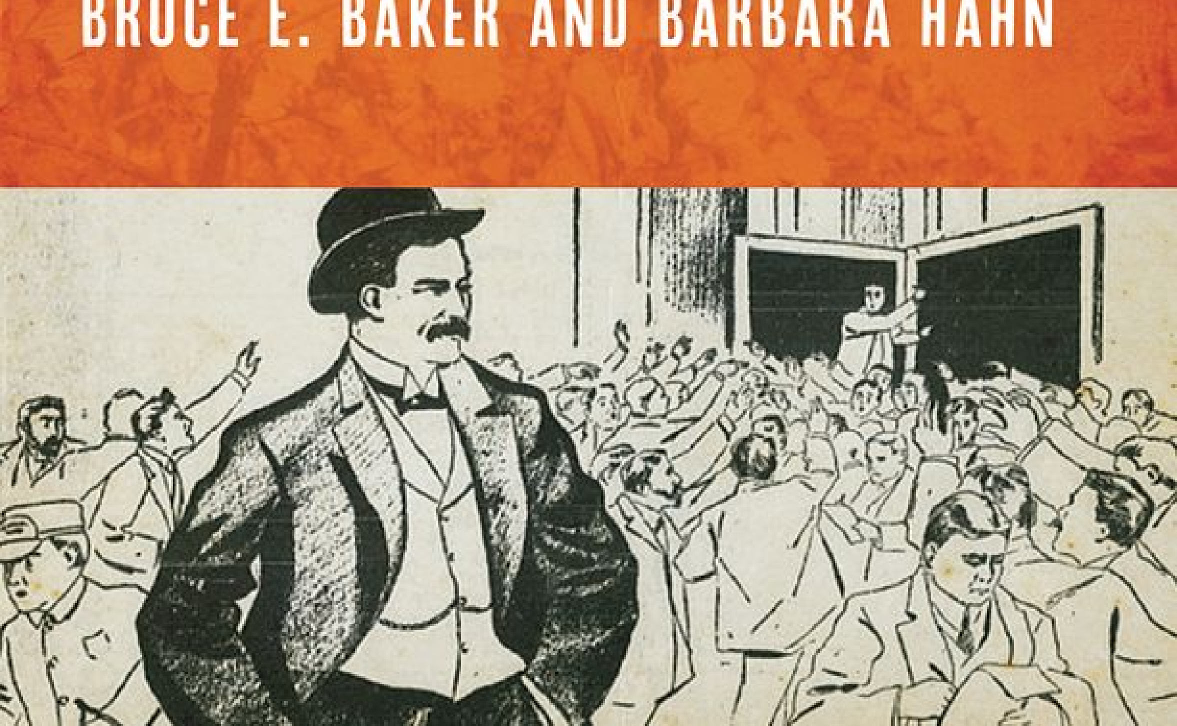
The Cotton Kings

CAPITALISM *and* CORRUPTION *in* TURN-OF-THE-CENTURY NEW YORK *and* NEW ORLEANS

BRUCE E. BAKER AND BARBARA HAHN



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To Isabel and Rose—B.E.B.

For my mother and my sister, and Jerry—B. H.

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ACKNOWLEDGMENTS

PIECING TOGETHER A COMPLEX story is always a story in itself. This one began when I (Bruce) was annotating a set of letters about the South by William Garrott Brown, and ran across a reference to another man named William Brown in New Orleans who cornered the cotton market in 1903. When I could not find an article or book about this, I started looking up contemporary newspaper articles to find out who that other William Brown was. I quickly realized there was a story to tell here, and just as quickly realized that I could not tell it by myself. I was a labor historian, a social historian; I had no understanding of markets and commodities and such. Fortunately, I had a friend from graduate school who did know about those things. So the first thanks here needs to go to Barbara Hahn for agreeing to work with me on this project. We have had a lot of fun with it.

