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### Charles McClung McGhee, Southern Financier

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To the Graduate Council:

I am submitting herewith a dissertation written by William Joseph MacArthur Jr. entitled "Charles McClung McGhee, Southern Financier." I have examined the final electronic copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, with a major in History.

Ralph W. Haskins, Major Professor

We have read this dissertation and recommend its acceptance:

John Muldowny, Leroy P. Graf, Milton Klein, Nathalia Wright

Accepted for the Council:


Carolyn R. Hodges

Vice Provost and Dean of the Graduate School

(Original signatures are on file with official student records.)

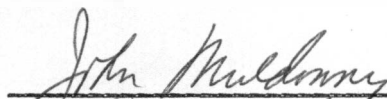
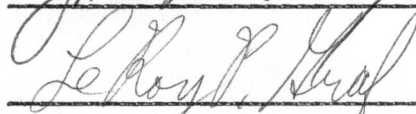
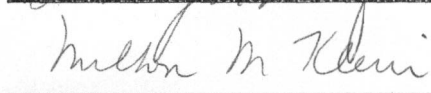
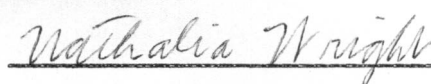
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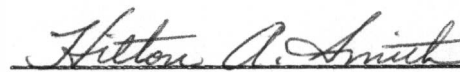


Ralph W. Haskins, Major Professor

We have read this dissertation  
and recommend its acceptance:

Accepted for the Council:

  
Vice Chancellor  
Graduate Studies and Research

CHARLES McCLUNG McGHEE, SOUTHERN FINANCIER

A Dissertation

Presented for the

Doctor of Philosophy

Degree

The University of Tennessee

William Joseph MacArthur, Jr.

March 1975



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I became interested in Charles McClung McGhee because of my friendship with his great-great-grandson, William Ross (Sandy) McNabb. Sandy's knowledge, suggestions, and quiet encouragement have been invaluable to me. I am also grateful to other descendants of Colonel McGhee, notably Mrs. Richard M. McNabb and Mrs. Joseph W. Sullivan, Jr., for their keen interest in my work; and to Mrs. Kenneth Gilpin whose generous gift of the McGhee Papers to the McClung Collection made this study possible.

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## ABSTRACT

This is a study of Charles McClung McGhee (1828-1907), a Southern capitalist who achieved prominence as a railroad financier after the Civil War. Based primarily upon McGhee's personal papers in the McClung Historical Collection of Lawson McGhee Library, Knoxville, Tennessee, the dissertation describes McGhee's transformation from planter to businessman and his rise to power in the affairs of the East Tennessee, Virginia, and Georgia Railroad. Having become a provincial magnate by 1886, McGhee moved to New York City where he interested himself in the Richmond and West Point Terminal Company, a system of railroads which later became the Southern Railway Company. His role in the formation and dissolution of the Terminal is analyzed and evaluated. As a New York financier McGhee made a number of investments, notably in the American Cattle Trust and Western Union Beef Company in the West and in the Roane Iron, Coal Creek Mining and Manufacturing, Lenoir City, and Nashville Street Railway companies in his native Tennessee. The history of his involvement in these enterprises is examined in detail. Although the study is essentially an analysis of McGhee's business career, it also deals with his political activities and his personal life.

## PREFACE

Charles McClung McGhee was not an empire builder, an entrepreneurial innovator, or one of the nation's major financiers. He ranks, however, among the most successful Southern businessmen of the latter third of the nineteenth century, an era in American history which might be called the age of the capitalist.

Like many of his contemporaries, McGhee made his fortune not by literally building or managing railroads but in buying and selling them, speculating in stock, and shaping the policies of corporations to his own ends. In the process of a thirty-year association with the East Tennessee, Virginia, and Georgia Railroad he helped put together a regional rail system. At the peak of the East Tennessee's corporate life McGhee moved to New York and participated in the sale of the controlling interest to a mammoth railroad combine, the Richmond and West Point Terminal Company. Serving on the boards of both corporations, he and his associates used their positions to achieve substantial personal profits, often at the expense of the companies which they directed. When the Richmond Terminal collapsed in bankruptcy in 1892, McGhee became co-receiver of the East Tennessee but was excluded from the Southern Railway Company, built from the ruins of the Terminal by J. P. Morgan in 1894. Thus as the world of business changed, McGhee became obsolete, a "back number," as he said, in the affairs of great railroad combinations. Yet this obsolescence does not lessen his leading role in making these changes possible.

Despite his many opportunistic business decisions, McGhee was sincerely devoted to the economic development of his native Tennessee,

investing heavily in, and drawing Northern capital to, a variety of enterprises there--among them the Roane Iron, Coal Creek Mining and Manufacturing, Lenoir City, and Nashville Street Railway companies. Another significant episode in his business career was his involvement in two Western cattle companies, the American Cattle Trust and the Western Union Beef Company.

The purpose of this study is to show how a Southerner, born to wealth in land and slaves, made a fortune from the industrial revolution and established himself as a financier in New York City. It is intended to recount how he accumulated, invested, and spent his money. An attempt is made to illustrate the working of nineteenth century business and finance and to analyze the relationship of the financier to the social and political world about him. Finally, it is hoped that the character and personality of the subject will be understood; that McGhee's virtues and vices, his objectives and accomplishments will be as fascinating to the reader as they have become to the writer.

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## CHAPTER I

### THE EARLY CAREER OF A FINANCIER

Rising among the high mountains of southwestern North Carolina, the Little Tennessee River (once called the Tennessee, thus giving its name to a state) flows toward the west and creates a beautiful valley at the foot of the Great Smoky range.<sup>1</sup> Though Charles McClung McGhee is considered a Knoxvillean, it was in Monroe County in the valley of the green and winding Little Tennessee that he was born on January 28, 1828. His maternal ancestors, the McClungs and the Whites, were leading citizens in Knoxville, which they had founded almost forty years before.<sup>2</sup> Of his paternal ancestry less is known. Charles' grandparents, Barclay and Jane McClanahan McGhee, are thought to have emigrated from Pennsylvania to what is now Blount County, Tennessee, about 1787. They probably came with friends and relatives, part of the great tide of Scotch-Irish immigration which flowed into the Old Southwest after the American Revolution. In 1788 Charles' father, John, was born in or near the site of the present town of Maryville,

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<sup>1</sup>Early traders among the Cherokee Indians called the stream Tenase, or Tennessee, after one of the Indian towns on its banks. For a description of the changing nomenclature of the Tennessee River, see James R. Montgomery, "The Nomenclature of the Upper Tennessee River," East Tennessee Historical Society's Publications, No. 28 (1956), 46-57.

<sup>2</sup>McGhee's son-in-law, Calvin Morgan McClung, was a diligent genealogist. Information about McGhee's ancestry is largely drawn from a manuscript compiled by McClung, entitled "McGhee Family," McClung Historical Collection, Lawson McGhee Library, Knoxville, Tennessee.

some eighteen miles south of Knoxville.<sup>3</sup>

The area was on the ultimate fringe of white civilization. Within a few miles of John McGhee's probable birthplace was soon to run the line designated by the Treaty of the Holston of 1791 and surveyed in 1792 between the lands open to white settlement and the tribal lands of the Cherokees. Five years after that first survey, so many whites were found to the south of the boundary in Indian territory that a new line was run in 1797. The Tennessee frontier was in turmoil during the 1790's, and the United States maintained several military posts at the edge of the Cherokee lands.<sup>4</sup> Meanwhile, Barclay McGhee and his three sons became merchants and seem to have prospered. Barclay is known to have done considerable business with the United States government in the supplying of the garrison at Tellico in 1797-98.<sup>5</sup> When he died in 1819, he was referred to as "Barkley [sic] McGhee, Esq., late a contractor in the United States Army, a useful member of society and a man of unblemished integrity."<sup>6</sup>

By 1820, when he married Betsy McClung, John McGhee was 32 years old. A family legend relates that he had first seen his future wife in 1815, when she was only twelve, that he instantly fell in love with her, and had to wait five years before he could marry her. Besides being

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<sup>3</sup>Ibid.

<sup>4</sup>Stanley J. Folmsbee, Robert E. Corlew, and Enoch L. Mitchell, History of Tennessee (4 vols.; New York: Lewis Publishing Co., 1960), I, 194-205.

<sup>5</sup>David Henley, "Wastebook," typescript in McClung Historical Collection.

<sup>6</sup>Knoxville Register, August 31, 1819.



young and presumably pretty, Betsy had much to recommend her to a mature bachelor. Her grandfather, General James White, was a great landowner, the founder of Knoxville, and a man heavy with public honors and offices. After building a small fort below the confluence of the French Broad and Holston rivers in 1786, the Revolutionary War officer had fallen in with William Blount, who later became governor of the Southwest Territory, an area coterminous with the present state of Tennessee. Blount made White's Fort, soon renamed Knoxville in honor of Henry Knox, secretary of war, the capital of that federal territory. Thus the prosperity of White's new town was assured.<sup>7</sup> Betsy's father, Charles McClung, a recent immigrant to the territory from Pennsylvania, married White's daughter, Margaret, laid off the streets of the town, and later participated, along with Blount and others, in drafting Tennessee's first constitution--of 1796. Surveyor, public official, and merchant, Colonel McClung in 1805 retired to a country seat, "States View," ten miles west of Knoxville. Like his father-in-law, he was one of the most wealthy and distinguished men of the state.<sup>8</sup>

John McGhee, who was known as a "merchant of Maryville" at the time of his marriage, soon became a planter as well and began to acquire lands which were to be his great domain on the Little Tennessee.<sup>9</sup> By

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<sup>7</sup>Mary U. Rothrock (ed.), The French Broad-Holston Country: A History of Knox County, Tennessee (Knoxville: East Tennessee Historical Society, 1946), 503-5.

<sup>8</sup>Ibid., 446-47.

<sup>9</sup>Knoxville Register, September 19, 1820.

Calhoun's Treaty of 1819 a substantial territory between the Little Tennessee and Hiwassee rivers was opened to settlement by whites, but a number of tracts were reserved to the Cherokee inhabitants,<sup>10</sup> and it was from these Indians that John McGhee and others acquired some of the choice bottom lands in this fertile river valley.<sup>11</sup> A persistent family tradition describes one such transaction. According to the story, a well-to-do Indian, sometimes called a chief, approached McGhee and described to him a dream in which the white man had given his Indian neighbor a fine rifle. Such a dream, the Indian explained, must at all costs be fulfilled. McGhee, it is said, obliged and gave the Cherokee the rifle. Several weeks later, McGhee told the Indian about one of his own dreams in which the red man had given his white friend a large and valuable island in the river. The outwitted Indian accepted his loss and closed the contest, remarking, "white man and Indian dream no more."<sup>12</sup> By dream or by purchase McGhee accumulated thousands of acres, and in 1823 he and his wife settled on his burgeoning plantation.<sup>13</sup> Included in the McGhee holding, which lay on

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<sup>10</sup>Folmsbee, History of Tennessee, I, 273.

<sup>11</sup>Many transfers of land from Cherokee Indians to John McGhee are recorded in Monroe County deed books; see Reba Bayless Boyer (comp.), Monroe County, Tennessee Records, 1820-1870 (2 vols.; n. p.: 1969-70), I, 88-193.

<sup>12</sup>As related to the author by John McGhee's great-great-great-grandson, William Ross McNabb, in an interview, December 8, 1972. A slightly different version of this story is told by W. B. Lenoir in History of the Sweetwater Valley (Richmond: Presbyterian Committee of Publication, 1916), 41-42.

<sup>13</sup>McGhee is listed for the first time as a resident of Monroe County in an 1823 tax list. Boyer, Monroe County Records, II, 163.

both sides of the river, were the sites of the colonial Fort Loudoun and the ancient Cherokee town, Tuskegee. Near the latter, John McGhee built the house in which Charles McClung McGhee was born, the last of John and Betsy's five children.<sup>14</sup>

The little boy had a sister, Margaret, and a brother, Barclay; two other sisters had died within weeks of their births. When he was fourteen months old Charles' mother died, the first of a series of personal tragedies which were to mark his life. By the time he was seven, he and his brother were going to a school at Kingston, Tennessee.<sup>15</sup> Later they removed to Knoxville, where they lived in the home of Joseph Estabrook, the Dartmouth-educated president of East Tennessee University. Here Charles was taught by the president's first wife, Mrs. Nancy Dickinson Estabrook, a first cousin of the poetess, Emily Dickinson.<sup>16</sup> The boys' sister was also away at school, first at Salem, North Carolina, and later in Hartford, Connecticut.<sup>17</sup> A letter from her, written in 1837, illuminates to some degree the pathos of the children's lives:

Nothing would gratify me more than to spend the coming summer at home with father, but I am very happy here & ought not to wish

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<sup>14</sup>Zella Armstrong, Notable Southern Families (6 vols.; Chattanooga: Lookout Publishing Co., 1918-33), I, 147-49; William McClung, The McClung Genealogy (Pittsburgh: McClung Printing Co., 1904), 33-34.

<sup>15</sup>Margaret W. McGhee to John McGhee, November 9, 1835, Niles Family Papers, McClung Historical Collection.

<sup>16</sup>Jay Leda, The Years and Hours of Emily Dickinson (2 vols.; New Haven: Yale University Press, 1960), I, xxxvi-xxxvii; Rothrock, French Broad-Holston Country, 411, 415.

<sup>17</sup>Armstrong, Notable Southern Families, I, 148.

for any thing, five or six months is all that I have yet to spend from home. When I return I hope to add much to our dear father's happiness, at least, I will endeavor to do so. How happy I will be when we are again united as a family, down at home.

Then she added a postscript to the younger brother:

My dear Charles I think it is nearly time for you to answer sister's letters. Don't you think so? Write anything about your plays, your walks, your visits, & & everything which concerns you, sister will be glad to hear. How do you like the little book I sent you by Mr. Dickinson? Have you read it all through? Be a good boy, do every thing which you are told & then Mrs Estabrook will love you. God bless you-- Good bye.

Margaret<sup>18</sup>

In 1841 Charles entered the preparatory department of East Tennessee University and two years later was admitted to the freshman class.<sup>19</sup> While preparing for the University, he lived with one of Knoxville's most remarkable women, Mrs. Margaret Christian Russell Cowan Humes Ramsey, known to generations of her many descendants as "Grandmother Ramsey." Thrice widowed and bearing each of her husbands a posthumous child, Mrs. Ramsey was the mother of Thomas William Humes, clergyman, university president, historian, librarian, and a staunch Unionist. One of her stepsons was James G. M. Ramsey, a physician, historian, and devoted Confederate. The only female among the incorporators of the Knoxville Library Company in 1817, Margaret had a magnetic personality and a keen intellect.<sup>20</sup> Together with Mrs. Estabrook,

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<sup>18</sup>Margaret W. McGhee to Barclay McGhee, March 30, 1837, Niles Family Papers.

<sup>19</sup>East Tennessee University, Catalogue, 1841, 1842, 1843 (Knoxville, 1841-43).

<sup>20</sup>Rothrock, French Broad-Holston Country, 471-72.

she may have exerted a strong and benevolent influence on the childhood and adolescence of Charles McGhee.

The East Tennessee University from which he graduated in 1846 professed to offer "a thorough and extended course of study," which would allow its students to "qualify themselves for the learned professions."<sup>21</sup> There is no indication that McGhee ever intended to pursue law, medicine, theology, or any other "learned profession," but it is evident that he took the courses of the University's "Classical Department," for the "English and Scientific Department," which gave no degrees, was not established until he was almost ready to graduate. Thus he studied Greek and Latin, as well as mathematics, moral and natural philosophy, history, English grammar, and logic, with a smattering of courses in such subjects as French, political economy, unit engineering, and architecture.<sup>22</sup> During his years there, the University was in one of its more flourishing periods. Though distracted by recurring controversies among the three leading religious denominations, Presbyterian, Methodist, and Baptist, the institution did not suffer in the 1840's from the extent of bitter sectarianism, declining enrollment, and financial impoverishment which almost wrecked it during the following decade.<sup>23</sup> Under the leadership of Joseph Estabrook,

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<sup>21</sup>East Tennessee University, Catalogue, 1842, p. 15. In ibid., 1846-47, p. 8, he is listed as a member of the class of 1846.

<sup>22</sup>Ibid., 1844, pp. 13-15.

<sup>23</sup>Stanley J. Folmsbee, East Tennessee University, 1840-1879, in The University of Tennessee Record, LXII, 3 (May, 1959), 3-29.

who had taught at Amherst, the University was consciously modeled after New England institutions of higher education. Estabrook brought to Knoxville several Amherst graduates, including Horace Maynard, later a congressman and postmaster general, who was a tutor and later instructor of mathematics. Maynard's successor and McGhee's mathematics instructor was Albert Miller Lea, a Tennessee-born West Point graduate, engineer, explorer, and acting secretary of war under John Tyler.<sup>24</sup> In view of his later interest in the University and his long service on its board of trustees, McGhee must have had a successful and satisfying undergraduate career. If his formal education did not especially fit him for a life in business and finance, the same could be said of most of his contemporaries. But even the liberal arts education at a small Southern university gave him a polish and at least a pretense to learning which many of the millionaires of the gilded age lacked.<sup>25</sup>

Charles was eighteen when he graduated from the University, a young man of fortune and excellent prospects. During the next year he may have travelled, perhaps taking something like a "grand tour" and seeing the world beyond Tennessee, or he may have returned to his father's plantation and begun to learn how to manage the estate. In the summer of 1847 he married his second cousin, Isabella McNutt White,

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<sup>24</sup>Ibid., 9-12, 33, 35; George Frederick Mellen, "Joseph Estabrook," in ibid., II (July, 1899), 165-84.

<sup>25</sup>Thomas C. Cochran, Railroad Leaders, 1845-1890; The Business Mind in Action (Cambridge, Mass.: Harvard University Press, 1953), 29.

another of the ubiquitous descendants of General James White. Isabella's father, Hugh Andrew May White, was the cashier of the Union Bank in Knoxville. Her mother, Elizabeth Humes White, was a daughter of "Grand-mother Ramsey," whose son Andrew Russell Humes, had married Charles' sister Margaret in 1840.<sup>26</sup> Charles and Isabella would have known each other from childhood, and the union of cousins probably followed naturally from these ties of family. Eleven months after their marriage, Isabella had a son, whom the parents named John for his grandfather. A few days later Isabella died, and in August, 1849, the little boy died too.<sup>27</sup> Thus at twenty-one McGhee had lost mother, wife, and son, and now began what must have been the darkest moments of his life.

Years later he wrote a daughter who was suffering through a period of depression that he had undergone a similar experience.<sup>28</sup> It may be surmised that this occurred after the tragedies which beset his early manhood, and indeed it is likely that until his second marriage in 1857 Charles McGhee led a sad and lonely life punctuated by the wild escapades which are sometimes the product of despair. A solitary glimpse of him during this period is given by William G. Brownlow in a letter<sup>29</sup> of October 30, 1852, to Thomas A. R. Nelson. Brownlow had attended a speaking and barbecue at Maryville at which he had stated his reasons

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<sup>26</sup> McClung, "McGhee Family."

<sup>27</sup> Ibid.

<sup>28</sup> McGhee to Annie McGhee McClung, March 28, 1898, McClung Family Papers, McClung Historical Collection.

<sup>29</sup> In the Thomas A. R. Nelson Papers, McClung Historical Collection.

for not supporting General Winfield Scott, the Whig candidate for president in that year's election, in contrast to the pro-Scott speeches of Gustavus A. Henry and John Netherland, leading Whig politicians in the state. After describing the meeting, Brownlow reported the following incident:

After speaking, late, Charley McGhee, who was taking his liquor rather freely, had come up with a buggy, with a top to it, one common seat, and two fine horses, to take Henry to the Barbeque at Calhoun, and started at 5 o'clock, taking both Henry and Netherland in it, and, as I am told, a bottle of liquor. Henry had taken a full tumbler of Brandy, before he got in--Netherland drank none. Three miles this side of McGhee's Ferry, in the night, they up-set, driving rapidly--broke the Buggy to pieces--dragged a part of it over Henry's leg, and, hurt him badly. Netherland was so badly injured, as to be put to bed. McGhee's negro came back to this town, got here at 2 o'clock this morning, and came for McCarty, of Hawkins, to go on down there for Netherland. McCarty and Netherland had come here in a Barouche, drawn by two mules. McCarty had gone down . . . the Nigro [sic] brought a verbal message, and awoke us all by hollowing us up. I give you the case as I have received it, and as an item of news, not vouching for the correctness of any thing, except that the accident did occur, and the parties are hurt.

From this we may infer two things: first, that McGhee was a Whig, and second, that he was inclining to a dissolute and dangerous way of life. The last probable restraint upon him had been removed when his father died in 1851, leaving a fortune to each of his three children. Charles inherited several thousand acres of land, twenty-nine slaves, five thousand dollars in cash and two thousand dollars worth of stocks, a total inheritance of at least fifty thousand dollars.<sup>30</sup> It would have been a familiar story if he had squandered his fortune and drunk

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<sup>30</sup>Will of John McGhee, typescript in McClung, "McGhee Family."



himself into an early grave. Instead, he began a new life in 1857 when he married his first wife's sister, Cornelia Humes White.<sup>31</sup> On what is surely one of the most beautiful situations in East Tennessee he built a large brick Gothic-revival bungalow. From its long windows framed in marble McGhee could look over fertile bottom lands and islands and up the lovely Little Tennessee River toward a spectacular view of the Great Smoky Mountains. Much of what he could see belonged to him or to his relatives, and in this idyllic setting Charles McGhee settled down as a planter, justice of the peace, and family man.<sup>32</sup>

Across the river from his house McGhee and his sister built an Episcopalian chapel which they called Saint Andrew's Riverside. "The church," according to the historian of the diocese, "was a beautiful edifice, built of brick with marble trimmings, stained glass windows, oak ceiling and elegant furniture, costing in all over \$4,000."<sup>33</sup> Complementing the chapel were a rectory and a school for girls, called Riverside Hall. Though Saint Andrew's testified to the piety and benevolence of the McGhee's, it seems to have been a particular interest of Joseph Warren Jenkins Niles, the second husband of Charles' sister Margaret. A "high" churchman at a time when the Diocese of Tennessee was decidedly "low," Niles collided with Bishop James H. Otey over the

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<sup>31</sup>McClung, McClung Genealogy, 33-34.

<sup>32</sup>McGhee is listed as a justice of the peace performing several marriages, 1857-60. Boyer, Monroe County Records, I, 40, 47, 52. McGhee's house still stands on a knoll near the junction of the Tellico and Little Tennessee rivers in Monroe County.

<sup>33</sup>Arthur Howard Noll, History of the Church in the Diocese of Tennessee (New York: James Pott and Co., 1900), 115.

consecration of Saint Andrew's. The Bishop insisted upon the removal of wooden candlesticks and a cross from the communion table, evidences of "Romeward" tendencies. When Niles balked at this, McGhee acted as conciliator and attempted to reconcile him to the removal of the offending appointments. Saint Andrew's was consecrated, but, perhaps because of Niles' bitterness, the church and school did not prosper. During the Civil War the chapel fell into disrepair, and in a few years nothing was left but a cornerstone which now rests on the nearby McGhee burial plot.<sup>34</sup>

By 1860 McGhee's property consisted of real estate valued at \$50,000 and personal property worth \$85,000. Besides himself, his wife, and two daughters, there were living on the plantation an overseer, three white seamstresses, several white laborers, and sixty slaves.<sup>35</sup> Such an establishment was exceptional, especially in East Tennessee. In the entire state fewer than four hundred people owned more than fifty slaves each, and there were only one hundred and fifty-eight plantations consisting of 1,000 acres or more in Tennessee.<sup>36</sup>

How this particular member of the privileged caste of the old South reacted to the disruption of the Union is quite clear. McGhee was

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<sup>34</sup>William Mercer Green, Memoir of Rt. Rev. James Hervey Otey, LL.D., the First Bishop of Tennessee (New York: James Pott and Co., 1885), 66-67. See also James Hervey Otey manuscript diary, August 7, 8, and 9, 1857, Southern Historical Collection, University of North Carolina at Chapel Hill.

<sup>35</sup>United States, Bureau of the Census, Eighth Census, 1860, Population (Tennessee, Monroe County), population schedule, 211, slave schedule, 295.

<sup>36</sup>Mary Emily Robertson Campbell, The Attitude of Tennesseans Toward the Union, 1847-1861 (New York: Vantage Press, 1961), 14-19, 24.

one of a number of signers of a letter to T. A. R. Nelson in September, 1860, urging that leading Whig to answer publicly the "pernicious and revolutionary" speech of the arch secessionist, William Lowndes Yancey, in Knoxville.<sup>37</sup> Like many East Tennesseans, McGhee evidently resisted the idea of secession at first, but when the state seceded in June, 1861, he became a loyal Confederate. At any rate, the Athens Post of July 5, 1861, reported the formation of a Confederate cavalry company in Monroe County, which was called the "McGhee Invincibles" in honor of C. M. McGhee, Esq.<sup>38</sup>

It was probably about this time that McGhee moved to Knoxville, where he went into business as a meat packer. "Hogs' Heads! Hogs' Heads!" read an advertisement in the Knoxville Daily Register on December 20, 1861, which proclaimed that the poor of the city could have them free upon application at the Pork House of C. M. McGhee & Co. at the foot of Gay Street. Though he was giving away the heads to the poor and the livers to soldiers, McGhee seems to have found a more lucrative market for the rest of his pork--the Confederacy, which suffered from a severe meat deficit. With its midwestern sources cut off by secession, it depended largely on Kentucky and Tennessee for its chief supplies of meat.<sup>39</sup> Knoxville, occupying a strategic location

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<sup>37</sup>Knoxville Whig, August 10, 1861, quoting a letter to Nelson of September 18, 1860.

<sup>38</sup>Athens Post, July 5, 1861, cited in Boyer, Monroe County Records, II, 185.

<sup>39</sup>The War of the Rebellion: A Compilation of the Official Records of the Union and Confederate Armies (70 vols. in 128; Washington: Government Printing Office, 1880-1901), Series 4, Vol. I, 869-79.

astride a major rail line across the Confederacy, was a natural location for the pork packing plant operated by McGhee. It has often been said that McGhee was a colonel in the Confederate commissariat during the war,<sup>40</sup> but it has so far been impossible to find any record of such a commission in the Confederate army. More probably the title "colonel" was bestowed upon him by the governor of Tennessee and did not signify true military rank.

During this period he formed a friendship with Richard T. Wilson, a man whose career was to be closely linked with McGhee's for many years. Wilson held a commission as a major in the Confederate Department of Commissary and Subsistence, and, besides being involved in meat packing projects in Nashville and Loudon, was in 1862 and 1863 the agent in charge of purchasing hogs in East Tennessee and southwestern Virginia.<sup>41</sup> Born in poverty on a north Georgia farm, Wilson became a salesman, married Melissa Johnson of Loudon, and did well during the Civil War. In New York after the war he founded a private banking house and joined McGhee in obtaining a controlling interest in the East Tennessee, Virginia, and Georgia Railroad. By 1895, when his daughter married Cornelius Vanderbilt, Wilson's estimated worth was \$15,000,000.<sup>42</sup>

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<sup>40</sup>Rothrock, French Broad-Holston Country, 448. His name, however, does not appear in Tennesseans in the Civil War, published by the Civil War Centennial Commission (Nashville, 1964).

<sup>41</sup>O. R., Ser. 4, Vol. I, 879; Knoxville Daily Register, December 25, 1862.

<sup>42</sup>Cornelius Vanderbilt, Jr., Queen of the Golden Age, the Fabulous Story of Grace Wilson Vanderbilt (New York: McGraw-Hill Book Co., 1956), 21-27.

His own lack of military rank notwithstanding, McGhee was considered a warm supporter of the Southern cause. In January, 1863, the Knoxville Daily Register, the chief Confederate organ in East Tennessee, endorsed him for mayor:

Knoxville is one of the most important military posts in the Southern Confederacy. It has been cursed with Unionism; but that has "played out." There is today no Unionism in East [Tennessee] but its bastard and most malignant offspring "NEUTRALITY" has succeeded it. Let our citizens show today that they consider the offspring more odious than honest enmity. Let them Vote for the ticket we present at the head of our columns. Col. McGhee is a staunch and unequivocal Southern man, and will not only make an efficient Mayor, but we understand that he will devote the salary of the office to the relief of the destitute families of soldiers and the poor of Knoxville.<sup>43</sup>

But the Register's entreaties were apparently ignored, and McGhee was defeated in one of his few races for office. Perhaps it was just as well, for before the year was out, Knoxville had fallen to the Union army.<sup>44</sup>

McGhee remained in the occupied city and, nervously perhaps, faced an <sup>uncertain</sup> certain future. The Register, which was now being published in Atlanta, reported that he and other prominent citizens had been unjustly accused of taking the Federal oath of allegiance. "None of these men," it remarked, "have stained their souls with perjury."<sup>45</sup> In fact, it was some five months after the capture of the city that he submitted to the

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<sup>43</sup>Knoxville Daily Register, January 3, 1863.

<sup>44</sup>Returns from the election are unavailable. J. C. Luttrell, McGhee's opponent, is recorded as mayor of Knoxville, 1859-1868. William Rule (ed.), Standard History of Knoxville (Chicago: Lewis Publishing Co., 1900), 124-25, 162-63.

<sup>45</sup>Daily Register, October 27, 1863.

oath.<sup>46</sup> Meantime, however, he may have been ready to do business with the Federals. General Burnside's Commissary Department decided to pack its own pork in Knoxville and advertised for local parties to do the slaughtering. The historian of this packing project has written:

Only one Knoxville pork packer responded the the advertisement and his offer was high: 52 pounds of pork to 100 pounds of pig, the government furnishing both salt and barrels. Worse, Burnside's headquarters heard that this Knoxville porkman had packed hogs for the Confederates in 1862.<sup>47</sup>

The combination of the high price and the packer's record made the army decide to pack its own pork. It is likely, however, that the man in question was McGhee, since his was the only pork packing house in town.<sup>48</sup>

If he did not do as well during the war as his friend Wilson did, McGhee emerged from it with his fortune roughly intact. He had lost his slaves, but he still owned his valuable Monroe County plantation. He must have had a substantial amount of cash, because in 1865 he was one of the founders and the first president of the People's Bank of Knoxville.<sup>49</sup> With Columbus Powell of Knoxville and one I. F. Green of Brooklyn, New York, McGhee organized a banking and commission business which began operations at New York City in the fall of 1865 as C. Powell,

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<sup>46</sup>Brownlow's Knoxville Whig and Rebel Ventilator, February 6, 1864. Cited hereafter as Whig.

<sup>47</sup>Palmer H. Boeger, "General Burnside's Knoxville Packing Project," East Tennessee Historical Society's Publications, No. 35 (1963), 77, citing Records of the Commissary General in the National Archives, Washington, D. C.

<sup>48</sup>Ibid., 76. The National Archives is unable to locate the letter which might positively identify the Knoxville packer.

<sup>49</sup>Rule, Standard History of Knoxville, 253.

Green & Co.<sup>50</sup> Soon he would be involved in the affairs of the several railroads from which he would make a great fortune. At thirty-seven he was ready for the second stage of his life. Personal tragedy had seasoned him, and in the convulsions of civil war he had learned how to land on his feet. His business and political activities during the era of reconstruction in Tennessee would reveal the shrewdness of character which made him a success in a ruthless and troubled time.

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<sup>50</sup>Tennessee General Assembly, The State Debt: Report of the Committee Appointed to Investigate It, in Appendix to the House Journal, 1879, pp. 126-27. Cited hereafter as The State Debt.

## CHAPTER II

### THE POLITICS OF BUSINESS: MCGHEE, MABRY, AND THE KNOXVILLE AND KENTUCKY RAILROAD

#### 1.

At the end of the Civil War the city of Knoxville was on the threshold of a period of rapid growth.<sup>1</sup> Built at a strategic point near the junction of the French Broad and Holston rivers, which drain much of East Tennessee, the city enjoyed an early prominence as the capital of the Territory of the United States, South of the River Ohio, and until 1817, as the capital of the state of Tennessee.<sup>2</sup> Because of its location and its initial political importance, Knoxville became the commercial and cultural capital of East Tennessee, a distinction which remained even after the state's seat of government and center of population moved far to the west across the Cumberland Mountains. Knoxville's merchants hauled goods by wagon from Philadelphia and Baltimore; from their stores along Gay Street, named for a familiar thoroughfare in the latter city, they distributed manufactured products through the villages of the overwhelmingly rural area.<sup>3</sup>

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<sup>1</sup>The population of Knoxville in 1860 was 5,300; in 1870 it had grown to 8,682, and by 1890 it was 22,253. After the turn of the century the growth rate declined and has never matched the increase of the thirty years after the Civil War.

<sup>2</sup>Folmsbee, History of Tennessee, I, 304-5.

<sup>3</sup>Rothrock, French Broad-Holston Country, 92.



East Tennessee from early times was recognized as a distinct region within the state.<sup>4</sup> Isolated by mountain barriers from the western two-thirds of Tennessee, as well as from the south Atlantic seaboard and the Ohio valley, the area developed a diversified farming and small manufacturing economy which was different from that of the more typically "Southern," slave-owning, and staple-raising Middle and West Tennessee. Binding these three regions of the state together was the Tennessee River which drained the eastern portion and, after looping into northern Alabama, flowed northward across the width of Tennessee to the Ohio. The great river linked East Tennessee to its sister regions and was a highway to the Mississippi and ultimately to New Orleans, although the great Muscle Shoals in Alabama was a serious bar to navigation.<sup>5</sup> In 1828 the steamboat Atlas ascended the Tennessee to Knoxville, and the region's isolation from the rest of the state and the lower South seemed to be at an end.<sup>6</sup> For a while advertisements of Huntsville and other Alabama business establishments were common in Knoxville newspapers, but in time the natural obstacles on the river put an end to the dreams of water communication between East Tennessee and the outside world.<sup>7</sup>

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<sup>4</sup>Folmsbee, History of Tennessee, I, 5-6.

<sup>5</sup>For a discussion of the influence of geography on the history and development of Tennessee's sections, see Thomas Perkins Abernethy, From Frontier to Plantation in Tennessee: A Study in Frontier Democracy (Chapel Hill: University of North Carolina Press, 1932); Stanley John Folmsbee, Sectionalism and Internal Improvements in Tennessee, 1796-1845 (Knoxville: East Tennessee Historical Society, 1939), especially 1-19; Eric Russell Lacey, Vanquished Volunteers: East Tennessee Sectionalism from Statehood to Secession (Johnson City: East Tennessee State University Press, 1965).

<sup>6</sup>Folmsbee, Sectionalism and Internal Improvements, 11-14.

<sup>7</sup>Knoxville Register, 1820-32.

The railroad soon replaced the riverboat as the vehicle of East Tennessee's hopes for breaking its isolation.<sup>8</sup> Conventions of railroad enthusiasts were held in Knoxville in 1831 and 1836, and in the latter year Robert Y. Hayne of South Carolina "published the Banns" for the marriage of the South and West, a marriage to be consummated by the construction of a Charleston to Cincinnati railroad running through Knoxville. The somewhat different vision of John C. Calhoun and the formidable barrier of the Appalachian mountains delayed for fifty years the realization of Hayne's dream.<sup>9</sup>

Meanwhile, two railroads, the East Tennessee and Virginia and the East Tennessee and Georgia, were built through the relatively narrow and level Tennessee valley above and below Knoxville. On the eve of the Civil War these roads which joined at Knoxville linked the city to Bristol, Tennessee-Virginia, and to Dalton, Georgia. From these points connecting roads ran on to Washington, D. C. and New York City and to Atlanta, Memphis, and New Orleans. Thus at the end of the antebellum period Knoxville and East Tennessee had connections to the north and south.<sup>10</sup> How these connections might have changed the economy of the region, had not war intervened, is impossible to determine.

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<sup>8</sup>Folmsbee, Sectionalism and Internal Improvements, 85-91.

<sup>9</sup>Ibid., 132-36; Ulrich Bonnell Phillips, A History of Transportation in the Eastern Cotton Belt to 1860 (New York: Columbia University Press, 1908), 182-220, 375-80.

<sup>10</sup>James W. Holland, "The East Tennessee and Georgia Railroad, 1836-1860," East Tennessee Historical Society's Publications, No. 3 (1931), 89-107 and Holland, "The Building of the East Tennessee and Virginia Railroad," ibid., No. 4 (1932), 83-101.

As a result of the Civil War Knoxville was again thrust forward as a city of political importance. East Tennessee was the state's Republican stronghold. The Republicans dominated the state from 1864 to 1869, and Knoxville, if not the state's capital, was the Republican party's capital. Here lived William Gannaway Brownlow, Governor of Tennessee, 1865-1869, and a number of other Republicans prominent locally or nationally.<sup>11</sup>

As early as 1832, rivalries within the Democratic party had produced a strong anti-Jackson movement which soon developed into the Whig party in the state. McGhee's great-uncle, Hugh Lawson White, East Tennessee's leading antebellum politician, carried the state in 1836 against the Democratic presidential nominee, Martin Van Buren. Between 1840 and 1860 the two parties were almost evenly matched in East Tennessee, with both producing strong champions who engaged in bitter political combat. Andrew Johnson emerged as the Democrats' leading spokesman

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<sup>11</sup>The political history of Tennessee in the period 1828-29 is the subject of a number of monographs. The principal sources for the following discussion are: Abernethy, From Frontier to Plantation in Tennessee; Thomas B. Alexander, Political Reconstruction in Tennessee (Nashville: Vanderbilt University Press, 1950); Alexander, Thomas A. R. Nelson of East Tennessee (Nashville: Tennessee Historical Commission, 1956), and "Persistent Whiggery in the Confederate South, 1860-77," Journal of Southern History, XXVII (1961), 305-29; E. Merton Coulter, William G. Brownlow: Fighting Parson of the Southern Highlands (Chapel Hill: University of North Carolina Press, 1937); Verton A. Queener, "The Origin of the Republican Party in East Tennessee," East Tennessee Historical Society's Publications, No. 13 (1941), 66-90, and "A Decade of East Tennessee Republicanism, 1867-1876," ibid., No. 14 (1942), 59-85; Joseph A. Sharp, "The Downfall of the Radicals in Tennessee," ibid., No. 5 (1933), 105-24; Oliver P. Temple, Notable Men of Tennessee from 1833 to 1875, Their Times and Their Contemporaries (New York: Cosmopolitan Press, 1912).

in the 1850's, and Brownlow, who published a newspaper, the Knoxville Whig, was unmatched for his vituperative defense of the Whig cause. While they disagreed about almost everything else, Brownlow and Johnson, along with a great majority of East Tennesseans, opposed secession.

Union Democrats and Union Whigs in East Tennessee made common cause against the Confederacy, or tried to remain neutral during the war. Alliances strange and wonderful resulted from the war, as the area's politicians jockeyed for position. By 1864 almost the entire state was under Federal control, and the Union party of Brownlow and Johnson was the only recognized political force in Tennessee. With Johnson in Washington as vice president and later as president, Brownlow became the indisputable leader of the state's Unionists. Rapidly he converted the Union party into a Republican machine. In East Tennessee the conversion was especially successful, for a large majority of voters became staunch Republicans, and a party ascendancy was established which remains to this day.

In large measure, the program of the Republican party in post-bellum Tennessee was shaped by a single objective: the reconstruction of politics in such a way that Republican dominance would be guaranteed for years to come. Brownlow and his followers sought to accomplish this in two ways. First, they rewrote the state's constitution and enacted statutes to disfranchise former Confederates and to concentrate considerable police power in the hands of the governor. Thus the natural constituency of the Democratic party in Middle and West Tennessee was barred from the polls, and, for good measure, the control of election

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machinery was made the prerogative of the governor.<sup>12</sup> In addition, the thirteenth amendment to the United States Constitution created a large electorate of former slaves which was presumably hostile to the Democrats and grateful to the Republicans. With a large white Republican majority in East Tennessee and thousands of Black Republican votes in the rest of the state, the party seemed assured of control of the state government in the foreseeable future.

The second part of the Republican program was based on the strong antebellum Whig tradition of encouragement to business and internal improvements. The Brownlow regime would actively seek immigrants from outside the state.<sup>13</sup> It would attempt to lure capital investment to develop the state's resources, and it would sponsor state aid to railroads. The resulting prosperity, it was hoped, would redound to the benefit of the party which had so wisely encouraged it, and the Republicans would emerge not only as the party of the Union but also as the creators of a truly reconstructed and revived Tennessee.

All of this seemed possible and plausible in 1865, and prudent businessmen scrambled to assure their places in the new order. Some ex-Confederates, or men who had co-operated with the Confederacy, sought favor with Brownlow, and the governor in turn welcomed men of capital into the forgiving arms of his party. "General" Joseph A. Mabry, of Knoxville, who had once offered to outfit a company of Confederate

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<sup>12</sup>Alexander, Political Reconstruction, 18-32, 39-44, 73-77, 110-11.

<sup>13</sup>William B. Hesseltine, "Tennessee's Invitation to Carpetbaggers," East Tennessee Historical Society's Publications, No. 4 (1932), 102-15.

volunteers in gray cassimere,<sup>14</sup> was described in 1865 by Brownlow's Whig as "one of the most successful business men in East Tennessee, having by his industry and prompt attention to business accumulated a large fortune."<sup>15</sup> When Charles McGhee was elected president of the Knoxville and Kentucky Railroad in the spring of 1866, his succession was praised by the Whig: "No better man . . . could have been selected to look after the interests of the stockholders and to push the work rapidly forward."<sup>16</sup>

## 2.

The Knoxville and Kentucky, which came under McGhee's management in the spring of 1866, was one of the four railroads radiating from the city. The East Tennessee and Virginia and the East Tennessee and Georgia had been completed before the war, and they provided a route through Knoxville from the Northeast to the Mississippi. The Knoxville and Kentucky and the Knoxville and Charleston had been projected as the links in a similar route from the Ohio valley to the South Atlantic coast. Because of the formidable mountain barriers which the latter two roads would have to cross, their construction had lagged, and at the outbreak of the Civil War neither extended more than a few miles north and south of the city.<sup>17</sup>

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<sup>14</sup>Rothrock, French Broad-Holston Country, 130.

<sup>15</sup>Whig, December 29, 1865.

<sup>16</sup>Ibid., March 28, 1866.

<sup>17</sup>James W. Holland, "A History of Railroad Enterprise in East Tennessee, 1836-1860" (unpublished Master's thesis, The University of Tennessee, Knoxville, 1934), 66, 81-82.

Before the war ended Knoxville's hopes were raised by Abraham Lincoln's proposal for a military railroad from Kentucky and the Ohio into the South. In March, 1864, after the city was once more in Union hands, the Knoxville and Kentucky was reorganized for the purpose of pushing the road through.<sup>18</sup> Although the proposed military road never received the support of Congress,<sup>19</sup> a new stimulus for the Knoxville and Kentucky was found in the railroad building plans of the city of Cincinnati. Immediately after the war the "Queen City of the West" determined to construct a railroad line which would provide direct access to the South.<sup>20</sup>

At about the same time that Cincinnatians held a public meeting to get the Cincinnati Southern under way,<sup>21</sup> C. M. McGhee was elected president of the Knoxville and Kentucky. "He is a man of energy, property, and credit," remarked the Whig, "and will put the enterprise through at once."<sup>22</sup> Though he had had no previous experience at railroading, McGhee was probably a good choice for the presidency of a railroad the success of which depended as much upon powers of persuasion as on a practical knowledge of railroad management. He was already interested in a large tract of mineral land which lay along the

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<sup>18</sup>Whig, April 2, 1864.

<sup>19</sup>Ibid., January 11, 1865.

<sup>20</sup>Riley Oakey Biggs, "Development of Railroad Transportation in East Tennessee During the Reconstruction Period" (unpublished Master's thesis, The University of Tennessee, Knoxville, 1934), 66, 81-82.

<sup>21</sup>Ibid., 85.

<sup>22</sup>Whig, April 4, 1866.

railroad's proposed route, and he had recently begun to establish financial connections in New York.<sup>23</sup>

Immediately upon his election, McGhee left for the east where he hired a chief engineer, Colonel Adrian Terry, a Yale graduate who had just been mustered out of the United States Army.<sup>24</sup> McGhee and Terry returned south through Washington where the latter obtained copies of charts and surveys prepared during the war for the military railroad. In Washington McGhee conferred with Senator James Guthrie of Kentucky, president of the Louisville and Nashville Railroad, who told the Tennessean that his company was interested in connecting with the Knoxville and Kentucky at the state line.<sup>25</sup>

With an energetic new management and the promise of important connections at the Kentucky border, nothing stood in the way of the road's completion except the lack of capital necessary to build it. The antebellum railroad history of East Tennessee provided a lesson in how this capital might be raised, for both the East Tennessee and Virginia and the East Tennessee and Georgia had been built largely with subsidies granted by the state. Neither railroad company had been able to sell enough stock to finance construction, and the money had finally been provided by state subscriptions to stock or loans of state bonds. Despite the great public enthusiasm for railroads, private

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<sup>23</sup>Rule, Standard History of Knoxville, 241; Whig, December 29, 1865.

<sup>24</sup>Knoxville Journal and Tribune, April 8, 1906.

<sup>25</sup>Biggs, "Development of Railroad Transportation," 65.



capital had not been equal to the task and well over half of the cost of the construction of these roads had come from the state.<sup>26</sup>

The devastation of war and the impoverishment resulting from it were strong arguments for a renewal of this aid, and in January, 1866, the general assembly passed an act to issue \$3,483,000 in bonds to fifteen railroads for the purpose of assisting their reconstruction and successful operation.<sup>27</sup> The Knoxville and Kentucky was to receive \$250,000, and upon the election of McGhee to the presidency in March Governor Brownlow assured him that the bonds would be issued immediately.<sup>28</sup>

The act of January, 1866, like several similar ones passed later, was based on the Internal Improvements Act of 1852 which had established the practice of lending state bonds to railroads. The antebellum law was quite limiting in its provisions, which required that enough stock must have been subscribed to grade the road's entire length within the state before a company could receive bonds. When this qualification had been met, the railroad could apply for bonds to complete a thirty-mile section, at the rate of eight thousand dollars per mile. It was further stipulated that the proceeds of the bonds were to be used only for rails, spikes, and chairs, or for the laying of iron. A sinking fund was established to retire the bonds, and the 6 percent interest to be deposited by the railroads at Nashville fifteen days before due. Finally, to

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<sup>26</sup>Holland, "East Tennessee and Georgia, 89-108; also "East Tennessee and Virginia," 83-101. This was the situation in many states at the time. See Carter Goodrich, Government Promotion of American Canals and Railroads, 1800-1890 (New York: Columbia University Press, 1960), 61-165.

<sup>27</sup>Public Acts of Tennessee (cited hereafter as Public Acts), 1865-66, Ch. XIV, 33-34.

