquarters by professional managers. The policy making implication of these two very different forms of business organization is that in cities producing nondurable goods economic development policy is locally controlled because the owners live locally and their capital is immobile. Multilocational corporations, in contrast, ordinarily represent mobile capital and out-of-town headquarters decision making. Economic development policy, accordingly, is no longer local; it is made at corporate headquarters. This transition in the business organization was taking place during the Populist Regime.

Whatever the future might hold for the city’s economy, the incoming Populist Regime assumed policy making authority in the midst of a fiscal crisis and believed that the merchants had devoted entirely too much energy and treasure to economic development policy. The casual observer could see that the economic development policies of the Merchant Regime transformed Cleveland’s export sector from commerce to industry. Entrepreneurial activity, an important indicator of adding new work to old work in the export sector, seemed robust, and the city’s capital resources were employed in investments encouraging forward and backward linkages.
from existing industries.\(^3\)

These achievements won Cleveland stature as a national manufacturing center. Still, the type of manufacturing city Cleveland would become remained murky during the entire Populist Regime.\(^4\) The censuses of 1860, 1870, 1880, and 1890 reported that Cleveland’s economy was split between more than a dozen varieties each of durable and nondurable goods manufacturers. Nondurable goods manufacturing was represented in the food products industry, an example of Cleveland’s ability to turn its agricultural hinterland to industry. Regionally available lumber and mineral resources provided the base upon which Cleveland’s earliest durable goods industries were built. Lumber from the upper Great Lakes supplied the city’s cooperage, sash and door, broom and brush, furniture, and paper industries. Ore and coal imports sustained the primary metals and fabricated metal products industries. The Civil War stimulated both durable and nondurable goods export sector manufacturing activity, and Merchant Regime economic development policy advanced both forms in the decades following the war.\(^5\)

### Durable vs. Nondurable Goods

Durable and nondurable goods manufacturing, however, were quite different types of export sector activity. Specialization in one or the other export sector activity would bind the city to very different economic futures.\(^6\) Each made very different public policy demands, particularly for infrastructure. Durable goods industries made heavy infrastructure demands, while nondurable goods industries made only modest demands on the treasury for infrastructure.\(^7\)

Which industrial activity was the wave of the future? Which was more valuable to the city? To understand the importance of these questions to local policy makers some sense must be made of nineteenth century business statistics, especially those describing the export sector of the local economy. The export sector of the economy is important because it stimulates local factors of production and spins off a wide range of service activities. Economists call this the multiplier effect, an economic phenomenon measured by a statistic called value added.

Value added measures the local multiplier effect of a given industry, the difference, in short, between materials costs paid by the local manufacturer at the outset and the price received when the finished product is sold. Value added dollars flow to local factors of production, and local trend watchers followed these statistics very carefully. A derivative business statistic, value
added per employee (VAPE), is a shorthand method for making comparisons of the multiplier effect of various industries. VAPE is calculated by dividing value added in an industry by the number of employees in the same industry. If VAPE is to be a meaningful barometer of the local importance of an industry, VAPE for the local industry must be higher than the VAPE of the same industry nationally. Table 3.2 shows VAPE for durable and nondurable goods, comparing Cleveland in both categories to the country.

**The Declining Fortunes of Nondurable Goods Manufacturing**

Durable and nondurable goods VAPE figures reveal some disparate patterns. The disparities between durable and nondurable goods figures reveal the reasons behind the uncertainty of economic development policy early in the Populist Regime and cast light on the path that the city’s economic development policy eventually followed. Cleveland durable and nondurable goods VAPE ratios reveal complex patterns of local development and local multiplier effects. The nondurable goods VAPE ratio shows Cleveland at best at par with national nondurable VAPE and generally, with each passing decade, lower than national trends for nondurables, meaning that the local multiplier effect of value added in nondurables was weak and sinking fast. Durable goods VAPE reveals a significantly different pattern. After two decades of uncertainty, local durable goods VAPE skyrocketed above national averages and sealed the economic development future of Cleveland. This significant trend did not become obvious until the decade of the 1890s, just as the Populist Regime was ending.