Daniel Hammer at the Historic New Orleans Collection first alerted us to the existence of the William P. Brown Papers and used that word historians love to hear: “unprocessed.” Mary Lou Eichhorn, also at the HNOC, helped us identify an encyclopedia entry for Brown supplied by his descendents. Bettye Brown of the Columbus-Lowndes Public Library sent important material on William P. Brown’s early days. Claudia Freeman at Cadwallader, Wickersham, and Taft provided an important document. The very helpful staff at a number of libraries and archives made the research possible and enjoyable, especially Tulane University’s Special Collections and the British Library (including the now-defunct newspaper library at Colindale).

Some near and distant members of William P. Brown's family and their friends helped us with important clues and missing links: Stephen Clayton, Yvonne Collier Gwin, and Paul Hays especially. William B. Rudolf was equally helpful in understanding the career of Frank B. Hayne and offering the use of a great image that ultimately did not find a place in the book. Crorey Lawton provided contacts, hospitality, enthusiasm, and a photograph. Jack Becker and Amy Kim at the Texas Tech University Libraries, and Brittany Moses in the History Department, provided useful help finding and scanning images, on short deadlines and with considerable goodwill. In Leeds, Larra Anderson also helped. Emmett Sullivan worked his visual magic on a few recalcitrant images.

At the end of my (Barbara's) first trip to New Orleans, shuttling on the streetcar between the French Quarter and Tulane, not yet recognizing Brown's house (or knowing anything about it), I fell into conversation with some people who have hosted me on every trip to the city I've made since—Karen Duncan and Kelley Dodd, on Algiers Point, who so many times opened their home and their neighborhood and friends and the city to me. Thanks also to Deede Chatelain and Dennis Santopietro around the corner, whose taste for the history of New Orleans inspired many fun evenings—and mornings and afternoons.

Anyone who has known either of us for the last four or five years has heard us talking about cotton endlessly, but we are particularly grateful for several opportunities to present our work before our peers and get useful (sometimes difficult) questions and suggestions. We first discussed this at the 2011 annual meeting of the Association of British American Nineteenth-Century Historians (BrANCH) at Cambridge, where we benefited from feedback from John Killick, who has studied cotton much longer than we have. The Business History Conference was a congenial and invigorating environment, thanks to Walter Friedman, Ken Lipartito, and Susie Pak. Regina Blaszczyk kindly invited Bruce to speak at a workshop at the Victoria and Albert Museum. Thanks to Thomas Kuehn for arranging for Bruce to speak at his alma mater, Clemson University, and to the University of Michigan Economic History Workshop for reading and discussing a draft with Barbara. When the federal government shutdown affected USDA crop reports in 2013, History News Network provided us with a platform to explain why that was important to traders and farmers.

At least one of us did not really know anything about most of this when we started, so it is a good thing there were generous scholars to point us toward the basics of unfamiliar fields. Thanks to R. Emmett Sullivan, Alex Barber, Mary Baumann, and D'Maris Coffman for specific things they will hopefully recognize in our final story.

Back when we thought this was still going to be an essay, not a book, we were fortunate enough to get helpful feedback from three of the best readers we could have hoped for: Paul "The Economist" Rhode, Scott Nelson, and Bill Link. David Weiman gave us useful feedback on a full draft of the book.

Historians need places to read and to write; there are too many unwelcome distractions waiting to ambush you at the office and too many welcome distractions at home. There are worse places to read Congressional committee hearings than the Atrium Café at the John Radcliffe Children's Hospital in Oxford late in the evening. Any British historian will have done some reading or writing in a pub, so thanks to the Fox and Hounds in Caversham, the Nag's Head in Reading, the Happy Man in Englefield Green, and the Angel in Corbridge. Important discussions and inspired writing also took place at the Euston Tap in London.