<sup>28</sup>According to an editorial in the Whig, March 28, 1866.

protect the loans a primary lien on all properties of the railroad was given to the state.<sup>29</sup> Subsequent legislation in 1854 increased the allotment to ten thousand dollars per mile and required that the bonds not be sold or exchanged for less than their par value.<sup>30</sup> The postwar railroad aid laws were amendments to the act of 1852, and the bonds received by the railroads were subject to all of the above stipulations with one important exception: the postwar appropriations were in the form of direct grants not dependent upon the "thirty mile" provision. Thus the bonds were issued without regard to the progress of actual construction.

Despite the efforts of antebellum Tennessee lawmakers to prevent misuse of state aid, the builders of both the East Tennessee and Virginia and the East Tennessee and Georgia had resorted to fraud in order to keep their charters. Bogus stock subscriptions and misappropriations of funds were among the reasons that the legislature had enacted the stringent laws of 1852 and 1854.<sup>31</sup> By neglecting to maintain all of these strictures the postwar legislatures made new abuses possible, even likely, as the case of the Knoxville and Kentucky illustrates.

From its beginnings the line was dependent upon governmental subsidy. Three quarters of its capital stock was subscribed by Anderson, Campbell, and Scott counties and by the city of Knoxville. Before

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<sup>29</sup>Public Acts, 1851-52, Ch. CLI, 204-15.

<sup>30</sup>Ibid., 1853-54, Ch. CXXXI, 205-8.

<sup>31</sup>Holland, "East Tennessee and Georgia," 91-102; also "East Tennessee and Virginia," 88-94.

the war, the road had received \$180,000 in state bonds, and there could have been no doubt that further construction would be dependent upon more state aid.<sup>32</sup>

In mid-April, 1866, McGhee released a statement on the company's financial status and its prospects. He reckoned that there was \$810,000 in bonds available in state aid, including a grant of \$250,000 under the act of January 18, 1866. Labor was cheap and plentiful, thanks to the discharge of hundreds of Negroes from the First and Fourteenth United States Colored Infantry regiments, and McGhee was hopeful of pushing the road as far as the coalfields near Clinton, Tennessee, by autumn.<sup>33</sup> But despite these promising conditions, it soon became obvious that the state bonds were worth much less in cash than their face value, and although the law prohibited disposing of them for less than par, no one seems to have considered this an obstacle to selling or trading the bonds for what they would bring.<sup>34</sup> In May, 1866, a bill to incorporate the Tennessee and Pacific Railroad was expanded to include an appropriation of another \$250,000 in bonds for the Knoxville and Kentucky.<sup>35</sup>

At the second session of the thirty-fourth general assembly in the fall of 1866, the railroads were again requesting aid. They had a powerful ally in Governor Brownlow, who, in his message to the legislature

<sup>32</sup>Biggs, "Development of Railroad Transportation," 57-60.

<sup>33</sup>Nashville Republican Banner, April 14, 1866.

<sup>34</sup>"Report to the Joint Select Committee," in House Journal, Appendix, 1870-71, pp. 19, 156-57.

<sup>35</sup>Private Acts of Tennessee, 1865-66, Ch. LXXXVIII, 268.

praised "the commendable spirit with which you have come to the rescue of the railroads of the State," and asked "still further exertions in behalf of the same great interests."<sup>36</sup> Brownlow's Whig reported that McGhee "who is at Nashville . . . is, we understand, sanguine of procuring material aid in behalf of these important enterprises."<sup>37</sup> A bill providing a loan of \$2,500,000 to needy railroads, including \$500,000 for the Knoxville and Kentucky, passed the senate unanimously and was overwhelmingly approved by the house.<sup>38</sup>

On New Year's Day 1867 a "Grand Railroad Jubilee and Celebration" was held as the first Knoxville and Kentucky train rolled across the new Clinch River bridge and into Clinton. Brownlow and a host of dignitaries made the trip and heaped praises upon President McGhee and Superintendent Terry for completing the first important section of the Knoxville and Kentucky.<sup>39</sup> McGhee continued as president until November 7, 1867, when he suddenly resigned, "in part for reasons of health."<sup>40</sup> No other explanation of his departure was offered. Although the effective date of the resignation was January 1, 1868, the board of the Knoxville and Kentucky elected Joseph A. Mabry to succeed him, and soon he, the same "General" Mabry who had offered to handsomely outfit a company

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<sup>36</sup>House Journal, 1865-66, p. 23.

<sup>37</sup>Whig, December 12, 1866.

<sup>38</sup>Tennessee, General Assembly, Senate Journal, 1866-67, p. 100; House Journal, 1866-67, p. 140; Public Acts, 1866-67, Ch. XII, 11-13.

<sup>39</sup>Whig, January 2, 1867.

<sup>40</sup>Knoxville Daily Free Press, November 9, 1867. Cited hereafter as Free Press.

of Confederates, was acclaimed as the "Napoleon" of the railroad lobbyists at work on the Radical Tennessee legislature.<sup>41</sup>

There are several plausible reasons which might explain McGhee's abrupt retirement from his first railroad presidency. His health may indeed have been bad, or he may have been distracted by the financial difficulties of C. Powell, Green & Company, the New York commission house which had sold many bonds for the Knoxville and Kentucky. McGhee was supposed to have severed his partnership with C. Powell, Green when he assumed the presidency of the railroad in the spring of 1866, but there are strong indications that he remained intimately involved in the business of his former associates.<sup>42</sup> Another explanation is that McGhee foresaw that the Knoxville and Kentucky could not be completed without the aid of even more Tennessee bonds. He may have recognized the precariousness of a situation in which the bonds brought much less than par while the Knoxville and Kentucky remained liable for interest on those bonds which one day would have to be retired at full face value. In any case, McGhee's retirement came at a fortuitous moment. Time was running out for the Knoxville and Kentucky and the other railroads which owed their lives to state aid. Resistance to the railroad subsidies was mounting, and the ominous warnings of trouble ahead were apparently not lost on McGhee.

The thirty-fifth general assembly, elected in August, 1867, was significant for its strong Radicalism and for the inexperience of its

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<sup>41</sup>Ibid.

<sup>42</sup>The State Debt, 127.

members.<sup>43</sup> Among the problems facing it, those of the railroads once more demanded attention. A number of companies (not including the Knoxville and Kentucky) owed interest on the bonds issued in the past and in his message to the legislature on October 8, Brownlow advised that:

I have reason to believe that, in some instances, the Bonds of the State have not been disposed of according to law, while in others, the confidence of the State has been abused, and her credit sought to be injured even by the recipients of her favors. And in all future appropriations to railroad companies, let us know the characters of the men into whose hands State Bonds go, both as to integrity and loyalty. Meanwhile, let us guard against any future increase of the State debt by the issuance of Bonds to railroads, unless it be in cases where the interests of the State would suffer for the want of further aid.<sup>44</sup>

Soon Leonidas Campbell Houk, a Brownlow protégé from Knoxville, reported in the columns of the Whig that the railroads had many friends in the legislature. He expected that an aid bill would pass, and he noted the presence of Joseph A. Mabry in Nashville, "working for his Road [the Knoxville and Kentucky]." "It is conceded by all," wrote Houk, "that he is the right man in the right place."<sup>45</sup>

Not only the Radicals approved of the railroad aid measure. The Conservative Knoxville Free Press praised Mabry "for the faithful and able manner in which he has presented the subject to the favorable notice of the legislature. . . ."<sup>46</sup> Another Conservative paper, the Nashville Republican Banner, urged liberal assistance to "give to our uncompleted railroads all the necessary facilities."<sup>47</sup>

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<sup>43</sup>Alexander, Political Reconstruction in Tennessee, 160-61.

<sup>44</sup>House Journal, 1867-68, p. 27. <sup>45</sup>Whig, December 4, 1867.

<sup>46</sup>Free Press, December 1, 1867.

<sup>47</sup>As quoted in ibid., November 22, 1867.

Mabry, to whom the Knoxville papers gave the credit for pushing through the "omnibus" railroad aid act of December 7, 1867, was one of the most colorful figures in Tennessee's Civil War and Reconstruction history.<sup>48</sup> Born to a wealthy and prominent Knox County family in 1826, he was a large landowner and had served as president of the Knoxville and Kentucky from 1858 to 1864. A red hot Confederate in the early days of the war, he emerged later as a Radical and a friend of Brownlow. At one time he was proposed as a Radical candidate for Congress, but in 1870 he was elected to the state constitutional convention which "redeemed" Tennessee from Radical reconstruction. His brother-in-law, William Montgomery Churchwell, a Democratic congressman from the Knoxville district, 1851-55, preceded Mabry as president of the Knoxville and Kentucky and was accused of embezzling from the Bank of East Tennessee of which he was also president.<sup>49</sup>

Personal violence, as well as financial and political intrigue, were familiar themes in Mabry's family circle. His father died in an Alabama gun fight, and Mabry himself shot John Baxter, a Knoxville lawyer, in 1870. One of Mabry's sons was murdered in 1881, and the following year both Mabry and another son died in a blazing shoot-out with Thomas O'Conner on the streets of Knoxville.

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<sup>48</sup>Jerome Gregg Taylor, Jr., "Public Career of Joseph Alexander Mabry" (unpublished Master's thesis, The University of Tennessee, Knoxville, 1968).

<sup>49</sup>Ruth Osborne Turner, "Public Career of William Montgomery Churchwell" (unpublished Master's thesis, The University of Tennessee, Knoxville, 1954).

Mabry's varied and important political connections, his railroad-ing experience, and his recklessness made him perhaps the ideal lobbyist for the Knoxville and Kentucky. The same board meeting which elected him president voted him \$5,000 to pay his Nashville expenses, and soon he was at the capital managing the passage of Tennessee's last railroad aid act.<sup>50</sup>

What came to be called the "Omnibus Railroad Act" began as an in-ocuous bill to amend the charter of the Harrison, Selma and Cincinnati Railroad. Offered by Senator A. M. Cate who represented a district in lower East Tennessee,<sup>51</sup> the bill passed its first reading, was reported favorably by the committee on internal improvements, and came up for its second reading on November 20, 1867.<sup>52</sup> At this point the friends of the railroads seized upon Cate's bill as the vehicle for granting further aid. John B. Rodgers, representing several Middle Tennessee counties, offered an amendment appropriating bonds for a number of railroads, including \$800,000 for the Knoxville and Kentucky.<sup>53</sup> On the following day Rodgers' amendment was passed by a vote of 11 to 8.<sup>54</sup> Of the negative votes all but two came from Middle or West Tennessee senators. The two East Tennesseans voting against the amendment were Cate and P. P. C. Nelson who represented a district in extreme upper East Tennessee. John Fuson, of a Middle Tennessee district, offered an amendment granting substantial aid to the Tennessee and Pacific Railroad which was voted down;<sup>55</sup> then

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<sup>50</sup>Shea v. Mabry, 69 Tennessee (1878) 336.

<sup>51</sup>Senate Journal, 1867-68, p. 59.

<sup>52</sup>Ibid., 92, 137.

<sup>53</sup>Ibid., 137.

<sup>54</sup>Ibid., 139.

<sup>55</sup>Ibid., 139-40.



the senate defeated the bill on its second reading by a vote of 12 to 7.<sup>56</sup> Three Middle Tennesseans and an East Tennessean had defected from the majority which had adopted Rodgers' amendment. The omnibus bill seemed to be in serious trouble, but now Brownlow came to the rescue. On November 22 the senate heard a special message from the governor which pleaded for: "A prudent but liberal aid to the railroads of the state to place them in a condition to be productive and enable them to meet, hereafter, the interest on the loans made by the State to the roads."<sup>57</sup> Brownlow argued that "a comparatively small aid now extended to them, will preserve and save the interest of the State," warning that "If such aid is not given the State will lose much more . . . than the whole amount required, by judicious expenditure, to place the roads in a condition of productiveness."<sup>58</sup>

Meanwhile the friends of the bill amended it to win the votes necessary for its adoption. Fuson's amendment for aid to the Tennessee and Pacific was reconsidered and was attached to the bill, along with a grant of \$100,000 to the East Tennessee and Western North Carolina railroad which ran through Nelson's upper East Tennessee district. Several Middle Tennessee railroads received appropriations, and at last the omnibus bill had something in it for almost every senator.<sup>59</sup> Eugene Cary of Davidson County moved that any railroad accepting the benefits of the act be forbidden from discriminating in rates between local and through freight. The speaker, D. W. C. Senter, ruled Cary's amendment

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<sup>56</sup>Ibid., 141.

<sup>58</sup>Ibid.

<sup>57</sup>Ibid., 144.

<sup>59</sup>Ibid., 142, 145-46, 150-51.

out of order, and the ruling was upheld by the senate.<sup>60</sup> The bill was then given final approval with only Cary and A. M. Cate, the bill's original sponsor, voting against it.<sup>61</sup>

In the house strenuous efforts were made to add appropriations for other railroads, but these were beaten down.<sup>62</sup> On December 6, the house voted 49 to 27 to approve the bill which in its final form allotted \$3,700,000 in bonds to various railroads.<sup>63</sup> The opposition was strongest from Middle and West Tennessee members, for only five of the negative votes came from East Tennesseans. Almost half of the omnibus appropriations would go to East Tennessee railroads, and the reason for the bill's popularity among the legislators from that section is therefore obvious. The other half of the appropriations were spread among the railroads in the state's two other grand divisions, and the members from those sections were proportionately less enthusiastic about the measure.

But there was more than sectional rivalry involved in the division of the legislature over the omnibus act. Or, to be more precise, there was another factor which aggravated these sectional animosities coming to the surface in the Republican party. In October, 1867, Governor Brownlow decided to seek a seat in the United States Senate. Opposing him for the post was General William Brickly Stokes, a Middle Tennessean and a Union Army veteran. One of Stokes' staunch supporters

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<sup>60</sup>Ibid., 151.

<sup>61</sup>Ibid., 152.

<sup>62</sup>House Journal, 1867-68, pp. 249-56.

<sup>63</sup>Ibid., 285-86.

in the state senate was A. M. Cate who became deeply embittered over Stokes' defeat.<sup>64</sup> For whatever reason, Cate was also the most persistent opponent of the omnibus bill in the senate, while D. W. C. Senter, Brownlow's heir apparent and the speaker of the senate, played an important role in getting the bill through. In the house the same pattern was apparent. Fifteen of the twenty-seven members who voted against the bill had also been Stokes supporters. Two factions were forming in the Tennessee Republican party. The group following Brownlow tended to be composed of East Tennesseans, and they would follow their leader in his policy of friendship for the railroads. The other faction tended to come from Middle and West Tennessee; it would coalesce around Stokes and Cate, and would oppose further railroad grants.

Representative W. M. Woodcock of Macon County in Middle Tennessee managed to have a protest against the act entered in the journal of the house. He opposed the bill because he did not believe that the bonds would ever be repaid. The railroads if sold by the state would not bring enough to redeem the bonds, he maintained, and he foresaw the certainty of either repudiation or bankruptcy. Woodcock said that he had been warned of political ruin if he opposed the bill, but he believed that the railroad men were enemies of the Republican party anyway. The party, he said, "will have to answer in the next campaign the charges of having made way with the credit of the state. . . ." Moreover, "these charges will be preferred against us by a majority of these very men who are now receiving the benefit of these loans."<sup>65</sup>

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<sup>64</sup>Ibid., 84-86; Senate Journal, 1867-68, pp. 59-61; Alexander, Political Reconstruction in Tennessee, 212.

<sup>65</sup>House Journal, 1867-68, pp. 289-99.

Soon after the first of 1868 Mabry began to collect the Knoxville and Kentucky's bonds.<sup>66</sup> McGhee had meanwhile gone to New York City in an attempt to salvage something from the impending failure of C. Powell, Green & Company. Founded in late 1865 by McGhee, Columbus Powell of Knoxville, and I. F. Green of Nashville, the firm acted as financial agents in the selling of Tennessee bonds for several railroads which received aid from the state. McGhee officially retired from the firm on May 1, 1866, and as president of the Knoxville and Kentucky he sold through C. Powell, Green most of the \$1,240,000 in bonds received by the railroad during his administration.<sup>67</sup> By December, 1867, the firm seemed about to fail, and McGhee was in New York at the first of January attempting to save the situation. In several letters which he wrote at that time to John Roper Branner, president of the East Tennessee and Virginia Railroad, McGhee proposed that he, Branner, Mabry, and C. W. Jones, president of the Knoxville and Charleston, should advance C. Powell, Green enough money to keep the firm afloat.<sup>68</sup> Anthony L. Maxwell, a railroad contractor, endorsed McGhee's plan, and wrote "that Tenn. and her RR interests cannot dispense with Powell's services & influence in New York. . . ."<sup>69</sup> But however indispensable these services

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<sup>66</sup>Ibid., Appendix, 1870-71, pp. 156-57.

<sup>67</sup>Ibid., 135-45.

<sup>68</sup>The four letters in the Charles M. McGhee Papers, McClung Historical Collection, from McGhee to Branner were written in New York on January 2, 3, 6, and 7 but are variously dated 1867 and 1868. Since McGhee is known to have been in Knoxville on January 1, 1867, it is probable that the letters were written in January, 1868, and that McGhee made the common error of dating some of them 1867.

<sup>69</sup>Note from Maxwell to Branner in McGhee to Branner, January 7, 186[8], ibid.

may have seemed, it was apparently decided to let the firm die, and by its failure the Knoxville and Kentucky lost the proceeds of \$90,000 of Tennessee bonds then in the firm's hands.<sup>70</sup>

This failure did not prevent Mabry from selling the bonds received under the omnibus act of 1867 through other New York firms. Nor did it prevent Mabry, McGhee, and others from developing a profitable plan for speculation in Tennessee bonds. The operation of this scheme in the spring and summer of 1868 would cause all of the participants a good deal of trouble later, but at the time it must have seemed an excellent opportunity to profit from the already disturbed state of Tennessee finances.

As early as July, 1867, some railroad companies failed to pay the interest due on their state bonds.<sup>71</sup> To cope with this threat to the state's credit the legislature passed an "Act to Liquidate the Debt of the State, falling due in 1868 and 1869." Under this law a state board of finance, composed of the governor, secretary of state, comptroller, treasurer, and the president of the Bank of Tennessee, was charged with arranging for the prompt payment of interest on state bonds, beginning with those whose interest was due in July, 1868.<sup>72</sup> The passage of the act had a favorable effect on the price of Tennessee bonds which rose from about sixty in February to a high of seventy-six in June.<sup>73</sup> Toward

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<sup>70</sup>House Journal, Appendix, 1870-71, pp. 140-43.

<sup>71</sup>"Report of the State Comptroller," ibid., 1867-68, p. 45.

<sup>72</sup>Public Acts, 1867-68, Ch. LXIX, 87-89.

<sup>73</sup>House Journal, Appendix, 1870-71, pp. 156-57.

the last of June the board of finance gathered in New York City to pay the July bond interest, the money to come partly from the railroad companies and partly from a loan negotiated at the Fourth National Bank of New York.<sup>74</sup> As July 1 approached, the New York Times reported heavy trading in Tennessee bonds for delivery ten, fifteen, or thirty days later.<sup>75</sup> On June 29 sales of Tennessee bonds at 72 1/2 to 74 1/2 reached a total volume of \$600,000,<sup>76</sup> but the scene was set for the conversion of the Tennessee "bull" to a "bear." At 2:00 on the afternoon of the thirtieth, one David F. Forshay, an owner of twenty-four bonds, the interest on which was overdue, received an injunction to prevent the state from paying the July interest until the interest on his bonds had been paid. The injunction was only a temporary gambit to hold up the July interest, but it was enough to send the price of Tennessee bonds tumbling.<sup>77</sup> In the first few days of July they brought as little as 68 1/2.<sup>78</sup> As the New York Times observed:

The State Bonds . . . were especially agitated on Tennessees, in consequence of the success of a conspiracy to restrain payment of the First of July Interest at the Fourth National Bank tomorrow. . . . Both these legal or technical obstructions are in good part the result of a prearranged stock speculation here, against the Bonds and credit of the State; in which it is charity to presume that neither the officers nor Directors, nor their confidential brokers of the Fourth National Bank were in any way concerned. It is also fair to add that such a result would not have been brought about but for a well laid and long meditated purpose by certain Railway and State officials in Tennessee to bring about this temporary default of Interest.<sup>79</sup>

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<sup>74</sup>Ibid., 1868, pp. 33-35.

<sup>75</sup>New York Times, June 29, 1868.

<sup>76</sup>Ibid., June 30, 1868.

<sup>78</sup>Ibid., July 1-4, 1868.

<sup>77</sup>Ibid., July 1, 1868.

<sup>79</sup>Ibid., July 1, 1868.

It was soon charged, and much later it was admitted, that Mabry, McGhee, Richard T. Wilson, John R. Branner of the East Tennessee and Virginia, and Thomas Callaway of the East Tennessee and Georgia had sold themselves short in Tennessee bonds; that they had sold bonds for delayed delivery, had arranged the injunction which drove down the price of Tennessee bonds and then had bought the cheaper bonds to cover their earlier sales. Such a maneuver was not unusual on the New York Exchange, but it caused a furor in Tennessee.

On July 6 Brownlow called a special session of the legislature to deal with outrages committed by the Ku Klux Klan, but the recent assault on the state's credit was also on his mind. In his message to the general assembly he proposed the appointment of a joint committee of the legislature "with full powers to send for persons and papers, so as to sift this matter to the bottom, and ferret out the guilty parties, whoever they may be . . ." and, he added, "if found guilty, you should proceed to sue them for damages in the name of the State."<sup>80</sup> Accordingly, the committee questioned under oath a number of the principals in the affair, including Mabry, McGhee, and Wilson, but the results were inconclusive. McGhee and the two others denied any impropriety or implication in a conspiracy to depress the bonds, and here the matter rested for over ten years until another investigating committee revived the subject.<sup>81</sup>

Despite the excitement over the state's finances and the fact that many of the railroads assisted by the state were unable to pay the

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<sup>80</sup> House Journal, 1868, p. 13.

<sup>81</sup> Ibid., 227-34.

interest on their bonds, when the legislature met in November, 1868, the governor argued that certain railroad companies needed still more aid:

I recommend that no more appropriations be made to railroads, except in those cases where the State has a large interest in said roads, and would suffer heavy loss on account of the lack of such appropriations. Of this class are the roads running out, North and South from Knoxville, and the one extending South from Morristown; and, also, the road of which Hon. Senator Parker is President. These roads, in order to become profitable and productive to the State, will require enough additional appropriations to enable them to complete their lines, so as to connect with other roads now in the process of construction. I propose, however, to meet these demands in a way not to increase the liabilities of the State. The plan is this:

Leading gentlemen, connected with important railroads largely indebted to the State, are asking for authority to issue second mortgage bonds with a view of exchanging them for State bonds. Thus purchasing State bonds by the avails of these second mortgage bonds the debt now due by the State would, in like amount, be transferred to these railroad companies, and so the State would be relieved of a burden of several million of dollars of debt now resting upon it.<sup>82</sup>

It is hard to see what Brownlow intended by this recommendation, for a provision allowing the companies to purchase state bonds with their own second mortgage bonds while it might benefit the state could hardly supply more capital to the railroads. Apparently no one took the second part of the Brownlow proposal seriously anyway; his critics, like the Nashville Republican Banner, lambasted him for favoritism toward East Tennessee,<sup>83</sup> and the friends of the railroads proceeded to introduce an out and out subsidy bill on the order of the omnibus act of 1867.<sup>84</sup>

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<sup>82</sup>Senate Journal, Appendix, 1868-69, p. 4.

<sup>83</sup>Republican Banner, November 11, 1868.

<sup>84</sup>Senate Journal, 1868-69, pp. 23-24, 28-29.



The legislature convened on November 9, and on November 25 the Whig published the following telegram:

Nashville, Tenn.,  
Nov. 18, 1868

To Gov. W. G. Brownlow:

A bill passed in the Senate on second reading, sixteen to five, giving our roads five hundred bonds each.

M. D. Bearden  
Jos. A. Mabry<sup>85</sup>

Mabry was once more in Nashville lobbying for the Knoxville and Kentucky, and this time he had been joined by Marcus D. Bearden, Republican politician of Knox County and the recently elected president of the Knoxville and Charleston. Before the new omnibus bill passed the senate it was amended to include appropriations for several other railroads. On its third reading the bill passed the senate by a vote of ten to eight.<sup>86</sup> Of the ten senators favoring the bill, six were East Tennesseans, three were from West Tennessee, and only one (Samuel Parker, president of the Southwestern Railroad which was to receive \$500,000 under the bill) was from Middle Tennessee. The opponents were all Middle Tennesseans, except for A. M. Cate of lower East Tennessee, who was a critic of the Brownlow-Senter wing of the Republican party and who had voted against the omnibus act of 1867.

When the bill was brought up in the house, the opposition pushed through a resolution calling for an investigation of the railroads' handling of earlier appropriations.<sup>87</sup> A pro forma inquiry followed, the

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<sup>85</sup>Whig, November 25, 1868.

<sup>86</sup>Senate Journal, 1868-69, pp. 28-29.

<sup>87</sup>House Journal, 1868-69, pp. 64, 84, 86, 115.

results of which tended to vindicate the railroads,<sup>88</sup> and the bill passed its second reading.<sup>89</sup> Then help came to the opposition from the state comptroller, G. W. Blackburn, who urgently requested the defeat of the omnibus bill on the grounds that Tennessee's credit was in serious jeopardy. Blackburn had been quarreling with Brownlow ever since the erstwhile state board of finance had been embarrassed by the events of the summer's raid on Tennessee bonds. He had managed to have the board of finance abolished by the legislature and the authority for paying interest returned to the comptroller's office. Now, in a message to the house, he refused to be responsible for the consequences of a new bond issue.<sup>90</sup> Rallying behind Blackburn, the house tabled the omnibus bill by a vote of 40 to 34.<sup>91</sup> Only five of the majority votes came from East Tennesseans, while those members who favored the bill included only nine Middle or West Tennesseans. Of these nine, six had voted for Brownlow in the senatorial election and two others were from districts through which the Southwestern Railroad ran.

The dispute over railroad aid was not the only cause of the impending disruption of Republican rule, but it goes a long way toward explaining the disastrous fracture of the party. It is possible to trace the emergence of a Stokes-Cate-anti-omnibus-Middle and West

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<sup>88</sup>Senate Journal, Appendix, 1868-69, pp. 69-74.

<sup>89</sup>House Journal, 1868-69, p. 151.

<sup>90</sup>Senate Journal, Appendix, 1868-69, pp. 73-76.

<sup>91</sup>House Journal, 1868-69, p. 173.

Tennessee faction, and it is also obvious that there was a Brownlow-Senter-pro-omnibus-East Tennessee faction. The anatomy of these groups becomes even clearer in the light of the political developments and disclosures which were presently forthcoming.

As the storm over state aid to the railroads built in intensity Charles McGhee began to make himself inconspicuous. He had left the presidency of the Knoxville and Kentucky to Mabry who rashly sought more and more state aid while the interest on the bonds began to pile up. The failure of C. Powell, Green and the clamor over the bear raid of 1868 must have shaken McGhee's confidence, and the ignominious defeat of Mabry's last lobbying effort was yet another straw in the wind. It must have seemed to McGhee that the condition of the Knoxville and Kentucky, like that of the Republican party, was bound to get a good deal worse before it could show much improvement. Probably with this in mind he completely severed his relationship with the company, resigning from the board some time before the annual meeting in the spring of 1869.<sup>92</sup> Thus he was not present on March 30 when the board voted thirteen to nine to reimburse Mabry for unspecified expenses, which, it was later revealed, amounted to over \$28,000.<sup>93</sup>

One member of the minority which opposed Mabry's reimbursement was Edward Jackson Sanford, who for the rest of his life would be McGhee's close friend and associate. McGhee and Sanford, foreseeing

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<sup>92</sup>The board elected George W. Mabry, Joseph Mabry's brother, "in place of Col. C. M. McGhee, resigned." Whig, March 31, 1869.

<sup>93</sup>Shea v. Mabry, 337-39.

Mabry's calamitous fall, may have devised a plan to pick up the pieces of the Knoxville and Kentucky. Sanford would work from within, representing McGhee's interests and openly opposing Mabry's control; McGhee would stand clear of the Knoxville and Kentucky and busy himself with other matters. When the collapse came, the two partners would be unscathed and could move in to reorganize and control the railroad. If this was their plan, it worked to perfection.

By the spring of 1869 the break in the Republican party had become open and unmistakable. A convention in May to nominate a candidate for governor ended in disruption with the party unable to agree on a single standard bearer. DeWitt Senter, who was filling out Brownlow's term as governor, had the support of the Parson's machine and its powerful railroad allies,<sup>94</sup> including Mabry (who may have purchased the Nashville Press and Times in order to insure its support for Senter).<sup>95</sup> General W. B. Stokes, claiming to represent true Republicanism, contested the election with Senter, and the Democrats failed to offer a candidate.

Actually the opposition to radicalism in Tennessee included not only Democrats and most ex-Confederates but many former Whigs, especially from Middle and West Tennessee. In these sections Negro equality had aroused bitter white resentment, and the high handed actions of Brownlow in interfering with elections and local police powers had alienated many former Unionists and Whigs. Those who opposed radicalism but could not

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<sup>94</sup>Alexander, Political Reconstruction in Tennessee, 215-25; Sharp, "Downfall of the Radicals in Tennessee," 105-14.

<sup>95</sup>Memphis Sun, as quoted in Knoxville Daily Chronicle, June 2, 1870.

stomach the Democratic label called themselves Conservatives, and they constituted a powerful political force. Both wings of the Republican party soon realized that the balance of power lay with the Democrats and the Conservative opponents of Brownlow radicalism. Senter, moving quickly to capture this support, reversed his earlier position and came out for universal suffrage. The Democrats, from Andrew Johnson down, endorsed Senter who used his considerable power to enfranchise thousands of former rebels. Though many Republicans were dismayed by this surprising turn of events, enough of them remained loyal to Brownlow and his candidate to ensure a victory for Senter.<sup>96</sup>

The Brownlow-Senter faction still held the governorship, but its control over the state had been gravely compromised by the alliance with the Democrats and Conservatives. The latter groups had fielded many candidates for the legislature, and, capitalizing on the split among the Republicans, had captured control of the general assembly.<sup>97</sup> Even when this became apparent, Brownlow seemed satisfied at the result of the election. He admitted that the legislature included some former rebels, but he correctly predicted that it would not repudiate Tennessee's bonded debt nor elect Andrew Johnson to the United States Senate. He expected that the Stokes faction would try to have the election invalidated and would attempt to have Tennessee placed under military government.<sup>98</sup> He

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<sup>96</sup>Alexander, Political Reconstruction in Tennessee, 215-25; Sharp, "Downfall of the Radicals in Tennessee," 105-24.

<sup>97</sup>Alexander, Political Reconstruction in Tennessee, 226-30.

<sup>98</sup>Brownlow to Matt H. Carpenter, August 16, 1869, in Miscellaneous Manuscripts, McClung Historical Collection.

could not anticipate, however, how far the legislature could go in dismantling the works of Radicalism in Tennessee.

When the general assembly submitted to the people the question of a new constitution, it became clear that Reconstruction was over. Disregarding all limitations on the franchise, the legislature stipulated that the issue should be decided by universal male suffrage. The subsequent constitutional convention which met early in 1870 devised a document that merely ratified the legislative actions which had already limited the extraordinary police powers of the governor and had removed the disabilities of former Confederates. More alarming to the Radicals were the provisions for a poll tax aimed at limiting Negro voting and a revision of the judicial system which removed Radical judges from office.<sup>99</sup> All of this was too much even for Brownlow, and he joined Stokes in working for a renewed congressional Reconstruction of Tennessee.<sup>100</sup>

Among those who went to Washington to try to prevent the overthrow of the state government was C. M. McGhee.<sup>101</sup> The transition of power from Radicals to Conservatives, while it certainly meant the end of state aid to railroads, did not portend an unfriendly attitude toward capitalists and railroad managers per se. On the contrary, the new legislature had enacted a law which would allow the railroads to pay their

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<sup>99</sup>Alexander, Political Reconstruction in Tennessee, 230-33.

<sup>100</sup>John B. Brownlow to B. M. Branner, March 9, 1870, in Branner-Rodgers Papers, McClung Historical Collection; John B. Brownlow to L. C. Houk, March 30, 1870, in Leonidas C. and John C. Houk Papers, McClung Historical Collection.

<sup>101</sup>The State Debt, 18-19, 72-73.

debt to the state by turning in state bonds to the comptroller. While this act could not do the heavily indebted companies like the Knoxville and Kentucky much good, it was a windfall to those roads like the East Tennessee, Virginia, and Georgia, which could discharge their smaller obligations to the state by purchasing bonds at depreciated rates.<sup>102</sup> This law and other legislation which came later from the "redeemed" Tennessee legislature explain why McGhee was active in the successful fight against congressional Reconstruction.

Aside from undoing the Brownlow laws and constitution, the Conservative legislature undertook to harry the former governor with investigations. Rumors of the misuse of state bonds by the railroads had been freely circulating for some time, and the new assembly lost no time in establishing a joint committee to investigate those railroads which had failed to pay interest on their debts. High on the list was the Knoxville and Kentucky.

To no one's surprise the investigation turned up irregularities in the handling of state bonds by a number of companies. Bonds had been issued in large lots without proper certification of accomplished construction; bonds had been sold at prices below their face value; bonds had been used by railroads to pay interest to the state. All these practices were in contravention of the letter of the law, but the most startling discovery was that large sums from the funds of the Knoxville and Kentucky had apparently been used to secure passage of the omnibus act of 1867 and in attempts to procure further aid in 1868 and

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<sup>102</sup>Ibid.; Public Acts, 1869-70, Ch. XLVII, 61-62.

1869.<sup>103</sup> For months John Baxter, a Knoxville lawyer, stockholder in the Knoxville and Kentucky, and a bitter critic of Brownlow, had been charging Mabry with all kinds of malfeasance, but the committee dismissed Baxter's complaint which "bears upon its face the impress of a private quarrel, [and] which, in the opinion of the committee is of no importance to the people of the State."<sup>104</sup>

What was of importance was the testimony of E. J. Sanford that Mabry had been authorized by a close vote of the directorate to draw money for expenses incurred in seeking aid from the legislature, and that he had received some \$28,000 for which he never had to account.<sup>105</sup> When pressed to explain, Mabry refused to answer the committee's questions.<sup>106</sup> He was not, however, directly asked if he had used the \$28,000 to influence the legislature. In regard to Mabry the committee concluded:

That \$28,000 of the funds of the State were used by him, in an evident attempt to perpetrate a further outrage, if not a swindle upon the State; and the committee are satisfied that nothing but a searching legal investigation will ever expose the frauds perpetrated upon the State by this company and its officers.<sup>107</sup>

But having opened the fascinating subject neither the committee nor the state pursued a "searching investigation." In fact the investigation, which was pushed just so far and no further, served everyone except Brownlow and Mabry quite well. The Conservatives, who were looking

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<sup>103</sup>House Journal, Appendix, 1870-71, pp. 75-92.

<sup>104</sup>Ibid., 83, 159-69.

<sup>105</sup>Ibid., 119-21.

<sup>106</sup>Ibid., 154.

<sup>107</sup>Ibid., 91.



more and more like Democrats, received some good but vague campaign ammunition. The only Republican whose actions were condemned by the committee was Brownlow, and his indiscretions appeared more careless than criminal.<sup>108</sup> His party was willing for the aged Parson to bear alone the opprobrium of "Radical excesses." Mabry, of course, was seriously compromised and his fall from power followed closely after the publication of the committee's report.

An early act of the Conservative legislature required that all "delinquent" railroads--companies which had fallen behind on their interest payments--should be placed in receivership with the companies' presidents to act as receivers by appointment of the governor.<sup>109</sup> Accordingly, Senter made Mabry the receiver of the Knoxville and Kentucky, but in February, 1870, the legislature changed the method by which the so-called "state directors" were appointed. The new law required that such directors, though still appointed by the governor, must be confirmed by the senate, and since Mabry had been for some time a state director, Senter faithfully re-appointed him.<sup>110</sup> The appointment came just as the sensational news of Mabry's misuse of funds became known, and the senate lost no time in rejecting him.<sup>111</sup> After several weeks, when it looked as though the senate would not change its mind, Senter withdrew the nomination.<sup>112</sup> Mabry's control of the Knoxville and

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<sup>108</sup>Ibid., 90.

<sup>109</sup>Public Acts, 1869-70, Ch. III, 4-6.

<sup>110</sup>Ibid., Ch. VII, 72-73; Knoxville Daily Press and Herald, May 27, 1870.

<sup>111</sup>Senate Journal, 1870-71, p. 55.

<sup>112</sup>Ibid., 56, 113.

Kentucky was now in real jeopardy, but a few weeks later an infirm member of the board, Thomas H. Callaway, resigned, and Mabry jumped at the opportunity to reclaim a seat on the directory. Calloway had been elected by the stockholders, and the other board members could fill the vacancy. Dr. James Rogers nominated Mabry, while Sanford suggested Dr. John Fouché instead. Mabry still controlled the board, and he was elected by a vote of eight to two.<sup>113</sup>

Meanwhile, John Baxter kept up a running criticism of Mabry in the Knoxville press, reviewing the record of the railroad president at length and damning him roundly for a career of opportunism and corruption.<sup>114</sup> As Baxter himself correctly observed:

The "oldest inhabitant" is unable to call to mind a period when East Tennessee was not disturbed by some personal, religious or political controversy, conducted with such low and vulgar epithets and personal denunciation as to offend the refined sensibilities of every orderly and decent person.<sup>115</sup>

The Baxter-Mabry quarrel fitted this formula pretty well, and it is not surprising that the feud degenerated into violence. On June 13, 1870, Mabry, goaded beyond endurance, met Baxter on the street and shot him, wounding the lawyer in the arm. While this incident served to cool off the conflict it did not stop Baxter's condemnations, nor did it do Mabry's reputation any good.

In September the Knoxville and Kentucky stockholders met and elected a new board of directors. If there was a contest between McGhee

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<sup>113</sup>Chronicle, July 17, 1870.

<sup>114</sup>Ibid., June 1, 4, 7, 10, 12, 17, 19, 21, 22, 1870.

<sup>115</sup>Ibid., June 1, 1870.

and Mabry it was not recorded by the press, but McGhee was now clearly in control. Besides McGhee, the new board included Sanford and his friend, Dr. Fouché, and H. C. Chamberlain, who would be a close associate of McGhee. Perez Dickinson, G. W. Ross, and E. C. Edwards rounded out the new directorate which proceeded to elect McGhee to the presidency.<sup>116</sup> Because he maintained that his term as president had not expired, Mabry sought an injunction to bar McGhee from office. The suit was heard by Chancellor O. P. Temple who decided in October that the board was within its rights when it replaced Mabry with McGhee.<sup>117</sup> Thus McGhee came to power in the Knoxville and Kentucky, and for more than twenty years thereafter his control of the road would be absolute.

## 3.

The story of McGhee, Mabry, and the Knoxville and Kentucky was not quite over, however. Although the Democrats were fairly secure in their control of Tennessee state government after 1870, they soon fell to fighting among themselves. The most burning issue in politics became the state debt, in other words the bonded indebtedness which was the legacy of the Radical Republicans' aid to the railroads. A strong movement, with its roots in the agrarian wing of the Democratic party, demanded that the debt be repudiated. In part the repudiationists maintained that the Brownlow regime had illegally held power through the disfranchisement of the rightful voters of Tennessee. Additionally they argued that the "average" taxpayers of the state were being required

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<sup>116</sup>Ibid., September 27, 1870.

<sup>117</sup>Ibid., November 13, 1870.

to pay heavy exactions to retire the bonds issued in aid of private corporations. Finally they recalled the evidence of corruption uncovered by the legislative investigation of 1869-70, evidence which might indicate that the bonds were actually illegally appropriated and issued.<sup>118</sup>

Men of capital and their allies within the Democratic party, sometimes called "railroad democrats," were alarmed at the prospect of this assault on property. Moreover, the men (such as McGhee) who owned or controlled the railroads which had been aided by the state were fearful that the holders of repudiated bonds would seek redress from the railroad companies themselves. The opposition of these powerful men notwithstanding, the repudiationist faction gained the ascendancy within the now dominant Democratic party, and the state Democratic platform of 1878 promised to bring the Radical Republicans "before the bar of public opinion, as the author of all the misfortunes which now oppress and threaten the people."<sup>119</sup> It was this pledge which an investigating committee of the 1879 legislature tried to fulfill.

The report of the committee to investigate the state debt occupies two hundred and eleven pages in the appendix of the House Journal. Most of this space is given over to testimony which purports to prove that Mabry, McGhee, Branner, Wilson, Callaway, and M. D. Bearden corrupted

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<sup>118</sup> Philip M. Hamer (ed.), Tennessee: A History, 1673-1932 (4 vols; New York: American Historical Society, Inc., 1933), II, 683-84; Alice Lynn Hunt, "Tennessee Public Debt as an Issue in Politics, 1870-1883" (unpublished Master's thesis, The University of Tennessee, Knoxville, 1934), 34-37.

<sup>119</sup> Ibid., 37.

the 1867 legislature, influenced other Tennessee legislatures in sinister ways, and bribed Governor Brownlow. It was upon Mabry that the committee focused its main attention, for it was Mabry's activities which were most vulnerable. He had, after all, been seriously compromised by the earlier legislative investigation.

In his testimony Mabry admitted that he had lobbied for the Knoxville and Kentucky during the 1867, 1868, and 1869 legislative sessions. He conceded that he had sometimes brought suits for members, but he refused to answer other questions about his possible lobbying activities.<sup>120</sup> H. A. Huntington, a Nashville clothier, testified that Mabry had maintained an account at his store and that he had sometimes brought in unidentified men who bought clothes. Huntington thought that Mabry sometimes bought goods for others.<sup>121</sup> G. W. Blackburn, a former state comptroller, said that Mabry had once told him that he carried the legislature in his pocket.<sup>122</sup> These depositions comprised the sum of new evidence linking Mabry to the passage of the omnibus act.

M. D. Bearden, the former railroad lobbyist and ex-Union Army officer,<sup>123</sup> was also examined by the committee in connection with the corruption of the legislature. Bearden admitted that while president of the Knoxville and Charleston he had lobbied for the company. He admitted spending several thousand dollars, but denied that he had bribed anyone. Several witnesses testified that they had heard or thought they

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<sup>120</sup>The State Debt, 167-68.

<sup>121</sup>Ibid., 55-58.

<sup>122</sup>Ibid., 133.

<sup>123</sup>Rothrock, French Broad-Holston Country, 377-78.

had heard Bearden tell of paying a member of the legislature \$500 to vote for a railroad appropriation and of forcing the member to return the bribe when he failed to deliver his vote.<sup>124</sup> One witness also thought he remembered hearing Bearden relate that he and Mabry had ordered thirty barrels of brandy to help obtain the passage of an appropriation.<sup>125</sup>

The Reverend N. W. Motheral testified that Thomas H. Calloway had confessed before his death that he had employed whisky, women, and clothing to work his will on the legislature. Motheral also believed that just before the investigation Calloway's widow had delivered incriminating papers to a railroad station agent, Sam Reese, who had turned them over to McGhee.<sup>126</sup> Reese was not called to testify, but in a published statement he vehemently denied any knowledge of such papers.<sup>127</sup>

The only really new evidence which was turned up by the investigation had to do with the bribing of Brownlow. Under questioning, Mabry admitted that he and Thomas Calloway had given the governor five \$1,000 bills, a portion of the profits from the bear raid of 1868 on Tennessee bonds. According to Mabry, he, Callaway, McGhee, Richard T. Wilson, and John R. Branner had consulted a New York medium, one Madame Mansfield, who told them that the price of Tennessee bonds would decline, that there would be trouble in Tennessee, but that "old Scratch" (presumably Brownlow) could be controlled with money. Whereupon Mabry and

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<sup>124</sup>The State Debt, 147-49.

<sup>125</sup>Ibid., 67.

<sup>126</sup>Ibid., 84-86.

<sup>127</sup>Nashville Daily American, March 15, 1879.

Callaway returned to Knoxville and offered the money to Brownlow who was lying ill on a couch at his home. The governor declined to receive it but indicated that it should be given to his wife, who accepted the \$5,000.<sup>128</sup> Branner and Callaway were dead in 1879, and when first questioned about the bribe Wilson denied any knowledge of it.<sup>129</sup> After Mabry's testimony, Wilson entered a deposition in which he admitted that the five men had agreed to give the money to Brownlow or some member of his family.<sup>130</sup>

The Brownlow bribe represents the most serious evidence linking McGhee to the corruption of the Republican government during Reconstruction. Taken with the other evidence it supports the contention of the majority of the 1879 investigating committee that "The greater part of the present debt is the result of a vicious policy and corrupt legislation, superinduced by the various corporate bodies interested in securing aid from the state."<sup>131</sup> It is probable that Brownlow was first led to recommend aid to the railroads by the desire, very natural in an old East Tennessee Whig, to see the isolation of the region broken by the transportation facilities which would secure the prosperity and development of Knoxville and the surrounding area. Later, the railroad men, especially Mabry, did everything possible to increase their influence with the governor. His son, General James P. Brownlow, a distinguished veteran of the Union Army, was placed on the payroll as superintendent

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<sup>128</sup>The State Debt, 176-78.

<sup>129</sup>Ibid., 92.

<sup>130</sup>Ibid., 93-94.

<sup>131</sup>Ibid., 8.

of the Knoxville and Kentucky in March, 1868.<sup>132</sup> Another son, John Bell Brownlow, was reportedly hired by Mabry as a lobbyist, along with the governor's sometime newspaper partner, the Reverend Thomas H. Pearne.<sup>133</sup> Finally, the \$5,000 gift explains why Brownlow did not push the prosecution of those responsible for the bear raid of the summer of 1868. As for the legislature, its generosity to the railroads was obviously due in part to the lobbying of Mabry and his cohorts who must have spent lavishly in order to have expended \$28,000 of Knoxville and Kentucky funds.

The investigating committee, however, failed to produce the detailed evidence which would have proved that the state bonds were illegally appropriated or issued. The minority of the committee noted that though the Brownlow bribe was outrageous, "it had nothing to do with the passage of any law or the issuance of any bonds, and, is not, therefore, relevant to the matter being considered."<sup>134</sup> Senator J. H. Clapp, speaking for the minority, complained that the majority report was unsupported by specifics:

Who was bribed? How many? We request you to be specific in so grave a charge as this. The testimony fails to fix the charge of bribery upon a single member of the Legislature. The only specific case was that of the member bribed by Bearden, and that member . . . returned the bribe and voted against the bill for which he was expected to give his vote.<sup>135</sup>

The fact is that the committee never knew all of the intricate details surrounding the relationship between the railroads and the state

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<sup>132</sup>Whig, March 25, 1868.

<sup>133</sup>The State Debt, 189-90.

<sup>134</sup>Ibid., 31.