<table>
<thead>
<tr>
<th>Category</th>
<th>1860</th>
<th>1870</th>
<th>1880</th>
<th>1890</th>
<th>1900</th>
<th>1910</th>
<th>1920</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Durables</td>
<td>761</td>
<td>637</td>
<td>680</td>
<td>851</td>
<td>960</td>
<td>1,042</td>
<td>1,285</td>
</tr>
<tr>
<td>Cleveland Durables</td>
<td>845</td>
<td>778</td>
<td>854</td>
<td>967</td>
<td>1,362</td>
<td>1,614</td>
<td>2,251</td>
</tr>
<tr>
<td>U.S. Nondurables</td>
<td>504</td>
<td>606</td>
<td>717</td>
<td>1,051</td>
<td>1,204</td>
<td>1,282</td>
<td>1,442</td>
</tr>
<tr>
<td>Cleveland Nondurables</td>
<td>747</td>
<td>658</td>
<td>628</td>
<td>1,205</td>
<td>1,154</td>
<td>1,217</td>
<td>1,488</td>
</tr>
</tbody>
</table>

*Source: See Methodological Note 5.*
In 1860, however, Cleveland’s undeniable industrial specialty was nondurable goods manufacturing. Table 3.2 shows that VAPE in 1860 was fifty points higher than the national average, indicating a high degree of local specialization and a strong local multiplier effect. The majority of the city’s manufacturing workers were employed in nondurable goods industries. During the next twenty years, however, value added per employee declined steadily in nondurable goods industries. More ominous was Cleveland’s position relative to urban nondurable goods competitors. By 1880, VAPE declined from fifty points above to twelve points below the national average. The city’s competitive advantage in nondurable goods production evaporated in the brief period of two decades. Cleveland’s first nondurable goods high VAPE manufacturing enterprises—liquors, tobacco products, bread and bakery, and meat slaughtering—were linked to nearby agricultural production. As the urbanization of the nation advanced, food products manufacturing proved to be as ubiquitous as agriculture itself, and Cleveland during the decade of the 1870s lost its initial competitive advantage in the food products industry.

The city gained a respite in nondurable goods production during the 1880s when John D. Rockefeller headquartered his oil refining business in Cleveland. In that decade Cleveland became the nation’s oil refining capital and built impressive forward linkages to chemicals and other allied industries. Initial advantage in the oil refining industry proved to be short-lived when Rockefeller, pressured by marketing and distribution considerations and the legal implications of the Sherman Anti-Trust Act, decentralized his refining operations to other cities in other states. Crude oil does not have to be refined near the wellhead if cheap transportation can be arranged to bring it closer to final markets. This Rockefeller was able to do with his own pipelines and preferential agreements with rail shippers. His competitors in time followed suit and the nation’s oil refining capacity quickly decentralized from Cleveland to final market locations. The result was that Cleveland’s nondurable goods VAPE ratios slipped well below the nation’s during the decade of the 1890s. By the turn of the century, Cleveland’s earliest and most promising high VAPE nondurable goods industries were almost nonexistent.

**Durable Goods: An Uncertain Beginning**

As nondurable goods manufacturing declined, durable goods manufacturing made only halting advances (see table 3.2). Businesses initiated by imported timber gave Cleveland its first high VAPE durable goods manuf-
facturing activity in lumber products in the middle decades of the century. Yet in 1890, the lumber products industry was dead. The reasons were just the reverse of those causing the parallel decline in the city’s oil refining industry. Neither resource—oil or timber—is ubiquitous, but the weight and value of the final product combine in such unique ways as to encourage the lumber products industry to locate as close as practicable to sources of raw materials, whereas oil refining locates near final markets. The timber states beckoned the lumber products industry, and Cleveland soon could not compete with factories located close by timber resources.9

Table 3.3 shows that in 1860 slightly more workers were employed in nondurable than in durable goods industries; however, a decade later it was apparent the employment advantage was shifting in favor of durable goods metals industries. Railroad repair in the 1850s and the Civil War in the 1860s provided the initial momentum for the metals industry in Cleveland. Metals making was the first durable goods metals industry, and in the next decades metals making spawned related metals fabricating and finished metals products industries.10 A breakthrough occurred in the 1870s when employment in durable goods industries permanently shifted to a more than a two-to-one advantage over employment in nondurable goods industries. It seemed that Cleveland’s economic development future was in durable goods manufacturing.