B.E.B.—Many circumstances have changed for me since I first read about William P. Brown: a new job, moving to the other end of the country, moving across the border. I appreciate old colleagues who worked in the same building at Royal Holloway, University of London, and I have enjoyed settling in to Newcastle University. But most important of all these changes has been getting to know my daughter, Rose, who arrived during the early stages of the research and has grown alongside it. It may be a few years yet before she is ready to read about futures trading, but her joyfulness infuses every page. She and her mother have put up with me hiding away to write, and I treasure every moment I have spent with them away from this project.

B. H.—Friends and companions eased the passage of this book to print. My first thanks go to Bruce Baker for involving me in what turned out to be the most fun book to research and write. I also thank Bruce for his patience and good cheer over the many years of working together. Meanwhile, Clifford Herbstman first suggested this should be a book instead of an article so that he, a nonacademic, could access and read it. Philip Reekers and Tom Nies in Cincinnati, and Cordelia Barrera, JulieAnn Carlton, Renee Lane, Randy McBee, and Julie Willett in Lubbock entertained many conversations about the topic. Eric Chiappinelli was unfailingly supportive and also taught me what that means. I'm grateful to all.

The Cotton Kings

Introduction

> The history of the bull speculation in cotton of 1903 will never be fully written, because, though the men who influenced it are very interesting, their operations are interwoven with bloodless statistics and tiresome technicalities.
>
> —Edwin Lefèvre, *Saturday Evening Post*, August 29, 1903

THIS BOOK IS AN ATTEMPT to prove the business journalist Edwin Lefèvre wrong. There are indeed bloodless statistics in this story, and technicalities that could glaze even the most attentive of eyes, but still the history of cotton **futures** trading at the beginning of the twentieth century is an exciting one. It features dramatic commercial confrontations where millions of dollars were made and lost in a day. It contains corruption, intrigue, and the abuse of power at the highest levels of government. It is a story of men and their wives, of the social ties that link people together and the networks they create. It is also a story of conflict. Grand battles in the marketplace determined the results of long campaigns, nourished by careful logistics and the supply chains connected by the associations necessary to support the contest. It is an economic drama, enacted on stages from cotton fields and country stores to the cotton exchanges of New Orleans, New York, and Liverpool and the boardrooms of banks. It is a tale of prices and transactions around the rings of trade.

Every history book is of its time. In the second decade of the twenty-first century, as we write this book, many Americans feel they are subject to economic forces beyond their control. Rich and powerful men trade complex financial instruments and gain fabulous wealth, while average people struggle to get by. Critics of today's economy compare it to the rampant inequality of the late nineteenth century when robber barons could manipulate the economy to their own benefit. Other critics object to the remedies that were applied in the early twentieth century, finding government regulation of markets anathema and insisting that markets work best when governed least.

This history challenges both of these facile views of the past. There are indeed some men in these pages who became very rich by using shady financial practices that impoverished the masses, but there are also men who used the markets to become very rich in a way that happened to help many others in the process. The problem is not the rich men, but the means by which they got their wealth. Cheaters prospered, but so did honest transactors. Left to its own devices, the market had become increasingly corrupt and increasingly inefficient. Institutionalized practices prevented prices from accurately reflecting the relationship between supply and demand.[1] The market—in this case the cotton futures market—worked better when placed under federal regulation.

This story has a hero: William Perry Brown. Born in rural Mississippi, Brown was smart, confident, and hard-working. These traits carried him to New Orleans and made his fortune, along with his reputation as "about the coolest man on the exchange floor."[2] This story also has villains—unscrupulous cotton brokers in New York who lied to poor farmers so they could buy cheaply the cotton watered with the farmers' sweat, rogues who stole information and cheated the market, corrupt politicians who traded favors for their friends and abused their power.