<sup>135</sup>Daily American, March 19, 1879.



government either during or after Reconstruction. Those details will probably remain incomplete as will the role of McGhee in that tangled history. One piece of circumstantial evidence, in which the committee would have been interested, however, has come to light since 1879. Among McGhee's papers are a series of letters from B. M. Branner which were written during June, 1879. Branner was the brother of John R. Branner who was involved in the speculation in Tennessee bonds and in the Brownlow bribe. B. M. Branner wrote McGhee that he had papers "that may have an important bearing not only on the suit about which you are now so much engaged but also upon private and individual matters about which you may find you are very materially interested."<sup>136</sup> The suit to which Branner referred was probably Stevens v. East Tennessee, Virginia and Georgia and other railroads, an action brought by holders of state bonds who hoped to assume the state's lien against the railroads which had received bonds during Reconstruction. Had the suit succeeded it would have established the liability of the railroads for payment of these bonds which Tennessee was just then trying to repudiate or "scale down." Surviving correspondence between Wilson and McGhee, who were in control of several of the railroads named in the suit, shows that the matter was very much on their minds in the summer of 1879.<sup>137</sup> Apparently McGhee and Branner entered into negotiations and on June 27 Branner wrote:

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<sup>136</sup>B. M. Branner to McGhee, June 2, 1879, McGhee Papers.

<sup>137</sup>Richard T. Wilson to McGhee, April 27, May 7, 10, 19, September 6 and 11, 1879, ibid.

Before leaving I make this further proposition as a final adjustment of matters between you and I individually. . . . To wit. You pay me \$3,000.00 and loan me \$2500 on one and two years, I to deliver your letters and the Green letter referred to.

If you accept you can telegraph Monday morning saying "all right" and I will come down.

P.S. Your proposition to pay \$3,000 will not do.<sup>138</sup>

Among the letters to which B. M. Branner referred were probably the several notes which McGhee had written to John R. Branner in January, 1868. These show, as stated above, that McGhee was deeply involved in the affairs of C. Powell, Green & Company whose failure resulted in the loss of funds belonging to the Knoxville and Kentucky and other railroads. The letters seem to indicate that McGhee might have salvaged some of these funds had he not been so concerned with working C. Powell, Green out of its difficulties. At any rate, McGhee wanted very badly to get the letters back, and it is assumed that he and Branner came to some sort of agreement.

Branner must not have sold all of the letters in his possession, for in 1892 he tried some more blackmail:

I have letters (which you never saw nor dreamed of) showing how the last omnibus bill just after the war was past [sic]. You saw some of these letters which related more particularly to you in person. These others are of a more general character, and show what relation the road and certain individuals occupy towards the people and the state.

. . . . .

You can show or advertise this letter if you wish. It will be an invitation to me to advertise some others, that the people and especially the Legislature may see how things have been done.<sup>139</sup>

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<sup>138</sup> B. M. Branner to McGhee, June 27, 1879, ibid.

<sup>139</sup> Branner to McGhee, July 5, 1892, ibid.

Such letters would have been interesting in 1870 or 1879, but by 1892 the corruption of the past had lost its political usefulness. Most of the principals were dead, the state debt question had been settled, and the statute of limitations had long since run out. There is no indication that McGhee was moved to curiosity about Branner's second collection of papers.

McGhee emerged almost unscathed from the post-war debacle which ruined Mabry and seriously wounded the Republican party in Tennessee. Indeed he profited especially from the bankruptcy of the Knoxville and Kentucky. It had become obvious that the railroad would never be completed without outside help, nor would the company ever be able to pay its interest or retire the state bonds. In an effort to tidy up the unhappy railroad legacy of Reconstruction the Conservative legislature provided for the sale of the defaulting companies. A commission was appointed to establish the minimum value of the railroads, and the Knoxville and Kentucky was appraised at \$892,500 in state bonds. The commission advertised for bids, and on September 20, 1871, it was found that only \$300,000 in bonds had been offered. Since this bid was well below the minimum value, a new sale was held, and on October 5 the Knoxville and Kentucky was sold for \$350,000, no other bids having been received.<sup>140</sup> Thus the state disposed of its interest at a loss of \$2,000,000.

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<sup>140</sup> Fairfax Harrison, A History of the Legal Development of the Railroad System of the Southern Railway Company (Washington, D. C.: 1901), 870-72. Cited hereafter as Legal History.

The new owners were a group of Northern and Southern capitalists. The only Tennessean in the combination was McGhee, but the group included Anthony Legget Maxwell, a railroad contractor and bridge builder who lived sometimes in Knoxville and sometimes in Macon, Georgia. Other Georgians included were Joseph E. Brown, a former governor and a leading Democrat; W. C. Morrill, secretary-treasurer of the Western and Atlantic Railroad; and Alfred Austell, a former East Tennessean who was an Atlanta banker and cotton factor. Northerners were Thomas A Scott, president of the Pennsylvania Railroad; United States Senator Simon Cameron of Pennsylvania and his son Donald; Secretary of the Interior Columbus Delano and his son John.<sup>141</sup>

This combination had been brought together by McGhee after months of painstaking work. As early as July, 1870, he stated that the East Tennessee, Virginia, and Georgia would be unable to complete the Knoxville and Kentucky, and he hoped that the Louisville and Nashville would buy it and complete it to a junction with that line.<sup>142</sup> The L. & N. hung back, however, and in March, 1871, McGhee interested Morrill in the Knoxville and Kentucky, as well as in some coal land which lay along the railroad's route. Morrill had important connections in the group which had just leased the state-owned Western and Atlantic in Georgia; among these were Scott, the Camerons, the Delanos, and Brown. After having the coal lands and the Knoxville and Kentucky examined, the northerners

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<sup>141</sup>Press and Herald, October 14, 1871.

<sup>142</sup>Chronicle, July 27, 1870.

and Brown agreed to join in the purchase.<sup>143</sup> Apparently the new owners intended to complete the road to a connection with the L. & N. and at some time to merge it with the East Tennessee, Virginia, and Georgia which was soon to come under the control of Scott's holding company, the Southern Railways Securities Company.

Scott's dreams of a Southern rail empire failed, however, and for a decade the Knoxville and Kentucky, reorganized as the Knoxville and Ohio, was operated by McGhee as a coal hauling subsidiary of the East Tennessee.<sup>144</sup>

In 1881 when the East Tennessee began an aggressive policy of expansion, McGhee and associates sold the Knoxville and Ohio to that system for \$1,808,745.72. During the ten years between the sales the Knoxville and Ohio was extended by seven miles, and four miles of branch line were built. The value of the coal trade on the line had probably increased greatly by 1881, but neither this factor nor the improvements seems sufficient to explain the more than 400 percent profit which McGhee and his group made on the sale to the East Tennessee.<sup>145</sup> Just how much McGhee personally made on the deal is unknown, but it is likely that his return was enough to have made him feel that his long connection with the Knoxville and Kentucky had been worthwhile.

Since he was president of the Knoxville and Ohio and vice president of the East Tennessee, any profit which he made is subject to condemnation on the grounds of conflict of interest. These conflicts,

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<sup>143</sup>W. C. Morrill to McGhee, March 27, April 24, 28, May 11, 14, July 14, 15, August 3, September 5, 1871, McGhee Papers.

<sup>144</sup>Harrison, Legal History, 872-76.

<sup>145</sup>Ibid.

however, were hardly recognized as such in the 1880's. In fact, among the new breed of financiers who ran Southern railroads in this period, exploitive manipulation was the chief means of profit making.<sup>146</sup> McGhee was learning these new skills, and he was leaving behind the men like Mabry whose talents for merely manipulating provincial legislatures did not make them equal to the challenges of a new era in railroad building.

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<sup>146</sup>Maury Klein, The Great Richmond Terminal: A Study in Businessmen and Business Strategy (Charlottesville: University Press of Virginia for the Eleutherian Mills-Hagley Foundation, 1970), 12-16.

### CHAPTER III

#### A NEW REGIME: MCGHEE AND THE EAST TENNESSEE, VIRGINIA, AND GEORGIA RAILROAD

As Joseph Mabry's prospects waned along with those of the Republican party in Tennessee, the fortunes of McGhee and the Democrats waxed. In the decade of the seventies the Knoxville capitalist stepped forward not only as a spokesman of the Democracy but also as a civic leader respected for his wealth, power, and public spiritedness. He helped to impose a new regime upon East Tennessee's railroads while assisting the Conservative and Democratic redeemers in the establishment of a new state political order. He nevertheless avoided the spirit of vindictiveness and maintained good relations with the Republicans and Unionists. His friends and business associates were drawn from partisans of both persuasions, and he seemed to have had a respect for men of principle and character that transcended political labels. In 1877 he commissioned a portrait of the unreconstructed historian, J. G. M. Ramsey, which was hung in the Tennessee State Library.<sup>1</sup> When the venerable and outspoken old Unionist, Thomas W. Humes, was deposed as president of East Tennessee University, McGhee gave him the position of librarian at the new public library which he established in memory of his

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<sup>1</sup>David Lawson Eubanks, "Dr. J. G. M. Ramsey of East Tennessee: A Career of Public Service" (unpublished Ph.D. dissertation, The University of Tennessee, Knoxville, 1965), 357.

daughter in 1885.<sup>2</sup> Withal, he was definitely a Democrat and he did play a role in the party's resurgence of the 1870's.

The first legislature elected under the new or redeemed constitution of 1870 was strongly Conservative and Democratic.<sup>3</sup> D. W. C. Senter's successor as governor, John Calvin Brown, was an ex-Confederate brigadier and a member of a Middle Tennessee family which had furnished the state an antebellum governor.<sup>4</sup> The speaker of the senate was John C. Vaughan from Monroe County, who had also served the Confederacy as a brigadier general.<sup>5</sup> James D. Richardson, a Middle Tennessean who was speaker of the house, had been only eighteen when the war broke out, but he had immediately enlisted and had become the adjutant of his Confederate regiment.<sup>6</sup> The new complexion of state government was clear: the rebels had recaptured the state house, and the influence of Middle and West Tennessee in the councils of state would be relatively enhanced, while that of the East would be partially eclipsed.

Among the ex-Confederate Conservatives and Democrats who took office in October, 1871, was Charles McGhee, chosen Knox County's member

<sup>2</sup>Stanley J. Folmsbee, Tennessee Establishes a State University 1879-1887, in The University of Tennessee Record, LXIV, No. 3 (May, 1961), 67-89; McGhee to E. J. Sanford, July 1, 1886, McGhee Papers.

<sup>3</sup>Alexander, Political Reconstruction, 234.

<sup>4</sup>John Trotwood Moore (ed.) and Austin Foster, Tennessee: The Volunteer State, 1769-1923 (4 vols.; Chicago and Nashville: S. J. Clark Publishing Company, 1923), II, 49.

<sup>5</sup>Daniel M. Robison (ed.), Biographical Directory of the Tennessee General Assembly, 1796-1969, Preliminary No. 24, Loudon County, Monroe County (Nashville: Tennessee State Library and Archives, 1968- ), 40.

<sup>6</sup>Ibid., Preliminary No. 6, Rutherford County, 45-46.



of the house of representatives at the election held a year before on November 8, 1870.<sup>7</sup> His election was almost unopposed, and although the Knoxville Daily Press and Herald, the Conservative newspaper, carried his name at its masthead along with those of other Conservative candidates, the Republican Chronicle (successor to Brownlow's Whig) did not oppose him.<sup>8</sup> In fact the Press and Herald, as it endorsed his candidacy, stressed the fact that McGhee was not a politician.<sup>9</sup> A letter to the editor spoke of him as "the People's candidate," rather than as a Democrat or Conservative.<sup>10</sup> McGhee, in his announcement for office, declared that he was becoming a candidate "In response to the calls which have been made upon me by members of both political parties. . . ."<sup>11</sup>

McGhee had actually been active in Conservative politics for some time. In 1869 he was at Nashville when the legislature elected a United States senator. He was apparently an energetic supporter of former President Andrew Johnson, for he sent a telegram to Thomas A. R. Nelson urging Nelson to use his influence with a member to vote for Johnson for the senate.<sup>12</sup> In 1872 he was the chairman of the second congressional

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<sup>7</sup>The election was the first held under the new constitution of 1870, but the governor and legislators did not take office until almost a year later.

<sup>8</sup>Press and Herald, November 1, 1870; Chronicle, November 1, 1870.

<sup>9</sup>Press and Herald, October 13, 1870.

<sup>10</sup>Ibid., October 16, 1870.

<sup>11</sup>Ibid., October 20, 1870.

<sup>12</sup>McGhee to Nelson, October 19, 1869, Nelson Papers.

district's Democratic committee.<sup>13</sup> He declined to stand for Congress himself but suggested to Nelson that if he should run, the legislature would give him a district which would be easy to carry.<sup>14</sup> McGhee probably participated in the gerrymandering of the second district to dilute the Republicans' strength.<sup>15</sup> In 1870, however, he was conspicuously absent from the Conservative convention and rallies.<sup>16</sup>

There were several good reasons why McGhee was anxious to be elected to the thirty-seventh general assembly and why Knoxvilleans of both parties were glad to have him represent the county. Radical Republicanism had been good to East Tennessee; it had showered the bounty of the state on the railroads which radiated from Knoxville, and it had made East Tennessee University the beneficiary of the Morrill Act. Knoxvilleans (and of course McGhee especially) were extremely interested in the future of the area's railroads--a future which could be affected for good or ill by the attitude of the state government. State aid to the railroads was dead, but it remained an important political issue,

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<sup>13</sup>Press and Herald, August 3, 1872.

<sup>14</sup> McGhee to Nelson, December 4, 1871, Nelson Papers.

<sup>15</sup> As a Conservative member of the legislature, representing a county in the second congressional district, McGhee was probably active in gerrymandering the district so that it stretched from Sevier County on the North Carolina line deep into Middle Tennessee. The district vaguely resembled a battering ram, and it was said that it was so constructed in order to "butt" the incumbent Republican congressman, Horace Maynard, from office. Instead, Maynard capitalized on the candidacies of two Democrats and was elected as the member-at-large from the state. Jacob M. Thornburg, a Republican, was elected from the second district. Robert H. White, Messages of the Governors of Tennessee (8 vols.; Nashville: Tennessee Historical Commission, 1952 to date), VI, 201-2.

<sup>16</sup>Chronicle, September 11, November 8, 1870.

and the prospect of Conservative Middle and West Tennesseans attacking the East Tennessee railroads which had once seemed to own the Republican party was naturally disquieting.

Even more vulnerable to the jealousy of politicians from the other two grand divisions was Knoxville's East Tennessee University. As the historian of the University has observed: "The political overturn of 1869 was fraught with peril for East Tennessee University and came very near depriving it of the agricultural college endowment."<sup>17</sup> Leading Republicans had successfully fought to make the state eligible for a federal grant and the establishment of a land-grant college. Then East Tennesseans like Joseph A. Mabry lobbied the Radical legislature in behalf of the University's claims to the endowment. Finally McGhee's friend Edward J. Sanford, a lifelong Republican, guided through the general assembly an act which made East Tennessee University the state's land-grant institution.<sup>18</sup> Hardly had the Conservative legislature of 1869 convened, before a committee was appointed to investigate whether the University had complied with the terms of the act which assigned to it the Morrill endowment. It was generally understood that Middle and West Tennesseans in the legislature were determined to obtain a share of the endowment for institutions in their sections, and at the time of McGhee's election in 1870 it appeared likely that they would succeed.<sup>19</sup>

What Knoxville needed then was a respected and influential representative, acceptable to the Conservatives, who could bargain and

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<sup>17</sup>Folmsbee, East Tennessee University, 71.

<sup>18</sup>Ibid., 60-61.

<sup>19</sup>Ibid., 71-72.

negotiate for the welfare of East Tennessee's University and railroads. McGhee must have seemed just the man, and a few days before the election the incumbent Republican representative, Will R. McBath, withdrew his candidacy with a cryptic statement saying that his friends knew his reason.<sup>20</sup> Years later a Republican newspaper charged that the Sanford faction of the party had engineered the withdrawal of McBath, who had been paid \$1,000 to leave the field to McGhee.<sup>21</sup> Whether or not this payment was actually made, it is probable that Sanford and his followers had a lot to do with clearing the way for McGhee; this kind of "trading off" between the parties has been a time-honored Tennessee political tradition.<sup>22</sup>

For McGhee's part, the explanation of this brief foray into public political life is simple. There were jobs in Nashville which he could do, and he would do them to benefit his city, his section, his friends, and his own interests. Public office for its own sake held no attraction for McGhee, and he was probably being entirely candid when he said: "I only consented (or desired) to be a member of the Legislature on account of the interest I felt in the Agricultural College fund. It was business not political ambition that induced me to desire the seat."<sup>23</sup>

By the time he took office the worst of the crisis was over as far as the University was concerned, and it is not possible to determine how much he was able to help his alma mater in the successful fight to

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<sup>20</sup>Chronicle, November 4, 1870.

<sup>21</sup>Ibid., August 29, 1886.

<sup>22</sup>See for instance, V. O. Key, Jr., Southern Politics in State and Nation (New York: Alfred A. Knopf, 1949), 78-79, 284.

<sup>23</sup>McGhee to Nelson, December 9, 1871, Nelson Papers.

keep the Morrill endowment. He did introduce a resolution, which passed the legislature, requesting the state's railroads to provide free transportation for students travelling to and from the University.<sup>24</sup> This may have been a sop for the benefit of Middle and West Tennesseans who lived far from Knoxville, and it is unknown whether any of the railroads complied with the request. Still, McGhee's devotion to the University was obviously sincere. He became a trustee in 1870 and served until 1886 when he moved out of the state. During much of this time he acted as the secretary-treasurer of the board.<sup>25</sup>

For a freshman legislator with no previous experience, McGhee was extremely active during his term. He was a member of two important committees--Education and Ways and Means. On the former he was in a position to support the University's cause; his appointment to Ways and Means was probably a tribute to his wealth and financial ability. Only one other member of the house introduced more bills during the regular session of the thirty-seventh general assembly.<sup>26</sup> Among the bills which he sponsored were two designed to benefit Knoxville by simple changes of name. One sought to amend the municipal charter by changing the word "town" to "city";<sup>27</sup> the other was designed to change the name of the river that flows past Knoxville from "Holston" to "Tennessee."<sup>28</sup> It was generally thought that this change would facilitate the expenditure of

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<sup>24</sup>Public Acts, 1871, Ch. LXIII, 225.

<sup>25</sup>The University of Tennessee Record, I, No. 4 (June, 1898), 251.

<sup>26</sup>House Journal, 1871, pp. 487-503.

<sup>27</sup>Ibid., 157.

<sup>28</sup>Ibid., 146.

federal funds for river improvement in the vicinity of Knoxville.<sup>29</sup>

McGhee's river bill passed the house but died in the senate; his attempt to legislate Knoxville from a town to a city failed to pass either house.<sup>30</sup>

A more important and successful venture in the area of local legislation was McGhee's bill to establish a separate criminal court district for Knox County.<sup>31</sup> This may have been--as he claimed--an attempt to make the courts operate more swiftly and efficiently.<sup>32</sup> On the other hand, it had the effect of removing a Republican district attorney from the Knox County courts. If this act was intended to injure the Republicans it failed, for Jacob M. Thornburgh, the district attorney, was elected to the United States House of Representatives at the next election, and the Republicans chose a district attorney for the new Knox County criminal court.<sup>33</sup> Another McGhee bill suspected of being inspired by partisanship was one which provided for the publishing of the opinions of the state supreme court.<sup>34</sup> Although the bill was endorsed by all the justices, the Knoxville Chronicle saw it as "a further attempt to feed from the public crib a few partisan sheets. . . . We do not suppose," the Chronicle remarked, "that Mr. McGhee has any

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<sup>29</sup>Montgomery, "Nomenclature of the Upper Tennessee," 52-53.

<sup>30</sup>House Journal, 1871, p. 511.

<sup>31</sup>Public Acts, 1871, Ch. LIV, 47-49.

<sup>32</sup>Press and Herald, December 10, 1871.

<sup>33</sup>Chronicle, August 3, November 9, 1872.

<sup>34</sup>Press and Herald, October 16, 1871.

interest in legislating money into the pockets of the Press and Herald. . . ." If not, it added, let him frame the bill to prevent fraud.<sup>35</sup>

McGhee did introduce a proposal to change the method of selecting the public printer (presumably to remove it from partisanship) but neither this bill nor the one for publishing supreme court decisions was passed.<sup>36</sup>

Though the promotion of the University and of his home town were important to McGhee, legislation affecting railroads must have consumed much of his attention while he served in Nashville. His bill making it a misdemeanor for railway engineers to fail to stop before crossing the line of another railroad was probably an attempt to give the force of law to a company regulation.<sup>37</sup> The bill passed without many votes against it, but there was opposition in the senate from Henry R. Gibson, a Republican who represented a district adjoining Knox County.<sup>38</sup> Whatever Gibson's objection to this particular bill may have been, he was a persistent opponent of legislation favored by the railroads. Certain Republicans, Gibson among them, seem to have seized upon railroad baiting as a means of recouping the party's popularity. After all, the Republicans' Reconstruction romance with the railroads had contributed to the party's fall from power, and it must have been galling to witness the railroad men's influence on the now ascendant Democrats. Gibson

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<sup>35</sup>Chronicle, October 17, 1871.

<sup>36</sup>House Journal, 1871, pp. 504, 508.

<sup>37</sup>Public Acts, 1871, Ch. XLVI, 42.

<sup>38</sup>Senate Journal, 1871, p. 245.

attacked "an Act to authorise the Railroad Commissioners to perfect their sales," which was framed to guarantee the titles to the railroads foreclosed by the state and subsequently sold to private parties such as McGhee and his associates. He noted that "the Bill was the special darling of the railroad lobby who used every effort to secure its passage, employing their wiles and artifices unblushingly on the very floor of the Senate during the debates."<sup>39</sup> Gibson was something of a maverick in his attacks upon the corporations, but even the Chronicle's Nashville correspondent, who may in fact have been Gibson himself, joined in decrying the influence of the railroad lobby:

When I look around the Senate and the House and see the lobby at work, I can only exclaim, "May God help the taxpayers!" The influence of the lobby is almost irresistible. Mr. This and Mr. That, Col. So and Col. Thus, General Which and General What, are always on hand, working cunningly and ceaselessly, and before a member knows it he is convinced or committed.<sup>40</sup>

Some Republicans relished the opportunity to emphasize the railroads' hold upon the Democrats, and there was undeniable evidence that such influence existed. When the new administration took office, Colonel Edmund W. Cole, president of the Nashville, Chattanooga, and St. Louis, entertained in honor of Governor Brown, and the Nashville Republican Banner reported that "all the State officers, many members of the Legislature and prominent Citizens . . . were present."<sup>41</sup> East Tennessee Republicans might have made a good deal more of this issue had they been able to distinguish between the railroads and the railroad managers.

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<sup>39</sup>Ibid., 278-29.

<sup>40</sup>Chronicle, November 17, 1871.

<sup>41</sup>Republican Banner, October 14, 1871.



But in the 1870's the progress-bearing railroad was such an object of veneration for both parties in Tennessee that few politicians or newspapers had the heart consistently to attack the men who controlled the railroad companies.

When a vigorous assault was loosed upon McGhee and his friends, it came not from the Republicans, nor out of any reformist movement, but from a disgruntled Democratic newspaper which was serving the interests of other railroad men. The occasion for the attack was the introduction of a bill to require solvent railroads to pay their interest on state bonds in cash rather than in past due state bond coupons.<sup>42</sup> In the eyes of the Memphis Daily Appeal this was a deliberate attempt to force the Memphis and Charleston Railroad into bankruptcy, and this may have been what McGhee actually had in mind. The East Tennessee, Virginia, and Georgia, in which he was heavily interested, was seeking control of the M. & C. which ran westward to Memphis from near Chattanooga where it connected with the East Tennessee. Major Moses Wicks, president of the M. & C., seems to have been determined to hold his road out of the combination--hence, McGhee's bill and the Appeal's violent reaction to it. Wicks had already made good use of the Appeal in a campaign to liquidate the M. & C.'s debt to the state. He paid the newspaper \$7,000 to attack the validity of Tennessee bonds, thus driving down the price and enabling Wicks to buy them cheaply to retire the debt.<sup>43</sup> Whether he had to pay the paper to attack McGhee is not known.

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<sup>42</sup>House Journal, 1871, p. 111.

<sup>43</sup>Thomas Harrison Baker, The Memphis Commercial Appeal (Baton Rouge: Louisiana State University Press, 1971), 125-26.

The Appeal opened its campaign by praising McGhee as "The most potent of all the agents at Nashville. . . . He deserves the power he wields. He is shrewd, adroit, generous, and, in business transactions, trustworthy." But, it continued, "He absolutely persuaded himself that his own, and the interests of the tax-payers of Tennessee are identical with those of Tom Scott. If these men," it added, "achieve their plans how long before there will be little McGhees enough, members of the General Assembly of Tennessee, not only to define the rates of taxation as Wall Street dictates but to convene and adjourn the body of law-givers in accordance with the behest of Tom Scott?"<sup>44</sup> The Appeal went on to recall Reconstruction, when "McGhee's roads reigned at Nashville" and his New York ring ruined the credit of Tennessee.<sup>45</sup> The attacks on "McGhee's conspiracy against the people" became ever more personal. "The devil on the mountain offering bribes to our Savior was the impersonation of no diviner majesty than this of Charles McGhee." Worse still, he had an unholy influence over the governor: "He sits by Governor Brown, sleeping and waking, and fills a place on the floor of the House. . . ."<sup>46</sup>

These editorials, with their accusations that East Tennessee's railroads had nearly bankrupted the state, brought Knoxville's newspapers into the fight. The Democratic Press and Herald was indignant;<sup>47</sup> the Republican Chronicle, though amused at the opposition's internal feuding, also came to McGhee's defense:

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<sup>44</sup>Memphis Daily Appeal, October 25, 1871. Scott was president of the Pennsylvania Railroad and a power in the Southern Railway Security Company.

<sup>45</sup>Ibid., October 27, 1871.

<sup>46</sup>Ibid., October 28, 1871.

<sup>47</sup>Press and Herald, October 27, 1871.

The Memphis Appeal of Wednesday, devotes well nigh its entire issue to the benefit of our worthy Representative in the Legislature, Hon. C. M. McGhee, and Tom Scott, the Railroad King of Pennsylvania, and takes occasion to give Governor Brown a severe dig under the fifth rib. The Appeal finds fault with McGhee because he is willing that Scott come in here with his capital, take charge of and build certain railroads in East Tennessee, and says Governor Brown has "unconsciously fallen into the hands of these remorseless railway speculators." We have read the editorial, and have come to the conclusion that Mr. McGhee may be guilty of the charges contained therein, and yet not be a serious enemy to the prosperity of the State or his immediate constituents.<sup>48</sup>

Other newspapers also took McGhee's part, the Nashville Republican Banner remarking that "There is no longer any room for doubt about the Memphis Appeal's insanity."<sup>49</sup> The Nashville Union and American said that the attacks had brought to McGhee's side his fellow Democrats, "who have read these attacks with astonishment and seen with pleasure the patience with which he has borne them."<sup>50</sup> McGhee's patience must have worn thin, however, because the controversy brought him to the brink of a duel with Wicks. Only a public letter from Isham G. Harris and J. B. Cooke, which said that the "personal difficulty" between the two men had resulted from a misunderstanding, quieted the bitter feud.<sup>51</sup>

What finally settled the affair was an agreement that the Southern Railway Security Company, which controlled the East Tennessee, should

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<sup>48</sup>Chronicle, October 27, 1871.

<sup>49</sup>Republican Banner, October 28, 1871.

<sup>50</sup>Nashville Union and American, October 31, 1871.

<sup>51</sup>Press and Herald, October 29, 1871.

lease the Memphis and Charleston.<sup>52</sup> The Appeal did an abrupt flip-flop and gave its blessing to the union, which it asserted would guarantee the prosperity of Memphis.<sup>53</sup> The newspapers of the state were surprised but amused,<sup>54</sup> and the Press and Herald was jubilant over the Appeal's humiliation. "Great Scott," read the headline which described the Appeal's about face:

At the opening of the present session of the General Assembly, or soon thereafter, it will be remembered, an unlooked for outbreak in the office of the Memphis Appeal startled even the sleeping echoes of the war in Western Tennessee, and about the halls of legislation in Nashville. The alarming discovery was made that Tom Scott, the insatiate gobbler of railroads and purchaser of Legislatures, had foisted an agent, in the mild-mannered personage of the very amiable and excellent gentleman from Knox--Col. Chas. M. McGhee--into the General Assembly of Tennessee, with the view of buying up the members, debauching the Governor, pocketing the Treasury, and stripping the down trodden and poverty stricken people of the State even to "the last axe and the last hoe and the last plow," through the cruel process of taxation, under the meretricious plea of "State Credit." All this, Tom Scott, through "Charley McGhee"--the blue-eyed charmer of seductive glances--reinforced by all the "little McGhees"--was expected to accomplish ere the "well meaning" Governor and the "simple minded" verdants of the Legislature, "fresh from the people," as they were, could be aroused to an appreciation of the peril to which their unsophisticated virtue was exposed. The apprehensions of the Appeal were terrible and truly "orful to kontemplate."

The receipt of intelligence at Nashville, on Friday evening, that Tom Scott--the veritable head-devil of the imaginary legion of diabolical railroad conspirators--had actually

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<sup>52</sup>This lease was announced in December, 1871, and was legally concluded on March 5, 1872. Harrison, Legal History, 751; John F. Stover, The Railroads of the South, 1865-1900 (Chapel Hill: University of North Carolina Press, 1955), 116.

<sup>53</sup>Daily Appeal, December 11, 1871.

<sup>54</sup>Republican Banner and Union and American, December 10, 1871.

"gobbled up" the Memphis and Charleston Railroad, of which the well-armed Appeal has been the unblanching champion and stalwart protector, was the occasion of no little excitement and merriment. . . .<sup>55</sup>

There was merriment in the legislature too where Representative Boyd M. Cheatham of Robertson County introduced the following resolution:

Whereas, Information has been received by this General Assembly through the medium of the Memphis papers that financial arrangements have been successfully consummated by which the Memphis & Charleston R. R. and its appurtenances (including, of course, the Memphis Appeal) and other valuable and important public institutions, have passed into the hands, or under the control of "Tom Scott," and as the time is near at hand when, under the admirable financial provisions of the Constitution of Tennessee, the per diem of the members will cease, therefore.

Resolved, That the Speaker of the House be requested to telegraph said Tom Scott at once, informing him of the state of affairs and ascertaining from him if he has any other financial business or legislation to bring before the General Assembly. If he has not then we do adjourn on Friday next at 12 M.<sup>56</sup>

The Press and Herald reported that Representative Farrington Snipes of Madison County moved that the resolution be referred to a special committee of one, "to consist of the Hon. Representative from Knox. When the report of the committee comes in, let the Appeal, as in duty now bound, once more shout "Great Scott," and let all the "little McGhees" cry "Amen!"<sup>57</sup>

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<sup>55</sup>Daily Appeal, December 10, 1871.

<sup>56</sup>Ibid.

<sup>57</sup>Ibid.

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The McGhee-Wicks controversy, while it dramatized an unfolding struggle for control of important railroads, was actually a sideshow to the main event. And, although McGhee's term in the legislature served to emphasize the close relationship of business and politics, his business activities in the 1870's were far more important than his political ones. Likewise, his alliance with the group of Northern capitalists who bought the Knoxville and Kentucky in 1871 was merely one event in the revolution that was taking place among Southern railroads; far more crucial was his role in the conversion of the East Tennessee, Virginia, and Georgia from two short local roads into a regional system.

McGhee's interest in the E. T. & V. and the E. T. & G. seems to date from about the time of his temporary retirement from the affairs of the Knoxville and Kentucky. On June 15, 1867 (five months before his resignation from the presidency of the K. and K.), McGhee and five others--Thomas H. Callaway, John R. Branner, Richard T. Wilson, Joseph Jaques, and R. C. Jackson--formed a partnership to purchase stock in the two railroads.<sup>58</sup> Their company was capitalized at \$200,000, with each member to hold an equal part. McGhee, Branner, and Callaway were authorized to buy the stock, which, though belonging to the partnership, would be listed on the books of the railroad companies in the names of the individual partners. The intent of the partnership seems to have

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<sup>58</sup> Copy of agreement in Miscellaneous Manuscripts, McClung Collection.

been to prevent competitive bidding for shares in the railroads and to insure that the stock would be voted in a block at the companies' annual meetings.<sup>59</sup> The latter objective was especially important because in March, 1867, the legislature had revised the charter of the E. T. & V. to permit the voting of holdings in excess of five hundred shares.<sup>60</sup> It thus became possible for the railroads to be controlled by persons with large blocs of stock, and control was obviously what the partners were after.

In 1868 the partners had enough stock to dominate the election of directors, and Callaway, Jaques, and McGhee joined Branner on the board of the E. T. & V.<sup>61</sup> A year later they were ready to push for consolidation of the companies. Branner died in February, 1869, and Callaway (already president of the E. T. & G.) was elected to succeed him as president of the E. T. & V.<sup>62</sup> The roads were therefore under the same management, and on November 29, stockholders of both companies voted to consolidate under the title East Tennessee, Virginia, and Georgia Railroad Company.<sup>63</sup> The partnership was apparently dissolved after the death of Callaway in August, 1870, and Wilson was elected to succeed him in the post which he would hold until 1880.<sup>64</sup> Only a few weeks before Callaway died, McGhee exchanged his four-thousand-acre plantation

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<sup>59</sup>Ibid.

<sup>60</sup>Harrison, Legal History, 665-66.

<sup>61</sup>East Tennessee and Virginia Rail Road Company, Annual Report, 1868, p. 5.

<sup>62</sup>Ibid., 1869, pp. 6-8.

<sup>63</sup>Ibid., 8-13.

<sup>64</sup>East Tennessee, Virginia, and Georgia Railroad Company, Annual Report, 1870, pp. 4-5; Stover, Railroads of the South, 115.

on the Little Tennessee for Callaway's large bloc of railroad stock in what was one of the most profitable trades of his life.<sup>65</sup> The exchange symbolized McGhee's break with his Old South past and established the foundation for his fortune and for his career in the New South.

McGhee was now the company's largest single stockholder, and with Wilson, Jaques, and Jackson he controlled the East Tennessee.<sup>66</sup> On October 14, 1871, they sold their stock at par value to the Southern Railway Security Company under an agreement by which the vendors received their payment in cash and Southern Security stock.<sup>67</sup> McGhee probably got over a thousand shares of stock and about \$50,000 in cash at the outset. The remainder of his East Tennessee stock was to be turned over in installments upon the payment of five Southern Security notes to mature at six, nine, twelve, fifteen, and eighteen-month intervals.<sup>68</sup> Wilson became a director of Southern Security<sup>69</sup> while R. H. Richards of Atlanta and

<sup>65</sup>Press and Herald, August 23, 1870; Worth S. Ray, Tennessee Cousins, A History of Tennessee People (Baltimore: Genealogical Publishing Company, 1960, 1966), 404. When this writer first examined the McGhee Papers in 1968, he saw a copy of the agreement with Callaway. This manuscript was missing, however, in September, 1970 (after the papers had been reorganized), and cannot be located as of January, 1974.

<sup>66</sup>E. T. V. & G., Annual Report, 1871, pp. 32-58. McGhee owned 3,045 1/4 shares out of a total of approximately 19,000. In September, 1871, the four partners owned a total of 8,101 3/4 shares, and they probably controlled enough other shares to make a majority.

<sup>67</sup>Agreement between Joseph Jaques and Southern Railway Security Company, October 14, 1871, Joseph Jaques Papers, McClung Collection.

<sup>68</sup>These details are based on the Jaques agreement.

<sup>69</sup>C. K. Brown, "The Southern Railway Security Company, An Early Instance of the Holding Company," North Carolina Historical Review, VI (1929), 161.



Morris K. Jesup, a New York banker, joined the board of the East Tennessee, probably to represent the interests of Southern Security.<sup>70</sup>

The agreement with Southern Security was profitable to McGhee and his associates personally, but it was more important to them for its long term effect. Actually an alliance between the Southern roads controlled by Southern Security and the East Tennessee, the deal was sealed by the private financial arrangement with McGhee and the others which amounted to a bonus for their goodwill toward Southern Security and its other railroads. It is clear that Southern Security was much more than a front for what one historian has called "the Southern ambitions of the Pennsylvania Railroad."<sup>71</sup> To be sure, Thomas A. Scott and his company were deeply involved in Southern Security; Scott seems to have envisioned the holding company as the means of putting together a great Southern line which would connect the Pennsylvania with his projected Texas and Pacific Railroad. In other words, he saw it as the vital link in a transcontinental system.<sup>72</sup> But Southern Security was also the creation of the Baltimore capitalists, William Thompson Walters and Benjamin Franklin Newcomer, who were interested in eastern North Carolina lines which were not on Scott's route to the Pacific. Henry Bradley Plant of Augusta, Georgia, was heavily interested in the Southern Express

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<sup>70</sup>E. T. V. & G., Annual Report, 1873, pp. 4-5.

<sup>71</sup>Stover, Railroads of the South, 99.

<sup>72</sup>This hypothesis is based on Brown, "The Southern Railway Security Company"; C. Vann Woodward, Reunion and Reaction (Boston: Little, Brown, 1966), 68-100; and Julius Grodinsky, Transcontinental Railway Strategy, 1869-1893 (Philadelphia: University of Pennsylvania Press, 1962), 17-27.

Company, which had no particular connection with the Pennsylvania. Likewise, Morris K. Jesup, a New York banker, was not identified with the Pennsylvania; but like Plant, Newcomer, and Walters he would have a life-long interest in the railroads of the seaboard South.<sup>73</sup> Thus Southern Security was not simply the Pennsylvania Railroad's holding company; it was "a pooling of the interests of a number of capitalists who had already invested heavily in Southern railroads."<sup>74</sup>

• McGhee and Wilson saw Southern Security as the means by which they would try to expand the East Tennessee into an important system in the South. The holding company's control of the Richmond and Danville offered the East Tennessee another connection to the North. Acting for the East Tennessee, the two capitalists bought the Cincinnati, Cumberland Gap, and Charleston, which had been foreclosed because of its inability to repay its debt to the state of Tennessee.<sup>75</sup> The C. C. G. & C. ran from Morristown on the line of the East Tennessee to Paint Rock on the North Carolina border where it was supposed to connect with the

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<sup>73</sup>The importance of the Baltimore interest in Southern Security was emphasized by the Baltimore Gazette, November 17, 1871, in a long article quoted by the Press and Herald, November 19, 1871. The Gazette stressed the role of Walters and maintained that the combination of Southern railroads was basically independent of the Pennsylvania. Stover in Railroads of the South ignores this possibility. Brown in "Southern Railway Security Company" states that while the Baltimore group was probably independent of the Pennsylvania Railroad, its influence in Southern Security was secondary to that of the Pennsylvania. Of Southern Security's seven directors, however, Walters, Plant, Jesup, and Wilson had no connection with the Pennsylvania. A strong argument can therefore be made that Southern Security was more an alliance of men interested in Southern railroads than a front for the Pennsylvania's "Southern Ambitions."

<sup>74</sup>Brown, "Southern Railway Security Company," 163.

<sup>75</sup>Harrison, Legal History, 704-10.

uncompleted Western North Carolina Railroad. McGhee and Wilson bought the title to the latter road with a view to completing it and establishing a major eastern outlet for the East Tennessee. Such a line would mean traffic with the Carolinas, and it would also provide a connection with the Richmond and Danville.<sup>76</sup> In 1871 the East Tennessee's only northern outlet was at Bristol where the railroad was dependent upon the Atlantic, Mississippi, and Ohio for transportation to the north and east; a connection with the Richmond and Danville would offer an alternative to this route and would greatly increase the leverage of the East Tennessee in traffic negotiations with the A. M. & O.

Equally important to the East Tennessee was the security of its western flank which depended upon a connection at Chattanooga with the Memphis and Charleston. This was the reason for the East Tennessee's attempt to control the M. & C. McGhee and Wilson might have accomplished this easily, had not Wicks resisted it and set off a commotion in the Memphis Appeal. As it was, he raised the alarm and probably delayed by several months the lease of the M. & C. to Southern Security. The Wicks-Appeal assault on "Great [Tom] Scott and all the little McGhees" was the opening shot of the conflict provoked by McGhee's and Wilson's ambitious alliance with Southern Security. In this conflict Wicks was for a time the ally of the colorful and combative ex-Confederate general, William Mahone, president of the Atlantic, Mississippi, and Ohio.

That there was bad blood between Wilson and McGhee and the general as early as 1868 is shown by a letter in the Mahone papers in which

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<sup>76</sup>Ibid.

Wilson wrote to Callaway about the possibility of removing Mahone from his presidency.<sup>77</sup> Wilson was interested in replacing Mahone with Joseph Jaques, who, before becoming vice president of the East Tennessee, was in charge of the salt works at Saltville, Virginia.<sup>78</sup> How the letter came into Mahone's hands is not known, but it must have further embittered him against the men who were about to turn his southwestern flank and who he felt had betrayed him. Mahone maintained that in late June of 1871 he had agreed to pay McGhee and Wilson \$1,000,000 for 10,000 shares of East Tennessee stock. During August, he said, the three men had consulted about "the progress of my negotiations and the programme for the new organization of their Road which was to follow under my purchase[.]" On August 24, Wilson had written a friend that "we have seen Mahone and he has not got his money yet. We leave for Knoxville and shall stop over in Philadelphia to see Scott." On September 28 Mahone and Wicks met in New York and the latter reported rumors of the sale to Scott. Mahone sent Wicks to see Wilson; Wicks reported back that "the negotiations with Scott was not closed." Then Mahone offered "to take the entire stock of the Company (which might be offered for sale) at par \$100.

This proposition was made to Wilson (in his official capacity as President to be submitted to his shareholders) on Saturday Sept 30th or Monday Oct 2d. Wilson's reply to Wicks was: "There is no use to submit any such proposition to the

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<sup>77</sup>Wilson to Callaway, October 29, 1868, William Mahone Papers, Duke University Library, Durham, N. C.

<sup>78</sup>Ibid.; Press and Herald, June 1, 1871.

stockholders, McGhee Jaques Jackson and myself hold a majority and we have sold to Scott."<sup>79</sup>

Mahone was furious and decided to make an open fight, attempting to arouse public opinion against what he called "the Ring." "It would seem," he wrote Wicks, "that there is no contentment to their crew, how much do they want? Exterminate them or expel them from your state," he advised, "or you will be everlastingly mined in moral as well as in substance. We can beat them yet if we only will do it."<sup>80</sup> Wicks, however, made his peace with McGhee and Wilson. The M. & C. was leased to Southern Security in March, 1872, and the little general was left almost alone to fight "the Ring."<sup>81</sup>

Mahone's natural allies (such as they were) consisted of a few dissatisfied stockholders in the East Tennessee and residents of Bristol, where the East Tennessee met Mahone's road. The Bristol News, reporting rumors of the sale to Southern Security, was alarmed at the prospect:

They [McGhee and Wilson] are said to have sold to that Corporation their own stock at par, stipulating that they are to be kept in office for the consideration that the Memphis and Charleston road be cut off from its connection, and Mahone from his Western connections, thus destroying the through business of both lines and converting them into mere local roads. Nay, More! They were offered par for the entire stock of the road, thus saving all the stockholders and preserving the whole interests of both States, but they refused and left the large minority bound hand and foot. We wish we could pronounce these only rumors. Alas they seem well authenticated. We wish it only could astound the people to

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<sup>79</sup>Mahone to Abram Fulkerson, September 1, 1872; Memorandum, Letterbook 19, p. 378, Mahone Papers.

<sup>80</sup>Mahone to Wicks, October 30, 1871, ibid.

<sup>81</sup>Harrison, Legal History, 751.

whom we speak. But it will strike them with a dismay which we hope will cause them to arise in their legislative might to save themselves from a plot that implies their ruin.<sup>82</sup>

Knoxville and Morristown newspapers, however, were delighted by the sale, predicting that it would significantly enhance the prosperity of those towns and speed the development of all the surrounding country.<sup>83</sup>

Mahone took the battle to the East Tennessee's annual meeting in November, 1872. Here the stockholders were apparently unimpressed by his offer to buy all the shares at par, and a resolution commending the company's directors and officers was passed by a share vote of 15,346 3/4 to 599 3/4.<sup>84</sup> Though Mahone steadfastly maintained that he had made an agreement to buy the McGhee and Wilson stock at par, he attacked the two for having made a sale to Southern Security on these identical terms.<sup>85</sup> This inconsistency was perhaps not lost on the East Tennessee's minority holders who refused to support his attempts to unseat the McGhee-Wilson regime.

Defeated at the stockholders meeting, Mahone carried the battle into the courts. A suit was brought against McGhee, Wilson, and other directors and officers by several owners of East Tennessee shares.<sup>86</sup> Mahone was in close communication with the plaintiff's attorney, James T. Shields, and it is clear that the action was designed to win for Mahone

<sup>82</sup>Bristol News, as quoted in Press and Herald, October 14, 1871.

<sup>83</sup>Ibid.; Chronicle, October 27, 1871; Morristown Gazette, as quoted in Press and Herald, November 4, 1871.

<sup>84</sup>E. T. V. & G., Annual Report, 1872, p. 6.

<sup>85</sup>Mahone to Fulkerson, September 1, 1872, Mahone Papers.

<sup>86</sup>Deaderick v. Wilson, 67 Tennessee (1874) 108-41.

in the courts what could not be won in a vote of the stockholders.<sup>87</sup> The suit asked that the sale to Southern Security be set aside, and, failing this, that McGhee, Wilson, Jaques, and Jackson "be held to account to the stockholders from whom they purchased [shares] for all profits made and realized by said purchase and sale."<sup>88</sup> In addition it was urged that the acquisition of the Western North Carolina Railroad should be set aside because the East Tennessee's charter did not permit the purchase of railroads outside Tennessee.<sup>89</sup>

While this suit made its way through the courts, Mahone considered an attack on the political front. He seriously entertained a proposal by Rolfe Saunders of Knoxville to set up a newspaper to expose the "Evil Doers who have held high carnival in their monetary triumphs of greed and gain. . . ."<sup>90</sup> Working through Shields and N. L. York and Abram Fulkerson, lawyers of Bristol, Mahone expressed himself as ready to subsidize a paper for this purpose.<sup>91</sup> Saunders went so far as to visit former President Andrew Johnson at Greeneville to discuss the project:

I told him that in politics it would be eminently independent, upon a Constitutional, Conservative platform. Then I advised with him as to the policy, in carrying out the plans we discussed, of making everything bend to the material interests of East Tennessee, bursting "rings" &c. of the

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<sup>87</sup> Shields to Mahone, September 11, 1873, Mahone Papers.

<sup>88</sup> Deaderick v. Wilson, 111-12. <sup>89</sup> Ibid., 130.

<sup>90</sup> Saunders to Mahone, April 23, 1873, Mahone Papers.