That future, however, was difficult to foresee during the two decades the Populist Regime was in power because, even though employment figures looked promising, the all important VAPE in durable goods manufacturing did not become commanding until the 1890s when the Populist Regime was slipping from power. Although the durable to nondurable goods employment figures looked impressive to readers of the 1880 census, these same tables informed readers that value added per employee grew laggardly and would continue to do so during the next decade when VAPE actually declined. These were the economic tea leaves populist policy makers considered.

### Table 3.3

Employees in durable vs. nondurable goods industries by decade, 1860–1920

<table>
<thead>
<tr>
<th>Category</th>
<th>1860</th>
<th>1870</th>
<th>1880</th>
<th>1890</th>
<th>1900</th>
<th>1910</th>
<th>1920</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durables</td>
<td>1,135</td>
<td>2,509</td>
<td>7,682</td>
<td>14,899</td>
<td>22,086</td>
<td>32,662</td>
<td>50,260</td>
</tr>
<tr>
<td>Nondurables</td>
<td>1,285</td>
<td>1,834</td>
<td>3,176</td>
<td>6,863</td>
<td>9,762</td>
<td>18,285</td>
<td>25,457</td>
</tr>
</tbody>
</table>

Source: See Methodological Note 5.
Uncertainty over the course of economic development was reflected in the municipal budget. In the heyday of the Merchant Regime, municipal spending for economic development reached a high of 13 percent. During the Populist Regime, this percentage tumbled to less than 5 percent of the budget.\textsuperscript{11} The declines in municipal spending were a reflection of three things. First, because it had other policy priorities, the Populist Regime was less willing to spend on economic development. Second, the public policy needs of durable goods and nondurable goods industries are quite different, and decision makers, for reasons explained above, were uncertain about which policy course to follow. Third, the Cleveland economy apparently was in the grip of the growth pole effect (discussed below), an enigmatic business phenomenon that puzzled and divided populist policy makers.

A Populist Regime article of faith was that businessmen should make business decisions not necessarily because businessmen are divinely ordained to do so but because there are boundaries and limits to what government ought to do on behalf of any supplicant. Business rhetoric dovetailed with populist policy and provided the regime with a convenient rationale for not spending on economic development. Businessmen tirelessly lectured populist public officials about the need for businessmen to make business decisions without interference from public authorities. The rhetoric of business was decidedly anti-government and, by implication, anti-populist. Businessmen preached a doctrine of market-driven decision making. Epiphanies on labor relations conjured similar images. Workers should not organize; the workplace relationship was individual to individual, owner to worker, each party bargaining from the high moral high ground of fairness and equity. Governments should not tamper with these inviolable relationships. Government attempts to tax business enterprise were likewise defamed as confiscatory and parasitical. Money so taken was money not invested in improved plant or higher wages for labor. The Populist Regime responded to the surface message rather than the deeper theological content of business rhetoric.\textsuperscript{12} If business needed money spent on such infrastructure requirements as river dredging and harbor improvement, then perhaps the money spent should come from their pockets and not those of the taxpayers. Municipal budgets reflected the attitude.\textsuperscript{13}

Even so, when the Populist Regime did allocate public money for economic development, policy makers were confused about the needs of business. As noted above, the regime’s bewilderment was a product of the
uncertainty over Cleveland’s future in durable or nondurable goods production. Each course had unique public policy implications. Nondurable goods were manufactured from locally and regionally available raw materials and finished products (oil excepted) and were sold locally and regionally. In the food products industry, for example, raw materials came by road from the surrounding agricultural hinterland. These perishable commodities journeyed by highway directly to processing plants, bypassing wharves and warehouses. The production turnaround time was relatively short, after which the finished food product was retailed in the city or sold back to customers in the countryside. The public policy priority of the agricultural products industry was a reliable regional system of roads.\textsuperscript{14} Road construction and maintenance were the responsibility of the county and the state, not the municipality.