The Cotton Kings offers some challenges to received wisdom. Ronald Reagan's assertion that "government is the problem" has echoed through American culture of the late twentieth and early twenty-first centuries. By contrast, this story argues that regulation works—that the job of markets is not simply to make money for individual participants but to make prices reflect supply and demand, and that rules need to be applied equally to all participants for this to happen. Self-regulation by market participants may be corrupted when some hold more power than others, which often happens. The specific examples of self-regulation and its failures explored here are cotton exchanges, which began as private institutions designed to facilitate business transactions. For a while, they improved the market's efficiency. But as the economic conditions that brought them into being changed, the New York Cotton Exchange (NYCE) altered its practices to protect the vested interests of its members, and these changes undermined the efficiency of the market. The brokers of the NYCE thrived on price volatility that sunk well-run firms. They pushed the price of cotton down relentlessly, immiserating millions and skewing the nation's regional distribution of wealth. Part of the reason that the South was the nation's number one economic problem by the 1930s was that the NYCE had for decades cheated its cotton farmers of a fair return on what they produced.

The Origins of Cotton Futures Trading

Before the Civil War cotton was the nation's major export, equaling in value all other exports combined, but the system for marketing it was remarkably old-fashioned. Cotton factors, based in the major port cities of the South, handled most business transactions for planters. The planters sent their cotton to the factors, and the factors found the best place and time to sell it, earning a commission, usually 2.5%, on the sale of the planter's cotton. Factors also bought plantation supplies—food, bagging, tools, shoes, clothing, and so on—and forwarded them on to the planters, taking another commission from these transactions. These relations between planters and factors were remarkably informal, with few written contracts and surprisingly few legal disputes; the system worked because of the mutual trust developed between individual planters and individual factors over time.[3] That arrangement did not survive the Civil War, however; the role credit played in cotton production and marketing changed. The collateral for an advance before the war was often a planter's slaves, who could be sold quite easily if necessary. Once slaves were no longer available as collateral a new basis for advancing planters supplies and money was needed, and, after a period of experimentation, this replacement was the crop lien. Lenders could advance supplies secure in the knowledge that they had first claim on the growing crop. The lender became not a distant factor but a local storekeeper, whose chain of credit ultimately reached Wall Street.[4]

The system that replaced the antebellum factors was shaped directly by wartime practices. Textile manufacturers in the North had needed steady supplies of cotton to fulfill government contracts, but with the cotton supply from the South disrupted, they had been reluctant to take on the risk themselves. An opening was created for traders who could find ways to buy cotton when and where it became available and arrange to deliver it to those who spun it when they needed it. These traders were not factors, with long-established relationships with both growers and spinners, but cotton brokers.[5] These independent dealers were poised to become central to the cotton trade in the coming decades.

The rise of cotton brokers phased out the personalized nature of the antebellum cotton trade. Technological change furthered this process by overcoming the obstacles of distance and time. In 1866 the transatlantic cable made it possible to communicate immediately between America, where most of the world's cotton was produced, and Britain, where most of the world's cotton was spun. With this technological improvement, price information could for the first time travel to the most important cotton market—Liverpool—much more quickly than the goods themselves. What had been contracts for the **future delivery** of actual goods became futures trading, a trade in information and risk.[6] Improved communication had an equally profound effect on the cotton trade within the United States. When conditions or events affected the crop, they could be known instantly in the regional exchanges where cotton was bought and sold but also in the two key American cotton exchanges, New York and New Orleans.

Futures trading can be fiendishly complex, but it rests on simple ideas. A **spot** transaction is one in which the buyer and seller execute a trade on the spot—money changes hands and ownership of the cotton transfers from seller to buyer. Spot trading deals in particular lots of cotton—these specific bales of a particular **grade**. Futures contracts, on the other hand, are binding contracts that are agreed on at one time and executed at a specified time in the future. Under the rules of the cotton exchanges a buyer has an absolute right to demand his cotton on that date, and likewise the seller has an absolute right to demand his money. Brokers are free, of course, to sell a contract and transfer that obligation to another party. The buyer and seller are also free to cancel a contract, usually with some money changing hands, but only if both parties agree. A futures contract does not deal with a particular bale of cotton—it may well be entered into before the cotton is planted—but rather it gives the buyer the contractual right (and obligation) to buy a certain quantity of cotton at a certain price and gives the seller the contractual right (and obligation) to sell a certain quantity of cotton at a certain price.