<sup>91</sup> Mahone to N. L. York, June 19, 1873, ibid.

probability & necessity of taking the people's side in the railroad fight; and he said it would be the strong side & the one to win.<sup>92</sup>

But despite Johnson's interest and moral support the newspaper never progressed beyond the talking stage, perhaps because of the way in which the law suit was decided. The first judge who heard it decided against the Mahone party, and it was appealed to the Tennessee supreme court. In September, 1874, the justices ruled against all the petitions except the one which asked the dissolution of the Western North Carolina purchase. On that point the court agreed that the East Tennessee had no right to buy an out-of-state railroad, and the sale was voided.<sup>93</sup> Thus Mahone did postpone the nightmare of a diversion of the East Tennessee's traffic to the Richmond and Danville.

The decision was a victory of sorts for Mahone, but not a real defeat for McGhee and Wilson. By the time the purchase of the Western North Carolina was annulled, the nation was gripped by a business depression and Southern Security was in dissolution.<sup>94</sup> It is not likely that the connection with the Richmond and Danville could have been made under the circumstances. Actually Mahone may have over-reacted to the threat of the East Tennessee's diversion into North Carolina, for this route was simply inferior to that over the Atlantic, Mississippi and Ohio, later the Norfolk and Western.<sup>95</sup> The East Tennessee did not get

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<sup>92</sup>Saunders to "Gentlemen," May 24, 1873, ibid.

<sup>93</sup>Deaderick v. Wilson, 132-33.

<sup>94</sup>Brown, "Southern Railway Security Company," 164-69.

<sup>95</sup>Klein, Great Richmond Terminal, 174, 214.



its Carolina connection until 1881, and even then the old route through Virginia remained the East Tennessee's principal outlet to the ports and cities of the North and East.<sup>96</sup> In fact, when the old Southern Security alliance was resurrected in 1887 as the Richmond and West Point Terminal system, McGhee would fight against an interruption of the East Tennessee's traffic over the Norfolk and Western.<sup>97</sup>

Neither McGhee and Wilson nor the East Tennessee were firmly wedded to Southern Security, and there must have been little dismay in East Tennessee when the holding company fell apart.<sup>98</sup> Mahone may have been correct when in 1873 he observed that Southern Security was in a state of disintegration, and that "I suspect that Wilson is waiting for and helping to this end, when they will pocket what has been paid on account & repossess themselves of the stock they undertook to sell."<sup>99</sup> Something like this must have happened because at some time between 1873 and 1876 Southern Security divested itself of the East Tennessee stock.<sup>100</sup> This may have occurred in the spring of 1874 when the holding company's lease of the Memphis & Charleston was terminated by mutual consent. By this time, however, the East Tennessee had taken over the

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<sup>96</sup>Harrison, Legal History, 709-10.

<sup>97</sup>Klein, Great Richmond Terminal, 214-15.

<sup>98</sup>R. T. Wilson to Joseph Jaques, July 30, 1872, Jaques Papers. This letter reinforces the view that Wilson, McGhee, Jaques, and the East Tennessee were accustomed to taking action independently of Southern Security.

<sup>99</sup>Mahone to York, September 19, 1873, Mahone Papers.

<sup>100</sup>Brown, "Southern Railway Security Company," 169.

management of the M. & C. Wilson became president of the latter road in October, 1874, and it remained a satellite of the East Tennessee.<sup>101</sup>

The collapse of Southern Security, then, did not disturb the dominance of McGhee and Wilson in the East Tennessee. While depression raged and the Pennsylvania Railroad was forced by its shareholders to give up its interest in the holding company,<sup>102</sup> the East Tennessee remained solvent. The same economic contraction which destroyed Southern Security forced Mahone's railroad into receivership and removed him from its affairs forever,<sup>103</sup> which must have been a relief to the East Tennessee's managers. McGhee and Wilson came out of the Southern Security affair with their fortunes augmented and with the strength of their railroad certainly increased. They had made valuable friendships with some Northern capitalists (especially the non-Pennsylvanians, Jesup, Newcomer, and Walters) who continued to take an interest in the East Tennessee. They had gained control of the Memphis and Charleston and were more deeply entrenched in the East Tennessee, an embryonic system which now stretched from the Virginia border through four states to the Mississippi River.<sup>104</sup>

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<sup>101</sup>Stover, Railroads of the South, 116-17.

<sup>102</sup>Brown, "Southern Railway Security Company," 164-67.

<sup>103</sup>Stover, Railroads of the South, 138-39.

<sup>104</sup>For a map of the East Tennessee system, see Figure 1.



Figure 1. Map of the East Tennessee, Virginia, and Georgia Railroad and its connections, circa 1890.

## 3.

McGhee's financial operations in the decade after the Civil War made him one of Tennessee's richest men. Just how rich he was, however, is difficult to establish precisely. In 1868 a Knoxville newspaper published the names and incomes of the town's wealthiest citizens.<sup>105</sup> This information was derived from the federal income tax rolls and was probably an indication if not a positive gauge of the wealth of these individuals. On this scale McGhee ranked seventh with an income of \$6,578.61. The largest income reported was \$13,929.15, earned by a lawyer, Oliver Perry Temple. McGhee was still in the pork packing business in 1868,<sup>106</sup> and he was president and a principal stockholder of the People's Bank of Knoxville.<sup>107</sup> Besides these and his railroad interests, he was active in real estate and was developing a new manufacturing and residential area, called McGhee's Addition, adjacent to the terminal of the Knoxville and Kentucky Railroad.<sup>108</sup> During the next few years he certainly made large amounts of money through his speculation in Tennessee bonds and railroad stock.

By 1872 he was ready to build a mansion to house his growing family and perhaps to symbolize his standing as one of the city's richest men.

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<sup>105</sup>Knoxville Daily Herald, May 24, 1868.

<sup>106</sup>Ibid., December 14, 1867, February 23, 1868; Press and Herald, December 19, 1875.

<sup>107</sup>Rule, Standard History of Knoxville, 253.

<sup>108</sup>Daily Herald, April 9, 1868. This area is northwest of the central business district and is presently in the angle formed by Interstate highways 40 and 75.

The house was Italianate in style, had fourteen large rooms, and was described as a "palatial mansion."<sup>109</sup> It sat on the crest of a hill a few blocks from Knoxville's business district, and the yard and gardens covered a full city block. Though he grew much richer during the next thirty years, McGhee was apparently not tempted to build even more impressive houses. For years he did maintain a roomy but not ostentatious country home on a farm several miles east of the city, but, with the exception of his residence in New York hotels and his visits to various resorts, the mansion that he built in 1872 remained his home for the rest of his life. Here his five daughters grew up, and here he and his wife entertained on a scale that was considered lavish by Knoxville's standards. When President Rutherford Hayes toured the South in 1877 he stopped at Knoxville where McGhee gave the principal entertainment at his home.<sup>110</sup> Six hundred people were invited to the reception and many more came to troop through the house, meet the president, and wander through the grounds which were "ablaze with gas lights." In the garden a platform accommodated as many as a hundred dancing couples; the band played far into the night during what was called "the most recherche entertainment ever given in Knoxville."<sup>111</sup>

What made this splendor and luxury possible was, of course, McGhee's connection with the growing East Tennessee, Virginia, and Georgia and his close association with Richard Wilson and Joseph Jaques. Together they formed the triumvirate which controlled that railroad. In 1872

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<sup>109</sup>Press and Herald, June 2, 1872. The house still stands at 505 Locust Street although it has been extensively remodeled.

<sup>110</sup>Chronicle, September 22, 1877.

<sup>111</sup>Ibid.

Wilson was president, McGhee was vice president, and Jaques was vice president and general superintendent.<sup>112</sup> The cooperation of each was essential to the maintenance of control, and no one realized this more acutely than Wilson, who operated in New York where he could observe the habits of Wall Street's wolves, as well as the activities of its bulls and bears. Ever watchful for signs of trouble, Wilson was worried when he heard of a development which threatened the unity of the triumvirate. His letter<sup>113</sup> on this subject to Jaques reveals much about the relationship of the three men:

I see from a notice published in the papers a new bank is to be had. I am heartily glad of it, and hope you may make it the means of contributing to the business interests of East Tenn. I see however that Charley and myself are left out in the cold. So far as I am concerned, this wouldnt [sic] make any difference, but will it be the case with Charley? Wont their [sic] be conflict of interest and danger of severing the close relations hitherto existing[?]

I fear there will. . . . Now you know we have stood by each other, and if anything occurred likely to make a breach in the Cabinet, other members not so directly effected [sic] have suggested plans of harmony and the result has been in all our undertakings we have had more or less success[.] Every day of my life brings more forcibly to my mind the great merit of united action and without any intimation from McGhee as to whether such a thing would suit him or not, allow me to suggest to you in confidence, whether or not it wouldnt be well to try and merge his bank into yours and increase your capital, so that you could establish agencies from Bristol to Memphis[.] The business of the line of road which we shall be able to control if we stick together, would of itself, be a good basis to start to bank on. McGhee, if he quits politics would be a most admirable man to place at the head of the bank[;] he has qualifications for a thing of that kind of considerable merit, and with the aid of counsel which he could receive from a properly

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<sup>112</sup>E. T. V. & G., Annual Report, 1872, p. 2.

<sup>113</sup>Wilson to Jaques, July 30, 1872, Jaques Papers.

organized board would make a success of it and let me say to you just here that it is not every man who is fit to manage a bank. If you can so arrange matters--and knowing your ability as well as I do in the capacity of a compromise man--I believe you can get up a plan which will not be likely to clash with any one's interest[.]

Jaques may have taken Wilson's advice and made room in the new East Tennessee National Bank for McGhee, but the suggestion of merging the two banks under the latter's presidency was not carried out.<sup>114</sup> The three men continued to run the railroad until 1876 when Jaques retired as vice president and superintendent though he remained on the board of directors. McGhee then assumed Jaques' duties and for the next seven years he was active in the direct management of the East Tennessee.<sup>115</sup> As vice president and superintendent he oversaw the day-to-day operation of the East Tennessee and its satellites, leaving most of the financial management to Wilson who in turn relied heavily on the advice of Walters and Jesup, two of the Northern directors.<sup>116</sup>

In his new capacity, McGhee had to face labor difficulties during a business recession in 1877 which touched off strikes across the nation. He won the praise of newspapers and working men when he ordered the wages of Memphis and Charleston shop employees restored to their pre-recession

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<sup>114</sup> McGhee is listed in Knoxville city directories as president of the People's Bank until 1884. In 1887 he appears in the city directory as a member of the board of the East Tennessee National Bank.

<sup>115</sup> E. T. V. & G., Annual Report, 1876-1879; according to H. V. Poor's Manual of the Railroads of the United States, 1880-1884. McGhee remained as vice president of the East Tennessee until 1883. He was a director of the East Tennessee until the company was absorbed by the Southern Railway in 1895.

<sup>116</sup> See, for example, Wilson to Walters, October 28, 1879, and to McGhee, October 31, 1879, McGhee Papers.

levels. His old critic the Memphis Appeal observed that "Had the officers and employees of the Baltimore and Ohio Railroad acted in the same spirit as has characterized Vice President McGhee and the employees of the Charleston road, in all probability the country would have been spared the dreadful drama which has not yet closed."<sup>117</sup> Later, in a newspaper interview, McGhee said that he would have to cut wages if business worsened, and he complained of the difficulty of being a railroad manager during hard times.<sup>118</sup> He had answers, however, for the current troubles:

Remonetize silver; build the Southern Pacific Railroad; relieve the Mexican Government of that part of her territory which is so distant from the seat of government as to render neither its control pleasant or its possession desirable, and we will not . . . hear of any more trouble with labor. We do not need more territory . . . but as this joins us, it would be better, perhaps, to take it.<sup>119</sup>

Whatever these simplistic solutions may have been worth, they do not do justice to McGhee's skill as an executive in difficult times. During the years 1871-80 when McGhee, Wilson, and Jaques controlled the East Tennessee, other companies whose lines comprised half of the railroad mileage in the South went into receivership.<sup>120</sup> Beset by recession and yellow fever epidemics which paralyzed trade along much of its route, the East Tennessee remained solvent and even managed to pay several dividends.<sup>121</sup> At the same time, the partners were able to think of

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<sup>117</sup>As quoted in Knoxville Tribune, July 29, 1877- The "dreadful drama" refers to the violent national labor trouble of 1877.

<sup>118</sup>Ibid., August 28, 1877.

<sup>119</sup>Ibid.

<sup>120</sup>Stover, Railroads of the South, 124-25.

<sup>121</sup>E. T. V. & G., Annual Report, 1876-1879.



expansion. They negotiated for the East Tennessee a new twenty-year lease of the Memphis and Charleston and proceeded to arrange for the repayment of the latter road's debt to the state. McGhee and Wilson personally agreed to buy one half of the bonds floated for this purpose, and the M. & C. was at last freed from the state debt.<sup>122</sup> At the same time they engaged in negotiations with the L. & N. for a connection between that railroad and the Knoxville and Ohio at the Kentucky state line,<sup>123</sup> and they urged the governor of North Carolina to complete the Western North Carolina Railroad to a junction with the Morristown branch of the East Tennessee.<sup>124</sup> Though neither of these projects bore fruit until after 1880 they were important elements in the partners' strategy during the 1870's.

Another evidence of their ambitions for the East Tennessee was their interest in a southern expansion in Georgia and Alabama. In 1879 McGhee proposed the purchase of the franchise of the bankrupt Georgia and Western which would provide the East Tennessee a means of entering Atlanta independent of its Dalton connection with the Western and Atlantic.<sup>125</sup> Perhaps because of Wilson's conservatism the East Tennessee lost the opportunity and the franchise went to the L. & N.<sup>126</sup> Shortly thereafter,

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<sup>122</sup>Harrison, Legal History, 756-58; Commercial and Financial Chronicle, XXIV (1877), 565, 614.

<sup>123</sup>Wilson to William Ernst, July 23, 1880, McGhee Papers.

<sup>124</sup>Wilson to Zebulon Vance, November 17, 1877, ibid.

<sup>125</sup>Wilson to McGhee, October 31, 1879, ibid.

<sup>126</sup>Wilson to McGhee, December 16, 1879, ibid.

however, the partners acquired the Selma, Rome, and Dalton, which stretched 236 miles from north Georgia into central Alabama and gave the East Tennessee a substantial branch in the direction of New Orleans.<sup>127</sup> Simultaneously they began to move toward buying the Macon and Brunswick, a railroad which in a few years would add to the East Tennessee a line across the state of Georgia to the port of Brunswick.<sup>128</sup>

In the midst of this expansion, a change occurred which had great significance for both McGhee and the East Tennessee. Richard T. Wilson resigned the presidency on May 27, 1880, and though it was said that he would continue as "financial agent and managing director of the road," he left the board of directors in November and within a year had withdrawn completely from the East Tennessee.<sup>129</sup> Elected president in Wilson's stead was Edmund W. Cole who had been just ousted as head of the Nashville, Chattanooga, and Saint Louis by the managers of the L. & N.<sup>130</sup> There is no ready explanation of why Wilson stepped down or what brought about the termination of his connection with the East Tennessee. Perhaps, as one historian has guessed, he found the presidency "an intolerable burden." He may also have found that his conservatism put him out of tune with the times and with some of the company's stockholders.<sup>131</sup>

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<sup>127</sup>Wilson bought the Selma, Rome, and Dalton in 1880 on behalf of a syndicate and sold it a year later at a profit to the East Tennessee. Harrison, Legal History, 807-12.

<sup>128</sup>Ibid., 840-52; Wilson to McGhee, February 3, 1880, McGhee Papers.

<sup>129</sup>Commercial and Financial Chronicle, XXX (1880), 567; Poor, Manual of Railroads, 1881, p. 449.

<sup>130</sup>Klein, Great Richmond Terminal, 119.

<sup>131</sup>Ibid., 119-22.

Whatever the reasons for the dissolution of the old partnership, the business and personal relationship between McGhee and Wilson remained close. McGhee, however, remained as vice president and a director, and when his connection with the company took him to New York to live and involved him in diverse enterprises, his interest remained focused on the East Tennessee for the rest of its corporate life. With the passing of Wilson from the company, the Commercial and Financial Chronicle praised his management and that of McGhee during the troubled decade of the seventies:

Under Mr. Wilson's administration the property was placed in a high state of efficiency and the indebtedness very much reduced. It is proper to state that the results mentioned were achieved, not through any stock jobbing manipulations but wholly through good business management.<sup>132</sup>

The accession of Cole to the presidency is almost as imponderable as the abdication of Wilson, but the difference in the men's styles was immediately apparent. Cole had a reputation as a flashy and expansive operator.<sup>133</sup> During the eighteen months of his presidency he completed the purchase of the Knoxville and Ohio, the Macon and Brunswick, and the Selma, Rome, and Dalton, and undertook several other improvements and extensions of the East Tennessee. In May, 1881, he revealed the formulation of a syndicate to convert the East Tennessee into a huge southern system. Although Cole made the announcement it is not certain that he was the architect of the developments that brought a new group of

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<sup>132</sup>Commercial and Financial Chronicle, XXXIII (1881), 553.

<sup>133</sup>Except where otherwise noted, the following discussion of the reorganization of the East Tennessee, Virginia, and Georgia is based on Maury Klein's masterful study, Great Richmond Terminal, 119-45.

Northern capitalists into the East Tennessee.<sup>134</sup> Some time in 1880 or 1881 a group of New York investors came together to establish a major east-west railroad, the New York, Chicago, and Saint Louis, familiarly known as the "Nickel Plate." Soon thereafter the same group became involved in the East Tennessee.

Three men were the kingpins of the syndicate. George I. Seney, president of the Metropolitan Bank of New York City, enjoyed a reputation as a sound and conservative financier, but he was soon to be transformed into a reckless plunger and speculator. Samuel Thomas and Calvin Sellars Brice were Ohioans whose successes in railroad, industrial, and real estate ventures made them powers in New York financial circles. An iron manufacturer who rose to brigadier general in the Union army, Thomas was a Republican. Brice was a lawyer whose remarkable career in business did not deter him from serving as chairman of the Democratic National Committee in 1888 and United States Senator from Ohio, 1891-97. Both Brice and Thomas "pursued the simple principle that politics existed primarily for the protection of personal financial interests"<sup>135</sup>--a philosophy which they shared with McGhee who became their close friend and business associate.

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<sup>134</sup>Klein notes in ibid., 120, no. 12, the assumption that Cole brought the Seney syndicate into the East Tennessee is based on circumstantial evidence. In view of Cole's swift departure from the East Tennessee in 1882, it might be assumed that McGhee (who remained a power in the company) had a closer relationship with the Seney syndicate than Cole did. McGhee's papers in the period 1881-85 are very sparse, and there is no evidence in them to shed light on this question.

<sup>135</sup>Ibid., 31.

As quickly as he had come into the East Tennessee, E. W. Cole left it. Maury Klein, in his searching analysis of the railroads that made up the Richmond Terminal system, reasons that "The liaison between Cole and the Seney syndicate [was] never entirely comfortable. . . ." Cole he characterizes as "an individualistic empire builder," who

thought primarily in terms of the system itself and its needs. The syndicate, however, regarded the company as but one of many interests and weighed its demands carefully in the balance with the claims of other projects. Neither had any strong personal or regional loyalty to the system but Cole could devote himself more completely to its welfare. In that sense his ties to the East Tennessee were largely personal while those of the syndicate were almost purely financial.<sup>136</sup>

The departure of Cole and the subsequent managerial changes, Klein argues, "crystalized a growing separation of financial and operational control."<sup>137</sup>

All of which may be true, though it does not explain how McGhee, who had strong regional, financial, and personal interests in the East Tennessee, weathered the transition. In fact no explanation is possible except that McGhee seems to have developed a Darwinian ability to evolve and adapt to new circumstances. Through the many changes which the company underwent between 1867 and 1882, McGhee alone retained his influence and position. His old partners, Jackson and Jaques, his long time "twin," Wilson, and finally his recent associate, Cole---all dropped out one by one leaving McGhee as the single personal link between the company's past and its future. But if by 1882 he had already demonstrated a remarkable tenacity and an ability to survive the changes

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<sup>136</sup>Ibid., 126.

<sup>137</sup>Ibid., 127.

which were affecting southern railroads, the next decade would prove him a prodigy in this regard.

Under the Seney syndicate the transformation of the East Tennessee proceeded at a dizzying pace. The company's stock was listed on the New York Stock Exchange, making it possible for the managers to engage in quick lucrative transactional speculations. Samuel Thomas succeeded Cole as president, McGhee assumed the title of first vice president, and Henry Fink, a professional railroad man, was brought in as second vice president and general manager. The Seney syndicate sold its Nickel Plate investment for a good profit and deepened its interest in the East Tennessee; soon McGhee and his Knoxville friend and protégé, E. J. Sanford, were the only Tennesseans on a board of directors dominated by New Yorkers.<sup>138</sup>

The new infusion of Yankee capital made acquisitions possible and opened the prospect of further expansion, all, however, at a heavy price to the East Tennessee. On February 25, 1881, the company was mortgaged for \$10,000,000 by its new masters, but by June these bonds were considered insufficient to continue the expansion, and a new \$22,000,000 issue replaced the earlier mortgage. At the same time a second mortgage issue of income bonds worth \$16,500,000 was authorized, and finally in March, 1883, an additional \$2,000,000 of bonds covering extensions and a new Atlanta terminal were floated.<sup>139</sup> "Float" is perhaps the exact term,

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<sup>138</sup>E. W. Cole was re-elected to the board in 1883 along with McGhee and Sanford. In 1884 Cole was dropped, leaving the two Knoxvilleans as the only Tennesseans on the board of directors.

<sup>139</sup>Harrison, Legal History, 677-80.

for by this time it was becoming apparent that these financial exertions represented a heavy watering of securities.<sup>140</sup> The East Tennessee simply could not stand such a heavy burden of fixed interest charges. In order to meet these costs and make the mortgages appear bearable, capital expenditures, improvements, and even good maintenance were sacrificed. There is no evidence that McGhee objected to these policies which in the normal course of administration he must have helped to implement. If he did have reservations he probably suppressed them, realizing that he did not have the power to alter the course set by the Seney syndicate.

The money panic of May, 1884, precipitated a crisis for the East Tennessee. George Seney's Metropolitan Bank suspended payment, leaving the East Tennessee bereft of its major source of credit. Without the timely loans from the bank, the railroad was unable to pay its fixed charges of interest and bond retirement. In his exposed position Seney could not help the East Tennessee, so Brice, Thomas, McGhee, and several other directors subscribed at face value an issue of \$1,200,000 in 6 per-cent debenture bonds; the cash from these bonds eased the East Tennessee's immediate crisis and forestalled the company's bankruptcy. The prompt action by the directors was, as the Commercial and Financial Chronicle remarked, "unique in this respect--it happening so seldom that members will apply their own resources to sustain the property with which they are identified."<sup>141</sup> The subscribers, led by Brice and Thomas,

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<sup>140</sup> Henry Clews, a contemporary financial analyst, condemned this watering of securities in Twenty-Eight Years in Wall Street (New York: Irvine Publishing Co., 1887), 164.

<sup>141</sup> Commercial and Financial Chronicle, XXXIX (1884), 168-69, as quoted in Klein, Great Richmond Terminal, 135.

now began to emerge as a faction opposed to Seney's continued domination of the East Tennessee. By their "unique" and generous response to the company's difficulties they managed to separate themselves, in the public mind at least, from the ruinous and somewhat shady Seney policies. Though they may have been equally culpable with Seney, the Brice-Thomas faction now seemed a respectable alternative to the discredited New York banker.

Early in 1885 the East Tennessee's management entered into bankruptcy proceedings and secured the appointment of Henry Fink, the company's general manager, as receiver. Thus the road remained under the same management even in bankruptcy, but at the annual stockholders' meeting at Knoxville in November, George Seney made his move to oust the Brice-Thomas faction from the company. Seney's attorney appeared with enough proxies to control the election of directors, whereupon Brice managed, by citing a technicality, to have the meeting adjourned until March, 1886. Warfare between the factions was now open, and the Brice-Thomas group hastened to consolidate its position. Aboard "elegant" pullman cars Brice, Thomas, McGhee, and their allies proceeded to Huntsville, Alabama, for the annual meeting of the Memphis and Charleston.<sup>142</sup> There they made sure of their control of that vital subsidiary of the East Tennessee by electing a board which included McGhee and two of his sons-in-law, Calvin M. McClung and David Shelby Williams. The

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<sup>142</sup>Chronicle, November 12, 1885.



new board then made McGhee and Brice president and vice president of the M. & C.<sup>143</sup>

Though Seney controlled a majority of the East Tennessee's common stock, the Brice-Thomas faction had more consols, or first mortgage bonds. In the fight to reorganize the company the bonds were a far more important weapon than the stock, and the bondholders therefore selected a reorganization committee composed of McGhee; Robert Fleming, a Scottish investor representing foreign bondholders; Frederick P. Olcott, president of the Central Trust Company of New York; George Warren Smith of the Kountze Brothers brokerage firm; E. W. Corlies, vice president of the Bank of America; and Frederick D. Tappen, president of the Gallatin National Bank. McGhee's membership on this committee of financiers demonstrated his importance in the Brice-Thomas faction; it also indicated that the plan drawn by the committee would likely be favorable to the faction which he represented.

The Olcott plan, as it was called, was in fact tailor-made for the Brice-Thomas offensive against Seney. It combined "a masterpiece of partisan calculation" with a thoroughgoing reform of the bloated financial structure of the East Tennessee. To the detriment of Seney, the plan called for a drastic sacrifice of the company's equity which was represented by the capital stock. Income bondholders were also to be forced to accept second preferred stock in lieu of their bonds. The consol, or first mortgage holders, however, would receive some new bonds as well as potentially valuable first preferred stock. For good measure

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<sup>143</sup>Poor, Manual of Railroads, 1886, p. 188.

the holders of first preferred were allowed to elect a majority of the company's board for five years, or until two consecutive 5 percent dividends were paid on their stock.

The Olcott plan won the praise of disinterested observers and was rapidly accepted by the first mortgage holders. The owners of income bonds, however, brought a suit to block the sale of the railroad and its reorganization under the Olcott plan which demanded a heavy sacrifice on their part. The legal action came before McGhee's close friend, United States Circuit Judge Howell Jackson, who held against the plaintiffs and ordered that the sale should continue.<sup>144</sup> The last obstacle to the reorganization was thus removed, and the victory of the Brice-Thomas faction was assured.

In the reorganization of the East Tennessee, McGhee achieved a personal as well as a financial triumph. He was now virtually a full partner with Brice and Thomas in the group which now controlled the East Tennessee. His role in these affairs was now too important to permit him to continue to live in Knoxville, and in the fall of 1886 he moved to New York where he had spent much of his time during the preceding year. Installed in living quarters at the Murray Hill Hotel, he carried on business at number 10 Wall Street in the building where Brice and Thomas also

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<sup>144</sup>Jackson had just been appointed to fill a vacancy on the Sixth Circuit Court of Appeals caused by the death of Judge John Baxter of Knoxville. On April 11, 1886, A. J. Ricks, clerk of the Circuit Court for the northern district of Ohio, wrote to McGhee asking him to urge Jackson's appointment. "I know you are intimate with the Senator," wrote Ricks, "and have influence with the President. Can you not use your influence to induce Mr. Jackson to take this office?" McGhee Papers.

had offices. The syndicate controlled 60,000 of the East Tennessee's 110,000 first preferred shares, and McGhee's portion was about 6,000 shares.<sup>145</sup> The partners now had the power to deliver in a neat bundle the controlling interest of the East Tennessee to anyone who would care to pay for it.

They were in an enviable situation because at least two other railroad companies were deeply interested in having the East Tennessee. The Norfolk and Western had long enjoyed profitable connections with the East Tennessee; their combined lines formed one of the great trans-regional systems. The alliance between the two, called the Virginia, Tennessee, and Georgia Air Line, provided an important commercial route linking the North and the South.<sup>146</sup> East of the Appalachians, and almost parallel to the East Tennessee, were the group of lines under the control of the Richmond and Danville Railroad. The Danville was the pre-eminent property of a holding company, the Richmond and West Point Terminal. The boards of directors of the Danville and the Terminal largely overlapped, and together they constituted a system which was in direct competition with the East Tennessee at many points.<sup>147</sup> On the question of whether the East Tennessee should be merged with its longtime ally or its natural enemy McGhee had a definite preference: he hoped to see his

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<sup>145</sup>Klein, Great Richmond Terminal, 173; manuscript stock ledger, McGhee Papers.

<sup>146</sup>Joseph T. Lambie, From Mine to Market, the History of Coal Transportation on the Norfolk and Western Railway (New York: New York University Press, 1954), 111-12.

<sup>147</sup>Klein, Great Richmond Terminal, 86-114, 174-75.

company go to the Norfolk and Western.<sup>148</sup> The Air Line route, he felt, was far too valuable and well established to be interrupted. Moreover, the N. & W. was strongly interested in developing the resources along its line. It had found its way into the rich coal and coke producing area of southwestern Virginia and West Virginia, and it was doing a booming business in transporting these valuable products. The development of such local resources always appealed to McGhee, who had large investments in Tennessee coal and iron enterprises.<sup>149</sup> Another factor which inclined him toward the N. & W. was the friendship which he had formed with Robert Fleming and Jacob Schiff. He had gotten to know them well during the reorganizations of the East Tennessee and the Texas and Pacific. Both the British investor and the senior partner of Kuhn, Loeb were powers in the Norfolk and Western and were involved in the negotiations for the purchase of the syndicate's shares of East Tennessee first preferred.<sup>150</sup>

During December, 1886, and January, 1887, the bargaining went on. First the N. & W. seemed likely to buy the stock, then the Terminal secured an option for 63,000 shares which expired on January 6. Next, Robert Fleming secured an option on 22,000 shares for the N. & W. and received from McGhee an agreement for his 6,000. On January 9 Fleming, Schiff, and the other N. & W. managers formed a syndicate to buy 55,000

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<sup>148</sup> McGhee to C. S. Brice, January 19, 1887, McGhee Papers.

<sup>149</sup> McGhee's reasons for preferring the Norfolk and Western were fully explained in a letter to John H. Inman, June 30, 1887, ibid.

<sup>150</sup> Lambie, From Mine to Market, 116.

shares to be paid for with a new issue of 90,000 N. & W. first preferred and \$1,000,000 in the company's notes. With the deal almost clinched, Schiff's legal counsel hesitated to approve the purchase plan, and the management of the N. & W. also may have had reservations about it.<sup>151</sup> Whatever the reason for it, the delay was fatal to the deal; the Terminal took the plunge and purchased 65,000 East Tennessee first preferred in exchange for \$4,000,000 in cash and 50,000 shares of Terminal common stock.<sup>152</sup> Henceforth the fate of the East Tennessee would be linked to that of the new giant of the railroad world--the great Richmond and West Point Terminal.

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<sup>151</sup>Ibid., 115-17.

<sup>152</sup>Klein, Great Richmond Terminal, 175.

## CHAPTER IV

### RISE AND FALL: MCGHEE AND THE GREAT RICHMOND TERMINAL

"Ten Millions!" read the headline of an 1887 story by a correspondent of the Philadelphia Press which sketched the careers of "Southern Rich Men." Reprinted in the Knoxville Tribune, the article received a front page location for it described McGhee as "the wealthiest of them, and probably the best known in the east. . . ." Although the story probably overestimated his wealth and contained other factual errors, it gave an interesting and lifelike sketch of the Southern millionaire:

Mr. McGhee in appearance is peculiar enough to be noticeable anywhere. He is over 6 feet tall, very slender, and of a peculiar aggressive movement in his stride, which makes him seem always very full of important business. His nose is Roman, his eyebrows large and bushy, his cheekbones prominent and his countenance sunburned and sallow. He wears a moustache and goatee slowly becoming gray, and has light-brown hair, which is beginning to show a few streaks of the sand color. In Tennessee, whatever may be his concessions to fashion in New York, he wears a plain gray suit, neat but not noticeably good, and a big, comfortable soft hat, of the style common down here below the Ohio. He spends a great deal of time in New York in connection with his railroad enterprises but is still very often at home, and regards himself always as a Tennessean.<sup>1</sup>

McGhee often affirmed by word and deed the contention that he remained a Tennessean at heart, but in the late 1880's his visits home were few and far between. His time was mostly spent in New York City where he kept a vigil over the stock market and was in close touch with

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<sup>1</sup>Tribune, May 24, 1887, quoting an undated item in the Philadelphia Press.

other financiers. According to a statement of his securities holdings as of February 25, 1888, much of his fortune was invested in the stocks and bonds of railroads subject to the manipulation of their New York masters.<sup>2</sup> Although his holdings of East Tennessee stocks and bonds were relatively small after the sale of the first preferred stock of the Richmond Terminal, he retained an active interest in the company. He remained president of the Memphis and Charleston, and he was gradually drawn more deeply into Danville and Terminal affairs.

McGhee philosophically accepted the disappointment of his hopes for the sale of the East Tennessee to the Norfolk and Western. Helping to reconcile him to the Terminal was the fact that he and his friends had made a large profit on the sale and that they had entered a large corporation whose stock offered excellent opportunities for lucrative transactional profits.<sup>3</sup> Balancing this was the nagging fear that the new situation might injure the East Tennessee itself and thus retard the development of Knoxville and its tributary territory where McGhee had many large investments. He probably agreed, however, with his friend Sanford who wrote that after all he himself had not "moved to Knoxville for the purpose of ornamenting it."<sup>4</sup>

Shortly after the sale McGhee put on a good face and told another Tennessee business associate that "I do not think my influence on the East Tenn system will be materially lessened by reason of the

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<sup>2</sup>Letterbook, February, 1888-February, 1889, p. 24, McGhee Papers.

<sup>3</sup>Klein, Great Richmond Terminal, 174-75.

<sup>4</sup>Sanford to McGhee, December 10, 1886, McGhee Papers.

change, nor do I think Knoxville or Chattanooga will be to the slightest extent injured."<sup>5</sup> These two propositions were firmly linked in his mind. He saw himself as the only member of the East Tennessee board who had the power or the desire to protect the interests of his native state--a position he was determined to maintain under this newest regime.

Perhaps because of his independence and devotion to the East Tennessee, or because he was linked to the managers of the Norfolk and Western, some parties in the Terminal tried at the outset to remove him from the East Tennessee board. In a letter to Brice he declined to be driven out:

Having been elected by the stockholders of the East Tenn company a Director for the current year, I shall discharge the duties of the position and as at present advised will not resign no matter who may control the stock.

The representations made by parties interested in securing my resignation to the effect that I was interested in in [sic] the securities of the Norfolk and Western Road and therefore not a proper person to remain in the Directory of the East Tenn Co should that Company pass under the control of the Terminal Co are entirely devoid of truth as I do not own a dollar of the securities of the Norfolk and Western Company.

I preferred that the Norfolk and Western Company should dominate the East Tenn. system. They had the opportunity to do so, failed for want of prompt action at the critical moment and I have no relation with that Company.<sup>6</sup>

The lot of the unifiers on the Terminal board--those who wanted to subordinate the individual systems to the whole--would have been

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<sup>5</sup>McGhee to Hiram S. Chamberlin, January 28, 1887, ibid.

<sup>6</sup>McGhee to Brice, January 18, 1887, ibid.



easier had McGhee resigned.<sup>7</sup> Instead he remained to fight tenaciously for the East Tennessee within the Terminal combination. To uphold the interests of the East Tennessee he appealed to the Tennessee-born New York investment banker, John Hamilton Inman, a leading Terminal director: "Let me beg of you to take this matter under careful consideration and endeavor to use ever [sic] means possible . . . to prevent a conflict . . . that would result in a serious loss to the East Tenn and the Memphis & Charleston Roads."<sup>8</sup> The Terminal, he explained, had bought the East Tennessee stock in order to divert traffic to the Richmond & Danville; but "any effort to divert the traffic now possessed by the Norfolk & Western road, forceably, will result in a large loss to the business of the East Tenn and the M & C roads. . . ." Furthermore, the Danville did not have the steam shipping facilities at West Point, Virginia, to handle the increased traffic.<sup>9</sup> He wrote the general manager of the Memphis & Charleston that while it did not matter whether the traffic went to the Norfolk or the Danville, "it is our duty to prevent any loss of business to the Memphis & Charleston R. R. Co." The M. & C., he said sternly, "is under the control of the Board of Directors and the Officers by them elected, and I shall not recognize the right of the officers of any other company to direct its operations, as long as I am its President."<sup>10</sup>

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<sup>7</sup>The struggle over unification of Terminal properties is discussed in Klein, Great Richmond Terminal, 184-88.

<sup>8</sup>McGhee to Inman, June 30, 1887, McGhee Papers.

<sup>9</sup>Ibid.

<sup>10</sup>McGhee to E. B. Thomas, August 4, 1887, ibid.

McGhee stopped short of declaring open war and leading a secession of the East Tennessee from the Terminal. He wrote Robert Fleming that "I would be willing to serve on the board of the East Tenn. Co. to protect its interests against all comers and goers, but would not be willing to undertake the work of organizing a party."<sup>11</sup> He recognized that only Brice and Thomas, through their influence in Terminal affairs, could guarantee protection to the East Tennessee. They promised him that they would protect the company,<sup>12</sup> and, perhaps to symbolize the promise, McGhee was elected to the boards of both the Danville and the Terminal in December, 1887.<sup>13</sup> As long as the Terminal lasted, he, Brice, and Thomas maintained the autonomy of the East Tennessee within the framework of the larger combination. They also used the East Tennessee as a power base in the incessant factional fighting which afflicted the Terminal.

The history of the Richmond and West Point Terminal Railway and Warehouse Company was marked by open warfare between factions fighting for control.<sup>14</sup> It was created in 1880 as a holding company to enable the Danville to own and lease roads which did not connect with that company's lines. Through the early 1880's it was used by the Danville to facilitate a rapid expansion, and soon both companies were listed on

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<sup>11</sup> McGhee to Fleming, August 5, 1887, ibid.

<sup>12</sup> McGhee to Fleming, August 11, 1887, ibid.

<sup>13</sup> R. Brooke to McGhee, December 14 and 21, 1887, ibid.

<sup>14</sup> For a detailed history of the Terminal, 1881-1886, see Klein, Great Richmond Terminal, 90-114.

the New York Exchange, where their stocks fell prey to parties of speculators. Brice and Thomas, for instance, had been in and out of the Terminal's affairs before the East Tennessee sale was made. In 1886 the Danville and the Terminal were convulsed by another power struggle when William P. Clyde attempted to strip the Terminal of its properties for the benefit of the Danville. Stockholders of the Terminal counterattacked, gained control of the Danville, and ousted Clyde just before the East Tennessee acquisition was consummated.

Clyde's successor as most influential man in the Terminal was Alfred M. Sully, a New York investment banker, who hoped to integrate the Terminal properties but found himself powerless to overcome the aggressive factions which had elevated him to the presidency. In the spring of 1888 a group of investors in the Georgia Central, an ally of the Terminal system, began an offensive to get rid of Sully as well as of the East Tennessee faction. Sully quickly resigned and was replaced by John Inman, but the Brice-Thomas faction, with the help of Inman and his friends, put down the Georgia Central rebellion and emerged as an even more powerful force within the Terminal. This victory, however, was bought at a great price to the Terminal and all its constituent companies. It would appear that Inman's terms for his support of the Brice-Thomas group included the Terminal's purchase of a controlling interest in the Georgia Central. Over a period of nine months from October, 1888, to June, 1889, the Terminal directory made several unanimous decisions which led to the acquisition of the Georgia Central through the purchase of securities from a syndicate in which Inman was a participant. As the historian of the Richmond Terminal put it: "In

completing the transaction Inman unquestionably exposed himself to charges of conflict of interest. . . ." <sup>15</sup> While not involved in Inman's syndicate, McGhee was present and voting at the board meetings which ratified the Georgia Central purchase. <sup>16</sup> Thus he acquiesced in the transaction that was, in a manner of speaking, the beginning of the end for both John Inman and the Richmond Terminal.

Control of the Georgia Central cost the Terminal over \$8,000,000, or far more than the new acquisition was worth. <sup>17</sup> The deal, so profitable to Inman and his cronies, greatly increased the liabilities of the Terminal. When a day of reckoning finally arrived these liabilities had much to do with dragging the entire Terminal system into bankruptcy.

Although the Georgia Central affair represented the classic case of conflict of interest in the history of the Terminal, it is by no means the only such case. A much smaller, though not the less questionable, transaction, involving the purchase and later the resale to the East Tennessee of an insignificant little line called the Tennessee and Ohio, was arranged by McGhee and his close associates in 1888 and 1889.

This company had been chartered in the palmy days of antebellum railroad enthusiasm as the Rogersville and Jefferson "for the purpose of establishing a communication by railroad between Rogersville and the most eligible point on the East Tennessee and Virginia Railroad." Later the charter was amended to permit the company to push its road on to the

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<sup>15</sup>Ibid., 207.

<sup>16</sup>Ibid., 210.

<sup>17</sup>Ibid., 205-6.

Moccasin Gap in the Cumberland Mountains on the Virginia state line. Several years of successful lobbying for state aid provided funds to build the line from near Morristown to the Holston River by 1860. The war wrecked the railroad, but the famous generosity of the post-war Radical government provided money for rebuilding and completing the line to Rogersville. With only sixteen miles of track, the company was one of the first to default on its payment of interest to the state, and in 1871 the Rogersville and Jefferson which had cost the state \$385,000 was sold to the East Tennessee for \$23,000. Even this little company was a bargain at the price, although its bridge over the Holston River was found to be unsafe. Obligated under the terms of the sale to operate the line, the East Tennessee had no desire to make costly improvements; it therefore "sold" the Rogersville and Jefferson to a dummy in 1873 so as to escape rebuilding the Holston bridge. For four years the East Tennessee operated the line north of the river with horsepower, and in 1877 it conveyed the company to Horace M. Aiken for \$10,000. Aiken busied himself for ten years in rehabilitating the road, which he reorganized under the title of the Tennessee and Ohio Railroad Company.<sup>18</sup>

By 1877 the coal fields of eastern Kentucky and southwestern Virginia were beginning to boom, and the Norfolk and Western and the Louisville and Nashville were considering expansions into that very area towards which the Tennessee and Ohio pointed.<sup>19</sup> At McGhee's request

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<sup>18</sup>Harrison, Legal History, 914-21.

<sup>19</sup>Lambie, From Mine to Market, 210-28; Maury Klein, History of the Louisville & Nashville Railroad (New York: The Macmillan Company, 1972), 276-83.

Sanford sounded out Aiken about selling the road<sup>20</sup> and got an offer of a twenty-day option to purchase at \$115,000.<sup>21</sup> He strongly recommended that it be bought: "In my opinion that's the road to build to the Coke-ing [sic] coals. . . ." He added that "I . . . would like to make some money and not loose [sic] any by doing so--a sentiment I think you will share with me."<sup>22</sup> McGhee apparently took the matter up with Brice and Thomas but action was deferred for the time being.<sup>23</sup> A year later the T. & O. looked like an even better investment, and McGhee again asked Sanford to look into the matter. "If bought," he said, "it would all have to be done in your name. See about it and I think we will buy it this time."<sup>24</sup> McGhee was aware that he and the other New York directors would have to avoid any public involvement in the purchase in order to keep the price down and escape a conflict of interest charge when the road was sold later to the East Tennessee. Under Aiken's management the T. & O. was making from \$10,000 to \$15,000 a year and his asking price was \$150,000.<sup>25</sup> Sanford bargained him down to \$115,000, and then after more negotiations closed the deal at \$100,000.<sup>26</sup> Besides McGhee and Sanford, three other directors of the East Tennessee--probably Thomas,

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<sup>20</sup> McGhee to Sanford, June 13, 1887, McGhee Papers.

<sup>21</sup> Sanford to McGhee, June 13, 1887, ibid.

<sup>22</sup> Ibid.

<sup>23</sup> McGhee to Sanford, June 16, 1887, ibid.

<sup>24</sup> McGhee to Sanford, August 18, 1888, ibid.

<sup>25</sup> Sanford to McGhee, August 24, 1888, ibid.

<sup>26</sup> Sanford to McGhee, August 28, October 17, 1888, ibid.

Brice, and the investment banker, John G. Moore--were parties to the purchase.<sup>27</sup>

At McGhee's direction Sanford reorganized the company with a dummy board of Knoxville directors and had himself elected president.<sup>28</sup> McGhee advised him to continue the management of the road as it had been in the past, "spending no more money than is absolutely necessary and make as large net earnings as you can. We will lay no more rails than required to keep the road in a safe condition. It will all come out right in the end," he added, "but will not perhaps be as speedy as you might wish."<sup>29</sup> The partners kept the Tennessee and Ohio for almost a year and in July, 1889, sold the property to the East Tennessee for \$320,000 in East Tennessee extension bonds.<sup>30</sup> This price represented a profit to the sellers of approximately 220 percent, while it meant a fairly sizeable increase in the debt of the East Tennessee. The T. & O. might have been a potentially valuable addition to the East Tennessee if it had been completed into the coal lands of southwest Virginia. Apparently McGhee and his cohorts expected that the extension would be made, and in 1890 President Samuel Thomas of the East Tennessee recommended that this be done. But as the legal historian of the Southern Railway laconically

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<sup>27</sup> McGhee to Sanford, October 27, 1888, ibid.

<sup>28</sup> McGhee to Sanford, October 18, 1888, ibid.

<sup>29</sup> McGhee to Sanford, October 27, 1888, ibid.

<sup>30</sup> Sanford to McGhee, July 20, 1889, ibid.; Harrison, Legal History, 921.

put it, "Before these plans could be carried out bankruptcy overtook the East Tennessee, Virginia and Georgia."<sup>31</sup>

The purchase of the T. & O. contributed to the East Tennessee's bankruptcy, and the sale is therefore indefensible from any standpoint. It would appear that McGhee and his friends used the threat of the Norfolk and Western's possible entrance into East Tennessee as a justification for the purchase. Sanford was ready to swear that "if the Louisville & Nashville or any other Road or person had been willing to give more for the Road than the East Tenn Va & Ga gave for it I would have sold it to them."<sup>32</sup> Such a sale, however, would have been inimical to the interest of the East Tennessee, of which Sanford was a director, and in fact the partners intended all along to sell the T. & O. to the East Tennessee.<sup>33</sup> The exorbitant profit which they made helped to load the East Tennessee with debt; for if the T. & O. continued to earn as much as \$15,000 a year this was not even enough to meet the interest on the bonds which were paid for it.<sup>34</sup> McGhee's T. & O. deal, like Inman's Georgia Central transaction, was symbolic of the Richmond Terminal's weakness. The holding company's board of directors was filled with men

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<sup>31</sup>Ibid., 922.

<sup>32</sup>Sanford to McGhee, October 10, 1889, McGhee Papers.

<sup>33</sup>At the time the road was bought from Aiken, McGhee was obviously planning to sell it to the East Tennessee, for he wrote that "We will have to take extension bonds in payment." McGhee to Sanford, October 19, 1888, ibid.

<sup>34</sup>The East Tennessee's first extension bonds paid 5 percent in annual interest. Thus the interest alone on the \$320,000 paid for the T. & O. amounted to \$16,000 per year.



who did not hesitate to use their positions to realize opportunistic personal profits. Even when they were seemingly dedicated to the interests of a particular railroad (as McGhee sometimes was to the East Tennessee) the urge for personal gain at the expense of the company was too strong to resist. If McGhee was willing to foist the T. & O. upon his own East Tennessee, what might he do to the Terminal which commanded none of his personal loyalty?