Similar infrastructure prerequisites prevailed in the lumber products industry. Although timber came by water from the distant north woods of Michigan, lumber products manufacturers preferred not to keep expensive, bulky inventories on hand. The turnaround time for a finished lumber product was, as in the food industry, relatively short. The lake and the river were important for raw materials sourcing, but wharves and warehouses were not. Finished lumber products were sold in the same markets as food products. The public policy requirements of both industries were similar: a reliable system of roads.\textsuperscript{15}

Oil was a very different industry. But in terms of publicly financed infrastructure needs, the oil industry was self-sufficient. During the brief period in the 1880s when Cleveland was an oil refining boomtown, John D. Rockefeller made precious few demands on the municipal purse because he supplied his own infrastructure. Rockefeller brought his crude oil from the Pennsylvania wellhead to Cleveland refineries in pipelines he built, and he shipped his finished product by rail to final markets under exacting contractual arrangements he personally negotiated with the companies. He was a businessman that a populist policy maker could admire.\textsuperscript{16}

In brief, nondurable goods industries had minimal infrastructure requirements. If Cleveland’s business future was in nondurable goods, as seemed probable at the outset of the Populist Regime, then the municipality was not obligated to spend large sums of money in its support.

Durable goods manufacturing in primary metals was an altogether different matter. Metals making operations consumed southern Ohio coal by the carload and kept the Great Lakes dotted with ore boats during the open water months. If metals making was to be a twelve month a year enterprise, the huge inventories of coal and ore would have to be stored locally. Lakeside docking and unloading facilities were needed and so too was a river.
dredged deep enough to accommodate lakegoing ore vessels. The Merchant Regime made liberal investments in these facilities. The Populist Regime spurned them.¹⁷

An odd coupling of business and politics helps explain the Populist Regime’s reluctance to spend money on economic development. Although primary metals industries were important to Cleveland during the Populist Regime, the value added dollars generated were small relative to demands on the public purse. In primary metals industries, VAPE was stagnant during the years the Populist Regime was making economic development policy (table 3.4).

In 1880, barely into the Populist Regime’s tenure, VAPE in the metals fabricating component of the metals industry experienced an increase that the Populist Regime took to be permanent. Metals fabricating proved to be permanent, but the advantage in VAPE did not. Primary metals making made an enduring comeback late in the 1890s. Populist Regime policy makers anticipated stagnant VAPE in primary metals and growing long term VAPE in metals fabrication.

The assumption was critical for economic development policy making. Metals fabricating operations are not dependent on bulky waterborne imports of raw materials. Metals fabricating operations, therefore, did not require river dredging, hydraulic bridges, wharves, docks, and breakwaters. The products consumed and produced by metals fabricating plants entered and left the city by rail. If the city’s future was in metals fabricating rather than metals making, then the expensive infrastructure investments necessary to sustain a metals making industry were not necessary. The populists did not see that the two industries were linked.

The Populist Regime concluded that the necessary infrastructure investments in support of a now stagnant metals making industry had been completed in the 1870s by the Merchant Regime and decided that a new round of investment in metals making infrastructure was a foolish

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**TABLE 3.4**

VAPE for primary metals vs. metals fabricating by decade, 1860–1920

<table>
<thead>
<tr>
<th>Category</th>
<th>1860</th>
<th>1870</th>
<th>1880</th>
<th>1890</th>
<th>1900</th>
<th>1910</th>
<th>1920</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Metals</td>
<td>1,267</td>
<td>885</td>
<td>892</td>
<td>883</td>
<td>1,876</td>
<td>1,230</td>
<td>1,145</td>
</tr>
<tr>
<td>Fabricated Metals</td>
<td>822</td>
<td>802</td>
<td>745</td>
<td>803</td>
<td>982</td>
<td>1,183</td>
<td>1,324</td>
</tr>
</tbody>
</table>

*Source: See Methodological Note 5.*
waste of taxpayer dollars. In 1878, Populist Regime Mayor Rensselaer Russell Herrick declared in his inaugural address that “nothing so effectively strangles manufacturing and all business enterprises as a high rate of taxation.” This statement established the fiscal boundaries of Populist Regime urban policy. Budgets would be cut and tax rates would be lower. As good as his word, the Herrick administration implored a receptive city council to reduce budgets and lower taxation, cutting in half the annual budget for economic development schemes. Succeeding administrations won even greater reductions in the economic development budget.

When the Populist Regime reached midpassage, mayors John H. Farley and George Gardner served notice on their fellow populists in city council that retrenchment in economic development policy had gone far enough. Farley warned that the “river must be dredged to accommodate the needs of factories that have moved up river.” His warnings fell on deaf ears, and in 1884 the city council cut economic development spending still more. In 1886, Mayor Gardner sounded a new call of alarm. He told the council that “We have suffered loss by reason of our failure to keep pace with other Lake Erie ports in the matter of improvements, thereby losing trade that naturally belongs here.” Competing lake cities—Lorain, Elyria, Ashtabula, Conneaut, and Erie—captured large shares of the city’s coal and ore import trade because Cleveland failed to keep pace with river and harbor improvements.