Very few futures contracts were made in expectation of actual delivery, but rather in the expectation of closing the contract in exchange for a payment, rather than cotton. If the cost of spot cotton on **tender day**—the day a contract for delivery came due—were higher than the contract, then the seller owed the buyer the difference; if the price were lower, then the reverse. This meant that futures contracts were a device that allowed every transactor's assessment of the future supply and demand for the commodity to influence the price of the contracts. They allowed information from a wide range of sources to shape the price of the goods. Yet it was the contractual right and obligation of delivery that tethered those guesses to the real world of commerce in actual goods and made the information about the future state of the market a valuable good in its own right.[7] It may seem self-evident, but futures trading allows traders at every stage of the production of cotton and cotton goods to plan for the future. No amount of planning can completely avoid the unpleasant effects of unknowable future events, but futures trading cushions those effects and reduces price volatility.

Prices and Places

In the period this story covers it was commonly understood that certain markets "set prices," but which market—Liverpool, New York, or New Orleans—would set the price of cotton? Liverpool, for example, was for a long time considered the price-setter for cotton. So much demand emerged there, seeking its supply, that it was the place where a price would rise or sink depending on variations in that demand and how much supply was available to meet it. In contrast to the market at Liverpool, a country storekeeper might buy cotton from a dozen tenant farmers on the land of two planters: there both buyer and seller, storekeeper and farmer, had little influence on the price and had to settle on a price made far away. Compare those transactors to the largest group of cotton mills in the world, their capacity and their prediction of what their customers needed in the way of finished goods. Because they consumed so much of the world's cotton, the cotton mills' demand and their perceptions of supply would shape the price in ways that would filter down to the country store. If a Lancashire mill closed due to labor unrest, demand for raw materials dropped, and so did the price. Liverpool was the site of the cotton exchange through which most of the world's cotton flowed, headed toward those mills in Lancashire. To the people of the period, supply and demand at Liverpool self-evidently set the price of the staple.[8]

Nowadays the concept of the price-setter has been battered. Economists now argue that the invisible and inexorable workings of the market influence prices wherever trades occur—the exact same forces affect the price at the country store where the farmer sells his crops as on the cotton exchange in Liverpool. However, in the late nineteenth century this spread-out price situation may have been true in the abstract, but was not true in practice. Information about demand from the mills of Lancashire filtered through their orders for raw materials in Liverpool, and information from Liverpool had to physically reach New Orleans for it to have an influence on the price there. Likewise, information had to reach the country store if the merchant and the farmer were to know the value of the commodity one had produced and the other wished to market. That physical arrival of information became possible with telegraphy and the transatlantic cable, though information about the market for cotton was something that could be manipulated—and, with it, the price of the good.

Futures trading not only allowed people to plan ahead and ease the impact of price volatility, but it also communicated information about prices, and indicated the market's prediction of supply and demand in future months. A lower price in the future indicated that the value was dropping, and better to avoid buying expensively now in the spot market when you could buy more cheaply what you needed later. Without buyers, the spot price dropped. In this way future prices shaped spot prices. Information about the future price, developed in the markets where exchange members traded futures, influenced the prices of spot transactions at country stores across the South. Cotton farmers were subject to economic forces beyond their control. They begrudged middlemen the money made by trading the goods produced on the farm, and they resented the fact that prices made far away and for future delivery structured the prices for goods they sold at the local store.