The stresses within the Terminal's far flung system led to one last attempt to sell the East Tennessee to the Norfolk and Western. Again McGhee seems to have been one of those who tried to arrange the sale. Attempts to switch the East Tennessee's traffic to the Richmond and Danville had been largely unsuccessful, thanks to McGhee's stubborn opposition, and the Terminal was quite willing to divest itself of the property. The Norfolk's managers, however, were too cautious to take hold of the East Tennessee, and the last negotiations ended in the fall of 1888.<sup>35</sup>

But though the Terminal could not rid itself of the East Tennessee, it found this railroad steadily slipping from its grasp. The first preferred shares which the Terminal had purchased in 1887 could control the East Tennessee for only five years at most.<sup>36</sup> Late in 1888 a plan was formed to lease the East Tennessee to the Terminal for ninety-nine years.

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<sup>35</sup> See Frederick J. Kimball to McGhee, August 4, 1888, and McGhee to John H. Inman, August 3, 1888, ibid.

<sup>36</sup> By the terms of the reorganization plan of 1886 the first preferred holders could elect a majority of the board of directors for five years or until dividends of 5 percent on this stock were paid in two consecutive years.

Having been disappointed a second time in his attempts to form an alliance with the Norfolk and Western, McGhee fell in with the lease plan, one highly questionable because it flagrantly violated the rights of the second preferred and common stock owners who sued to prevent it.<sup>37</sup> McGhee promptly went to work to effect the lease. He wrote almost identical letters to Sanford and Major Daniel A. Carpenter, an old friend and business associate in Knoxville, setting forth his opinions:

For fear that our friends there, who like myself, are interested in the future of Knoxville may feel that the lease of the East Tennessee Road to the Richmond & Danville will interfere with the future growth of our City, I write you for the purpose of giving my views of the situation.

In the first place the headquarters of the East Tennessee will remain at Knoxville as at present. In the next place if the Danville succeeds in controlling [sic] the East Tennessee through the lease and thus cutting [sic] off the Norfolk & Western, that road will unquestionably build down from Bristol and make a connection with the Knoxville & Cumberland Gap road or they will extend their Mountain Branch on in the direction of Cumberland Gap, reaching Knoxville over the Powell's Valley road. They can extend down the Holston Valley and make a connection with the Powell's Valley road and get a line to Knoxville some fifteen or twenty miles shorter than the East Tennessee.<sup>38</sup>

He urged Sanford to show the letter to William Rule, editor of the Republican Knoxville Journal, and suggested that Carpenter show it to the editor of the Democratic Knoxville Tribune. He admonished the men, however, to "be careful to keep my name out of it."<sup>39</sup> Both newspapers

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<sup>37</sup>Harrison, Legal History, 685-86.

<sup>38</sup>McGhee to Sanford and McGhee to Carpenter, November 1, 1888, McGhee. Papers.

<sup>39</sup>Ibid.

responded with editorials in favor of the lease, and Sanford planted "an interview with a prominent iron man of Middle Tennessee" in the Cincinnati Commercial Gazette which was reprinted in Knoxville.<sup>40</sup>

In spite of these efforts the lease was invalidated by Chancellor Henry R. Gibson, who had proven his hostility to railroad corporations in the 1870's when he and McGhee were serving in the Tennessee legislature. Gibson held that the East Tennessee and the Richmond and Danville were in fact competing lines and that the lease would effect a restraint to commerce.<sup>41</sup> The Terminal unsuccessfully attempted to appeal the decision to a federal court, and on December 7, 1888, the East Tennessee was returned to the control of its old officers.<sup>42</sup>

If anything, the failure of the lease strengthened the hand of the Brice-Thomas group within the Terminal. Their cooperation was essential if the Terminal was to keep its costly and tenuous hold on the East Tennessee. McGhee, too, now loomed much larger in Terminal affairs; with Inman and George Scott, president of the Richmond and Danville, he was empowered to cast the Terminal's vote in the stockholders meetings of all the constituent companies.<sup>43</sup> When he was out of New York Thomas kept him informed of Wall Street matters,<sup>44</sup> and Inman

<sup>40</sup>Sanford to McGhee, November 19, 1888, enclosing clippings from these newspapers, ibid.

<sup>41</sup>Knoxville Journal, November 25, 1888.

<sup>42</sup>Harrison, Legal History, 686.

<sup>43</sup>A. J. Rauh to McGhee, April 20 and November 14, 1889, McGhee Papers.

<sup>44</sup>See, for instance, Thomas to McGhee, March 4 and 12, 1889, ibid.

solicited his advice about important questions of policy.<sup>45</sup> Late in 1889 relations between Inman and Scott deteriorated, and McGhee attempted to reconcile the two.<sup>46</sup> Scott resigned, however, and McGhee was offered the presidency of the Richmond and Danville, a position which he declined at the urging of his family.<sup>47</sup> The offer was a high compliment to his diplomatic skill, and it demonstrated the regard in which he was held by his associates. Had he accepted the post at the head of the key company in the Terminal structure it would have been the crowning honor of his career, but it is improbable that he could have saved the system from the destruction towards which it was heading. Instead, Inman became president of the Danville, and it was he who bore the brunt of the storm which soon broke over the Terminal.

In the spring of 1889 McGhee took an eight thousand mile journey through the South and West.<sup>48</sup> After the train which bore his private car left Washington, D. C., he travelled for days over the tracks of companies of which he was a director. The East Tennessee's lines could carry him from Bristol on the Tennessee-Virginia border almost to New Orleans. At the Crescent City began the Texas and Pacific Railroad, in which he was heavily interested, and over which he could travel all the way to El Paso before swinging north to visit the ranches in

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<sup>45</sup>Inman to McGhee, April 14, May 23, November 8, 1888, June 26 and November 8, 1889; McGhee to Inman, May 24, June 6, August 8, 1888, October 5, 26, November 7, December 23, 1889, and January 11, 1890, ibid.

<sup>46</sup>C. M. McClung to McGhee, November 30, 1889, ibid.

<sup>47</sup>Ibid.

<sup>48</sup>W. T. Walters to McGhee, May 2, 1889, ibid.

Colorado and Wyoming owned by his Western Union Beef Company. Truly McGhee was at the apex of his career; the companies with which he was associated were prosperous and still expanding. The year 1889 was a great one for the East Tennessee, which earned more than it ever had before, and the Richmond Terminal was about to acquire enough additional miles of track to become the nation's second largest system.<sup>49</sup> The South was enjoying an unprecedented boom.<sup>50</sup> Real estate in Knoxville commanded unheard of prices,<sup>51</sup> and the Knoxville Woolen Mills Company earned an 18 percent return on its capital stock in 1888-89.<sup>52</sup>

The expansion and prosperity of the late eighties concealed the weaknesses of the Terminal. As long as business boomed, the giant system could stay ahead of its mounting expenses, but the end of the boom meant the exposure of the Terminal's frailties. In the fall of 1890 Baring Brothers, a British banking house with large investments in the United States and South America, was financially embarrassed and turned to the Bank of England for funds to meet its obligations. The resulting "Baring Panic" caused a drastic decline of American rail securities on the London market and disturbed the money market in the United States.<sup>53</sup>

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<sup>49</sup>Klein, Great Richmond Terminal, 232, 300.

<sup>50</sup>C. Vann Woodward, Origins of the New South, 1877-1913 (Baton Rouge: Louisiana State University Press, 1951), 137-39.

<sup>51</sup>See, for instance, D. A. Carpenter to McGhee, February 18, 1889, McGhee Papers.

<sup>52</sup>R. P. Gettys to McGhee, July 8, 1889, ibid.

<sup>53</sup>Dorothy R. Adler, British Investment in American Railways (Charlottesville: University Press of Virginia, 1970), 160-61.

The contraction of credit seems to have hit the South especially hard; by 1891 the region was already suffering from the depression which would affect the entire nation in 1893.<sup>54</sup>

The Memphis and Charleston was among the first of the Terminal's properties to feel the effect of the souring economic situation. The last six months of 1890 showed a decline of \$5,406.82 in net earnings below the figures for the latter half of 1889.<sup>55</sup> As president of the railroad McGhee was responsible for arranging its financial affairs. Realizing that the M. & C. could not meet its January, 1891, interest payments from money on hand, he applied to John Inman for help. "The Memphis & Charleston," he wrote on December 3, 1890, "will have to borrow over \$100,000 to meet its interest charges . . . and unless the East Tennessee Company will furnish it, we will have a great deal of trouble."<sup>56</sup> On the same day McGhee urged the M. & C.'s financial agents to ask the banking house which collected most of the interest to allow a short extension of time for the payment.<sup>57</sup> When this failed to produce the desired results, the agents announced that they could not advance the needed cash, and McGhee transferred the M. & C.'s account to another firm.<sup>58</sup> Meanwhile he continued to scramble to fund the January

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Woodward, Origins of the New South, 264-65.

<sup>55</sup> Memphis and Charleston Letterbook, February, 1889-February, 1892, p. 734, McGhee Papers.

<sup>56</sup> McGhee to Inman, December 3, 1890, ibid.

<sup>57</sup> McGhee to Walston H. Brown & Bros., ibid.

<sup>58</sup> Walston H. Brown & Bros. to McGhee, December 12, 1890; McGhee to Walston H. Brown, Bros., December 13, 1890, ibid.

coupons, arranging for the railroad to borrow \$50,000 from a Memphis bank and dunning the East Tennessee for payment of traffic balances owed to the M. & C.<sup>59</sup> Finally he sought to borrow \$21,393.37 from the East Tennessee to meet the remaining deficit.<sup>60</sup> On the morning of December 30 he argued with Thomas who refused to let the East Tennessee advance this sum. The cool tone of a note which he sent later in the day shows that the M. & C.'s financial crisis had strained the relationship between the two men:

I confess to some surprise at the spirit of your conversation this A. M. Your position in the matter was not what I had been led to expect from our former conversations. You had agreed that the East Tennessee Company would advance \$50,000 if I could get up the balance. Having succeeded in getting up all the money required except about \$20,000, I was not prepared for the spirit in which you met my inquiry of this morning.

I will advance the required amount and relieve the East Tennessee Company of a compliance with any part of the obligation you assumed for it. If not asking too much will you kindly use your influence to have the East Tennessee Company pay freight balances to the Memphis & Charleston Company. I hope the request will not give you additional offense.<sup>61</sup>

As business conditions in the South worsened during 1891, the M. & C. continued to lose money. The June interest payment was made only after the company borrowed \$120,000 which was guaranteed by the East Tennessee; with a floating debt of \$300,000, the M. & C. had run out of credit.<sup>62</sup> Although he looked for an improvement of general

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<sup>59</sup>McGhee to H. C. Wilton, December 2, 1890; McGhee to Henry Fink, December 19, 1890, ibid.

<sup>60</sup>McGhee to Thomas, December 29, 1890, ibid.

<sup>61</sup>McGhee to Thomas, December 30, 1890, ibid.

<sup>62</sup>McGhee to Milton Humes, June 18, 1891, ibid.

business conditions, McGhee advised a friend in Tennessee that "Conservatism should now be the watch-word. . . . To all manufacturing enterprises in which I am interested I am giving the above counsel."<sup>63</sup>

By the summer of 1891 the Terminal's difficulties became common gossip in New York, and on August 8, the New York Herald brought the embarrassing details into public view by publishing a lengthy financial analysis of the system. The examination of the Terminal's structure revealed that none of the constituent companies were earning enough to pay their large dividends and that the East Tennessee was only making expenses.<sup>64</sup> Responding to the charges, Inman blithely asserted that "there is no portion of the system . . . which is not earning its fixed charges," and added that "Each of these companies owns securities of unquestionable value largely in excess of its outstanding indebtedness."<sup>65</sup> Despite these protestations, the Terminal failed to produce convincing evidence of its solvency. The charges were in fact all too true and talk about the Terminal's troubles continued in the newspapers.<sup>66</sup> W. T. Walters, McGhee's old Baltimore friend, wondered about the many Terminal rumors and feared for the safety of his East Tennessee consols. McGhee reassured him about the bonds but added a cryptic note about the Terminal's troubles: "Not

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<sup>63</sup> McGhee to D. S. Williams, June 26, 1891, ibid.

<sup>64</sup> Klein, Great Richmond Terminal, 235-39.

<sup>65</sup> Tribune, August 11, 1891.

<sup>66</sup> Klein, Great Richmond Terminal, 236-38.



prepared to write much about Terminal. . . . Statement in the papers not far wrong."<sup>67</sup>

Which newspaper statement he meant is not clear, but McGhee must have known that the Terminal's situation was precarious. He lacked any real commitment to the far flung system, and like Brice and Thomas he was deeply interested only in the East Tennessee. He had no choice but to await developments and hope that when the dust had settled around the Terminal he would find his own position unchanged or perhaps enhanced. In January, 1892, he wrote his son-in-law that he remained on good terms with Inman, and that his influence in the Terminal had increased.<sup>68</sup> This, in the face of an apparent struggle between the Inman and Brice-Thomas factions, would seem to emphasize McGhee's position as a conciliator of the various parties which were trying to ride the whirlwind now sweeping through the Terminal.<sup>69</sup>

All of this commotion around the great holding company began to attract other parties. Sometime in the late winter of 1892 Inman

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<sup>67</sup> McGhee to Walters, September 15, 1891, McGhee Papers.

<sup>68</sup> McGhee to C. M. McClung, January 18, 1892, ibid.

<sup>69</sup> As Klein states in Great Richmond Terminal, 237-40, relations between Inman and the Brice-Thomas group seemed to deteriorate during the fall of 1891. On December 2, L. F. Brown in the New York office of the Terminal wrote Charles H. Hudson, General Superintendent of the East Tennessee, that the "R. & D. folks through Mr. Inman . . . [were trying] to elect such a Terminal Board as will enable the Inman crowd to elect their directors when the E. T. annual meeting is held." He felt sure that this was "another effort to get control of the E. T. Board, and the management of the E. T. properties, to the exclusion of the present men." Charles H. Hudson Papers, McClung Collection. The Inman effort was unsuccessful, but it is remarkable that McGhee retained his close relationship with Inman as well as Brice and Thomas.

began to slip, while at least two powerful outside groups began to move in on the Terminal. A syndicate headed by Walter G. Oakman of New York's First National Bank was showing a strong interest, while William P. Clyde, a former Terminal president, began to make another bid for control.<sup>70</sup> At this crucial moment McGhee apparently decided to withdraw at least temporarily from the struggle. In mid-February he left for the South where he remained until late April. He received daily letters or telegrams from his secretary Charles T. Leonhardt in New York and in this way remained abreast of the unfolding developments in the Terminal situation.<sup>71</sup> He was in Hot Springs, Arkansas, when a major reshuffling of the officers and directors took place. Inman resigned as president to be succeeded by Oakman, and Thomas journeyed to Knoxville to brief McGhee fully on the situation.<sup>72</sup> At about this time Brice, Thomas, and McGhee began to concentrate increasingly on maintaining their control in the East Tennessee.

As matters turned out this meant McGhee's further withdrawal from the Terminal and a reimmersion in East Tennessee affairs. The William Clyde faction was about to gain control of the holding company, but John Inman had not given up hope for a comeback. From his summer home at Stockbridge, Massachusetts, he wrote McGhee urging him to remain on the Terminal board:

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<sup>70</sup>Klein, Great Richmond Terminal, 245-58.

<sup>71</sup>Memphis and Charleston Letterbook, February, 1892-October, 1894, McGhee Papers.

<sup>72</sup>Klein, Great Richmond Terminal, 254; Leonhardt to McGhee, March 30, 1892, McGhee Papers.

My desire to have you "stay in," is of course partly selfish, as I think you might be in position to render me some service. Among other things, I would like to know their "line of attack," and you might get this for me by "running with the hounds."

I may not be in city for several days--should you have to decide before I see you, you can only use your judgment, but I would like you to remain, at least for a time.<sup>73</sup>

McGhee's judgment, however, was to get off the board. He was one of only four directors renominated by the Clyde faction, but when overwhelmingly re-elected on September 15, 1892, he declined to serve.<sup>74</sup>

The prolonged infighting over the Terminal, together with the worsening business conditions in the South, threw the holding company and its subsidiaries into bankruptcy in the summer of 1892. McGhee and Henry Fink, an experienced railroad man, were named co-receivers of the East Tennessee.<sup>75</sup> Fink wrote that the appointments had "given great satisfaction to Officers, Agts & Employees of the Co. as well as to the people. . . ."<sup>76</sup> McGhee's son-in-law, Calvin Morgan McClung, observed that "The whole town [of Knoxville] seemed greatly pleased over the East Tenn. going into the hands of yourself and Mr. Fink. They felt it was in home hands and that the property and Knoxville's interest would be looked after."<sup>77</sup>

<sup>73</sup>Inman to McGhee, September 17, 1892, ibid.

<sup>74</sup>Klein, Great Richmond Terminal, 261.

<sup>75</sup>McGhee and Fink were also co-receivers of the Memphis and Charleston, ibid., 256.

<sup>76</sup>Fink to McGhee, June 26, 1892, McGhee Papers.

<sup>77</sup>McClung to McGhee, July 6, 1892, ibid.

For the last time McGhee shouldered responsibility for the East Tennessee. In spite of the favorable response to his and Fink's appointment, he soon realized that their task would be extremely difficult. Returning from a trip over the East Tennessee lines, Fink reported:

I find conditions in the South very bad, worse than I had expected. We will have a short cotton crop again in Alabama and on the line of the Mem.-Ch. The people are poor and cannot travel or buy goods, and we must look for further reductions in our revenue. And at the same time we are unable to carry any farther, the so-called "economy." In fact we will have to make extra ordinary expenditures to make up for past economies.<sup>78</sup>

McGhee predicted that eventually the East Tennessee would undergo a drastic reorganization,<sup>79</sup> but in the meantime he threw himself into the business of keeping the railroad going. He generally refused to interfere in the operations of the company, leaving this phase almost entirely to Fink and the hired employees of the road. This involved fending off a hoard of placeseekers who had some claim to his influence.<sup>80</sup> Occasionally he intervened to correct a situation in which he had some personal interest or knowledge. He ordered, for instance, the removal of a rural sidetrack from one location to another so that more farmers could be served.<sup>81</sup> The fact that the new siding made one of his own

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<sup>78</sup>Fink to McGhee, August 26, 1892, ibid.

<sup>79</sup>McGhee to Fink, August 18, 1892, ibid.

<sup>80</sup>See, for instance, McGhee's letters to Frank S. White, July 8, Herbert J. Lowry, July 18, Arthur H. Henley, July 20, and John E. Helms, July 26, 1892, ibid.

<sup>81</sup>McGhee to Fink, August 18, 1892, ibid.

farms more valuable was also a consideration in this rare example of intervention. In the main he restricted himself to the financial management of the company's affairs in New York, and while he must have enjoyed this last fling at administering the East Tennessee, he had no illusions about how long it would last. By the summer of 1893 he felt that "I am to a great extent a back number in railroad circles as I do not give attention enough to railroad affairs to be able to influence to any great extent the active men operating them. I do not attend any meetings and do not come in contact with them."<sup>82</sup>

As evidence of his determination to stay out of the complicated tangle of the Terminal, he did not exert himself to accede to Circuit Judge Howell E. Jackson's plea that McGhee advise him in confidence on the "terribly complicated" details of a suit involving the Georgia Central.<sup>83</sup> This case was of great importance to the Terminal, and presumably McGhee might have been able to have significantly influenced the decision. He wrote Jackson, however, that he was indisposed and could not come to Nashville to confer with him on the "complicated and troublesome matter."<sup>84</sup>

The bankruptcy of the Terminal was rapidly resolving itself in a way which few could have foreseen two years earlier; for in 1893 the depression which already distressed the South spread to the rest of the nation. McGhee was perplexed by this prolonged economic situation.

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<sup>82</sup> McGhee to John A. Grant, July 14, 1893, ibid.

<sup>83</sup> Jackson to McGhee, June 16, 1893, ibid.

<sup>84</sup> Ibid., June 22, 1893.

"I have gone through several panics," he wrote, "but I do not think I have ever known so much disturbance among the business interests throughout the country as there is at present."<sup>85</sup> The depression was not the result of a "Wall Street panic," he felt, because Wall Street speculators had not really been too badly hurt by the decline in prices of securities. New York banks had shown "the utmost liberality" toward their correspondents in the hinterland. Still he was unable to explain or predict business conditions:

It seems in the present to be impossible to judge as to cause and effect as we used to be able to do. The world is now so intimately connected in its business relations and the rapidity of communication one to the other is such that a given cause here is prevented of having its anticipated effect by some disturbance or counteracting cause which is created elsewhere.<sup>86</sup>

McGhee's world was changing, and the inexplicable depression of the nineties was speeding the transformation. McGhee and his associates had created something new when they put together the massive Richmond Terminal. Truly one of the first gigantic corporations which would become the symbols of American economic life, the Terminal was anything but a monolithic structure. The various railroad companies which comprised it continued to lead lives of their own. McGhee's stubborn and successful resistance to the subordination of the East Tennessee to the Richmond and Danville illustrates the continued independence of the individual companies. Moreover, Inman's Georgia Company deal and McGhee's Tennessee and Ohio transaction show how the opportunistic masters of the

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<sup>85</sup> McGhee to Isham G. Harris, July 17, 1893, ibid.

<sup>86</sup> Ibid.

Terminal used their power to achieve personal profits. There were too many such individuals and factions who satisfied themselves at Terminal's expense. Having created the great railroad combine, McGhee and the others were unable to make it function properly, but they were likewise powerless to dismember the monster and return to a simpler time. The thrust toward the great corporation was a sign of the times and could not be resisted; the Terminal would die, but it would be reborn as a truly monolithic corporation.

The transformation of the Terminal into the Southern Railway was the accomplishment of the great banking house, Drexel, Morgan & Co., working through its railroad specialist Samuel Spencer who would become the Southern's first chief executive. The reorganization was also an important contribution to the formidable reputation of J. P. Morgan who conceived a plan which mastered the complexities of the Terminal situation. In addition, Morgan "provided funds for the reorganization, helped support the market, arranged for the necessary loans, and most important, restored public confidence in the Terminal properties. . . ."<sup>87</sup> By the summer of 1893 the various factions had accepted the plan and had deposited their securities with Drexel, Morgan.<sup>88</sup> Spencer was named co-receiver of the East Tennessee and the other Terminal properties, and McGhee as usual accepted the inevitable with good grace. His attitude toward the new regime is illustrated in the letter which he wrote to the East Tennessee's general counsel:

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<sup>87</sup>Klein, Great Richmond Terminal, 277.

<sup>88</sup>Ibid., 280.

As I telegraphed you to-day, Drexel, Morgan & Company have now deposited with them a majority of the securities of the East Tennessee road. Mr. Spencer is connected with that firm and I regard it entirely proper that they should have a representative of their large interest in the receivership.

The reorganization proposed by Drexel, Morgan & Co., is a very comprehensive one and makes adequate provision for the future wants of the property.

Experience teaches us that in order to encourage the development of the tributary country continual expenditures must be made by railroads and from time to time additions to the equipment is rendered necessary to take care of the increasing business. Ample provisions are made for this in the plan of Drexel, Morgan & Co. That feature of it commends the plan to me as a security holder and especially is it acceptable to me, in view of the large interests of various character which I hold in the East Tennessee.

As the sale of the property is necessary to a reorganization I hope now soon it may take place.<sup>89</sup>

The sale of the East Tennessee to Southern Railway, however, did not take place until the summer of 1894. During the year's interval McGhee worked with Spencer as co-receiver and apparently developed a good relationship with him. McGhee had a financial and personal interest in making the transition a smooth one, and, as he had done when the East Tennessee was bought by the Terminal, he wrote letters to Knoxville urging a peaceful acquiescence:

The Southern Railway Company has bought the Richmond & Danville R'y. and will buy the East Tenn. Va. & Ga. R'y. Thus the East Tenn. will be absorbed and will not exist and the Southern Railway will extend from Washington to Brunswick. There are five directors in the new Company, and none of our people are in it.

I had a talk with Genl. Thomas upon the subject and I told him I thought he ought to be in the directory, in view of his large interest in the property and that his going

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<sup>89</sup> McGhee to W. H. Henderson, July 17, 1893, McGhee Papers.



into it would not indicate that any others of the old party should go in as he had the largest interest, and that I had a very small one. That with the East Tenn. Va. & Ga. out of existence the aroma was gone and that I cared nothing whatever for a connection with the Southern Railway Company, and that I did not feel the slightest disappointment in not being put into the Board. I said to him I felt sure Sanford would feel very differently about it, and that he would be very much mortified if he was left out entirely and not put in something. I said further that I hoped he would be retained at least as a director in the Knoxville & Ohio.

The position of a director in a railroad has long ago to me lost any degree of importance and I have not the slightest regrets in severing my connection with it entirely.

I fear however, it will result in the loss of some population to Knoxville: for good sense and economy dictates that the very expensive and well filled offices there should be to a considerable extent decimated.

The auditors office will probably be removed to Washington or elsewhere.

I should prefer that you would not be at all active in talking about these changes or in criticizing the action of the Southern Railway Company, as I still have some interest in it and my personal relations with the management are very pleasant and cordial.<sup>90</sup>

Though this candid letter to a son-in-law showed a realistic understanding of the changes which would take place, McGhee was careful to be less frank with other Knoxvilleians. "The sale of the Road will not disturb any of you," he wrote to one, "nor will Knoxville feel it in any way."<sup>91</sup> He was correct in thinking that Sanford would be harder to pacify. McGhee's old associate wrote that "Spencer may know more about the Southern Rail Road than every one else connected with it but if he does he dont look that way." He was furious that

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<sup>90</sup> McGhee to C. M. McClung, June 22, 1894, ibid.

<sup>91</sup> McGhee to W. B. Jackson, June 26, 1894, ibid.

McGhee was to be left out of the directorate and felt sure that he himself would also lose his seat on the subsidiary Knoxville and Ohio. Sanford was determined to exact a high price for his K. & O. stock if he went to the "waste basket."<sup>92</sup> Tactfully McGhee commiserated with him and assured him that he would be retained on the K. & O. board. As for McGhee's being left off the Southern board, that would "relieve me of hundreds of applications for help that have been very troublesome to me." He urged cooperation with the Southern and advised that "You will have a large influence that can be exerted for the good of the reorganized company and for the benefit of our joint interests."<sup>93</sup>

Sanford remained obdurate, however, especially in the matter of the Knoxville and Ohio stock. The Southern inherited from the East Tennessee a majority holding in this subsidiary road; the remaining shares were owned by the city of Knoxville, Knox County, and various individuals. McGhee, Sanford, and Thomas owned 1,433 shares between them.<sup>94</sup> Sanford wanted a large sum for this stock and McGhee had to coax him into letting the Southern have it at fifty dollars per share, or one-half the par value. He warned Sanford that should they ask more for the stock Spencer "would probably feel that we were trying to squeeze him, and in view of our large interests dependent upon his

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<sup>92</sup>Sanford to McGhee, June 23, 1894, ibid.

<sup>93</sup>McGhee to Sanford, June 26, 1894, ibid.

<sup>94</sup>Memorandum of Agreement, Letterbook, October, 1894-May, 1897, p. 339, ibid. Available information does not indicate the total number of shares in the K. & O.

favor, we cannot afford to do that."<sup>95</sup> The deal was finally closed with the Southern paying fifty for the stock but also purchasing some notes which McGhee and Sanford held against another railroad, the Nashville, Athens, and Tellico. As McGhee remarked, "This is a poor sale for the stock but a first rate one for the . . . debt and I am very much gratified at closing it up."<sup>96</sup>

There would be no deals with the Southern like the sale of the Tennessee and Ohio to the East Tennessee, but McGhee and Sanford found that the new regime would make certain concessions to its friends. McGhee, for instance, was still privileged to use a private Southern Railway car, and his numerous interests in enterprises along the route of the Southern could not have suffered from his "cordial" relationship with Spencer. In return, he and Sanford made themselves useful to the giant corporation by using their considerable influence in Tennessee in its behalf. Sometimes this took the form of simply furnishing political intelligence,<sup>97</sup> but the Southern's purchase of the Knoxville and Knox County interest in the K. & O. provides a neat example of how that "large influence" could be "exerted for the good of the reorganized company. . . ."

At the same time that they were selling their own K. & O. stock to the Southern, McGhee and Sanford were arranging for the acquisition

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<sup>95</sup> McGhee to Sanford, May 27, 1895, ibid.

<sup>96</sup> McGhee to Sanford, July 24, 1895, ibid.

<sup>97</sup> McGhee to Spencer, July 12, 1895, ibid.

of the city's and county's shares. With the development of a large coal hauling business the K. & O. had become a profitable little railroad, but the managers of the East Tennessee and later of the Southern had no desire to pay out this surplus in dividends. Rather, they tried to disguise the profits by spending heavily on equipment; in this way they hoped to persuade the minority holders, especially the city of Knoxville and the county of Knox, that their stock was of little value and might be sold at a low price.<sup>98</sup> The general public suspicion of large railroad companies, however, prevented such a sale until 1895. In that year the popular feeling against the Southern Railway was cleverly used as a lever to obtain the city and county stock.

This was made possible by the appearance at Knoxville of a Colonel Albert E. Boone who proposed to build a railroad to be designated as the Ohio River, Jellico, Knoxville, and Tidewater, also called the Black Diamond line. The new railroad was projected as a rival of the Southern and was supposed to run from the coal fields on the Tennessee-Kentucky border through Knoxville and into the Carolinas. Boone loudly proclaimed that it would simultaneously "relieve Knoxville and Knox County from the death grip the Southern Railway has upon her future prosperity" and "strike a death blow to the coal Barons."<sup>99</sup> Sanford referred to Boone's company as the "Wind Railroad," but he saw in it a good possibility of getting the K. & O. stock.<sup>100</sup> At McGhee's

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<sup>98</sup> McGhee to Spencer, July 23, 1895, ibid.

<sup>99</sup> Journal, June 10, 1895.

<sup>100</sup> Sanford to Spencer, May 11, 1895, McGhee Papers.

suggestion, Spencer authorized Sanford to handle the matter for the Southern.<sup>101</sup> It was proposed that the city and county should swap their K. & O. stock for shares in Boone's Black Diamond line, and though Sanford called this proposal a "dead fraud" he recognized that it would "probably be the means of having the City and County divest themselves of their K. & O. stock, which is a desirable thing to do . . . believing it to be the only way to get possession of it."<sup>102</sup> Sanford made alliances with some of the local men who were promoting Boone's railroad. Some money spent in the right places secured a referendum on the question of making an exchange of the stocks, and a campaign of picnics and speeches by Boone persuaded the voters to approve the swap.<sup>103</sup> A few weeks after the Boone group got the stock Sanford was able to buy it at thirty dollars a share.<sup>104</sup> He sent it on to McGhee together with a report of how he had accomplished this coup:

Had it not been for a couple of pools being formed by citizens here to buy up this stock and hold it as a matter of speculation for the future, I could have gotten it at quite a sum less, but these combinations had to be broken up and it has cost money to do it. I have not appeared in the matter at all myself, having worked entirely through others, as one of the great "bugaboos" was that it should not be sold to you, I or the Southern and at present, no one here knows who the purchaser is. Of course there are many rumors associating us all with it, but they know nothing.<sup>105</sup>

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<sup>101</sup> Spencer to Sanford, May 7, 1895, ibid.

<sup>102</sup> Sanford to Spencer, May 11, 1895, ibid.

<sup>103</sup> Sanford to Spencer, June 24, 1895, ibid.; Journal, June 10, 30, 1895.

<sup>104</sup> Sanford to McGhee, July 22, 1895, McGhee Papers.

<sup>105</sup> Ibid.

Thus did Knoxville and Knox County give up their K. & O. stock to the "bugaboo" Southern Railway. In exchange, the two governments received shares in Boone's vaunted Black Diamond line, a dream railroad which in the end was never built.<sup>106</sup>

While this incident shows a particularly ruthless side of McGhee's relationship with the Southern Railway, it is worth noting that his personal relationship with Spencer occasionally enabled him to accomplish something in the direction of humanizing the policies of the corporation. When, as McGhee had privately predicted, the Southern began to close some of its Knoxville offices he was moved to intercede with Spencer for an old friend:

I want to make a personal appeal to you for old man Campbell, who has been bookkeeper in the Treasurer's office at Knoxville for the past twenty years. Mr. Campbell is seventy-five years of age and has two sisters entirely dependent upon his salary for support. He is well preserved and is as thoroughly competent as he ever was for the discharge of his duties.

This is no ordinary request but a personal appeal made to you in the strongest possible terms, and I hope you will be able to find a place for him where he may be able to earn a support.<sup>107</sup>

Fearing that Spencer might have forgotten about Robert Campbell, McGhee wrote again asking him to "pardon me for coming to you again in this matter, but I feel a very deep interest in Mr. Campbell. He is an older man than I am, but we once went to school together and I am greatly attached to him."<sup>108</sup> As usual, McGhee was extremely sensitive

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<sup>106</sup> Knoxville Journal and Tribune, March 10, 1902.

<sup>107</sup> McGhee to Spencer, October 14, 1895, McGhee Papers.

<sup>108</sup> McGhee to Spencer, October 24, 1895, ibid.

to the claims of personal friendship, and he took pains to protect an old friend who looked to him for help; in this case he was successful and "old man Campbell" was retained by the Southern.<sup>109</sup>

After thirty years of deep involvement in the East Tennessee, McGhee found himself in 1895 a "back number," as he described it, in the affairs of Southern railroads. For three more years, until its eventual absorption by the Southern Railway, he remained president and receiver of the Memphis and Charleston, but these jobs took little of his time or interest. He may have felt relief as he gave up the heavy responsibility for directing the course of the East Tennessee's future, but he also must have felt a pang of loss. His personal fortunes had risen with those of the East Tennessee; his association with the railroad had taken him to New York and had opened to him a larger financial career. For a time he had played a role in the life of a truly mammoth railroad combine.

But Charles McGhee was not likely to become sentimental about a corporation, even one so important to his life as the East Tennessee. That railroad had served its purpose; it had brought him large sums of money and great power. He was a businessman, a financier, a capitalist, and profits were the objective of his career. With the demise of the East Tennessee he would seek these profits in other areas. The move to New York led him to take a hand in diverse enterprises, and it enabled him to attract Northern capital for some of his Southern investments. Long before the East Tennessee disappeared he was deeply involved in

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<sup>109</sup>Spencer to McGhee, October 25, 1895, ibid.

a variety of other corporations, syndicates, and schemes. Although McGhee may be remembered chiefly for his part in the complex corporate history of the East Tennessee, the history of these other enterprises, large and small, perhaps reveal even more about McGhee the man and the financier.



## CHAPTER V

### INVESTMENTS IN THE WEST: TEXAS AND PACIFIC RAILROAD AND AMERICAN CATTLE TRUST

By the late 1880's New York City had become the financial center of the United States. There was money, of course, in Boston, Philadelphia, and Chicago, as well as in the smaller and newer cities which were provincial capitals of trade and finance, but it was in New York that the greatest business decisions were made, affecting the economic life of the country.<sup>1</sup> When the East Tennessee system became important enough to attract the attention of Northern capitalists, when it was big enough to require large sums of additional capital, it became essentially a New York corporation, even though its official headquarters remained at Knoxville. At some time in the mid-eighties McGhee decided to move to New York where the future of the company would be decided.<sup>2</sup> He plunged into the activity surrounding the East Tennessee's reorganization in 1885-86, and he remained a power in its structure until the company disappeared in 1895.

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<sup>1</sup>Actually New York had become the nation's most important money market before the Civil War, but by 1880 New York investment bankers were playing an active part in managing the enterprises which they financed. See Fritz Redlich, History of American Business Leaders, A Series of Studies (2 vols.; Ann Arbor: Edwards Brothers, Inc., 1940; New York: Hafner Publishing Co., 1951), II, pt. 2, pp. 360-65.

<sup>2</sup>By the summer of 1886 McGhee and his secretary, Charles T. Leonhardt, were living in New York. His wife and youngest daughter, Eleanor, divided their time between New York, Knoxville, and various resorts. From 1886 until at least 1898 McGhee spent most of his time in New York.

Although the East Tennessee and the Richmond Terminal absorbed much of his attention during the years, he was alive to the many opportunities for profit making which his new situation afforded him. His association with Thomas, Brice, John G. Moore, and other directors of the Richmond Terminal and the East Tennessee led him into varied speculations. He soon resumed his close relationship with his old friend Wilson, and he made new friendships with such men as Robert Fleming, the British investor who was often in New York,<sup>3</sup> and Colonel Oliver H. Payne, the Standard Oil magnate who had himself just moved to the city from Ohio.<sup>4</sup> It is apparent that these friendships were based on personal regard as well as on business interest, and though McGhee's correspondence is usually strictly serious and businesslike there are occasional notes which reveal an affectionate comradeship. At the end of a long business letter, for instance, Fleming added this paragraph:

I hear the weather is very hot so that you who have the instincts of a salamander will feel happy. I fancy I see you now in a rocking chair with a cigar between your fingers on the veranda of the Oriental intent apparently on the ups and downs of the Atlantic but really perhaps on the ups and downs of Wall Street. I should like very much to have the seven league boots that would place me by your side this afternoon.<sup>5</sup>

That these friendships were important to McGhee is shown by a telegram he once sent to Payne who was summering in Massachusetts: "Arrived here several days since. Am very lonely when will you be here?"<sup>6</sup>

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<sup>3</sup>Adler, British Investment in American Railways, 147-48.

<sup>4</sup>Dictionary of American Biography, XIV, 329-30.

<sup>5</sup>Fleming to McGhee, June 8, 1889. All manuscript citations are to the McGhee Papers unless otherwise noted.

<sup>6</sup>McGhee to Payne, July 10, 1893.

Besides the pleasure of these congenial associations, New York offered much more to the Tennessean. Here he could easily raise \$200,000 in cash by offering some of his securities as collateral.<sup>7</sup> He could also play an insider's stock market game, as he did during a two-week period when he realized a \$10,000 profit in a speculation in Chicago Gas stock.<sup>8</sup> Most of his time was occupied with the affairs of enterprises whose need for capital had made them the concern of New York financiers. Usually these were Tennessee companies in which McGhee had a substantial personal and financial interest, as in the case of the East Tennessee, Virginia, and Georgia. But on two occasions he became deeply involved in deciding the destinies of companies which operated outside of Tennessee or the Southeast. In one case he acted to save a sizeable investment; in the other he became involved primarily because of a family relationship.

# 1.

The collapse of the Texas and Pacific Railroad into bankruptcy late in 1885<sup>9</sup> brought McGhee into the affairs of a company which lay outside the traditional geographic area of his interest. Heretofore he had been actively involved only with the railroads of the South, east of the Mississippi--in fact those lines which made up or connected with the East

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<sup>7</sup> McGhee to Central Trust Company, November 30, 1888.

<sup>8</sup> Memorandum of Chicago Gas speculation, Letterbook, February, 1892-October, 1895, p. 875.

<sup>9</sup> Commercial and Financial Chronicle, XLI (1885), 714.

Tennessee system. The Texas and Pacific, however, began in New Orleans and stretched for almost a thousand miles to El Paso, constituting a large link in the southern transcontinental system. McGhee's initial interest in this road must have been the result of a heavy investment in the company's bonds, probably made prior to the Texas and Pacific's receivership in December, 1885. At any rate, he owned almost \$500,000 of the company's bonds three years later,<sup>10</sup> and it was this large holding which was endangered by the reorganization plan advanced in behalf of Jay Gould in 1886.

The Texas and Pacific had a troubled history even before its difficulties of the late eighties. Envisioned as the South's tie to the Pacific coast, the line was enthusiastically promoted by such Southern leaders as Jefferson Davis.<sup>11</sup> After the Civil War the road across Texas became the special project of Thomas A. Scott of the Pennsylvania Railroad. Scott's vision of lucrative government grants and the impatience of Southerners for the Pacific link had something to do, as C. Vann Woodward relates in Reunion and Reaction, with the famous Wormley House bargain and the succession of Hayes to the presidency in 1877. The Southerners, so the story goes, sold out Samuel J. Tilden, in exchange for federal support of the Texas and Pacific, and indeed Scott did receive a federal charter and the land grants from the state of Texas. Scott's

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<sup>10</sup>Letterbook, February 1888-February, 1889, p. 24. A listing of his securities at that time is in the Appendix.

<sup>11</sup>Woodward, Reunion and Reaction, 70.

rival, Collis P. Huntington, who was building his Southern Pacific line east from California, prevented the Texas and Pacific from acquiring further government assistance, and in 1880 Scott sold his stock to Jay Gould and Russell Sage. Under the supervision of General Grenville M. Dodge, Gould's Texas and Pacific was extended west from Fort Worth to Sierra Blanca just ninety miles short of El Paso. Late in 1881 Gould and Huntington entered into an agreement which gave the Texas and Pacific the right to use the track of the Southern Pacific from Sierra Blanca to El Paso.<sup>12</sup>

By the time of its bankruptcy in 1885, the Texas and Pacific spanned the Lone Star state and consisted of 1,500 miles of track. West of Fort Worth, however, the line traversed many miles of country "almost uninhabited except by hostile Indians, prairie dogs and coyotes where even water had to be transported long distances and the local territory could not supply the needs of man or beast."<sup>13</sup> Observers noted the potential value of the property, but the immediate problem of low traffic on its western, or Rio, division was clear. In addition, the charge was made that much of the line was poorly built and maintained, leading some to contemptuously characterize the railroad as "two streaks of rust, with the New Orleans division half the time under water."<sup>14</sup>

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<sup>12</sup>Ibid., especially 75-76, 79-81, and 235-37.

<sup>13</sup>S. G. Reed, A History of Texas Railroads (Houston: St. Clair Publishing Co., 1941), 365.

<sup>14</sup>Commercial and Financial Chronicle, XLI (1885), 714.

The forcing of Texas and Pacific into bankruptcy by its creditor, the Missouri Pacific, was widely viewed as a maneuver by Jay Gould to tighten his grip on the former road.<sup>15</sup> After all, Gould controlled the Missouri Pacific, and this company's claim of \$1,800,000 was unsubstantiated except on the books of these two Gould enterprises. As the Commercial and Financial Chronicle of New York observed:

Some of the same parties who were most prominent in the road at the beginning, and who reaped large profits, are yet connected with the company, and will now appear asking the bondholders to forego their interest for an indefinite time, and the stockholders to pay an assessment, in order to practically rebuild the [Rio and New Orleans] divisions.<sup>16</sup>

Moreover, the Chronicle saw "the hand of Gould" in the plan of reorganization advanced by a group of Philadelphia holders of middle division bonds under the chairmanship of General Isaac Wistar.<sup>17</sup> This plan was highly favorable to Gould's interests, and the Wistar committee appears to have been the "Wizard's" stalking-horse for the capture of the Texas road.<sup>18</sup> Simply described, the Wistar plan proposed to redeem the Missouri Pacific debt by issuing enough stock in the Texas and Pacific to give Gould an undisputed majority. The road's Rio

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<sup>15</sup>Ibid., XLII (1886), 61.

<sup>16</sup>Ibid., XLI (1885), 714.

<sup>17</sup>Ibid., XLII (1886), 61. Wistar in his Autobiography (New York: Harper and Brothers, 1937), 492-95, says that his committee turned to Gould only after the rival New York committee began to fight the Philadelphia, or Wistar, plan. Wistar's "irregular efforts of memory" do not seem plausible because as early as January, 1886, the Chronicle warned of the influence of Gould over the Wistar group. The New York committee, of which McGhee was a member, was not formed until April, 1886.

<sup>18</sup>Julius Grodinsky, Jay Gould: His Business Career, 1867-1892 (Philadelphia: University of Pennsylvania Press, 1957), 441-46.

division bondholders were then expected to submit to a "massacre" of their securities in a drastic scaling down of interest.<sup>19</sup> A reorganization along these lines would give Gould control of the Texas and Pacific which would be more valuable because of the reduction of its fixed charges.<sup>20</sup>

Despite the strong position of Gould and his cohorts and the famous financier's reputation as a dangerous adversary, several groups of bondholders were stirred to action. Among the earliest of those to organize for self defense was a group of New Yorkers who held Rio division bonds. Meeting at the offices of A. M. Kidder & Co. on April 19, 1886, these bondholders appointed a committee consisting of McGhee, William C. Hill of A. M. Kidder, and Isaac L. Rice, a railroad promoter and a director of Richmond Terminal.<sup>21</sup> Soon other concerned parties began to organize.<sup>22</sup> Robert Fleming wrote to his friend McGhee:

Please do not let us give up the battle without putting on our armour.

. . . . .  
I am willing if I can trust to your help to run out with all the Bonds on this side pledged to support me & you. I can with the assistance of our mutual friends make the thing go through but it can only be through joint and undivided action.<sup>23</sup>

By the middle of August, 1886, a merging of the important interests opposed to the Wistar plan had occurred, and the Wistar group had been

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<sup>19</sup>Commercial and Financial Chronicle, XLII (1886), 550.

<sup>20</sup>Ibid.; Grodinsky, Jay Gould, 442-43.

<sup>21</sup>Commercial and Financial Chronicle, XLII (1886), 519.

<sup>22</sup>Ibid., 632; XLIII (1886), 12.

<sup>23</sup>Fleming to McGhee, July 26, 1886.

forced to form a compromise reorganization committee, representative of a broad spectrum of Texas and Pacific security holders.<sup>24</sup> McGhee and Fleming were members along with Wistar, William D. Winsor, John Markoe, and J. N. Hutchinson of Philadelphia, and Meyer Lehman of New York. The plan advanced by this consolidated committee was more favorable to the various bondholders but was nevertheless a compromise with the Gould interest. It was agreed that the Missouri Pacific should have \$6,500,000 of Texas and Pacific stock, but the importance of these shares was diluted by increasing the total of Texas and Pacific shares from \$32,000,000 to \$40,000,000.<sup>25</sup> The problem of a plan and a committee for the reorganization of the Texas and Pacific was not settled, but the question remained of how the railroad was to be run until reorganization was completed. Even more crucial was the future of the company after reorganization. Would it revert to the pre-bankruptcy status quo, i.e., full control by Jay Gould, or would the Texas and Pacific emerge under an "independent" management beholden to Gould?

McGhee was intimately concerned with these question, both as a member of the reorganization committee and a large bondholder and as a personal friend of Governor John C. Brown, the Texas and Pacific receiver who hoped to become president of the reorganized company. The friendly relationship between the two went back to the early 1870's when Brown was the Conservative redeemer governor of Tennessee and McGhee was a prominent legislator. At that time McGhee was accused of manipulating

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<sup>24</sup>Commercial and Financial Chronicle, XLIII (1886), 133, 181.