When former Merchant Regime mayor W. G. Rose was elected to another tour of duty in 1891, under the terms of the new anti-populist Federalist municipal charter, he delivered an obituary for Populist Regime economic development policy. A throwback to the bygone days of Merchant Regime economic development policy, Mayor Rose castigated the city council and the railroad companies for failure to dredge the river to the city limits and to build docks and wharves on the river and lake banks. The railroads he blamed for not building unloading facilities for ore and coal. When city council rationalized its failure to act on lakefront improvements because of the legal uncertainty over who owned the lakefront land, the city or the railroads, Rose challenged the legislators to take the railroads into court to resolve the land title issue. In the meantime, he ordered the city council to soldier on with river dredging and harbor improvements east of Erie Street (E. 9th). “The future prosperity and greatness of the city,” he warned, “largely depend upon the firm maintenance of a broad policy with respect to our harbors and approaches thereto.”

Rose’s inaugural address put more pressure on city council by defining the infrastructure situation as an emergency, but City Council refused to be pressured or intimidated either by Rose, Mayor Blee (in 1893), or Mayor
McKisson (in 1895). Council failed to act for a number of reasons. After the strong mayor charter reform of 1892, the responsibility for bringing suit against the railroads belonged to the law director, not the city council. Various mayoral administrations dragged their feet on the confrontation, and even after suit was brought, the legal battles with the railroads dragged on inconclusively for three decades. Though the mayor’s office passed from populist control in the mid 1890s, the populists lingering in city council had no interest in spending on economic development. The council was reluctant to tax all businesses and all residents to support the interests of one business, the metals making industry. The low VAPE data reported early in the 1890s reinforced the view that the metals making industry was stagnant or dying and not worth the infrastructure investment (though, as noted, the patient made a dramatic recovery later in the decade—see table 3.3).

The six mayors from Payne to McKisson buried city council in data showing that rival lake ports were importing more iron and coal than Cleveland. In fact, the data from Elyria, Ashtabula, Conneaut, and Erie could be read in three ways: (1) as evidence of Cleveland’s impending economic doom, as the mayors claimed; or (2) that this was the “growth pole effect,” an inevitable trend in Cleveland’s economic evolution and was therefore no cause for alarm; or (3) that these cities, especially the three east of Cleveland, were in fact the lake ports of Pittsburgh, a rival metals making city which consumed at least as much iron ore as Cleveland. Mayors Payne, Farley, Gardner, Rose, Blee, and McKisson followed the economic doom interpretation of these data and used it to bludgeon city council into spending more money on infrastructure for the metals making industry. When the council refused, the mayors were despondent.

The second interpretation was the “growth pole effect,” economic jargon not in use then but an occurrence common in Cleveland’s nineteenth century business history. In the early stages of economic development an urban center favored by strong transportation connections, such as Cleveland’s to agriculture, timber, and oil, will, like a magnet or growth pole, attract all manner of productive elements, raw materials, labor, entrepreneurial talent, and capital. New businesses and new industries form quickly and indiscriminately. Backward and forward linkages between businesses readily form in like magnetic fashion. Then something happens: a threshold is reached, and the magnet reverses its poles and spins off to other venues the very businesses that brought the city its early prosperity. Historically, the reverse growth pole effect propelled such nondurable goods industries as food products and oil refining from Cleveland to other centers, leaving such forward linkage or spin-off industries as chemicals
behind. Spin-off industries, such as chemicals, remain and spin off businesses of their own, such as paints and varnishes, which together keep the export sector of the local economy developing.\(^{26}\)

It was reasonable for populist policy makers to assume that the same process could happen in the metals making industry. Metals making had already spun off high VAPE industries in metals processing (rolled steel) and metals fabrication (rails, wire, screws, and nuts and bolts). The growth pole effect, it appeared, was now discarding the metals making industry from Cleveland to rival lake cities where ore and coal could be brought in by water and rail more conveniently and at a lower cost. If it was natural and inevitable for the metals making industry to leave Cleveland, then it made little sense to lavish money on the infrastructure needs of a departing industry.