The Threat to Futures Trading

Farmers therefore fought against futures trading, because they usually did not understand how it helped them and understood all too well how it hurt them. In Germany, for example, futures trading was banned outright from 1896 to 1908.[9] In 1890 an Ohio Republican in the House of Representatives, Ben Butterworth, introduced a bill that aimed to satisfy agrarian interests by eliminating altogether the speculation in agricultural commodities.[10] For several years Americans had seen markets for agricultural products, especially wheat, influenced not by the old-fashioned laws of supply and demand but by the manipulations of traders who never actually saw a bushel of wheat, a pork belly, or a bale of cotton. In Chicago, speculation in the future price of wheat had become particularly dissociated from actual delivery of the grain, and around the country would-be traders placed bets on future prices in **bucket shops**, where anyone could walk in off the street with no intention of actual delivery.[11] Agrarian interests such as the Farmers' Alliance thought the Butterworth Bill would prevent speculators with no interest in the land or its products from gambling with agricultural commodities they did not actually own, just for the sake of making a profit on shifting commodity prices.

Those who actually dealt in futures contracts saw things differently. Getting rid of all futures trading, as the Butterworth Bill set out to do, would destroy the agricultural economy, they argued, especially where farmers depended on credit from year to year. The law meant that if a merchant or banker gave a farmer an advance on the future delivery of his crop—as had been standard practice—that would still be legal, since the farmer of the growing crop would have the right to sell it for future delivery. However, the transaction would stop there, with the local banker or merchant unable to sell that contract on. He would have to wait until the crop was harvested to get his money.[12] Rather than empowering the farmer, the bill's opponents argued, the Butterworth Bill would "crush out the small dealers and place the farmer at the mercy of the large capitalist, who can buy cash grain; but they will buy at such a price that they can hold it until Gabriel blows his horn without sustaining a loss."[13] That price would be low—lower than the price of future deliveries, according to this analysis, and almost always less than the products could bring around the world, since futures trading was an important mechanism for conveying information and setting prices in multiple and far-flung locations.[14]

Besides, observers pointed out, banning futures trading would prove especially damaging to southern cotton farmers, who depended on crop liens more than midwestern grain farmers. Unlike **future contracts** for grain, which were mostly traded in Chicago, cotton futures were a global business. Banning their use in the United States would only mean that the major cotton markets of Europe (Liverpool, Bremen, and Le Havre), unimpeded by American laws, would take over. Since more cotton farmers would have to sell as their crop came to market between September and December, the European buyers could push the price as low as they liked.[15] As the editor of the New Orleans *Daily Picayune* wrote, "If Western farmers desire to try dangerous experiments let them do so and welcome, but cotton interests can well afford to leave well enough alone."[16]

The Butterworth Bill did not become law, but it serves as a good marker. The end of slavery and the systems of finance it had supported had temporarily devastated the American cotton trade, but by the last decade of the nineteenth century, southern farms were producing more cotton than ever. All that cotton, however, had brought poverty, not wealth, to those who grew it, and it was clear that problems in cotton futures trading were somehow to blame for that. Over the next twenty-five years many actors struggled over how (or even whether) futures trading in cotton would be conducted and how the cotton futures market would affect the supply, demand, and price of cotton and thus the fates of millions.

CHAPTER 1

New Orleans and the Future of the Cotton Trade

William P. Brown

AMERICA'S NATIONAL MYTHOLOGY HAS A special place for the self-made man, the boy from the humble background who overcomes adversity to not only survive, but to thrive, the person who embodies the rags-to-riches story. This story is embedded just as thoroughly in the stories of the New South. A region devastated by war, with its economic foundation knocked away, had to start over from scratch and reinvent itself. Within a few decades its farms were producing more cotton than ever, its industrialists had begun to challenge the dominance of New England's textile mills, and the region had found new ways to prosper—all on the basis of hard work and good sense, without sacrificing that ineluctable southern graciousness and gentility. Sometimes there is a man who fits perfectly into his time and place, and William P. Brown was such a man for the New South.[1]

The man who would ultimately control the world's cotton supply began his life about as far from the action and the big city as could be imagined. Eight days after Lincoln was elected president, William Perry Brown was born in the community of Caledonia in Lowndes County, Mississippi. Just north of Columbus and a couple miles from the Alabama state line, Caldeonia was a fairly prosperous plantation community on the Buttahatchee River. Brown's