<sup>25</sup>Ibid.



the governor and legislature in the interest of Thomas Scott and the Southern Railway Security Company, and Brown was called a pawn of some Tennessee railroad interests.<sup>26</sup> After Brown completed his two terms as governor, Scott made him a vice president of Texas and Pacific, and during the Gould regime from 1880 to 1885 he was the company's chief solicitor.<sup>27</sup> When Brown became receiver in 1885 it was apparently at the urging of General Wistar and his group who probably promised him the presidency later.<sup>28</sup> While Wistar and Gould appear to have been allies in the initial struggle over reorganization, the alliance was not based on an identity of interests. Wistar and his Philadelphia group wanted to protect the middle division bonds and to do so were willing to cooperate with Gould, who of course wanted to strengthen his hold upon the Texas and Pacific. Having a friendly Brown as receiver gave the Wistar faction leverage in dealing with Gould or any other parties.<sup>29</sup> Once the safety of the middle bonds was secured, however, Wistar and his friends were not particularly interested in championing the cause of the former Tennessee governor.

Before the reorganization compromise was reached, Brown urged McGhee to get together with Wistar and recommended the latter as "a very

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<sup>26</sup> See above, Chapter III.

<sup>27</sup> Dictionary of American Biography, III, 135-36.

<sup>28</sup> Brown to McGhee, October 20, 1887.

<sup>29</sup> Wistar's committee was the first organized group of Texas and Pacific creditors. Therefore it was able to exercise "the very important right to name the Judicial Receiver, and thus control future proceedings, both legal and financial." Wistar, Autobiography, 493.

good man and a very reasonable man when you have got at him properly."<sup>30</sup>

Later, when Gould began to apply pressure to have him removed, Brown spoke of "the gentlemen who over-persuaded me to take the position I now occupy . . . will not have completed their contract with me when the road passes out of the hands of the Receivers. . . ." <sup>31</sup> If Brown did have an agreement with Wistar he found in time that he could expect little support from the Philadelphia general. He thus turned more and more to McGhee for aid and reassurance. McGhee, for his part, was not only fond of Brown but desired to see the Texas and Pacific under an independent management, or the kind of leadership which he believed Brown could provide. While he admitted that Brown was not really a railroad man, he felt that the receiver was perhaps uniquely familiar with the Texas and Pacific and its problems.<sup>32</sup>

The committee toyed with several plans for reconstituting the administration of the company. Fleming favored having an active man with railroad experience in New York as chairman of the board while the president should reside in Dallas. Under such a plan the president, who would be on the scene in Texas, would be more a general manager than chief executive.<sup>33</sup> Eventually, however, all the plans for an independent management hinged on Brown, who in his position as receiver was for more than two years subjected to pressure from several directions. Part of his troubles

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<sup>30</sup>Brown to McGhee, August 3, 1886.

<sup>31</sup>Ibid., October 20, 1887.

<sup>32</sup>McGhee to Brown and to Fleming, both August 8, 1887.

<sup>33</sup>Ibid.

arose from the undisguised hostility of Gould who lost no opportunity to undermine him. Brown had left his post as general solicitor in the hope of becoming president, and thus Gould "felt that one of his men [Brown] had failed to go back to his old place and had set himself up against his wishes."<sup>34</sup> The powerful financier thought Brown disloyal and correctly reasoned that he was the instrument of those who wanted an independent management. Brown's difficulties were further complicated by the disappointingly small earnings of the Texas and Pacific and by the fact that Fleming doubted his ability.<sup>35</sup>

McGhee, who had no illusions about Brown's exposed position, defended the receiver and at the same time constantly urged him to reduce expenses.<sup>36</sup> He realistically outlined to Brown the problem as he saw it:

While I shall, if I see any hope of accomplishing it, exert my utmost efforts to secure an independent management, it really seems to me that Gould occupies the position with reference to railroads that Crockett did to the Coon: "If that is you I come down." Everyone seems to assume that there is no use in resisting his wishes. If he cannot control he will exert his utmost to demonstrate that an injury has resulted in consequence of opposition to him.<sup>37</sup>

Despite this gloomy (and apparently accurate) analysis, McGhee labored to save Brown and to establish an independent Texas and Pacific. "I have no

<sup>34</sup>McGhee to Fleming, June 17, 1889.

<sup>35</sup>McGhee to Brown, January 5, July 26, and McGhee to Fleming, July 27, 1888.

<sup>36</sup>See, for example, McGhee to Brown, July 26, October 29, December 20, and McGhee to W. T. Walters, April 16, 1888.

<sup>37</sup>McGhee to Brown, October 15, 1887. McGhee alludes here to the famous Tennessee frontiersman, David Crockett, who had such a reputation as a marksman that raccoons voluntarily gave themselves up at his approach. See Benjamin A. Botkin (ed.), A Treasury of American Folklore (New York: Crown Publishers, 1944), 25.

doubt," wrote Fleming, "that your prodding of Brown . . . is doing good and as I am getting a little tired of my profession of being disagreeable all the time I hereby hand my mantle over to you." But, he added, wryly, "I'm afraid you won't wear it much."<sup>38</sup> Nevertheless, McGhee pushed Brown so hard that at one time the receiver threatened to resign.<sup>39</sup>

In addition to securing the presidency for Brown, McGhee and his group were interested in a voice on the company's board of directors. Both Fleming and McGhee were named to the board at the annual meeting in May, 1888, but they wanted a place on the board's executive committee as well.<sup>40</sup> Apparently J. N. Hutchinson of the Philadelphia group offered to resign to make a place for McGhee but later refused to do so.<sup>41</sup> McGhee and his friends were incensed at what they considered a breach of faith by the Philadelphian.<sup>42</sup> "The way in which these Phila. men have imposed themselves upon us," wrote Fleming, "is a shame and disgrace. If they won't retire of their own accord we must make a public agitation."<sup>43</sup> Instead of making their outrage public, however, McGhee and Fleming complained to Gould, who apologized profusely and promised to

<sup>38</sup>Fleming to McGhee, September 11, 1888.

<sup>39</sup>Brown to McGhee, July 28, 1888.

<sup>40</sup>Commercial and Financial Chronicle, XLV (1888), 621.

<sup>41</sup>McGhee to Wistar, April 16, 1888.

<sup>42</sup>McGhee to Hutchinson, July 21, 1888.

<sup>43</sup>Fleming to McGhee, August 7, 1888.

rectify the situation when he could.<sup>44</sup> "In the meantime," McGhee observed, "I am quite sure that I shall be consulted by the Gould people with reference to all matters connected with the Texas and Pacific."<sup>45</sup> This incident thus led to closer ties between McGhee and Gould.<sup>46</sup> Although he still supported Brown's claim to the presidency, McGhee became more reconciled to Gould's control of the road. The failure of the Texas cotton crop in the fall of 1888 and the resulting decline of the railroad's freight revenue further weakened Brown's position.<sup>47</sup> The low earnings led to a fall in the price of Texas and Pacific securities which alarmed the owners and in McGhee's opinion "paralyzed" any opposition to Gould's domination of the property.<sup>48</sup> Writing to his friend W. T. Walters, the Baltimore capitalist, McGhee observed that Gould would accept no responsibility for Brown's administration:

As you know, Mr. Gould desired to retain the presidency himself but an independent administration was demanded by the Committee and reluctantly agreed to by him. Whether he is so operating Missouri Pacific in connection with Texas and Pacific as to convince us that we made a mistake in putting [sic] Brown in the presidency, is a question I am unable to decide. The annual meeting occurs in March, and I take it that Mr. Gould will secure a sufficient number of proxies to elect such a Board as he may wish. The class of securities which I hold in the property give me not very much concern

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<sup>44</sup>Gould to Fleming, July 24, 1888.

<sup>45</sup>McGhee to Fleming, September 22, 1888.

<sup>46</sup>See Gould to McGhee, September 4, 1888.

<sup>47</sup>McGhee to Fleming, December 20, 1888.

<sup>48</sup>McGhee to Brown, February 5, 1889.

as they are bound to be good in any event. Still, however, I am looking after the affairs of the Company with some degree of interest.<sup>49</sup>

In reply Walters advised:

Get rid of Brown--this is the only way to treat him, nothing can be made of him--and his experience in Texas Pacific has made him every day worth less--and from this time out he will be good for nothing except a "walking gentleman."

. . . . .  
A fool like Brown is often worse than somebody who would steal a moderate amount--Brown hasn't sense enough to steal. Stopping at a big Hotel and walking up and down Broadway will henceforth be his ambition.

Turn the rascal out, but throw the fool out.<sup>50</sup>

There is no indication that McGhee ever turned against Brown, but the attitudes of Walters and Fleming, as well as the hostility of Gould, must have convinced him that Brown's days as president of the Texas and Pacific were numbered. At the same time, Gould was showing McGhee marked consideration. George Gould, son of the "Wizard," sent him confidential information on the road's earnings and expenses as soon as these were received in the New York office,<sup>51</sup> and Jay himself urged McGhee's appointment to the company's executive committee. Writing to Wistar he described McGhee as "a practical railroad man . . . [whose] advice and cooperation would be of great service to the Company. . . ."<sup>52</sup> McGhee must have realized that Brown had become a liability and that his own interests could

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<sup>49</sup> McGhee to Walters, January 16, 1889.

<sup>50</sup> Walters to McGhee, January 20, 1889.

<sup>51</sup> George Gould to McGhee, January 7, 1889. George Gould was vice president of Texas and Pacific.

<sup>52</sup> Jay Gould to Wistar, January 24, 1889.

no longer be served by a defense of the former Tennessee governor. Perhaps for this reason he did not attend the annual meeting in March, 1889, but instead set out on a tour of examination over the company's lines.<sup>53</sup> Before leaving Knoxville, however, he wrote George Gould to approve the appointment of an experienced railroad man to the post of second vice president in charge of operations. "This no doubt will be perfectly satisfactory to Gov. Brown as it will leave him at liberty to give more especial attention to the legal, political and financial requirements of the property."<sup>54</sup> In fact, Brown resigned within a few weeks to return to his native state and the presidency of the Tennessee Coal, Iron and Railroad Company.<sup>55</sup>

Brown's retirement from the Texas and Pacific marked the end of attempts to establish an independent management free of Gould control. As if by magic the company's performance began to improve when Jay Gould succeeded Brown as chief executive.<sup>56</sup> McGhee's prediction that the road would not prosper until Gould wanted it to was fulfilled, and his relations with both Jay and George Gould continued to be good. From time to time he offered suggestions on the road's management,<sup>57</sup> and he remained a

<sup>53</sup> McGhee to Brown, February 5, 1889.

<sup>54</sup> McGhee to George Gould, March 18, 1889.

<sup>55</sup> Brown to McGhee, April 2, 1889.

<sup>56</sup> Walters to McGhee, May 13, Fleming to McGhee, June 8, and McGhee to Fleming June 17, 1889.

<sup>57</sup> McGhee to Jay Gould, May 23 and to George Gould, June 12, 1889 and January 18, 1891.

director of the Texas and Pacific until 1903.<sup>58</sup> But in the main he had little to do with the company after 1889.<sup>59</sup> He and his friends had thwarted Gould in his initial attempt to ruin the company in order to rule it. Having accomplished this, McGhee had no wish to dominate the Texas and Pacific himself; he was content to let the Goulds take over from Brown, as long as they took reasonable care to protect his investment. From his seat on the board he could make sure that his bonds remained safe. For McGhee, this objective was the essential one, more important to him than any dream of power, prestige, or glory.

If his Texas and Pacific experience is a clear illustration of how McGhee acted to protect an endangered investment, the story of his involvement in the American Cattle Trust is an example of how personal relationships entangled him in complex business affairs. On January 7, 1880, his eldest daughter, Margaret, married George White Baxter, son of John Baxter of Knoxville, judge of the United States court of appeals for the sixth circuit.<sup>60</sup> Baxter had graduated from West Point in 1877 and had been sent West with the Third Cavalry. In 1881 he resigned from the army and entered the cattle business at a time when ranching was beginning to boom. Becoming active in Democratic politics, he was appointed territorial

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<sup>58</sup> He is listed as a director in Poor's Manual of Railroads until the edition of 1903.

<sup>59</sup> There are few letters in the McGhee Papers relating to Texas and Pacific after 1889. McGhee, however, apparently retained much of his investment in the company. When his granddaughter's estate was settled in 1971, there were still Texas and Pacific bonds in the trust which McGhee had established for her. Interview with William Ross McNabb, July 28, 1974.

<sup>60</sup> McClung, McClung Genealogy, 37.



governor of Wyoming by President Cleveland in 1886 but was forced to resign within a few weeks when it was revealed that he had enclosed government land in the process of fencing 28,000 acres which he had bought from the Union Pacific Railroad.<sup>61</sup> Fresh from this political disappointment the restless and ambitious Baxter was attracted by a proposal which seemed to promise financial success. In a short time he linked his fortunes to the American Cattle Trust and soon managed to interest his father-in-law in the scheme. Although the enterprise was an exciting one at the beginning, Baxter and McGhee's initial involvement was casual; neither man realized how important it would become to them during the next decade.

## 2.

One of the striking characteristics of the economic development of the United States in the last quarter of the nineteenth century was the tendency toward combination.<sup>62</sup> Railroad pools, Standard Oil, and the proliferation of trusts in many other areas of industry are testimony to the strong desire of some American businessmen to integrate production and distribution or to check competition. A manifestation of this trend in the range cattle industry may be seen in the form of the American Cattle Trust and its successor, the Western Union Beef Company.<sup>63</sup> Just

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<sup>61</sup>National Cyclopedia of American Biography, XXIII, 176.

<sup>62</sup>Edward C. Kirkland discusses this trend in Industry Comes of Age: Business, Labor, and Public Policy, 1860-1897 (New York: Holt, Rinehart and Winston, 1961), 199-215.

<sup>63</sup>The first published study of the American Cattle Trust was Gene M. Gressley's "The American Cattle Trust: A Study in Protest," Pacific Historical Review, XXX (1961), 61-77. The McGhee Papers (which

as many of the "trusts" which attempted to embrace such products as lead, cordage, and tinware failed to achieve the conspicuous success of Standard Oil, so the American Cattle Trust failed to integrate cattle production, meat packing, and distribution, or to stabilize the price of cattle at a level favorable to the rancher.<sup>64</sup> Nevertheless, the history of the cattle trust and the corporation which succeeded it provide an insight into the machinations of businessmen as they struggled with the economic vicissitudes which afflicted the range cattle industry in the years between 1886 and 1898.<sup>65</sup>

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were unavailable to Gressley at the time of his study) reveal substantial additions to the factual content of the trust story. In addition, the author disagrees with Gressley's interpretations in several respects. These differences will become evident in the course of this chapter.

<sup>64</sup>Not all trusts were successful. For instance, see Kirkland, Industry Comes of Age, 214-15.

<sup>65</sup>The boom and bust of the range cattle industry is analyzed in several standard accounts: James Sauk Brisbin, The Beef Bonanza: or How to Get Rich on the Plains (Philadelphia: J. B. Lippincott & Co., 1885); Edward Everett Dale, The Range Cattle Industry, Ranching on the Great Plains, 1865-1925 (Norman: University of Oklahoma Press, 1930); Maurice Frink, W. Turrentine Jackson, and Agnes Wright Spring, When Grass Was King: Contributions to the Western Range Cattle Industry Study (Boulder: University of Colorado Press, 1956); Gene M. Gressley, Bankers and Cattlemen (New York: Alfred A. Knopf, 1966); Ernest Staples Osgood, The Day of the Cattleman (Minneapolis: University of Minnesota Press, 1929); Louis Pelzer, The Cattleman's Frontier (Glendale, Calif.: The Arthur H. Clark Co., 1936); and Fred A. Shannon, The Farmer's Last Frontier: Agriculture, 1860-1897 (New York: Farrar & Rinehart, Inc., 1945).

Several monographs provide insight into the problems of cattle companies during this period: Walt M. Coburn, Pioneer Cattlemen in Montana: The Story of the Circle C Ranch (Norman: University of Oklahoma Press, 1968); Harmon Ross Motherhead, The Swan Land and Cattle Company (Norman: University of Oklahoma Press, 1971); and William M. Pierce, The Matador Land and Cattle Company (Norman: University of Oklahoma Press, 1964).

The following general discussion is based upon these sources.

The depression which in 1886 began to grip the cattle business of the plains states and territories was especially distressing because it followed a lush period of boom and expansion. The discovery by Eastern and British capitalists and adventurers of the opportunities in cattle raising on the vast ranges of the West had led to the formation of a great number of cattle companies and the investment of relatively large amounts of capital. By the early 1880's the mania for such investments was indeed almost a craze. All that was necessary, it seemed, was to turn the beasts loose on the range, and in a year's time one could begin to reap fantastic profits from a herd naturally increased by reproduction and fattened by grazing on the inexhaustible grasses of the plains.

The subsequent break in cattle prices, beginning in 1884 and continuing for the next two years, demonstrated the uncertainty of these investments. The severe winter of 1886-1887 which caused greater than normal losses among many herds was another blow to the optimism of ranchers and investors. Despite brave denials and predictions of a rosy future, it was apparent by the spring of 1887 that the business of cattle raising was not what it had been. As the ranchers and their press searched for the origin of their distress, much attention was focused on the "beef ring" or the "big four," the handful of packing companies centered in Chicago which were the chief market of the Western stockgrowers.<sup>66</sup> The discovery of this "monopoly" was at least several years old, but the hard times on the plains gave the subject a new

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<sup>66</sup>Gressley, "American Cattle Trust," 62, note 9.

urgency. The fact that beef prices to the consumer remained relatively constant while cattle prices were falling seemed to prove that the "ring" was conspiring to maintain its profits at the expense of both cattle producers and beef consumers. In general there was a widespread suspicion that someone else was now enjoying the money which had once been made in ranching.<sup>67</sup>

As earlier indicated, the ranchers' hostility toward the packers and the "middlemen" or cattle brokers was not new. Local cattle pools had long sought the advantages of combination by marketing many small herds as one large unit.<sup>68</sup> The most ambitious attempt to revolutionize the entire process of turning range cattle into table beef was attempted by the fabulous French nobleman, the Marquis de Mores, beginning in the early eighties. De Mores visualized a chain of slaughter houses and refrigerator plants on the plains which would at once compete with the "big four" and eliminate the long rail journey to the Chicago market. The Marquis' companies actually built such a plant at Medora in the Dakota Territory and later opened a number of meat shops in New York City. But in 1886 the entire scheme collapsed, perhaps as the result of the mercurial Frenchman's inability to bring hard realism to his striking dream.<sup>69</sup>

Just as the Marquis' New York shops began to close, another great scheme to save the cattle business was being hatched by a Cleveland, Ohio,

<sup>67</sup>Ibid., 61-64.

<sup>68</sup>Pelzer, Cattleman's Frontier, 73-84.

<sup>69</sup>The adventures of the Marquis de Mores are fully related in D. Jerome Tweton, "The Marquis de Mores and His Dakota Venture," Journal of the West, VI (1967), 521-34.

merchant with heavy investments in Western ranches. Edward M. McGillin's<sup>70</sup> concept of a gigantic cattle association, trust, or corporation, may be regarded as the ancestor of what was to be the American Cattle Trust; but the trust, as it was finally organized, differed in many particulars from the rather vague ideas propounded by McGillin in the press and before the International Range Association at Denver in February, 1887.<sup>71</sup> McGillin suggested an "association" of cattle growers, capitalized at \$100,000,000. This sum was to be raised by the members who were to mortgage their herds to the association at five dollars a head, receiving in exchange shares of stock. On these mortgages, he felt, the association could raise "any amount" of cash. Thus McGillin expected to include in his scheme some 20,000,000 head which he estimated to be the approximate range cattle population. With the capital raised from the mortgages he proposed to buy and build slaughter houses in Chicago and at points on the plains. Also, in some fashion, "the company should own and control every butcher's shop in the United States no matter how insignificant." He expected that railroad rates could be cut in half and commissions to brokers eliminated. Prices could be regulated and raised,

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<sup>70</sup> McGillin was born in Ireland, immigrated to the United States, and with the backing of H. B. Claflin and Co. of New York, achieved initial success as a dry goods merchant in Cleveland, Ohio. He was interested in the Fairmount Cattle Company, which operated in Indian Territory, and in the Harlem Livestock Company of Stratton, Nebraska. He apparently got into financial difficulty about 1889 and lost his fortune. McGillin died on November 3, 1919, in Los Angeles. Gressley, "American Cattle Trust," 61, note 3; Baxter to McGhee, June 17, 1891.

<sup>71</sup> Gressley, "American Cattle Trust," 61-62. An earlier reference to McGillin's plan is in the Northwestern Livestock Journal, December 10, 1886. McGillin's speech is reported in ibid., February 11, 1887.

and the stock would become "the best paying in America." In short, McGillin dreamed of controlling the entire beef industry "from the time a calf was dropped on the plains until it appeared in the market basket of the consumer."<sup>72</sup> Here was a concept of integration and monopoly on the scale of Standard Oil itself, but the American Cattle Trust was not to be built on these grandiose proportions, even though McGillin was heavily interested in it and at one time served as its chairman.

The reaction to the McGillin scheme was mixed. To some, the dimensions of the plan seemed too great; to others the monopolistic features were sinister.<sup>73</sup> Nevertheless, several other proposals for great combinations and revolutionary techniques were forthcoming. One of these, the American Beef Pool, proposed by Asa Shinn Mercer, editor of the Northwestern Livestock Journal, featured a contract between cattle raisers and the Armour Packing Company.<sup>74</sup> Mercer believed that such an arrangement would do "an amount of good to the industry that is almost beyond calculation. It reverses," he wrote, "the usual methods by creating a sympathetic and close union where before has been a pulling apart."<sup>75</sup> Although the pool was actually organized in 1887, it apparently never caught on with the cattle producers. Another great combination, the American Meat Company, which will be described in greater

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<sup>72</sup>Ibid., December 10, 1886, March 18, 1887.

<sup>73</sup>Originally the Northwestern Livestock Journal was cool to the proposal, although it argued that "out of the multiplicity of ideas thrown off, crystalizations of thought may be found that in the end will 'carry us safe over.'" December 17, 1886.

<sup>74</sup>Ibid., September 16, 1887.

<sup>75</sup>Ibid.

detail below, was highly touted in the press but came to nothing. The only such plan in fact to be converted into a functioning organization was the concept which became the American Cattle Trust.

If McGillin's proposals may be considered the inspiration behind the trust, the father of the actual organization was undoubtedly Thomas Sturgis.<sup>76</sup> A rather typical example of the young Easterners who poured time and money into the range cattle industry, Sturgis was in 1887 president of the Union Cattle Company, a Wyoming corporation capitalized at \$300,000. He had important financial connections in Boston and New York and was a recognized leader of the industry in the northern plains. He was thus perhaps an ideal organizer of a trust which was intended to hold the confidence of Western ranchers and Eastern capitalists alike. Sturgis had the help of his family and Eastern friends, and the support of some prominent Western cattlemen. Richard G. Head of New Mexico and Colorado, the president of the International Range Association, was an early backer, a trustee, and for some time the trust's general range manager. John L. Routt, sometime governor of Colorado, was a trustee, as were Jared L. Brush and John T. Lytle who were respectively the managers of the trust's Colorado and Texas departments. The Wyoming department was managed in the early months by Francis Warren, entrepreneur, Republican politician, and future United States Senator from Wyoming. In charge of the processing department in Chicago was Nelson Morris, whose Fairbank

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<sup>76</sup>Gressley, Bankers and Cattlemen, 261-62, and "American Cattle Trust," 65-66; National Cyclopedia of American Biography, XXX, 326-27.

Canning Company was supposed to turn the steers into consumable beef.<sup>77</sup>

In form the cattle trust was modeled on Standard Oil, a copy of whose trust agreement the Sturgises secured "through influence."<sup>78</sup> A self perpetuating board of trustees was given complete control of the management,<sup>79</sup> and property was acquired by the issuance of trust certificates which were exchanged for the stock of companies, or were used to purchase cattle. In addition, capital was raised by the sale of certificates for cash. The certificates, or shares, bore a par value of one hundred dollars each but were considered to have an actual value of twenty-five cents on the dollar.<sup>80</sup> Only unencumbered properties were supposed to be accepted by the trust, but, in fact, several of the companies carried mortgages and some were in desperate financial condition.<sup>81</sup> It was charged with some justification that the trust was "the greatest

<sup>77</sup>Gressley, "American Cattle Trust," 65-70. The personnel involved in the trust is the subject of some confusion. Sturgis was certainly the first chairman and Head, Lytle, Routt, and Warren were probably among the Western trustees, or directors, at the beginning. The identification of the first Eastern trustees is more difficult. Gressley names Charles F. Smillie, Richard T. Wilson, Jr., and Samuel Thomas, and indicates that they were recruited by Sturgis. It would seem that Richard T. Wilson, Sr., was involved in the trust from the beginning, but I have seen no evidence that his son was a trustee. McGhee's friends, Samuel Thomas and Calvin Brice, appear to have been interested in the trust as early as 1887.

<sup>78</sup>Gressley, Bankers and Cattlemen, 261, quoting F. K. Sturgis to Henry L. Higginson, April 7, 1887, Higginson Collection, Baker Library, Harvard University.

<sup>79</sup>McGhee to Winslow, Lanier & Co., June 15, 1888.

<sup>80</sup>Baxter to McGhee, April 29, 1887; McGhee to Baxter, May 18, 1887.

<sup>81</sup>Northwestern Livestock Journal, September 16, 1887.



aggregation of financial cripples now attached to the livestock business of this or any other country."<sup>82</sup>

This criticism struck at the weakest aspect of the combination, but there were other frailties which were not immediately apparent. Not the least of these was that the trust represented varying and sometimes contradictory things to different people. It appealed to some as "an attempt to make cattle paper a medium of speculation."<sup>83</sup> What has been called "the highly speculative nature" of the stock was a lure to some investors.<sup>84</sup> To those who were convinced that the only way to fight monopoly was with monopoly, the trust might have seemed the cattleman's solution in the battle with the "Beef Ring." Finally, the trust was the last resort for some practical managers and investors driven to the wall by the cattle country depression. As the Anglo-Irish investor, Horace Plunkett, said, after consulting with the stockholders of the Frontier Cattle Company on the question of joining the trust: "We agreed that we did not like the scheme but saw no less objectionable way of liquidating a debt."<sup>85</sup> Besides these sometimes conflicting objectives there were built-in difficulties which became apparent in time. For example, the trustees were not answerable to the stockholders or to

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<sup>82</sup>Ibid., quoting New Mexico Stock Grower.

<sup>83</sup>Sir Horace Curzon Plunkett, manuscript diaries, 1881-1932 (microfilm in Bancroft Library, University of California, Berkeley), April 17, 1887.

<sup>84</sup>Gressley, "American Cattle Trust," 69.

<sup>85</sup>Plunkett diary, May 10, 1887.

the public, since among the supposed benefits of the trust organization was secrecy and the consolidation of managerial power.<sup>86</sup> But the board was often torn by disagreements which sometimes paralyzed the management and prevented action. Under these circumstances it is surprising that the trust lasted as long as it did and that it did not collapse in bankruptcy. Only the skill and determination of an Eastern financier saved it from such a disaster at the outset.

Among those who were attracted early to the cattle trust were Baxter and McGhee. Disappointed for the moment in his political career, the young man spent the winter of 1886-1887 in the East. Even before he heard of the trust he was interested in disposing of some of his Wyoming cattle and land. He hoped to exchange them for stock in a new company being organized by Alex Swan, the colorful promoter who had channeled much British capital into the range cattle business.<sup>87</sup> The financial embarrassment of Swan, culminating in the collapse of the Swan Land and Cattle Company in the spring of 1887, destroyed this possibility.<sup>88</sup> Then, after returning to Wyoming, Baxter learned of the trust through his father-in-law's friend, Richard T. Wilson, whose Wilson Livestock Company was joining the trust's Texas department.<sup>89</sup>

At first Sturgis was reluctant to accept Baxter's relatively small herd, but he was persuaded when McGhee agreed to buy 2,000 shares

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<sup>86</sup> McGhee to Winslow, Lanier & Co., June 15, 1888.

<sup>87</sup> Baxter to McGhee, January 8, 19, 25, 1887.

<sup>88</sup> Baxter to McGhee, April 27, May 16, 1887. See also Motherhead, Swan Land and Cattle Co. Ltd., 60-88.

<sup>89</sup> Baxter to McGhee, April 29, 1887.

of stock at a cost of \$50,000.<sup>90</sup> McGhee expected that Baxter's shares at the end of the year would be "a negotiable security at least." If Baxter could sell his land as well, McGhee observed, "you will be foot loose and can stay in Cheyenne, come to Tennessee or settle where you like."<sup>91</sup> Both men remained optimistic about trust affairs through the summer, as Sturgis and his cohorts went about the business of accumulating cattle and land.<sup>92</sup> Sturgis frequently consulted McGhee, and the latter wrote that "we agreed upon a plan of action which we intend to work out in the future, if the financial condition of the country will justify any hope of success in that direction."<sup>93</sup> Sturgis estimated that the holdings of the trust in mid-September included 350,000 head of cattle and 400,000 acres of land, as well as Morris' Chicago establishment. He wanted to acquire 150,000 more cattle, "and would want to use \$500,000 money in addition to the certificates to be used in part payment for increasing the herd to that number." Two million dollars was required as working capital for the packing house, making it necessary to raise a total of \$2,500,000 to carry out these plans. "For this purpose," wrote McGhee, "it is proposed to issue \$10,000,000 Trust Certificates which are to be taken at 25% of their par value which would secure the amount of money necessary." It was hoped that with a herd of 500,000 head, 100,000

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<sup>90</sup> McGhee to Baxter, May 7, 18, 1887.

<sup>91</sup> Ibid., May 9, 1887.

<sup>92</sup> McGhee to Baxter, June 27, July 28, 1887; Baxter to McGhee, June 15, July 8, 22, 1887.

<sup>93</sup> McGhee to Baxter, September 15, 1887.

could be sold each year at an average of \$25 per head. This, with an anticipated profit of \$500,000 from the packing house, would make an income of \$3,000,000 annually.

We would have when all this is carried out \$40,000,000 of Trust Certificates which would have cost the holders 25¢ on the dollar. Assuming \$500,000 for working expenses, errors in our calculation, and other contingencies we would have a net income of \$2,500,000 which would be 6% on the par value of the Certificates, now divide this in half and we have left 3% on the Certificates, or more than 10% on the money invested.

Selling the new certificates, McGhee realized, might be difficult, but he retained "great faith in the enterprise if the money can be raised."<sup>94</sup>

It soon became clear, however, that such hopes were wildly optimistic. Sturgis had grossly overestimated the number of cattle owned by the trust, since the total number never approached the figure of 350,000 head.<sup>95</sup> His own Union Cattle Company, which was supposed to be a key trust property, was in dangerous financial straits. When its true condition became known, McGhee estimated that the company's debts were over \$200,000 greater than its assets. At any rate, when the Union's fall roundup was over only 30,000 of the presumed 50,000 cattle could be found.<sup>96</sup> Whether the winter of 1886-1887 had decimated the herd, or whether the company's "book count" had been foolishly inflated, this loss of assets was more than the Union could stand, and in January, 1888, the company went into bankruptcy.<sup>97</sup>

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<sup>94</sup>Ibid.

<sup>95</sup>In 1888 the trust owned 118,045 head. Letterbook, February, 1888-February, 1889, p. 501; McGhee to Baxter, November 30, 1887.

<sup>96</sup>McGhee to Baxter, January 5, 1888.

<sup>97</sup>Baxter to McGhee, January 18, 1888.

The collapse of the Union Cattle Company caused the first great crisis of the trust's career. Sturgis' only hope to save his company had been to incorporate it into the body of the trust before insolvency overtook it. This, McGhee, who had been elected a trustee in December, 1887, was determined to prevent.<sup>98</sup> With the cooperation of his friend Wilson and Nelson Morris, McGhee kept the Union Company out and probably saved the trust by this action.<sup>99</sup> Although he was at first afraid that Sturgis was perpetrating a gigantic swindle, McGhee was later convinced that Sturgis acted honestly by protecting trust cattle which had become entangled with the Union Company herds.<sup>100</sup> At the end of January the trust was almost falling apart and McGhee increased greatly his interest in its affairs, advancing \$1,000 to pay the rent on the New York offices and undertaking to make drastic changes in the management.<sup>101</sup> These changes he hoped to make with the cooperation of Sturgis because McGhee had serious doubts about the ability and honesty of some of the Western trustees. Later, he observed that Sturgis "seemed to grasp the situation but just sat and said or did nothing, like a man in a trance." It was necessary, therefore, to "combine with the West," i.e., the Western trustees, to overthrow Sturgis and his associates.<sup>102</sup> This was accomplished

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<sup>98</sup>W. C. Lane to McGhee, January 4, 1888; McGhee to Baxter, January 5, 1888.

<sup>99</sup>McGhee to Nelson Morris, May 6, 1888.

<sup>100</sup>McGhee to Baxter, January 5, 1888.

<sup>101</sup>McGhee to Sturgis, February 1, 1888.

<sup>102</sup>McGhee to Wilson, June 6, 1888.

at a trustees' meeting in New York in May, 1888. A complete change was wrought in the Eastern management: Sturgis was removed as chairman and his associates, W. C. Lane and Robert Bliss, lost their jobs as secretary and treasurer.<sup>103</sup> Although McGhee was urged to assume the chairmanship,<sup>104</sup> he avoided this and was elected secretary and treasurer.<sup>105</sup> E. M. McGillin, who held approximately 24,000 shares of trust stock,<sup>106</sup> and who in a sense was the originator of the trust idea, became chairman in Sturgis' stead.<sup>107</sup> The trustees decided that the Morris packing plant should be returned, and this was done without financial loss to the trust.<sup>108</sup> In the West, George Baxter became the Wyoming manager and was elected president of the North American and Frontier Cattle companies.<sup>109</sup>

McGhee hoped that McGillin would provide firm coordination of the trust's western affairs, while he himself administered the New York office and kept a watchful eye on the treasury.<sup>110</sup> But no sooner was Sturgis ousted than new difficulties arose. McGillin conceived an intense dislike for R. G. Head, the general manager in the West, which Head returned with

<sup>103</sup> McGhee to Percy R. Pyne, May 12, 1888.

<sup>104</sup> Wilson to McGhee, March 19, 22, 1888.

<sup>105</sup> McGhee to Pyne, May 12, 1888.

<sup>106</sup> Sturgis to McGhee, March 14, 1888.

<sup>107</sup> McGhee to Pyne, May 12, 1888.

<sup>108</sup> McGhee to Nelson Morris, May 6, 1888.

<sup>109</sup> R. G. Head to Baxter, May 24, 1888.

<sup>110</sup> McGhee to Wilson, June 26, 1888.

interest. Exactly where the right lay in the McGillin-Head quarrel is impossible to determine, but relations between the two men soon deteriorated until they refused to correspond with each other.<sup>111</sup> Head had put his New Mexico property, the Phoenix Farm and Ranch Company, into the trust, but he retained a majority of the company's stock which he refused to turn over to McGillin.<sup>112</sup> Demanding that McGillin be removed, Head finally refused to allow funds from the sale of cattle to pass into the trust's New York treasury.<sup>113</sup> McGhee and the other Eastern trustees, though they felt that McGillin had been tactless in his treatment of Head, sternly demanded that the range manager obey the board's instructions.<sup>114</sup> The result of the costly feud was another managerial convulsion in which both McGillin and Head ceased their connection with the trust. McGillin's trust stock apparently passed into the hands of John Claflin of the New York mercantile house, H. B. Claflin and Company.<sup>115</sup> A Claflin associate and attorney, Charles W. Gould of New York, was made chairman in January, 1889, though Thomas Sturgis vainly tried to regain that office.<sup>116</sup> The position of general range manager was left unfilled,

<sup>111</sup>Head to McGhee, August 27, 1888.

<sup>112</sup>Baxter to McGhee, October 9, 1888.

<sup>113</sup>Head to McGhee, August 7, 1888.

<sup>114</sup>McGhee to Head, August 31, 1888.

<sup>115</sup>McGillin seems to have gotten into serious financial difficulty in late 1888, and as a result H. B. Claflin and Company assumed ownership of his shares. See John Claflin to McGhee, November 16, 1888, and January 1, 1889.

<sup>116</sup>McGhee to Claflin, January 7, 1889.

and the Western management remained divided into three departments managed by George Baxter, Jared L. Brush, and John T. Lytle.<sup>117</sup>

By the spring of 1889 the cattle trust was two years old, and its nature, along with its management, had substantially changed. It had never seriously sought to monopolize cattle production and certainly never came close to this goal. After the return of the packing plant to Morris, the trust became in reality just a very large cattle company without pretense of combining the production and processing phases of the beef industry. Still the dream of such a combination persisted in some quarters. Rumors of a new beef combine began to circulate in the summer of 1888,<sup>118</sup> and in February of the following year it was reported that a company controlling over a million acres, 200,000 cattle, refrigerated railroad cars, and a Kansas City packing plant had been organized under New Mexico laws.<sup>119</sup> The corporation's officers were said to include John H. Flagler, J. O. Moss, and other leaders of the American Cotton Oil Trust, and the company was rumored to be planning retail outlets in Eastern cities. So great was the scheme that it was referred to as "The Big Four's Rival."<sup>120</sup> Actually the American Meat Company, as it was properly called, originally seems to have been the creation of Stephen Dorsey, New Mexico ranch owner, and a figure in the Star Route mail frauds.<sup>121</sup> Dorsey approached McGhee with a consolidation proposal and

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<sup>117</sup> This arrangement prevailed from January, 1889, until January, 1890. See Baxter and Brush to McGhee, February 3, 1890.

<sup>118</sup> New York Times, August 16, 1888.

<sup>119</sup> Ibid., February 23, 1889.

<sup>120</sup> Ibid.

<sup>121</sup> McGhee to Charles Gould, May 9, 1889; Dictionary of American Biography, V, 387.



a tentative agreement was made to sell 60,000 shares of cattle trust stock to the meat company at twenty-five cents on the dollar, ten cents being in cash and fifteen in meat company stock.<sup>122</sup> In describing this agreement to Charles Gould, McGhee pointed out that although the two of them and several other trustees controlled enough cattle trust stock to personally furnish the 60,000 shares, they were honor bound to distribute the benefits of the sale among all the shareholders:

I feel quite sure you will agree with me that in occupying the position of Trustees we are prevented from exercising the rights of stockholders as we could were we not Trustees. That is we must look out for the interests of all parties for whom we are Trustees.

Now I would just as soon, and I think a great deal rather, that the whole thing "upset" as I have no great faith in Dorsey, as from the representations of others he is entirely unreliable in his statements.<sup>123</sup>

McGhee's suspicions were soon fulfilled, for in May, 1889, J. W. Davis and Company, agents for the meat company, stopped selling its stock as a result of the withdrawal of Flagler<sup>124</sup> and his cotton oil trust associates from the management. It was rumored that the "Big Four," who used great quantities of cotton oil products, had pressured Flagler and the others to abandon the meat company.<sup>125</sup> Efforts to reorganize the scheme under the leadership of former Senator Warren Miller of New York were not successful, but the cattle trust continued to entertain

<sup>122</sup> McGhee to Wilson, May 14, 1889.

<sup>123</sup> McGhee to Gould, May 9, 1889.

<sup>124</sup> McGhee to John G. Moore, May 17, 1889.

<sup>125</sup> New York Tribune, April 12, 1889.

the idea of some kind of merger or traffic agreement with the meat company if it should in fact materialize.<sup>126</sup> McGhee even considered buying the company's Kansas City meat packing plant for the trust, but one of the Western trustees advised against it, and the purchase was never made.<sup>127</sup> By the end of 1889 the talk of a great meat company faded away, and this failure to organize probably marked the end of efforts to create a completely integrated meat supplier.

Though he often expressed the belief that cattle trust stock was worth at least 25 percent of its par value,<sup>128</sup> neither McGhee nor any others were able to sell shares for as much as twenty-five cents on the dollar, a not remarkable situation since the trust had never paid a dividend. Still, the hope of successful speculation in its shares remained a major motive of the trust's managers. Trust shares generally were considered "glamour stocks" by part of the investing public, and the cattle trust, because of its name, probably shared in this identification.<sup>129</sup> When the trust's shares were first quoted on the New York Exchange in the summer of 1889, the price ranged as high as nineteen.<sup>130</sup> At this time McGhee and another trustee, Samuel Thomas, traded heavily

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<sup>126</sup> McGhee to J. L. Brush, August 5, 1889.

<sup>127</sup> Brush to McGhee, August 22, 1889.

<sup>128</sup> See, for instance, McGhee's letters to Winslow, Lanier & Co., July 3, to Brush, July 22, to Routt, July 31, and to Dr. G. A. Baxter, November 8, 1889.

<sup>129</sup> Baxter to McGhee, June 30, 1889.

<sup>130</sup> McGhee to Fleming, July 15, 1889. The trust was not listed by the New York Stock Exchange, but its shares were quoted. The prices are reported in the New York Times, July-August, 1889.

in the shares and over the course of a few days made a profit of over \$5,000 apiece.<sup>131</sup> It was well that they seized this opportunity, for neither the cattle trust's nor the Western Union Beef's stock ever again exceeded nineteen in the quotations, and the shares usually sold for considerably less.<sup>132</sup>

It was probably the failure of the trust's stock to be taken up by the public in an enthusiastic manner which led McGhee and others to consider making it into a corporation. Public opinion became increasingly hostile towards trusts, and in 1890 Congress responded by passing the Sherman Act, which was supposed to make such "combination in restraint of trade" illegal. The name "trust" had thus outlived its usefulness as a way of making stock a speculative security, and the trustees decided to create the Western Union Beef Company out of the American Cattle Trust.<sup>133</sup> McGhee assumed the chairmanship in January, 1890, and from that time on the treasury was handled by Richard T. Wilson's firm.<sup>134</sup> In order to "assure harmony in the management," McGhee and Wilson in the

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<sup>131</sup>See McGhee & Thomas in account with J. W. Davis & Co., transaction receipts, July, 1889.

<sup>132</sup>Fluctuations of the prices of American Cattle Trust and Western Union Beef during the 1890's may be followed in the Commercial and Financial Chronicle.

<sup>133</sup>On November 8, 1889, McGhee wrote Dr. G. A. Baxter that "public sentiment is so bitterly against trusts that it is impossible to get anything like the real value for such stocks at present."

<sup>134</sup>In May, 1890, McGhee actually resigned the chairmanship, but this may have been a maneuver to encourage Claflin to sell his stock. Likewise, Wilson may have temporarily surrendered the treasury of the trust to McGhee in the summer of 1890. It is clear, however, that after the middle of 1890 McGhee and Wilson were in complete control of the cattle trust and later of the Western Union Beef Company.

spring of 1890 bought the stock held by John Claflin and the way was cleared for dissolution into a corporation.<sup>135</sup>

The details of reorganization were handled by William Nelson Cromwell, of the New York law firm of Sullivan and Cromwell, and by Judge C. G. Symes of Denver, a large stockholder.<sup>136</sup> By the end of the year the necessary number of assents from stockholders had been received, and on January 1, 1891, the trust officially became the Western Union Beef Company.<sup>137</sup> An exchange of shares was made on a one-for-one basis, the corporation being capitalized at \$15,000,000 with 136,000 shares of issued stock worth \$100 per share at par.<sup>138</sup> Ironically, the trust was really stronger at the time of its demise than it had been since its founding. Cattle prices were a little higher in 1889 than in the two preceding years, and the trust managed to make a profit of \$89,581.48, as compared to a profit of only \$48,188.73 during 1887 and 1888.<sup>139</sup> A dividend would probably have been declared had it not been decided to change the trust into a corporation.<sup>140</sup> Payment was therefore postponed

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<sup>135</sup>McGhee to Bruce F. Johnson, June 2, 1890; see also, McGhee's stock ledger, p. 45, for the Claflin transaction.

<sup>136</sup>McGhee to Symes, August 1, 1890.

<sup>137</sup>McGhee to Cromwell, December 24, 1890. Statements of the American Cattle Trust were through December 31, 1889. Those of the Western Union Beef Company began on January 1, 1890.

<sup>138</sup>Western Union Beef Company Letterbook. Cited hereafter as W. U. B. Letterbook.

<sup>139</sup>Ibid., 156-57.

<sup>140</sup>Although Gressley cites a statement of the trust which indicates that a 3 percent dividend was paid, I have found no evidence of a dividend prior to the 1/2 of 1 percent paid by Western Union Beef in February, 1891.

until 1891 when the trust stock was exchanged for Western Union Beef shares, and the dividend appeared to the credit of that company.<sup>141</sup>

The officers of the new company were C. M. McGhee, president; C. G. Symes, vice president; C. T. Leonhardt, secretary; and C. H. Bosher, of R. T. Wilson and Company, treasurer. In the West, the northern department, consisting of Wyoming, Montana, and a feeding station at Neligh, Nebraska, was managed from Cheyenne by George Baxter. The Colorado department, composed of Colorado and the Texas panhandle, was run by J. L. Brush of Greeley; the Texas department, by John T. Lytle with headquarters in San Antonio.<sup>142</sup> The company owned 295,212 acres, most of which were located in Texas, "conservatively valued" at \$1,060,365. Two thousand acres in Colorado and 2,248 acres in Wyoming formed the core of operations in the states where cattle grazed mostly on the open government-owned ranges. The 1,448-acre farm in central Nebraska was used for feeding cattle on grain. The company usually owned over 100,000 cattle and sold from 7,000 to 18,000 head a year.<sup>143</sup> Typically, the Texas ranches were used as breeding grounds from which the immature steers and spayed heifers were shipped to the northern ranges where they were fattened and from which they were marketed.<sup>144</sup>

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<sup>141</sup>W. U. B. Letterbook, 321.

<sup>142</sup>In the absence of any complete statement of the officers and organization, I have based this upon a number of letters in the McGhee Papers.

<sup>143</sup>W. U. B. Letterbook, 279-80.

<sup>144</sup>Leonhardt to Baxter, ibid., 344-46.

Unlike its predecessor, Western Union Beef was from the outset under the control of McGhee and Wilson, and the company soon took on the aspect of a family business. McGhee stepped down to the vice presidency in 1892 and was succeeded by Baxter, who continued to manage the northern department.<sup>145</sup> A year later, Richard Wilson's nephew was named general superintendent of the company's Texas ranches.<sup>146</sup> Finally, J. L. Brush was removed, the Colorado and northern departments consolidated, and Baxter moved to Denver to oversee both of them.<sup>147</sup> Thus by 1895 all important positions in the company were filled by members of the two families, or by McGhee's and Wilson's employees. Although apparently never owning a majority of the stock,<sup>148</sup> the two financiers were able to exercise complete control. This was possible for several reasons. The company never demonstrated any great earning capacity and therefore did not make an attractive target for raiders; no outsider would have been tempted to take over such a property when the cattle industry was still suffering from a depression. A successful challenge from among the company's stockholders would almost certainly have had to include men of considerable stature in New York financial circles. McGhee and Wilson lived at the heart of that financial center, possessed large amounts of capital and had access to more. It would have taken a

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<sup>145</sup> McGhee to Baxter, ibid., 63.