The mayors and other alarmists refused to acknowledge that the eastern Lake Erie cities recording more iron shipments than Cleveland were, in fact, the lake ports of Pittsburgh, which, despite its distance from the lake, trumped Cleveland in primary metals production.

If Cleveland was losing its base in metals making, the infrastructure needs of the emerging industries in metals processing and metals fabrication were for land for factory sites and land for inner belt rail connections rather than expensive river dredging and dock, wharf, and warehouse construction. Land for factory sites served by rails fell under the rubric of urban growth policy.

**AN URBAN GROWTH POLICY OF RETRENCHMENT**

The high-priority status of Merchant Regime urban growth policy was dealt a serious blow by the Populist Regime budgetary meat ax just as growth policy was growing more complex and more vital to the quality of life led by Clevelanders. The Populist Regime slashed urban growth policy budgets because the Merchant Regime’s growth policy of indiscriminate annexations placed severe demands on the incoming Populist Regime for distributive services to the newly annexed areas.\(^{27}\)

*The Consequences of Merchant Regime Growth Policy*

Hidden in the Merchant Regime's urban growth policy of push and pull factor annexations were a variety of buried costs and suspect practices. Push factor annexations gave the city vacant land that would not be
brought into use for years. Pull factor annexations brought in factories that, after the Panic of 1873, were laying off rather than hiring workers. Both forms of annexed territory demanded and received municipal outlays for distributive services, streets, paving, water, sewer, gas, and electricity. In its haste to bring the land into the municipality, the city paid far too much for these improvements, which now connected the city to vacant land and shuttered factories. Municipal budgets soared during the depression that followed the Panic and so too did the city’s bonded indebtedness. When the Populist Regime assumed policy making authority, the day of urban growth policy fiscal reckoning was at hand.

The day of reckoning was highlighted by acrimonious, finger pointing debates within the municipal government. Hapless mayors were charged by incoming Populist councilmen with lax administration, while the remaining Merchant city councilmen were libeled as obtusely compliant if not corrupt. The corruption charge stemmed from the fact that many members of the Merchant Regime were not simply merchants; they were also owners of the land on which the city was built. Eager to increase the value of their holdings via annexation and equally eager to shift the cost of the utilities serving the land from themselves to the city, the merchant estate holder/public officials had dipped liberally into the municipal purse for public improvements and shared culpability for the increasing budgets and bonded indebtedness the city found itself with late in the 1870s. Smaller holders of real estate, following the lead of the merchants, also reaped a share of the bounty. Small building contractors and upstart real estate operators devised highly imaginative schemes for converting tax-payer money to operating capital.

The excesses of Merchant Regime growth policy can be graphed in tax and municipal budget increases, debt accumulation, and annual operating deficits. Between 1871 and 1876, taxes increased 60 percent, ensuring the political unpopularity necessary to unseat the Merchant Regime. The municipal budget more than doubled, and the lion’s share of the monies flowed into growth-related schemes. Because expenditures grew at a steeper pace than revenues, deficits became chronic during the years of excess, peaking at 40 percent of the budget in 1876. Deficits and capital expenditures both were financed with bond issues. The city’s bonded debt increased more than twofold between 1871 and 1876. The Panic of 1873 wreaked additional fiscal havoc on the municipality by lowering property valuations, thereby contracting the flow of revenue needed for operations and debt service.

In 1873, a full year before the Panic was felt locally, Mayor Charles A. Otis issued an early warning of the fiscal chaos ahead. Although he did not
think that Cleveland carried too heavy a load of capital debt, Mayor Otis was concerned that the city's operating deficits, amounting to $200,000 annually, placed the entire system of municipal finance in jeopardy by adding senselessly to the city's burden of debt. The deficits demonstrated an absence of fiscal restraint, and the bond issues floated to fund them seemed to him acts of political cowardice or criminal irresponsibility. These deficits, illegal under the municipal code, represented over 40 percent of the operating budget.