<sup>146</sup> Leonhardt to Frank Boulter, ibid., 159.

<sup>147</sup> Leonhardt to Brush, ibid., 316-17.

<sup>148</sup> Lists of stockholders in ibid. McGhee and Wilson together never seemed to own more than a quarter of the total shares.

powerfully connected alliance to have unseated them from control.

Finally, the company was by no means mismanaged. Between 1890 and 1898 it paid a total of  $5 \frac{3}{4}$  percent dividends on its capital stock, an amount which was at least 23 percent on the original cost of the stock to the investor,<sup>149</sup> a record which compares quite favorably with those of cattle companies of similar size in this period.<sup>150</sup>

The most damaging criticism which can be made of the McGhee-Wilson control involves the manipulation of stock. As with the trust, the managers of the company were anxious to boom the price of shares. George Baxter, who keenly felt his financial dependence on his father-in-law, constantly hoped to sell his stock at a favorable price and liquidate his debts. McGhee and Wilson were no doubt more realistic about such matters, and it was not until 1895 that they seriously considered forming a pool to boost the shares on the market. At that time Baxter wrote McGhee:

If you think it would help out the scheme you have on hand I might crowd my beef shipments during July and August. I think by going at it vigorously that I could ship \$150,000 in July and \$200,000 in August, instead of covering the entire season. It occurred to me that it might help matters to have the information go out that we were selling as much as that in one month.<sup>151</sup>

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<sup>149</sup>A stockholder who valued his shares at 25 percent of par (the standard valuation at the founding of the cattle trust) could calculate his return at four times the declared dividend. For a schedule of dividends, see ibid., 321, 473.

<sup>150</sup>See, for instance, Pierce, Matador Land and Cattle Company, 34, 72; Gressley, Bankers and Cattlemen, 86, 275-76; and Motherhead, Swan Land and Cattle Co., 182.

<sup>151</sup>Baxter to McGhee, May 10, 1895.

A month later he offered to sell immature steers in order to increase the company's 1895 profits.<sup>152</sup> Apparently this was done, and a larger than usual dividend was paid in 1895, but only at the cost of paying no dividend in 1896.<sup>153</sup> Even this seems to have failed to produce a strong market for the stock and neither Baxter, McGhee, nor Wilson was able to unload a significant portion of his holdings. McGhee and Baxter, however, made some profit on 2,824 shares which they bought at eight cents on the dollar from John L. Routt of Denver.<sup>154</sup>

Not only was Western Union Beef one of the largest cattle companies in the West, but it may have been unique for the degree to which it was managed from the East. A Colorado corporation, it did not maintain a full time office in Denver until 1895. Although the stockholders' meetings were held in that city as required by the charter, the board of directors always met in New York. Even after Baxter became president, decisions of importance were referred to McGhee and Wilson, who usually made the final determination. Petty matters as well were often brought to the New York financiers for decision. N. T. Wilson, for instance, once asked McGhee's opinion about burning off brush on some of the Texas ranchland,<sup>155</sup> a query which prompted the New Yorker to complain to Baxter that "Wilson is very fond of shirking responsibility and do not like it."<sup>156</sup> Notwithstanding the tight New York control of operations, it is clear that Baxter occupied a key position in the company. He could be relied

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<sup>152</sup>Ibid., June 4, 1895.

<sup>153</sup>W. U. B. Letterbook, 321.

<sup>154</sup>McGhee in account with J. W. Davis & Co., transaction slips, July-September, 1895; Baxter to McGhee, June 2, 1895.

<sup>155</sup>W. U. B. Letterbook, 311.

<sup>156</sup>Ibid., 312.



on to carry out his father-in-law's wishes to the letter, but his judgment as a practical cattleman was respected by both McGhee and Richard Wilson.

Despite a disinclination "to live and die with Western Union Beef,"<sup>157</sup> Baxter was often optimistic about the future of the business. His enthusiasm usually peaked in the early summer when the grass was lush and the herds were growing fat,<sup>158</sup> but it waned as autumn approached and cattle prices sagged.<sup>159</sup> Like so many other cattlemen, he never seemed to realize that a good growing season commonly meant a glutted market in the fall. Similarly, he was unpleasantly surprised by the periodic blizzards or droughts which ruined the best laid plans of stock raisers.<sup>160</sup> The evidence indicates, however, that Baxter was an honest and hard working manager who did the best that he could in those years of hardship.

His most controversial action was his role in the famous Johnson County war.<sup>161</sup> In this connection Baxter has emerged as a scapegoat for those "cattle barons" who, taking the law into their hands, set out to eliminate the "rustlers" in the Powder River country of Wyoming. There is no evidence that Baxter helped to plan and to finance this expedition

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<sup>157</sup>Baxter to McGhee, June 25, 1891.

<sup>158</sup>See, for instance, ibid., April 8, 11, June 9, 23, 1890, May 1, 11, 18, July 21, 1891.

<sup>159</sup>Ibid., September 18, 25, 1890, September 20, October 6, 1891.

<sup>160</sup>Ibid., May 27, 1892, June 20, 1894.

<sup>161</sup>The longest and best (though not especially scholarly) account of the Johnson County War is in Helena Huntington Smith, The War on Powder River (New York: McGraw-Hill Book Company, 1966).

of which he was not a member. This charge, made by Asa Shinn Mercer in his account, The Banditti of the Plains,<sup>162</sup> is reinforced by John Clay in his autobiography, My Life on the Range.<sup>163</sup> As vice president of the Wyoming Stockgrowers Association, Baxter would have presided during Clay's absence at the meetings (if meetings there were) which hatched the invasion. Clay, however, who was in Ireland at the time of the war, published his memoirs more than twenty years after the fact and may have been interested in disassociating himself from an active role in the affair. Mercer's motives in writing his diatribe have been seriously questioned, and it may be that his account was colored by his rivalry with Baxter in the Wyoming Democratic party.<sup>164</sup> Baxter certainly approved of the vigilante raid, but if he did plan it, or back it with money, he apparently did so without McGhee's knowledge.<sup>165</sup> His financial situation was such that he hardly could have afforded to spend personally large sums in such an enterprise, and there is no indication that Western Union Beef did so. The company's board did, however, commend in August, 1892, "the able, bold, fearless and self-sacrificing manner in which

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<sup>162</sup>A. S. Mercer, The Banditti of the Plains; or, The Cattlemen's Invasion of Wyoming in 1892: The Crowning Infamy of the Ages (Cheyenne: A. S. Mercer, 1894; new edition, Norman: University of Oklahoma Press, 1954), 31-48.

<sup>163</sup>John Clay, My Life on the Range (Chicago: privately printed, n. d.; new edition, Norman: University of Oklahoma Press, 1962), 271.

<sup>164</sup>Smith, War on Powder River, 272-80.

<sup>165</sup>That Baxter approved of the invasion is made clear by his letters in March, April, and May, 1892, in the McGhee Papers. The same letters, however, strongly indicate that McGhee knew nothing of the affair until after it took place.

Geo. W. Baxter has defended and tried to protect by all lawful means the interests of this Company in serious civil disturbances, which have occurred in the territory under his management."<sup>166</sup>

The charge made by Mercer,<sup>167</sup> and enlarged and elaborated by Mari Sandoz in The Cattlemen,<sup>168</sup> that Baxter and his foreman stole some of the company's cattle is without foundation. According to the Mercer-Sandoz theory, Baxter's theft was found out during the 1892 round up and he left Wyoming in disgrace. In fact Baxter remained in the state until the winter of 1895, and as a mark of the board's confidence was elected president of the company in August, 1892.

The irony of the Western Union Beef story is that after an eight-year struggle with adversity the company was liquidated at the moment when the range cattle industry began to recover its prosperity. In the spring of 1897 new confidence began to creep back into Western cattlemen, and this proved to be the beginning of a revival which made the industry generally quite prosperous for another decade.<sup>169</sup> Unfortunately, the Western Union Beef Company was not to enjoy it. The years of discouragement and blasted hopes had taken their toll, and the prospect of selling

<sup>166</sup>W. U. B. Letterbook, 64.

<sup>167</sup>Mercer, Banditti of the Plains, 141-42.

<sup>168</sup>Mari Sandoz, The Cattlemen, From the Rio Grande Across the Far Marias (New York: Hastings House Publishers, 1958), 399. In Sandoz' highly colored account the exposure of Baxter's theft is stated as a fact. The only basis for this assertion seems to be Mercer's innuendo which begins: "Some persons have been uncharitable enough to suggest. . . ." Smith in War on Powder River does not mention the Mercer-Sandoz charge against Baxter.

<sup>169</sup>Shannon, Farmer's Last Frontier, 236, 244.

out under favorable market conditions was tempting. In June, 1897, Alex Moore, a Texas stockholder, pointed out to McGhee the advantages of such a liquidation:

Cattlemen are all out of debt and getting rich, land is going up and in demand, crops fine, and the grass and water conditions could not be better, more range than stock to eat it, and cows and heifers wanted at big prices for breeding purposes.

Everything in the stock business seems to prosper except "the Western Union Beef Co," judging from the price of shares in New York for which I see \$5.00 per share is only offered. This does not reflect much confidence in the Company with the public, and seems ridiculous to those who know better.

.....  
If the Company can't make money under present conditions and put the stock up to something near its value, the best thing would be to liquidate, as soon as it can be done to advantage.

.....  
We don't know how long the prices of cattle will keep up, but we do know that they breed fast, and experience has shown that it is a good time to sell cattle when people want to buy, at high prices.<sup>170</sup>

During the summer and fall of 1897 the herds were sold and a 2 per-cent dividend was declared in November.<sup>171</sup> At the beginning of 1898 a circular went out to the stockholders proposing to reduce the capital stock from \$13,600,000 to \$408,000, represented by 4,080 shares of \$100 each, and to change the company's name to the Western Livestock and Land Company:

It is manifest that the outstanding capital stock of the company is out of all proportion to the present value of its assets, and therefore the board proposes to decrease it. . . . The company has marketed most of its cattle constituting its stock, and will soon have in hand therefrom about \$700,000 in cash. It

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<sup>170</sup>Alex Moore to McGhee, June 7, 1897.

<sup>171</sup>W. U. B. Letterbook, 465, 473.

seems undesirable to re-employ said capital in further purchases at this time, and the question is presented whether it shall be retained indefinitely at unprofitable interest rates or be distributed to stockholders by way of reduction of capital. The company is free from indebtedness of any kind. We believe that the change of name and reduction of capital will establish the company in high credit for such operations as its means may permit, and give sound basis for its new capitalization and future operations.<sup>172</sup>

On February 28, 1898, the stockholders, meeting at Denver, approved the proposals, and the Western Union Beef Company went out of existence.<sup>173</sup>

The 1897 and the liquidation dividends, together with the new stock amounted to 10 percent of the par value of the old Western Union Beef stock. The stockholders thus received in cash and new securities an amount in excess of the figures at which the stock had been quoted since December, 1895.<sup>174</sup> The dissolution therefore seems to have been a sensible means of distributing to the stockholders the true value of their shares. This appears still more valid in view of another distribution dividend paid in 1899 which was roughly equal to the par value of the Western Livestock and Land shares.<sup>175</sup> Thus an investor who bought Western Union Beef at, say, eight, in December, 1895, would have received back the original cost of the stock plus a 25 percent return in something over four years' time--hardly a fantastic gain but still a respectable profit. Investors such as McGhee and Wilson, who bought stock in 1890

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<sup>172</sup>Commercial and Financial Chronicle, LXVI (1898), 84.

<sup>173</sup>Ibid., 531.

<sup>174</sup>W. U. B. Letterbook, 480; McGhee Journal, 103.

<sup>175</sup>McGhee Journal, 163.

at 12 1/2, received a total of only about 11 percent above their original investment in a nine year period.

The great losers were those who paid 25 cents on the dollar for cattle trust stock in 1887. Such unfortunates lost quite heavily by the end of the twelve-year career of the trust and Western Union Beef. But most of the stock taken at this valuation was received in exchange for cattle and land which probably could not have been sold for anything like such values during the time of the severest cattle depression. McGhee, of course, paid cash for his 2,000 shares in 1887, but these were less than one third of his 1898 holdings. In the interval he had managed to reduce his losses by moderately successful speculations in the trust's and the company's stock. Perhaps Wilson and other original cash investors did likewise. Both Wilson and McGhee drew other benefits from their association with the enterprise. Wilson's firm got a yearly \$5,000 fee for its services as a financial agent; McGhee drew a salary for being the company's vice president; and both men had relatives and personal employees on the payroll.<sup>176</sup> It would not seem that these rewards were excessive, or that they outweighed the considerable total services rendered by the financiers and their dependents.

The American Cattle Trust was organized at the beginning of a period of drastic readjustment in the range cattle business. Many of the overblown corporations of earlier years were liquidated during the industry's severe depression which lasted into the 1890's. Despite

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<sup>176</sup>W. U. B. Letterbook, 272. The treasurer was an employee of Wilson's firm; the company's secretary was McGhee's private secretary, Charles T. Leonhardt.

frailties of organization and the insolvency of some of its component companies, the cattle trust proved a haven for some Eastern financiers and Western cattlemen whose investments were seriously threatened by these business storms. The cattle trust was probably the product of two major impulses: the urge to "fight monopoly with monopoly" and the desire to create an organization large enough to market its stock on the New York Exchange. The former motive betrayed a sensitivity to the growing sickness of the industry as a whole; something was wrong with the cattle business, and the trust seemed to be a way to correct the defect. The second motive, however, was, in a sense, a testament of confidence in the industry's future. A large organization, it was believed, could consolidate the prosperity of the cattle boom and become a desirable speculative investment. "Fighting monopoly with monopoly," which was the theme of E. M. McGillin's first trust proposal, may indeed be viewed as a manifestation of "protest." It is a mistake, however, to regard the actual cattle trust as essentially a "protest movement." The influence of the "protest" motive may have been strong at the outset, but it quickly faded before the realities of business life.

The emergence of the McGhee-Wilson interest, which became dominant within a year of the trust's founding, marked a shift of power from the West to New York City and a transformation of the trust's raison d'etre. The financiers were interested in simply making the trust a paying enterprise with speculative possibilities. Toward this end they worked with mixed success. The Western Union Beef Company was wholly their creature and was only a new vehicle for their consistent motive. In a sense McGhee and Wilson were thrust into control when Thomas Sturgis' financial

difficulties exposed to them the precarious situation of the trust (and the cattle industry as well). They "took hold of it," as McGhee would say, and saved only a part of the original investment. Had the trust been realistically capitalized from the beginning, their record would have been much better; a more realistic organization and better management at the inception would also have contributed to the project's prospects of success. As it was, the cattle trust and Western Union Beef failed to make much money for their stockholders, or to rehabilitate the cattle industry in general, but the trust and its successor did salvage some of the investments which almost surely would have been lost in the collapse of the range cattle industry's biggest boom.

McGhee's role in the Texas and Pacific was a natural outgrowth of his other railroad activities; his involvement in the Western Cattle business was accidental. Normally his investments were carefully planned and were concentrated in his native state, for Tennessee was the place he knew best, and there he sought returns in railroads, mineral resources, and real estate. The promotion of the area's economic potential was at the heart of these enterprises, but the drive for gain took precedence over all else. Thus, "developmental" and "opportunistic" approaches to investment were mingled as McGhee sought to maximize his profits.<sup>177</sup>

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<sup>177</sup>The terms "developmental" and "opportunistic" were devised by Arthur M. Johnson and Barry E. Supple "to distinguish generally between railroad investments made in anticipation of the long-run gains to be derived from sustained economic growth . . . , and investments made with relatively shorter time horizons, the context of which was not so much future income growth as the securing of profits from available markets--whether for goods, for railroad services, or for stocks and bonds." See Johnson and Supple, Boston Capitalists and Western Railroads, A Study in the Nineteenth-Century Railroad Investment Process (Cambridge: Harvard University Press, 1967), 10.



## CHAPTER VI

### IRON, COAL, AND LAND: INVESTMENTS OPPORTUNISTIC AND DEVELOPMENTAL

The 1880's is crucial in the history of the New South, for this decade represented the "take-off" period for the region's industrialization.<sup>1</sup> The eighties were years of general prosperity in the nation--a time of relief between the panics of the seventies and the severe depression of the early nineties.<sup>2</sup> In the South it was an era of unprecedented commercial and industrial development, when the region's resources attracted the attention of capitalists who exploited them as never before. For years Southern publicists had dwelt on their section's advantages, had begged for Northern capital, had proclaimed what one historian has called the "new order of thought and action."<sup>3</sup> After 1880 there was a

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<sup>1</sup>Woodward, Origins of the New South, 107-41, disagrees with the "scholars who have fixed upon the latter year [1880] as the beginning of 'the industrial revolution' in the South," but he does not dispute the fact that Southern investment and development was accelerated during the decade. The activity of the eighties was especially important in Tennessee. See Constantine G. Belissary, "The Rise of the Industrial Spirit in Tennessee, 1865-1885" (unpublished Ph.D. dissertation, Vanderbilt University, 1949), 256-58. The term "take-off" is used by W. W. Rostow in The Stages of Economic Growth, A Non-Communist Manifesto (Cambridge, England: Cambridge University Press, 1960), 7-9.

<sup>2</sup>In 1873 the United States entered a period of general business depression which lasted until the late 1890's. Except for 1882-85 when there was a recession, however, the decade of the eighties was a lull between the severe depressions of the seventies and the nineties. See Kirkland, Industry Comes of Age, 4-8.

<sup>3</sup>Victor S. Clark, "Modern Manufacturing Development in the South, 1880-1905," Economic History, 1865-1910, Vol. VI of The South in the Building of the Nation, ed. James Curtis Ballagh (13 vols.; Richmond: The Southern Historical Publication Society, 1909), 266.

flood of such propaganda, culminating in Henry Grady's famous "New South" speech of 1886.<sup>4</sup> The ground thus prepared, local businessmen, Northern and foreign capitalists, promoters and speculators launched a multitude of railroad, mining, and manufacturing enterprises. Many of these failed at the first appearance of a contracting economy, but others survived the depressed nineties to continue the industrial "evolution" in the South.

Hardly typical of the old regime, Tennessee nevertheless suffered from the shortage of capital and enterprise which, it was widely felt, had oppressed the entire region.<sup>5</sup> Immediately after the Civil War the Radical Republicans, both for political and economic reasons, encouraged an influx of Yankees and Yankee capital.<sup>6</sup> Even after the end of this Republican rule, Democrats like Joseph Buckner Killebrew<sup>7</sup> and Arthur St. Clair Colyar<sup>8</sup> promoted immigration and industrial development. Thus the state was well prepared for the long heralded boom of the eighties.

It was fitting that much of this economic activity was centered in East Tennessee. The "invitation to carpetbaggers" had been issued during the administration of a Knoxville Republican, Governor William G. Brownlow, and, East Tennesseans remaining loyal to the Republicans after the

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<sup>4</sup>Paul M. Gaston, The New South Creed, A Study in Southern Mythmaking (New York: Alfred A. Knopf, 1970), 17-45; Belissary, "Rise of the Industrial Spirit," vi-ix.

<sup>5</sup>Ibid., 128-34.

<sup>6</sup>Hesseltine, "Tennessee's Invitation to Carpetbaggers."

<sup>7</sup>Samuel Boyd Smith, "Joseph Buckner Killebrew and the New South Movement in Tennessee," East Tennessee Historical Society's Publications, No. 37 (1965), 5-22.

<sup>8</sup>Clyde L. Ball, "The Public Career of Colonel A. S. Colyar, 1870-1877," Tennessee Historical Quarterly, XII (1953), 23-47, 106-28, 213-38.

restoration of Democratic rule in the state, could justly claim that their section was receptive to northern men and ideas. In 1869 the Knoxville Industrial Association was formed to promote immigration and encourage the development of the area's natural resources.<sup>9</sup> The first president of the organization was John W. North, a New York adventurer who soon failed in Knoxville as an iron master and moved on to become one of the founders of Riverside, California.<sup>10</sup>

Other Northerners were more successful in establishing prosperous manufacturing enterprises in East Tennessee. Among the most prominent were John T. Wilder and Hiram S. Chamberlain, who were intimately associated with the development of the iron industry in the area. Wilder, a Union brigadier, and Chamberlain, Federal chief quartermaster of East Tennessee, discovered the potential of the region's iron ore during the Civil War and remained to exploit it.<sup>11</sup> In 1868 Chamberlain, with a Welsh ironmaster, David Richards, incorporated the Knoxville Iron Company which continues to this day the manufacture of finished iron products.<sup>12</sup> Together with Wilder and other Northern investors, Chamberlain founded in 1867 the Roane Iron Company, a more ambitious project, which manufactured

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<sup>9</sup>Knoxville Industrial Association, Facts and Figures Concerning the Climate, Manufacturing Advantages, and the Agricultural and Mineral Resources of East Tennessee (Knoxville: T. Haws and Co., 1869).

<sup>10</sup>Merlin Stonehouse, John Wesley North and the Reform Frontier (Minneapolis: University of Minnesota Press, 1965).

<sup>11</sup>Morrow Chamberlain, A Brief History of the Pig Iron Industry of East Tennessee (Chattanooga: Privately printed, 1942), 6.

<sup>12</sup>Joseph Harold Clark "History of the Knoxville Iron Company" (unpublished Master's thesis, The University of Tennessee, Knoxville, 1949).

pig iron until 1930.<sup>13</sup> Although Wilder is perhaps better known and was certainly a talented promoter, it is Chamberlain who typifies the creative entrepreneur developing the resources of the South.

The Roane Iron Company built the South's first coke burning furnace which went into blast at Rockwood, some fifty miles southwest of Knoxville, in 1868. Drawing its ore and coal from mines at the foot of nearby Walden Ridge, the company produced pig iron which for a time competed successfully in the Southern market and later was sold in other sections of the country. In 1870 the Roane Company merged with the Southwestern Iron Company which for several years had operated a rolling mill at Chattanooga. Now the possessor of properties which made possible fully integrated production, the company plunged into the manufacture of iron rails for the South's expanding railroads. By 1876 the Roane Iron Company, with a paid up capital of one million dollars, employed over five hundred men at Chattanooga and half that number at Rockwood. It annually made 24,000 tons of pig iron and rolled 28,000 tons of rails. With the rising demand for steel rails and the accompanying decline in sales of iron the company installed new equipment at Chattanooga, and in 1878 manufactured the first steel made in the South. Although 50,000 tons of steel rails were produced, a drop in the price of rails and the difficulty of obtaining the proper ore forced the company in 1883 to abandon this pioneer effort in steel-making. A few years later, however, a five-ton Bessemer converter was purchased, and the South's first Bessemer steel

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<sup>13</sup>Chamberlain, Brief History, 6-8.

was made at Chattanooga in 1887.<sup>14</sup> It was about this time that McGhee began to take an interest in the Roane Iron Company, and for fifteen years thereafter he maintained a close relationship with Chamberlain and exercised a strong influence on the company.

During the first twenty years of Roane Iron's history there were two dominant groups of stockholders. One was composed of the founders of the company, Wilder, Chamberlain, and several Ohio and Indiana capitalists. As a result of the merger with Southwestern Iron, Abram S. Hewitt and other Easterners became Roane stockholders.<sup>15</sup> Wilder left the company in 1871, and Chamberlain, moving from Knoxville to Chattanooga, became vice president and general manager. Succeeding to the presidency in 1881, he retained that position until his death in 1916.<sup>16</sup> For more than forty years he was the guiding spirit of Roane Iron, marking the company with what one economist has called Chamberlain's "unusually good record" as a creative entrepreneur.<sup>17</sup> But though Chamberlain had the imagination and energy to pioneer on industrial frontiers, he lacked the capital to underwrite experimentation or to sustain the company in hard times. It is unlikely that the Midwestern stockholders had the means or the inclination to take much part in their Southern investment,

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<sup>14</sup>Ibid., 6-9; James F. Doster, "The Chattanooga Rolling Mill: An Industrial By-Product of the Civil War," East Tennessee Historical Society's Publications, No. 36 (1964), 54.

<sup>15</sup>Allan Nevins, Abram S. Hewitt, with Some Account of Peter Cooper (New York: Harper & Brothers, 1935), 253.

<sup>16</sup>Moore, Tennessee, the Volunteer State, III, 70-75.

<sup>17</sup>Redlich, History of American Business Leaders, I, 104.

and though Abram Hewitt talked a good deal about the future of the South, his remarkable caution seems to have prevented his doing very much in that direction. Thus Chamberlain turned to McGhee, the Southern capitalist recently moved to New York, for the financial connections and expertise which Roane Iron badly needed.

The two men had known each other since the Union army's occupation of Knoxville; probably they had business dealings prior to Chamberlain's removal to Chattanooga. They had different talents and backgrounds and belonged to different political parties but they must have seen business matters in much the same way. Both were conservative about money but were willing to take a chance for a profit. Neither would have hesitated to liquidate or sell the company at the right price, but both men remained convinced that it had a profit-making potential as long as it was soundly managed. Chamberlain was a skilled industrial manager, McGhee a resourceful financial director. They formed a strong affinity which withstood disagreement and adversity, and together they saw Roane Iron through a crucial time in its history.

Just when McGhee bought stock in the company is unknown, but he was a member of its board when the important decision to make Bessemer steel was considered in 1886.<sup>18</sup> In the summer of that year he purchased more stock and persuaded his business associate, Samuel Thomas, an experienced ironmaster, to take some shares.<sup>19</sup> At the autumn stockholders'

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<sup>18</sup> Chamberlain to McGhee, May 25, 1886. All manuscript references in this chapter are to the McGhee Papers.

<sup>19</sup> Ibid., July 22, 1886.

meeting of the Memphis and Charleston Railroad he had Chamberlain elected a director, remarking that "the position will do you no harm."<sup>20</sup> In January, 1887, he wrote that he was holding back an order of a thousand tons of rails for the M. & C. until Chamberlain was ready to bid on them.<sup>21</sup> He persuaded the East Tennessee to "take all their rails from you at what it would cost them to buy the rails from other mills and lay them down at either Memphis, Brunswick, or Bristol, giving you the benefit of the freight."<sup>22</sup> Besides making these helpful arrangements McGhee sympathized with Chamberlain's desire for building up a capital surplus. Reacting to the declaration of a 3 percent dividend in December, 1886, he wrote:

As you say, it was not advisable that the dividend should have been paid and while we cannot help this, we can avoid such mistakes in the future, and if the directory as it now stands are a class of men who cannot be controled [sic] in such matters we must make such changes as will secure a highly conservative management.<sup>23</sup>

Obviously he was taking a strong interest in the company; in return he expected regular reports from Chamberlain on production, sales, and general progress. But deep in the complexities of converting to the Bessemer process Chamberlain seemed unable to satisfy his friend's thirst for information and responded to McGhee's questions by explaining that:

I dislike very much to write unless I can say something positive one way or the other, either good or bad, and besides I have had so many annoyances to contend with and so much

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<sup>20</sup> McGhee to Chamberlain, October 26, 1886.

<sup>21</sup> Ibid., January 24, 1887.

<sup>22</sup> Ibid., January 28, 1887.

<sup>23</sup> Ibid.

shaping up to do, that I have been kept on the jump constantly, and I have given little thought to anything or anybody outside of the work here. Have a little patience, and after a while I shall have time to make my reports more promptly. I wish you could have two weeks of starting a steel mill. (No I don't). We are gaining every day, and I hope before long to make satisfactory reports.<sup>24</sup>

McGhee, however, did not regard patience as a virtue in matters of this sort. Chamberlain's silences seemed inexplicable, and he was finally moved to write:

I am very much at a loss my dear Captain, to account for your extreme reticence with reference to the operations of the Roane Iron Company[.] If the Company has done remarkably well and you desire to give me an agreeable surprise by a favorable statement or that you have met with difficulties in your operations and do not wish to make a statement on that account which I very much fear, I of course am unable to say, but in either event you are making a mistake as my relations to the Company and to yourself personally are such as to entitle me to full and explicit information with reference to the Company's operations which I am sorry to say you do not seem to appreciate and up to the present time no effort upon my part to extract the information which I think is due me has been successful.

This is the last appeal I shall make on this subject.<sup>25</sup>

To his credit, Chamberlain was able to accept these rebukes with good humor and to mollify McGhee with information about production and sales. Through the fall of 1887 and winter of 1888 the Captain tinkered with machinery, changed production managers, cajoled workers, and was able to make and market steel rails.<sup>26</sup> In New York the no less important task of financing the company went forward under the direction of the Colonel,

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<sup>24</sup>Chamberlain to McGhee, May 16, 1887.

<sup>25</sup>McGhee to Chamberlain, July 29, 1887.

<sup>26</sup>See, for instance, Chamberlain to McGhee, June 13, September 2, 8, 26, October 27, 1887, February 16, March 28, 1888.



who endorsed notes and managed to keep Roane Iron's debt afloat.<sup>27</sup>

The best efforts of both men, however, were not enough to make the venture in steel making a success. The trouble was in the quality of rails made for the East Tennessee system. The railroad's general manager, Charles H. Hudson, on the recommendation of his superintendent, rejected a shipment found to have imperfections of length.<sup>28</sup> Although Chamberlain maintained that the trouble could be corrected easily, the East Tennessee suspended for several weeks its orders for rails, and the Roane Company was forced to shut down during most of the month of March, 1888.<sup>29</sup> "All you will have to do," McGhee advised, "is to convince Hudson you will make him good rails and I am sure he will, as far as possible, endeavor to favor you, as of course he knows of Thomas and my interest in the mill."<sup>30</sup> But the Roane Company could not afford even temporary reverses. "Not working in March," wrote Chamberlain, "has left us in no condition to meet April bills, and I say frankly, I am at my wit's end."<sup>31</sup> The company owed \$9,000 to the Cranberry mines for ore and unless this could be paid, "our position is very serious. It is a humiliating thing," Chamberlain confessed to his friend, "to annoy you with these matters, but I am compelled to talk with somebody, and there is no one here who can appreciate the situation or give any

<sup>27</sup> McGhee to Chamberlain, August 13, 1887, February 23, 1888.

<sup>28</sup> Chamberlain to McGhee, February 16, 1888.

<sup>29</sup> Ibid., April 9, 1888.

<sup>30</sup> McGhee to Chamberlain, April 7, 1888.

<sup>31</sup> Chamberlain to McGhee, April 9, 1888.

comfort."<sup>32</sup> McGhee was not unsympathetic, but he felt it necessary to lecture Chamberlain on what he regarded as the root of the problem:

The Superintendent of your Mill must be thoroughly incompetent or these things would not occur. If it had not been for the interest that General Thomas and I had in the Mill and that Major [Henry] Fink desired to do all he could to encourage the manufacture of rails on the line of his road, the difficulties they have had in securing perfect rails, would have long since made them abandon any effort in that direction.

I know you have done the best you could and that you have been very much worried in regard to the matter and if I could see any way in which I could relieve you I should cheerfully do so, but the only place it can be helped is in the mill.<sup>33</sup>

In the end McGhee got the East Tennessee to lift its ban on Roane rails, endorsed the company's \$9,000 note and got it discounted at Thomas' Chase Bank in New York.<sup>34</sup>

Although a disaster had been averted at least temporarily, the situation remained precarious. McGhee was alarmed that the Rockwood furnaces, which had been supporting the entire property, seemed to be running at a loss.<sup>35</sup> The company's 1888 statement confirmed this, and McGhee observed that something was "radically wrong," adding that "unless the Rockwood property can so far improve its condition and earning capacity as to meet the interest on our floating debt, the sooner we foreclose and sell out the whole concern, the better it will be for all parties interested."<sup>36</sup>

The answer, in fact, to the company's troubles was to dispose of the Chattanooga steel facility which had been a costly failure. Both

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<sup>32</sup>Ibid., April 10, 1888.

<sup>33</sup> McGhee to Chamberlain, April 11, 1888.

<sup>34</sup>Ibid., April 19, 1888.

<sup>35</sup>Ibid., November 30, 1888.

<sup>36</sup>Ibid., February 1, 1889.

McGhee and Chamberlain recognized this reality and as early as the summer of 1888 had considered getting rid of the property.<sup>37</sup> In the spring of 1889 a large party of Eastern capitalists toured the South in search of investment opportunities and on this occasion Chamberlain discussed a sale with Abram Hewitt. "He is very much impressed," reported Chamberlain, "with the idea of making basic steel in Chattanooga from the cheap pig irons of this section, and intimated that if he could get the property here at the right terms he and other New York parties might feel disposed to take hold of the enterprise."<sup>38</sup> Characteristically, Hewitt delayed a decision until his return from a visit to Europe to study steel making processes.<sup>39</sup>

Meanwhile others became interested in the Chattanooga property. Tennessee Coal, Iron and Railroad Company, undergoing one of its periodic management upheavals, lost the services of two of its top officials, Alfred Montgomery Shook and Nathaniel Baxter, Jr. Both were allied with one of Tennessee Coal's largest stockholders, John H. Inman, who had temporarily lost control of the company.<sup>40</sup> Casting about for new employment, Shook proposed to buy the Chattanooga mill for the Southern Iron Company which he, Baxter, and Inman were organizing.<sup>41</sup> The delicate negotiations which finally led to the sale were handled in New York by McGhee, who had the difficult task of persuading Roane Iron's scattered

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<sup>37</sup>Chamberlain to McGhee, July 14, 1888.

<sup>38</sup>Ibid., March 26, 1889.

<sup>39</sup>Ibid.

<sup>40</sup>Ibid.

<sup>41</sup>Shook to Chamberlain, April 23, 1889.

shareholders. He was particularly anxious to make the sale because in August, 1889, he assumed most of the company's floating debt, which could be liquidated only by selling the Chattanooga property. To avoid the appearance of conflicting interests McGhee resigned from the Roane's board and suggested that his son-in-law, Calvin McClung, be named in his place.<sup>42</sup> This move he felt was necessary because he was charging 8 per-cent interest on the company's \$150,000 debt. "This is a very high rate," he admitted, "but I have failed to find others willing to take any off my hands."<sup>43</sup>

Although a price of \$250,000 for the mill was quickly agreed upon, there was much haggling about the terms of sale. Shook, Baxter, and In-man offered part in cash and part in bonds of the Southern Iron Company.<sup>44</sup> McGhee and Chamberlain were willing to accept this arrangement since the mill was, in McGhee's words, "worthless in its present condition,"<sup>45</sup> but several of the Roane Company's Midwestern stockholders objected to this low price for what one described as "perhaps the best unoccupied location for a steel mill in the country."<sup>46</sup> Thoroughly disgusted at this opposition, McGhee told Antrim R. Forsythe of Indiana:

My interest in the Roane Iron Company is not so large as to make it a sine qua non that the property should be saved, but my high regard for Capt. Chamberlain and his extreme anxiety

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<sup>42</sup> McGhee to Chamberlain, August 6, 1889.

<sup>43</sup> McGhee to Antrim R. Forsythe, September 5, 1889.

<sup>44</sup> "Preliminary Agreement," Letterbook, 1889-1892, p. 242.

<sup>45</sup> McGhee to Forsythe, September 5, 1889.

<sup>46</sup> Forsythe to McGhee, September 7, 1889.

to bring it out all right has induced me to advance money and to aid him to a very large extent, and having no interest in any concern with which we are likely to trade, I feel that I am in a position to look calmly and dispassionately at the condition of things and . . . I feel my views are entitled to more consideration than you gentlemen are disposed to give them.<sup>47</sup>

McGhee's firm arguments and his implied threat to wash his hands of Roane Iron had the desired effect. The Midwesterners, representing one third of the company's stock, capitulated, and Forsythe admitted that "It seems I was unjustly suspicious . . . in the matter. I am perhaps morbid in my dread of the ways of 'Wall Street.'"<sup>48</sup> The Chattanooga plant was finally sold in October, 1889, for \$200,000 cash and \$50,000 in Southern Iron bonds.<sup>49</sup> McGhee was relieved and looked forward to better days for the company now that its floating debt was reduced and its operations restricted to the Rockwood iron furnaces. The attempt at steel making, he told Calvin McClung, had cost the company \$200,000, but notwithstanding this loss he felt that the stock was a good investment at fifty cents a share.<sup>50</sup> In February, 1890, he bought another 122 shares for \$6,100.<sup>51</sup>

In order to sell the Chattanooga plant McGhee had been obliged to make a small investment in the Southern Iron Company, taking \$12,500 of its bonds and \$18,750 of its stock and becoming a member of the board of

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<sup>47</sup> McGhee to Forsythe, September 6, 1889.

<sup>48</sup> Forsythe to McGhee, September 9, 1889.

<sup>49</sup> McGhee to Nat Baxter, October 19, 1889.

<sup>50</sup> McGhee to McClung, October 19, 1889.

<sup>51</sup> McClung to Leonhardt, March 18, 1890.

directors.<sup>52</sup> Despite this involvement he never took much interest in the affairs of the company. Southern Iron spent heavily on its Chattanooga property, and on September 15, 1890, its new furnaces produced the first basic steel to be made in the South. Within a year this experiment had failed too, and the Chattanooga plant shut down permanently.<sup>53</sup> McGhee and Chamberlain appear to have been right in the decision to sell the steel plant at a sacrifice. The South's most capable iron manufacturers had tried to make steel there and failed utterly. Not until 1899 was steel again made in the South, and then it was at Birmingham rather than at Chattanooga.<sup>54</sup> Southern Iron was liquidated but the Roane company concentrated upon its Rockwood iron furnaces and survived the depression of the nineties which swept many other companies into bankruptcy.

Among the reasons for Roane's rapid recovery from the nearly fatal experiment in steel making was its venture into town promotion. Though a discreditable incident in the company's history, the sale of lots at the town of Rockwood helped to cover some of the recent losses. The idea for such an enterprise was naturally suggested by the outbreak of feverish town promotion schemes which were sweeping the South at the time. Cardiff and Harriman, two town sites near Rockwood, were extravagantly boomed by land companies largely controlled by Northern capitalists.<sup>55</sup>

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<sup>52</sup> Leonhardt to McGhee, February 21, 1890.

<sup>53</sup> Chamberlain, Brief History, 8.

<sup>54</sup> Anne Kendrick Walker, Life and Achievements of Alfred Montgomery Shook (Birmingham: Privately printed, 1952), 90.

<sup>55</sup> William F. Donovan, Jr., "The Growth of the Industrial Spirit in Tennessee, 1890-1910" (unpublished Ph.D. dissertation, George Peabody College for Teachers, 1955), 27-33; Donovan, "Real Estate Speculation in Cardiff and Harriman, 1890-1893," Tennessee Historical Quarterly, XIV (1955), 253-56.

Although advertised as future industrial centers of great promise, neither of these locations could claim an established manufacturing enterprise of any importance. Rockwood with its Roane Iron works would appear to have been a much sounder prospective town site, but it is clear that there was a good deal of opportunism in the decision to boom the lot-selling at Rockwood. In December, 1889, Chamberlain considered selling five hundred acres of Roane Company land to a Rhode Island capitalist for development. This scheme envisioned the organization of a furnace company with a bond large enough to build and work an iron furnace. Chamberlain reported that the developer "thinks he can place bonds on this basis, and sell the land [as town lots] for enough to cover the expenses, and make a handsome profit." Yet he was skeptical about the ultimate success of the promotion and thought the time would come when the furnace could be "picked up cheaply" by the Roane Company. He told McGhee that "I don't feel like organizing a company myself and calling my friends to take stock as you suggest, as I would feel a certain responsibility to make the thing a success, and might have to work harder than I feel like doing at my time of life. . . ."<sup>56</sup>

Notwithstanding Chamberlain's early reluctance, it was the Roane Company itself which handled the promotion of Rockwood. As advertised, the company promised to build a new furnace as an inducement to speculating lot purchasers.<sup>57</sup> The prospect of a great industrial boom in the South along with an influx of Northern capital was very much a part of the

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<sup>56</sup>Chamberlain to McGhee, December 27, 1889.

<sup>57</sup>Donovan, "Industrial Spirit," 42-43.

public relations campaigns of the town promoters. The backers of Harri-  
man, for instance, organized special trains to import buyers from New  
England and the Midwest to their town site.<sup>58</sup> Not wanting to be over-  
shadowed, Chamberlain urged McGhee to collect some imposing Northern  
capitalists to ornament the Rockwood sale on May 13, 14, and 15, 1890:

Would it not be possible for you and Thomas and Hewitt to get up  
a carload of people and run down? The citizens of Rockwood do  
not think the Directors of the Roane Iron Co. take much interest  
in the property, and it occurs to me that in this instance the  
New York people can afford to take a hand, as they have large  
interests in the matter. If you can work this up I shall be  
very glad. You think I ought to "boom" some, and I think you  
ought to give a hand.<sup>59</sup>

Although McGhee and his New York associates did not do much to "boom" the  
promotion, the Rockwood sale was a success. By mid-June, 1890, Chamber-  
lain reported that Roane had on hand enough pig iron and bills and  
accounts receivable to pay all its debts. With general supplies, a  
company store, \$125,000 in real estate notes from the sale of lots, and  
\$50,000 in Southern Iron bonds on hand he pronounced the company in  
"first class condition."<sup>60</sup> Enough cash was available to pay a 2 per-  
cent dividend on July 10, 1890.<sup>61</sup>

The dividend was made possible only by the sale of lots at Rock-  
wood, but the payments had hardly gone out to the stockholders when the  
town building bubble burst spectacularly. The "Baring Panic" of 1890 and

<sup>58</sup> Donovan, "Real Estate Speculation," 254-55.

<sup>59</sup> Chamberlain to McGhee, May 1, 1890.

<sup>60</sup> Ibid., June 17, 1890.

<sup>61</sup> Orion L. Hurlburt to McGhee, July 10, 1890.



the subsequent contraction of British investment were symptoms of approaching hard times. The first victims were the town companies which in many instances were based merely on the extravagant promises and the greed of promoters. Cardiff and Harriman in East Tennessee, as well as Middlesboro on the Kentucky border, were plunged into deep trouble. Roane Iron soon joined the list of companies being sued by unhappy lot owners.<sup>62</sup> A suit was brought based on Roane's failure to build the promised new furnace at Rockwood; when the case was heard in the chancery court, Judge Henry Gibson held in favor of the plaintiffs. As Chamberlain put it, "Gibson got in one of his communistic fits and decided the case against us. . . ."<sup>63</sup> On appeal to the Tennessee supreme court, however, the decision was reversed, and the Roane Company's profit was saved.<sup>64</sup> Chamberlain himself admitted that the down payments received for the lots represented "a pretty good price for the property."<sup>65</sup>

The Rockwood promotion was conceived and carried out as a means of cashing in on the temporary town building mania, but Chamberlain and the owners of the company were soon busy with plans to improve their property with a new furnace. Before launching the expansion, McGhee sought the

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<sup>62</sup> Donovan, "Industrial Spirit," 41-47.

<sup>63</sup> Chamberlain to McGhee, July 30, 1891. Henry Richard Gibson was an old antagonist of McGhee, having clashed with the financier when both were members of the legislature in 1871-72. Gibson was an outspoken opponent of the convict lease system in Tennessee and was regarded as a radical by the Sanford wing of the Republican Party. He was elected as a Republican to Congress from the Knoxville district and served five terms, 1895-1905. See Rothrock, French Broad-Holston Country, 420-21.

<sup>64</sup> Ibid., August 20, 1891.

<sup>65</sup> Ibid., July 30, 1891.

advice of the experienced A. M. Shook. After examining the works at Rockwood, Shook recommended the extensive remodeling of one furnace and the construction of another,<sup>66</sup> a project carried out in 1893 with the proceeds of a sale of \$300,000 in bonds, most of which were taken by McGhee and his New York associates, Thomas, Wilson, and Hewitt.<sup>67</sup> Although the New York financiers took the bonds at a large discount, it is apparent that the money could not have been raised otherwise, because Chamberlain was able to place only \$50,000 in the South and Midwest.<sup>68</sup>

During the later 1890's the Roane Company made money, thanks to its improved furnaces, the close management of Chamberlain, and the helpful advice and intelligence provided by McGhee.<sup>69</sup> This last was made possible by the New York capitalist's close ties with the management of the mammoth Tennessee Coal, Iron, and Railroad Company. Besides his personal friendship with Nathaniel Baxter and A. M. Shook, who again managed Tennessee Coal, McGhee had close ties with John G. Moore whose firm, Moore and Schley, handled much of the corporation's New York business. Finally, McGhee's old friend and railroad associate, John H. Inman, was for years the largest owner of Tennessee Coal's stock. Through his correspondence with Baxter and his access to confidential reports from

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<sup>66</sup> Shook to McGhee, October 11, 1892.

<sup>67</sup> McGhee to Chamberlain, January 23, 1893.

<sup>68</sup> Chamberlain to McGhee, January 24, 1893.

<sup>69</sup> See "Roane Iron Company, Statement of Dividends," Letterbook, 1899, pp. 130-31.

Moore's office, McGhee was able to keep abreast of Tennessee Coal's production costs and sale prices. When this information was useful to Roane Iron, McGhee passed it on to Chamberlain who was thus able to make his decisions guided by the knowledge of what a large competitor was doing.<sup>70</sup>

McGhee's original interest in Tennessee Coal seems to have sprung from a moderate investment in that company's stock.<sup>71</sup> Later he joined the board and played a small role in its activities, but he seems to have been too wary to become heavily involved in a company whose history was especially marked by the struggle of ambitious men for control. It is certain that he rejected the interesting appeal which Shook addressed to him in November, 1896. "The death of Jno. H. Inman," wrote Shook, "leaves the Tenn. Coal I & RR Co. without a leader--and we naturally turn to you." Conceding that McGhee had declared he was "out of the Current and preferred to stay out," Shook maintained that it would not be necessary for McGhee to take a hand in managing the company. But he urged him to interest his friends, such as Samuel Thomas, in taking control, and he remarked that "it is greatly to the interest of the Southern Rail Road and the [Georgia] Central to have this property controlled by friends who would and could give these systems Half a million tons more freight than they now get." Shook also argued that if McGhee and associates controlled Tennessee Coal, the acquisition of all the land and

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<sup>70</sup>See, for instance, Chamberlain to McGhee, October 6 and McGhee to Chamberlain, October 29, 1894.

<sup>71</sup>In 1896 McGhee owned 1,700 shares which had cost him over \$42,000. McGhee to Nat Baxter, August 18, 1896.

iron-making facilities at Sheffield, Alabama, would be an easy matter and that "the people who acquired and brought these properties together . . . [could] make a great deal of money."<sup>72</sup>

Tempting as these proposals may have seemed, McGhee refrained from any attempt to dominate Tennessee Coal. Perhaps its situation reminded him of the late Richmond Terminal Company in whose affairs he had recently been tangled. For whatever reason, Tennessee Coal remained only a peripheral interest, though he did join its board in 1897, probably at the urging of Shook and Nat Baxter.<sup>73</sup> On occasions McGhee helped to shoulder some of the company's floating debt,<sup>74</sup> and there is evidence that he may have helped to arrange the financing for the first of Tennessee Coal's Birmingham steel plants.<sup>75</sup>

He played the role of broker in 1899 and engineered the sale of the Sheffield Coal, Iron, and Steel Company to Tennessee Coal. The Sheffield Company was created by a group of Tennesseans, led by E. W. Cole, the one-time president of the East Tennessee and of the Nashville, Chattanooga, and Saint Louis Railroad. Beginning in 1886 Cole and his associates poured money into the town of Sheffield, Alabama, which suffered the fate of other boom towns in the depression of the nineties.<sup>76</sup>

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<sup>72</sup>Shook to McGhee, November 8, 1896. There is no copy of McGhee's reply to this letter.