Four years later, at the very bottom of the local depression, the fiscal crisis became the problem of Mayor Nathan Perry Payne, a member of a New England family with substantial holdings in Cuyahoga County real estate. Payne moved quickly but belatedly to establish a sinking fund to meet interest payments on the old debt, but his administration also added 35 percent to the deficit and $1.8 million to the total debt. Just to meet interest payments on the debt required a tax rate of 8 mills, two-thirds of the total millage the city could legally levy for all purposes. Payne's successor, William Grey Rose, a real estate developer and subdivider in private life, touted massive election-year budget cuts, mostly in services, a strategy that further alienated the service conscious populist constituency and paved the way for the election of the first Populist Regime mayor, Rensselaer Russell Herrick.

Mayor Herrick and the council elected with him in 1877 assumed office early in 1878 with a two-year mandate to take drastic action to remedy the fiscal crisis. Concentrating mainly on urban growth line items, Herrick slashed 28 percent from the budget, eliminated the deficit, reduced the debt by one million dollars, and cut taxes by 26 percent. In the 1879 and 1880 fiscal years, Herrick was aided by the local economy's recovery from the Panic of 1873, which rewarded the treasury with a sharp increase in property tax valuations.

The small contractors and real estate operators doing business in the vacant land adjacent to the city were smaller players in the political drama of the 1870s, but they inflicted considerable fiscal damage of their own and came in for a fair share of the blame for the city's fiscal woes. In early 1873, Merchant Regime Mayor Charles A. Otis, while loath to criticize his social peers, the merchant–real estate speculators, had no qualms about exposing the villainies of small-scale real estate speculators. In the 1870s, some 18.4 square miles, or 11,748 acres, were annexed to the city. Small-scale real estate operators, who supplied much of the political support for annexations, rushed in to buy small parcels of vacant land within the annexed territory, virtually worthless as development property because it lacked utilities and streets. The capital-starved small-scale real estate operator lob-
bied friendly city councilmen for streets and utilities. City council, pressed by both large- and small-scale speculators, was more than agreeable, since many members of that body were also in the real estate business or had side lines as building contractors.36

More subtle forms of small real estate operator mischief surfaced. When recalcitrant property owners blocked a street right of way to a speculator’s land, council was prevailed upon to use its power of eminent domain to buy the impediment property. Once done, the real estate operator bought the property from the city, frequently eluding payment for as long as two years. The city not only improved the value of the speculator’s property with publicly funded improvements, it also played banker by unintentionally extending credit to the fleet footed speculators. While these practices caused tax rates to go up for all taxpayers, parcels of land along the right of way leading to the speculator’s land were especially hard hit because special tax assessments were levied to help defray the cost of improvements. In the aftermath of the Panic of 1873, many of these entailed property holders defaulted on tax payments and lost their property. Default of payment cases rose from 76 in 1872 to 208 in 1877.37

Mayors of this period not only railed against the financial consequences of land speculation, they also called attention to the urban design implications of land speculation: “Land is being platted in the suburbs almost weekly,” noted Mayor Otis, “often in small parcels not exceeding a few acres, and each laid out with no reference to any others, but simply with a view of making the most money out of it. Short crooked streets run at all points of the compass and there is no regularity, no uniformity.”38

Bringing the fiscal crisis under control meant a radical change in urban growth policy, beginning with the budget. The early Populist Regime administrations slashed budgets, deficits, debt, and taxes. To avoid a reprise of the urban growth folly, annexations were brought to a halt (the city annexed 12,000 acres of land during the 1870s, but only 98 acres were annexed during the eighteen years of the Populist Regime). Merchant Regime annexations actually lowered the population densities of a rapidly growing city from 12.1 to 8.9 people per acre. The Populist Regime stranglehold on annexations drove densities up to 17.4 people per acre, a 19 percent increase.39

Instead of annexation, Populist Regime policy focused on delivering services to those settling the annexed space. During the Populist Regime, Cleveland grew by nearly two hundred thousand people, a fact itself suggesting that the Populist Regime should make transportation, utilities, and other services its highest priority. But given the fiscal realities, the municipality had to find means other than taxes and debt to provide transporta-
tion and utilities.

Cleveland was rocked by the fiscal crisis just as massive capital expenditures were needed for streets, street paving, commuter rail transit, gas, and light. With 40 percent of the city’s budget going to debt service alone, massive capital expenditures seemed out of the question. Gas, electricity, and commuter transportation were not only expensive; they also represented sophisticated technologies beyond the competence of the municipal bureaucracy. Moreover, taxpayer support for these sophisticated and expensive services was on the wane.