<sup>73</sup>Nat Baxter to McGhee, October 23, 1897.

<sup>74</sup>McGhee to W. S. Gurnee, December 7, 1897.

<sup>75</sup>McGhee to James Bowron, May 17, and to E. W. Cole, May 23, 1898.

<sup>76</sup>Nina Leftwich, Two Hundred Years at Muscle Shoals (Birmingham: Multigraphic Advertising Co., 1935), 260-64.

By 1898 the blast furnaces, coke ovens, coal mines, and land controlled by Sheffield were said to represent an investment of \$2,000,000, but the company remained a cripple which seemed incapable of paying dividends.<sup>77</sup> In this condition it was an attractive bargain to the acquisitive managers of Tennessee Coal. As early as 1896 it had caught the notice of Nat Baxter who asked McGhee to feel out the owners, one of whom was James Columbus Neely of Memphis, father-in-law of McGhee's youngest daughter, Eleanor. Baxter badly wanted to sew up the Sheffield complex and wrote to McGhee on November 1 that "there are some other good furnaces at that place which we are attempting to get into shape that we can acquire them very cheap."<sup>78</sup> Within a week, however, John H. Inman was dead, and the resulting power vacuum at Tennessee Coal probably dashed Baxter's dreams.

Neely was at that time inclined to hold on to the property anyway,<sup>79</sup> but by the fall of 1897 he was ready to consider a proposal. McGhee spoke to his friend John G. Moore, offering the Sheffield property to Tennessee Coal for \$700,000. Moore thought it cheap at that price but pointed out that Tennessee Coal could hardly buy more furnaces while it was barely meeting its fixed charges and some of its own furnaces were idle.<sup>80</sup> Besides, the "bitter opposition" of James T. Woodward, a

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<sup>77</sup> Justin Fuller, "History of the Tennessee Coal, Iron, and Railroad Company, 1852-1907" (unpublished Ph.D. dissertation, University of North Carolina, 1967), 114-15.

<sup>78</sup> Nat Baxter to McGhee, November 1, 1896.

<sup>79</sup> Neely to McGhee, November 17, 1896.

<sup>80</sup> McGhee to Neely, September 22, 1897.

New York banker who had emerged as Tennessee Coal's new kingpin, blocked the sales until the spring of 1899.<sup>81</sup> As McGhee pointed out to J. C. Neely, Jr., the iron business then was good, but how long this condition would continue no one knew. He advised Neely that the company could be sold for more than before.<sup>82</sup> Woodward's earlier opposition in fact cost Tennessee Coal \$150,000, since in 1899 it paid \$850,000 for the Sheffield property which had been offered for \$700,000 two years before. The Tennessee Company took another loss in 1902 when it sold Sheffield to the United States Ore Company for \$600,000.<sup>84</sup>

McGhee played the role of "honest broker," but his part in the transaction serves to emphasize the casualness of his interest in Tennessee Coal--an interest based not on extensive financial holdings but on friendly personal relationships with men like Shook, Baxter, and Moore, who owned or managed the company. To be sure, he seized the opportunity to trade in Tennessee Coal's stock in a manner reminiscent of his dealings in Richmond Terminal shares; one of the benefits of a directorship was the advantage it gave in playing the stock market.<sup>85</sup> McGhee was willing to serve on the board, to give advice, and to make modest cash advances to the company as an accommodation to his friends and as the price for an inside knowledge of Tennessee Coal's affairs.

His attitude toward Roane Iron Company was entirely different. Tennessee Coal was Wall Street, but Roane Iron was East Tennessee. McGhee

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<sup>81</sup> McGhee to J. C. Neely, Jr., May 19, 1899.

<sup>82</sup> Ibid.

<sup>83</sup> Fuller, "History," 114-15.

<sup>84</sup> Ibid.

<sup>85</sup> See, for instance, Ledger, 107.

looked on the latter as a long term investment, especially after 1890. With a capitalization of \$1,000,000, the company was the right size for him to dominate; this he did in cooperation with Chamberlain, both a close friend and a trusted business associate. Together they made Roane Iron a prosperous business which paid a good return on investment. For McGhee the return was especially satisfactory in view of the nature of his securities. He owned approximately 10 percent of the company's capital stock which he estimated in 1899 had cost him \$56,900.<sup>86</sup> In 1893 he bought one fifth, or \$60,000, of the Roane's bonds at a discount price of \$46,200.<sup>87</sup> Dividends from the stock averaged about 1.4 percent a year between 1886 and 1899, while the bonds paid 6 percent a year from 1893 onward.<sup>88</sup> The return on the bonds was thus almost 8 percent of the cost price, and the actual stock dividend was nearly 2.6 percent. The company's policies, as dictated by McGhee and Chamberlain, made the bonds a highly desirable and secure investment, while the stock was only mediocre in its earning capacity.<sup>89</sup> This was hard on the mere shareowners, but it was quite rewarding for those like McGhee, who, after all, furnished most of the capital which made the company's earnings possible.

There was nothing improper about this particular example of one of McGhee's favorite financial methods. Roane Iron was well run and well

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<sup>86</sup>Letterbook, 1899, pp. 130-31.

<sup>87</sup>McGhee to Chamberlain, January 23; Chamberlain to McGhee, March 27, 1893.

<sup>88</sup>Letterbook, 1899, pp. 130-31.

<sup>89</sup>Because he regarded the bonds as a safe investment he placed them in trust for his wife and children.

taken care of; its stockholders could not legitimately complain about the McGhee-Chamberlain management. The same cannot be said, however, of other instances where similar methods were used to maximize McGhee's profits. The management of the Coal Creek Mining and Manufacturing Company, for example, is a case of the unscrupulous use of raw power. Here, he and his associates were guilty of virtual fraud against the stockholders of that company and those of the East Tennessee, Virginia, and Georgia Railroad as well.

McGhee's interest in the mineral resources of his native state had begun even before the Civil War. He and ten other East Tennesseans organized the Cumberland Mountain Coal and Land Company in 1858, and after the Civil War it was reorganized as the East Tennessee Iron and Coal Company with McGhee as president.<sup>90</sup> Although it owned large tracts of land in Anderson, Campbell, and Scott counties, the company never seemed to earn much. In time McGhee's interest in it faded, but he retained his stock, probably because he could not find a sale for it. Much more important was his involvement in Coal Creek Mining and Manufacturing. Organized in 1868 by Charles H. Bulkley of New York City and Henry H. Wiley of Knoxville, it was reorganized four years later and the capital increased from \$500,000 to \$2,500,000. Half of its 25,000 shares were owned by Bulkley and another fourth by Wiley. Among the other stockholders was McGhee who owned only fifty shares. The company's chief asset was some 90,000 acres of rich coal land in the vicinity of the

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<sup>90</sup>Rule, Standard History, 241.



mining town of Coal Creek in Anderson County; from royalties on this property the company received about \$45,000 in 1885. Coal Creek was a leasing company which did not operate the several mines on its property which were served by the Knoxville and Ohio Railroad.<sup>91</sup> According to McGhee, the royalties were set so high that the development of mining was seriously retarded. Because this held down the freight revenues of the Knoxville and Ohio, he and several other "capitalists with enlarged views" acquired the Bulkley stock, and thus with McGhee's own fifty shares, they came into control of the company in 1885.<sup>92</sup>

Others charged that McGhee and his associates forced Bulkley to sell out by threatening to divert the railroad facilities away from Coal Creek's property, thereby leaving those mines isolated and unable to operate. It was alleged that McGhee and other directors of the East Tennessee were determined to dominate the coal fields along the line of the Knoxville and Ohio, and that they used their control of the railroad to force their way into the Coal Creek Company.<sup>93</sup> Subsequent developments seem to bear out this version of how the Bulkley stock was acquired. After gaining control of Coal Creek Mining and Manufacturing McGhee's syndicate attempted to eliminate competitors in the area by just such a diversion as may have been threatened against Bulkley. In this case they refused to permit the Coal Creek and New River Railroad,

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<sup>91</sup>Ibid., 241-42; Cullen v. Coal Creek Mining and Manufacturing Company, 42 Southwestern (1897-98) 693-94.

<sup>92</sup>McGhee to E. R. Chapman, August 18, 1886.

<sup>93</sup>Cullen v. Coal Creek, 693.

a subsidiary branch of the Knoxville and Ohio, to haul coal from mines operated by John D. Heck and L. J. A. Petree in competition with the Coal Creek Company's mines. Claiming to be the victims of a conspiracy which prevented their trade with customers in North Carolina, Heck and Petree appealed to the Interstate Commerce Commission. In one of its first decisions the commission upheld Heck and Petree, ruling that the Knoxville and Ohio and the East Tennessee, Virginia, and Georgia were part of the same system and that the discrimination was a violation of the Interstate Commerce Act.<sup>94</sup> During the attempt of the so-called Rice-Libbey faction to unseat the management of the Richmond Terminal in 1888 this case was cited as proof that the McGhee syndicate had deliberately reduced the earnings of the East Tennessee system in the attempt to drive Heck and Petree out of business.<sup>95</sup>

Although thwarted in the Heck and Petree case, the syndicate was able to do a great deal toward consolidating the coal properties between Knoxville and the Kentucky border. The Bulkley stock was secured in the late summer or fall of 1885, and on October 1 a stockholders' meeting put the syndicate in full control of the Coal Creek Company. With one exception the old board was ousted and replaced by McGhee, Samuel Thomas, John G. Moore, Calvin S. Brice, S. H. Kneeland, John T. Martin, Edward J. Sanford, and George Andrews; all except Andrews, a Knoxville lawyer, were directors of the East Tennessee, Virginia, and Georgia. The single

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<sup>94</sup>Second Annual Report of the Interstate Commerce Commission (Washington, 1888), 139-40.

<sup>95</sup>Commercial and Financial Chronicle, XLVI (1888), 580-81.

director from the old board was Edwin F. Wiley who represented the large bloc of stock owned by the estate of Henry H. Wiley. At the regular meeting on October 20 this board was reelected, and it promptly named McGhee president, Andrews vice president, and McGhee's son-in-law, Calvin M. McClung, secretary and treasurer.<sup>96</sup> The syndicate held a bare majority of stock which was enough to elect the board, but the large minority holding prevented complete domination.

Soon the syndicate was negotiating for the 6,250 shares of Wiley stock, as well as other valuable property owned by the Wiley estate. Also bidding for this stock were Curtis Cullen and Charles S. Newman, merchant partners of Knoxville, who owned 1,430 shares of Coal Creek stock. E. R. Chapman, of the New York firm, Moore and Schley, represented the syndicate.<sup>97</sup> At stake were control of Tennessee's richest coal fields and the East Tennessee railroad system's dominance of the region. In the summer of 1886 the East Tennessee was not yet part of the Richmond Terminal's empire, and in fact it appeared likely that the former company would join the Norfolk and Western in deadly competition with the Terminal's Richmond and Danville. The latter was considering a major invasion of Tennessee which would bring its lines into Knoxville, and Sanford reported to McGhee that Cullen had offered the Danville control of the Wiley-owned Poplar Creek Coal and Iron Company. Sanford realized that this would give the Danville an excellent base from which to challenge the East Tennessee, and he urged that "if the

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<sup>96</sup>Cullen v. Coal Creek, 693-94.

<sup>97</sup>Ibid.; Sanford to McGhee, June 19, 1886.

R & D are in earnest the Wiley trade ought to be closed soon."<sup>98</sup> The syndicate now acted quickly and bought out all of the Wileys' interests for \$150,000. For this price it received the Wiley shares in Coal Creek, as well as 5,100 shares of Poplar Creek Coal and Iron and other assorted stock and real estate. Shortly thereafter, the syndicate sold to Coal Creek all of this property, except for the 6,250 Coal Creek shares, for \$217,343.10. Included in this sale was other miscellaneous property belonging to McGhee and Sanford. The members received payment in Coal Creek debenture bonds which bore interest at 6 percent.<sup>99</sup>

In 1887 the syndicate purchased the Walden's Ridge Railroad Company and other property owned by the Oakdale Iron, Coal and Transportation Company for \$183,122. Almost immediately the real estate acquired in this transaction was sold to Coal Creek for \$20,000 cash and \$100,000 in debentures.<sup>100</sup> Less than a year later the Walden's Ridge Railroad, which had cost \$160,000 was purchased by the East Tennessee, Virginia, and Georgia for \$500,000 in first extension mortgage bonds.<sup>101</sup>

McGhee and his associates had saddled Coal Creek with a bonded debt of \$350,000 by 1887. Seven years later the company was able to pay its first dividend to stockholders since 1885; during the interval all the profits had been paid out to the syndicate in the form of interest and bond retirement.<sup>102</sup> Thus Coal Creek's earnings had been neatly

<sup>98</sup> Sanford to McGhee, July 3, 1886.

<sup>99</sup> Cullen v. Coal Creek, 694.

<sup>100</sup> Ibid., 695.

<sup>101</sup> Harrison, Legal History, 906; McGhee to D. A. Carpenter, June 3, 1887.

<sup>102</sup> Cullen v. Coal Creek, 695.

diverted to the members, who not only drained the company's treasury of cash but also received a bonus in Coal Creek stock. Assessing the syndicate's work, McGhee noted that he had paid in a subscription of \$75,000 and had received \$50,000 in East Tennessee bonds, \$35,000 in Coal Creek debentures and 2,000 shares of Coal Creek stock.<sup>103</sup> The latter securities he regarded as a very good investment, and in 1897 after the company had begun to pay dividends again, he valued the stock at \$40 per share.<sup>104</sup> He and the other nine syndicate members each made a profit of around \$90,000 on the deals,<sup>105</sup> and they were not called to account until 1897 when Curtis Cullen and Charles Newman brought a suit to recover damages which they claimed to have suffered as stockholders. McGhee and Sanford based their demurrer on the lapse of six years under the statute of limitations and did not attempt to refute the facts as Cullen and Newman presented them. The Chancellor of Knox County, and subsequently an appellate court, upheld the defendants.<sup>106</sup> Why Cullen and Newman waited so long to bring suit is not known. It may have been that it took them nine years to understand just what had happened, although this seems improbable. More likely, the two unfortunate stockholders became desperate and brought the suit in a frantic attempt to recoup their fortunes when their mercantile business failed.

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<sup>103</sup> McGhee to McClung, June 13, 1887.

<sup>104</sup> McGhee to Sanford, August 18, 23, 1897.

<sup>105</sup> McGhee to D. A. Carpenter, October 7, 1887.

<sup>106</sup> Cullen v. Coal Creek, 693-98.

The Coal Creek case was controversial, and McGhee's part in it did him no credit, but this was not the sort of affair which aroused public outrage in the 1890's. Business was conducted according to a set of hard rules which left plenty of room for this kind of profit-making but allowed little pity for the losers in financial struggles. Had Cullen succeeded in getting a majority of Poplar Creek stock, he would have sold it at a premium to the Richmond and Danville, and little thought would have been given to the welfare of Poplar Creek's minority holders. But Cullen lost and suffered the consequences, while McGhee succeeded and enjoyed the spoils. The nineteenth century held success in the highest regard: success was equated with competence, and incompetence, it was believed, went hand and hand with failure. LH131

Although this philosophy was often used to mask wickedness, it had a certain harsh merit to it. Incompetence was dangerous and could do as much, perhaps more, harm than ruthlessness. The promoters who "built" the railroads and towns which never came to be did incalculable harm to the small investors who took a few shares of stock or bought town lots. Idealists and confidence men alike preyed upon a public that thirsted for progress, growth, and profit. Governments and individuals sank millions into schemes which never materialized, and few towns failed to grasp the "golden opportunity" of subsidizing a railroad which ended in dismal failure.

Some promoters were charlatans of the worst kind. This description seems to fit Colonel Albert E. Boone, whose Black Diamond line was

characterized by Edward J. Sanford as the "Wind Railroad."<sup>107</sup> Knoxville's newspapers and government officials supported the Colonel enthusiastically until it became apparent that they had been bilked. The city's mayor, Samuel G. Heiskell, then wrote a scathing letter in reply to an enquiry from a mayor of a midwestern town:

Dear Sir: Yes, sir-ee, we know the versatile and tireless colonel. We know him like a book. We have been privileged to gaze upon him in all the splendor of a railroad builder, whose lines extend from Knoxville, Tenn., to Madison, Ind., and from there to the isles of the sea and ends of the earth, and thence in an air line, as the bird flies straight into the pearly gates of the New Jerusalem. Not to know the colonel is to have lived a void and empty life, to be a tree without fruit, a bush without the rose, "a stunned and stolid thing, a brother to an ox."

. . . . .  
Do we know the colonel! He got from our local suckers \$40,000 as a promoting fund to promote "the Black Diamond," and like John Brown's soul our forty thousand "still goes marching on"; and as for the Black Diamond, it has already been constructed over a circle of territory of which Knoxville is the center and infinity the circumference and it keeps on a-going.<sup>108</sup>

Other entrepreneurs were truly talented and well meaning but lacked the realism to make their fascinating dreams come true. Such a promoter was Alexander Alan Arthur who founded Middlesboro, Kentucky, and built the Knoxville, Cumberland Gap, and Louisville Railroad to his new city on the Tennessee-Kentucky border. Arthur, a Scottish engineer, visited Cumberland Gap on horseback in 1886 and became convinced that the area could be the hub of the New South. To him this part of the Cumberlands seemed the healthiest, most beautiful, and potentially the

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<sup>107</sup>See above, Chapter IV.

<sup>108</sup>Knoxville Journal and Tribune, March 10, 1902.

richest place in the world. He was able to convince English investors of the worth of his scheme, and the American Association, Ltd. poured capital into the town which he described as the future steel center of the United States.<sup>109</sup> Hungry as always for another railroad, Knoxville voted overwhelmingly to subscribe \$225,000 to finance the K. C. G. & L. The confident Arthur promised to build the line within two years and further agreed that the subscription need not be paid until thirty days after a train should run over the road to Cumberland Gap.<sup>110</sup> The actual construction proceeded slowly, however, and Arthur apparently became desperate as his self-imposed deadline approached. Ever on the alert for a bargain in railroads, McGhee sensed that the K. C. G. & L. was in trouble and asked an old friend in Knoxville, George Brown, for a report. Brown's description of the line was hair-raising:

The road is very badly built in fact not near finished. There is [sic] several miles next to Knoxville that is only half graded and many miles only one half of the X ties are in. The bridges are on poles with one end in the bottom of the River. . . .<sup>111</sup>

Finished or not, a train had to travel over the line in order to secure the city's subscription, and on August 22, 1889, the maiden run of the K. C. G. & L. was made. Several miles from Knoxville,

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<sup>109</sup>Robert L. Kincaid, The Wilderness Road (Indianapolis: The Bobbs-Merrill Co., 1947), 312-24.

<sup>110</sup>"Brief and Argument of J. W. Yoe for Defendant," in Knoxville Cumberland Gap, and Louisville Railroad Company, et al. vs. Board of Mayor and Aldermen of the City of Knoxville (N.p.: n.n., n.d.), 1-4. This bound volume, consisting of the various briefs in the case, is in the McClung Historical Collection.

<sup>111</sup>George Brown to McGhee, August 13, 1889.



while crossing Flat Creek, a trestle collapsed, and the train loaded with Knoxville dignitaries fell into the ravine.<sup>112</sup> It was, as Calvin McClung wrote, "The most terrible calamity that has befallen our community in my time." A number of prominent men were killed and others severely injured; Arthur himself escaped with internal injuries and a damaged career.<sup>113</sup>

McGhee's approach to the development boom of the eighties was conservative; perhaps he felt that the spectacular success of the Coal Creek syndicate had been due partly to luck. Sanford wanted to go ahead with new plans for a town development near Knoxville in 1887, but McGhee averred that "our Syndicate has done very well and I think it best to rest easy for a time." To his friend's repeated urgings McGhee replied:

I fully agree with you in the views that you entertain with reference to the City . . . and would like very much to see the enterprise undertaken and carried through. But I do not feel willing that our Syndicate should embark in the enterprise. We have as you say made a success and I do not feel like embarking in anything that will take the profits that we have already made. A capital of a million dollars would be required to ensure the success of a city and while I would be willing to put in \$50,000 as my part of the venture, yet the temper and spirit here is not now favorable to the giving of the other \$950,000. I think if I would father the scheme and undertake to do so I could secure the needed amount of money but if I did so I would have to assume the management of it to some extent and would have to become morally responsible to my friends who I would induce to go into it, this I feel unwilling to do.

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<sup>112</sup>Knoxville Journal, August 23, 1889.

<sup>113</sup>Kincaid, Wilderness Road, 325.

When you come on I will do what I can to aid your endeavors [sic] to create a city . . . but I have not pluck enough to do anything myself except as an aid to some one else.<sup>114</sup>

Without McGhee's active leadership in New York there was nothing that could be done and Sanford finally dropped the city scheme.

Properly skeptical of Arthur and his visionary plans, McGhee advised Calvin McClung to be very careful in advancing the Scot credit at McClung's hardware store, but he admitted to his son-in-law that "I am too conservative entirely to direct any active business and therefore you must receive all my cautions with proper allowances."<sup>115</sup> As the boom continued into 1889 he may have wondered if he was being too conservative for he wrote to a friend:

At one time I hooted at the idea of anyone building [rail]roads in East Tennessee knowing it was pretty rough country but they build them all the same and I no longer consider an enterprise as impossible of being carried through simply because it seems to me to be unnecessary and expensive.<sup>116</sup>

It was possibly the fear of being bypassed during the boom, as well as his deep commitment to developmental investments, that led McGhee into a town building enterprise. When the stock of the Lenoir Manufacturing Company was offered to him in the fall of 1889 he at first demurred.<sup>117</sup> This may have been a ploy to reduce the price, or it may have indicated a genuine reluctance to make the investment, for McGhee had no further

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<sup>114</sup> McGhee to Sanford, June 10, 1887.

<sup>115</sup> McGhee to McClung, September 7, 1887.

<sup>116</sup> McGhee to W. T. Walters, May 18, 1889.

<sup>117</sup> Cornelius E. Lucky to McGhee, September 19, October 23; McGhee to Lucky, November 15, 1889.

correspondence on the subject for several months. But in February, 1890, he went to Tennessee, and when he returned to New York in April the Lenoir City project was underway.

The property that became the town had been the estate of the Lenoir family for eighty years. Unwilling to divide the large plantation, the Lenoirs passed it on intact from generation to generation, and the 2,700 acres bought by McGhee and his associates was, by East Tennessee standards, an extraordinarily large single tract of arable land. It was an ideal town site, located at the confluence of the Little Tennessee and Tennessee rivers, and twenty-five miles southwest of Knoxville on the main line of the East Tennessee, Virginia, and Georgia Railroad. Besides hundreds of acres of fertile bottom land and rolling wooded hills, the place included a flour mill, cotton factory, store, warehouses, shops, barns, and twenty-six dwellings, all valued at \$157,000.<sup>118</sup>

The Lenoir City Company was incorporated in the spring of 1890 with most of the members of the earlier syndicate as participants. McGhee, Thomas, Brice, Chapman, Moore, Sanford, and McGhee's friend, Oliver H. Payne, were the seven equal partners, with an eighth place left for T. H. Heald of Knoxville.<sup>119</sup> The seven carried Heald's part at first, and several other Knoxvilleans were soon admitted as stockholders. From the beginning most of the actual work of the enterprise was done by an enthusiastic Sanford, but almost at once he was pressed by the New York

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<sup>118</sup> Prospectus of the Lenoir City Company (Lenoir, Tennessee [1890]), 5-29.

<sup>119</sup> McClung to Leonhardt, June 4, 1892.

partners to hurry the project in order to compete with the other town promotions. His response, in a letter to McGhee, indicates his sound approach to Lenoir City's development:

I am surprised that Mr. Brice thinks that we can sell an imaginary city here without surveying it or can lay off a town upon any piece of property without having some accurate measurements and contour map, etc.

I am also surprised that Mr. Moore thinks that we will have the only town site unsold and that he has lost faith in it so soon, or could expect it to be sold by this time.

In all the other towns where I have known of, they have been months at the same, they have had accurate surveys made, lithograph maps showing all the grades and lots and spent thousands of dollars in advertising, getting up trains of Pullman cars and hauling people down, and it takes months to do each one of them. Harriman, Bluffton, Cardiff, all have been months in making preparations for their sale, and it is evident to my mind, that that particular line of selling property and making cities has been over done, and it would be foolish to adopt that plan and to simply have a map of lots drawn from imagination and offer it for sale and attempt to have a sale at this time.

I am told privately, that Cardiff, while to the outside world was a great success, yet the sales were very largely made to the Directors of their own Company and there is much dissatisfaction growing out of it. Their expense has been so enormous and results so unsatisfactory. In this big hurrah of sales now being made it has transpired of late, that a lot of irresponsible speculators are on hand: they bid with reckless freedom upon any and every thing, they get up excitement with the outsiders if possible, and if they can sell their bid to some innocent countryman or excited party over the future of the place at an advance over what they paid for it, they will do so and let the sale be consummated, but if they fail to do that and do not manage to swap off lots before they have to pay for them, they silently take the train and go off, leaving the immense sales made, only in the newspaper articles. Now, I do not know personally about this, but I can see very well how it can be done, and I imagine it is done.

The general impression that I hear on all sides and everywhere, is that Lenoir is to be a substantial improvement. In my opinion we cannot afford to make it any thing else. We

cannot afford to start any thing there that will go up like a rocket and come down like a stick.<sup>120</sup>

Clearly Sanford believed in real development rather than opportunistic promotion, and the way that Lenoir City Company shares were offered to the public shows that his views prevailed. Half of the capital stock was issued to the members of the syndicate, while the remaining four thousand shares were sold at par. With each share bought, the purchaser also received a lot, so that the original property owners of Lenoir City were also stockholders in the company. Half of the receipts was placed in the company's treasury, and the other half was paid to the syndicate members to reimburse them for the purchase of the Lenoir property; the remaining land owned by the company was to be sold for commercial or industrial development.<sup>121</sup> The value of the lots and stock was thus dependent upon the attraction of capital investment to the town, and this objective occupied the attention of both Sanford and McGhee for some years to come.

To show their confidence in the project the syndicate members each bought a lot and built a house on it. This, Sanford maintained, "will give confidence to people, knowing we are putting our own money in building, which can hardly be estimated in the public mind."<sup>122</sup> Within a year several manufacturers had located at Lenoir City, and it must have given Sanford pleasure to send McGhee news clippings which described the

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<sup>120</sup>Sanford to McGhee, May 5, 1890.

<sup>121</sup>Prospectus of the Lenoir City Company, 22-26; "Lenoir City Syndicate," a statement bearing date of May 17, 1892.

<sup>122</sup>Sanford to McGhee, August 21, 1890. The houses were built to rent; none of these capitalists ever lived in Lenoir City.

difficulties afflicting the rival towns of Cardiff, Harriman, and Rockwood. "When I read articles of this kind," he wrote, "I am more than satisfied with the course I have pursued with regard to Lenoir."<sup>123</sup> By avoiding "the brass band and much promising course" he had laid the foundation for slow but steady development.

The growth of Lenoir City would have been more rapid had not the depression of the early nineties severely reduced investment and development in the South. This, and the difficulties of the East Tennessee, prevented McGhee and Sanford from building a railroad from Lenoir City to the line of the Cincinnati Southern.<sup>124</sup> The difficulties of city building during a depression were hard on Sanford. "I have not lost faith in Lenoir," he told McGhee, "and I feel it will all work out yet, although as I stated before I have had more disappointments in it than in any other business attempt in my life."<sup>125</sup> Nevertheless, both men remained committed to the enterprise, and in 1891 they increased their investment by buying out Calvin Brice's interest.<sup>126</sup> They also became heavily involved in the Lenoir Car Company, a manufacturer of railroad equipment, which became the town's major industry.<sup>127</sup> Lenoir City survived because of Sanford's tireless activity, supported by McGhee's

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<sup>123</sup><sup>\*</sup>Ibid., May 26, 1891.

<sup>124</sup><sup>\*</sup>They seriously discussed this idea in the summer of 1890. See McGhee to Sanford, August 25, 1890.

<sup>125</sup><sup>\*</sup>Sanford to McGhee, November 27, 1891.

<sup>126</sup><sup>\*</sup>McClung to McGhee, May 28, 1892.

<sup>127</sup><sup>\*</sup>Sanford to McGhee, January 19, 1893.

financial and moral influence. The latter's New York connections made the enterprise possible in the beginning; it was McGhee who drew in the Northern capital to underwrite the Tennessee project. The investors, such as Brice and Moore, probably would have soon liquidated the company to cut their losses had they not trusted McGhee, who in turn had great confidence in Sanford.

The Lenoir City Company was truly a developmental enterprise, devoid of those unsavory features which characterized some of the two old friends' joint schemes. Ironically, it was also one of their less successful ventures. These experiences illustrate some of the realities of nineteenth century business life. Making money and holding on to it was very difficult. The fortune which McGhee accumulated sometimes seems to have been the product of a golden touch, but it was actually the result of great shrewdness and energy. His business success was based on his ability to seize the best opportunities for turning profits. He was not attracted by vulgar schemes to defraud or steal; neither was he deterred by a modern sense of ethics. His code led him to be true to his word, to avoid illegalities, and to be kind to his friends and dependents. Beyond these strictures he and many other businessmen of his time felt free to use any opportunity to make money. The field of business combat was strewn with the failures of men like Alexander Arthur whose talents were not equal to their ambitions. To succeed in business was not easy, and success at McGhee's financial level required not only intelligence, discretion, and perseverance but a touch of ruthlessness as well.

With financial success came political power, which McGhee found a useful concomitant of wealth. After his brief career as a politician during the Reconstruction era, he devoted himself to business but his money brought an influence in public affairs. The politicians sought his favor, and some of them became his friends. Using these alliances and his fortune, he exercised political power to advance his personal and business interests.



## CHAPTER VII

### FRIENDS, ISSUES, AND INTERESTS: POLITICS AND BUSINESS IN THE GILDED AGE

During the years between the end of the Civil War and the late 1890's the political life of the United States was especially dominated by the nation's business community. Controlling both major parties, wealthy business interests imposed upon the politics of the day a remarkable sameness, a monotonous conformity of approach to many of the important issues of the time. Little real difference could be detected between the positions of Republicans and Democrats on questions affecting social and economic justice, regulation of the economy, or the role of government in American life. Voters or politicians who sought different answers to these questions were driven to the fringes of politics, to third parties or quasi-political activity. Not until the election of 1896, when some of the "fringe" elements came into control of the Democratic party, was there a national contest which truly polarized the electorate and gave a clear choice between the two great parties.<sup>1</sup>

In the South, Tennessee, perhaps more than other states, reflected the national political image. Unlike the situation in the United States, the Democrats were the dominant party, but the Republicans were a strong minority which threatened this supremacy whenever their opponents became

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<sup>1</sup>This general interpretation is drawn from John A. Garraty, The New Commonwealth, 1877-1890 (New York: Harper & Row, 1968) and Howard W. Morgan, From Hayes to McKinley: National Party Politics, 1877-1896 (Syracuse, N. Y.: Syracuse University Press, 1969).

divided. It may have been that two-party politics prevented the development of the radical movements which in one way or another were making themselves felt in other Southern states in the late eighties and early nineties. At any rate, neither of the two parties departed from the stance of their national counterparts, and no successful third party movement came into being.<sup>2</sup>

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The politics of the Gilded Age were typified by the activities of Charles McGhee and his close friend, Edward Sanford. The former had strongly identified himself with the Democrats as early as 1870, and he continued to be influential in the councils of his party. Sanford was perhaps even more prominent in Republican affairs, attending national party conventions and planning strategy on the state and local levels.<sup>3</sup> But if the two men really differed in their approach to issues there is no indication of it. Their partisan roles seem to have been determined by tradition; McGhee was an ex-slave owner and former Confederate, while Sanford was Connecticut-born and had been a staunch Unionist.

Both men believed simply in policies favorable to their interests, and as long as these policies were being carried out it mattered little

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<sup>2</sup>Folmsbee, History of Tennessee, II, 129-200. In 1890 the Farmers' Alliance managed to control the Democratic state convention and nominated and elected John P. Buchanan, but the Buchanan administration, 1891-93, did not represent a departure from the conservative policies of the past.

<sup>3</sup>A brief biography of Edward Jackson Sanford appears in Rothrock, French Broad-Holston Country, 479-80.

which party was in power. This was especially true of McGhee who, less a partisan activist than his friend, was perfectly comfortable in using his money to further the career of a good Republican. When William Rule, prominent Republican and editor of the Knoxville Journal, bought out an uncongenial partner in his publishing company and sought new capital for the enterprise he approached McGhee. "You may think me 'cheeky,'" he wrote, "in asking you to take stock in a republican paper; but you know the Journal has been uniformly friendly to things in which you have been or are interested. This it will continue to be whether you think it best to take stock or not."<sup>4</sup> Under the circumstances, McGhee's response to Rule's "cheek" was entirely predictable, and he wrote to Sanford:

I have a letter from our friend Rule asking me to take stock in his paper. Now the idea of him asking me, as good a democrat as I am, to take stock in a republican sheet is the most inconsistent and outrageous thing I ever heard of. If, however, you will subscribe for \$1,000 of the stock and have it issued in your name I will pay for it. But I cannot so far compromise my position with the Great Democratic Party as to have my name upon the books of a republican organ. You know just what sort of democrat I am. Seriously, however, in doing the above I do not want anyone to know it. Of course I feel disposed to help our friend Rule, and do anything he asks me to, as he has always conducted a clean and decent republican paper. He is in fact a decent man anyway. I do not even want Cal [McClung] to know I have taken this stock, let it be a matter between you and myself.

. . . . .  
P. S. Upon reflection I have concluded to send the check for \$1,000 herewith. Do not give this check to Rule but pass it to your credit and give him your check for the amount. The secrecy is more on Rule's account than my own as you will readily understand.<sup>5</sup>

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<sup>4</sup>William Rule to McGhee, January 31, 1889. All manuscript citations are to the McGhee Papers.

<sup>5</sup>McGhee to Sanford, February 4, 1889.

In order to protect this Republican's usefulness it was important that he retain a seeming partisan purity, for if Rule's Republican influence were ever needed his business association with a Democrat could be embarrassing. McGhee found that it was in fact more satisfactory for this influence to be used behind the scenes. Thus when he was supporting the candidacy of former Democratic Governor James D. Porter for the United States Senate in 1886-87, he asked Rule to talk on Porter's behalf to Republicans in the legislature. The Democrats controlled the assembly, but in the event that the party could not agree on a single candidate the election would be decided by the Republican members.<sup>6</sup>

Although the state's parties were equally "safe" from the standpoint of the wealthy businessman, the Democrats in the mid 1880's were divided into three major factions.<sup>7</sup> The states rights or ex-secessionist wing, led by United States Senator Isham Green Harris, was conservative and agrarian. Another group, sometimes called the "young Democracy," composed of small farmers and restless young men ambitious for office, succeeded in electing thirty-six year-old Robert Love Taylor as governor in 1886. Taylor was about the nearest thing to a radical which the Democratic party produced during this time, but his "radicalism" was more of style than of substance. The third faction of Tennessee Democrats were predominantly ex-Whigs who were especially identified with the industrial and railroad interests; it was to this group that Porter,

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<sup>6</sup>Rule to McGhee, December 21, 1886.

<sup>7</sup>This delineation of factions appears in Daniel M. Robison, Bob Taylor and the Agrarian Revolt in Tennessee (Chapel Hill: University of North Carolina Press, 1935), 14-19.

a former president of the Nashville, Chattanooga, and Saint Louis Railroad belonged.<sup>8</sup>

Because Porter's political position was quite similar to Rule's, McGhee could expect the editor to lend important assistance, and Rule went to Nashville to work for Porter, offering "to come out squarely for him, even to the extent of writing editorials in my paper favoring his election."<sup>9</sup> McGhee also sent to the capital an old friend and Democratic politician, Daniel A. Carpenter, to do what he could for Porter. All of these efforts failed, however, when the Democratic caucus of legislators selected William B. Bate as the party's candidate and elected him to the senate.<sup>10</sup>

Although Porter was exactly McGhee's kind of Democrat, personal rather than political considerations had led him to support the former governor. McGhee's son-in-law, George W. Baxter, had recently obtained an appointment as territorial governor of Wyoming, and Porter, who was assistant secretary of state in Cleveland's first administration, had been useful in pleading Baxter's cause.<sup>11</sup> Personal bonds of loyalty were always of primary importance to McGhee, unlike some other businessmen of the Gilded Age. This attitude explains his interest in the senatorial election, but when Porter was defeated the financier accepted it philosophically, remarking to Carpenter that "Both you and I . . . have

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<sup>8</sup>Ibid., 18-19.

<sup>9</sup>Rule to McGhee, December 21, 1886.

<sup>10</sup>Daniel A. Carpenter to McGhee, January 27, 1887.

<sup>11</sup>McGhee to William Baxter, December 30, 1886.

discharged the obligation we owed him and it is not our fault that he did not succeed."<sup>12</sup>

The extreme importance of these personal ties was illustrated again two years later when he supported the reelection of Senator Harris. This old war horse of the Democrats had never been a particular friend, but he had recently endeared himself to McGhee at the same time that Harris' opponent, James DeWitt Clinton Atkins, had earned his deep enmity. Atkins, a former congressman, was serving as commissioner of Indian affairs when McGhee asked him to help to secure Baxter's appointment as territorial governor of Wyoming. As McGhee explained it to his sister in Tennessee:

Something like one year ago I was in Washington and thought I might need the influence of Senator Harris and my old school-mate James D. Adkin [sic] in regard to a matter. I called Senator Harris and stated my case to him and, notwithstanding, the fact that our relations had never been warm or close at all, he promptly told me I could command his services. I called upon Adkins and was very warmly greeted by him, but as soon as I broached the subject, I saw from his manner that he was most supremely selfish and would not exert himself to do anything in my behalf. I, however, did not need the services of either. The action of Adkins upon that occasion releases me from any obligation that I might otherwise have had in forwarding his political aspirations and leaves me at liberty, as far as may be in my power, to promote the election of Harris.<sup>13</sup>

When McGhee made his position known to Carpenter it developed that he too had suffered at Atkins' hands:

When I made up my mind to apply for the Pension Agency you gave me a very strong letter to him which I delivered in

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<sup>12</sup>McGhee to Carpenter, January 31, 1887.

<sup>13</sup>McGhee to Margaret Niles, August 29, 1888.

person . . . and the man almost became frantic and turned loose a perfect torrent of objections to him having any thing to do with the matter. . . . I thought he never would get done talking about it. Of course I was mortified, and I knew you would be if you knew how he had acted. And I made up my mind to save you of the mortification and never tell you any thing about his actions: but while in his office I made up my mind and swore in my heart that I would be avenged for the insult offered me. And when the Legislature meets I am going to Nashville and take a Room near him and if I can influence no one, I will have the satisfaction of letting him know the unbounded Contempt I have for him and if it does him no harm at all it will do me a great deal of good.<sup>14</sup>

In perfect agreement on the course to pursue, McGhee and Carpenter went to work for Harris. This involved spending money, furnished by McGhee, to elect suitable members of the legislature, although as Carpenter remarked, "Experience has taught you that it is hard to find men that will faithfully use money for election purposes; it is sorter [sic] like stealing from the Government or a Rail Road Co. The temptation is great and man is weak."<sup>15</sup> McGhee could not very well expect help from Republicans for such an avowed former rebel as Harris, but he called for assistance from others, such as his friend, Robert N. Hood, a member of the ex-Whig Democratic faction. Although he found it hard to swallow Harris, "who has a prejudice against men like myself who were in the Federal Army," Hood promised to do anything that McGhee asked.<sup>16</sup>

On this occasion McGhee's money and influence and Carpenter's work succeeded in helping to elect a senator. When the votes had been counted Carpenter reported with great satisfaction:

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<sup>14</sup>Carpenter to McGhee, September 18, 1888.

<sup>15</sup>Ibid., September 6, 1888.

<sup>16</sup>Robert N. Hood to McGhee, September 13, 1888.

We . . . had a Jolly time after the thing was settled and with your Experience with Legislators you know what I mean when I say a Jolly time. While in Nashville I had a long talk with Senator Harris, he told me a good deal about men and things, and in the conversation your name came up. And I simply wish to say that should it become necessary at any time for you to call on the Senator for anything you can do so with the full assurance that you can get anything that is in his power to give. I enjoyed the mortification and humiliation of Atkins hugely. I remembered him in his spacious office in Washington.<sup>17</sup>

This election marked the beginning of a long friendship between McGhee and Harris, and though the financier sometimes solicited the Senator's help in advancing the interests of those close to him, there is no indication that he ever asked Harris to violate his integrity in political matters.<sup>18</sup> There were a number of other politicians whose friendship he enjoyed and whose influence could be useful, and he took pleasure in aiding them with money or other support. One such friend was Senator Howell E. Jackson of Tennessee who was later appointed to the United States Supreme Court. McGhee went to a great deal of trouble to arrange a loan of \$25,000 for Jackson and his brother, and finally ended by lending them the money himself.<sup>19</sup> Another friend was Representative Joseph Wheeler, the ex-Confederate general through whose Alabama district the Memphis and Charleston Railroad ran. Because Wheeler was also a valuable political ally McGhee saw to it that the

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<sup>17</sup>Carpenter to McGhee, January 16, 1889.

<sup>18</sup>On several occasions McGhee asked for Harris' help in getting assignments for his son-in-law, Lawrence D. Tyson, then a lieutenant in the U. S. Army.

<sup>19</sup>McGhee to William H. Jackson, June 28, 1888.



superintendent of the M. & C. treated Wheeler's wishes with special respect.<sup>20</sup>

On some occasions McGhee attempted to influence important political decisions. He was, for instance, strongly opposed to the Interstate Commerce Act, which he condemned as "one of the crudest and most mischievous measures that the unwisdom of legislators has ever undertaken to impose upon the Country."<sup>21</sup> In 1893 he spent a good deal of time in Washington unsuccessfully trying to get the law amended so as to permit pooling by the railroads. One of the strongest advocates of this measure was Josiah Patterson, congressman from the Memphis district, with whom McGhee worked closely.<sup>22</sup> When Patterson faced a hard contest for renomination he was able to count on McGhee, who asked the Memphis and Charleston's superintendent "to bring to bear all possible influence in his favor at the approaching election."<sup>23</sup>

At other times, when the issue was less important to his interests, his efforts were merely perfunctory. He had no desire to champion lost causes or to engage in political machinations for their own sake. Thus when he was called upon to promote a subsidy for maritime shipping he wrote Wheeler a letter which reveals much about his usual approach to politics:

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<sup>20</sup> McGhee to R. B. Pegram, August 29, 1888.

<sup>21</sup> Letterbook, August, 1886-February, 1888, p. 43.

<sup>22</sup> See, for instance, Josiah Patterson to McGhee, June 2, and McGhee to Patterson, June 5, 1894.

<sup>23</sup> McGhee to Pegram, October 4, 1894.

The President of Pacific Mail asked me to aid him with my friends in Congress in securing a subsidy. I said to him that I would not ask any of them to vote for the bill, that it was likely to be made a party measure. He then asked that I use such influence as I had to secure a hearing. I accordingly wrote, but delayed doing so until the legislation has passed beyond the point at which a hearing was desirable, or as it appears from your letter possible. The Administration seem to regard an encouragement of our merchant marines a measure of importance. Whether it is wise or not is a question for the future. If it is wise the country will get the benefit, if unwise the Republican party will be responsible for the error of the legislation. If I were a member I would let the dominant party pass all their pet measures (except the Force Bill) without hindrance. The more unwise the measure, the more the injury that will result to the dominant party.<sup>24</sup>

While men like Sanford and McGhee held supreme influence in their respective parties the latter could view politics with a comfortable complacency. He contributed, for instance, \$1,000 to Grover Cleveland's campaign in 1888,<sup>25</sup> but his true attitude was summed up in a letter to a son-in-law:

As you know I have no special feeling in regard to the matter one way or the other, although of course I am for Cleveland, but still I do not consider his election is essential to good government and the prosperity of the country, as our interests will be safe no matter who is elected.<sup>26</sup>

All this was changed by the nomination of William Jennings Bryan for president, and the adoption by the Democrats of a platform which incorporated enough of the Populist program to frighten badly McGhee and his fellows. Already he had seen the signs of what seemed to be dangerous radicalism in the party; in 1894 he noted that Democrats in New

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<sup>24</sup> McGhee to Joseph Wheeler, July 22, 1890.

<sup>25</sup> Chase Bank checkbook stub, August 28, 1888.

<sup>26</sup> McGhee to McClung, October 25, 1888.

York and Ohio were in serious trouble, but observed that "the fact is there are a great many Democratic congressmen that do nobody any good anyway."<sup>27</sup> The old order, the accepted political way, was changing, and McGhee was galvanized by what he viewed as the loosening of "the forces of mis-rule." To combat the new terror--"an attack on property, on contract, and judicial institutions"<sup>28</sup>--he contributed money to the McKinley campaign, circulated propaganda, and wrote letters to those whom he might influence.<sup>29</sup>

To McGhee, prepared as he was for political revolution, the results of the election were a great relief, and almost a surprise. Nevertheless Tennessee and the nation had changed, and such businessmen as McGhee and Sanford could no longer be so certain of the good will of friendly politicians and subservient newspapers. Two years before the McKinley-Bryan contest Sanford had noted that "our connection with any city improvement seems to have the same effect upon the citizens here as a red rag does to a bull."<sup>30</sup> McGhee's last active business venture was an investment in a kind of "city improvement," and though a splendid financial success, it acquainted him with this hostility and brought him into conflict with the new political forces at work in Tennessee.

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<sup>27</sup> McGhee to Patterson, October 22, 1894.

<sup>28</sup> McGhee to McClung, July 16, 1896.

<sup>29</sup> McGhee's campaign activities may be traced in Stanley J. Folmsbee and Marguerite B. Hamer (eds.), "The Presidential Election of 1896 as Reflected in the Correspondence of Charles McClung McGhee," East Tennessee Historical Society's Publications, No. 22 (1950), 158-68.

<sup>30</sup> Sanford to McGhee, September 15, 1894.

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The death of John Hamilton Inman in November, 1896, made necessary radical readjustments in the companies in which he had major stock holdings. For three decades the Southern-born capitalist had invested heavily in the enterprises of his native region. Even after the collapse of his greatest venture, the Richmond Terminal, in 1893, Inman retained a sizeable interest in the South's largest iron manufacturer, the Tennessee Coal, Iron, and Railroad Company.<sup>31</sup> Tennessee Coal had its headquarters in Nashville where its long-time president, Nathaniel Baxter, Jr., made his home and where he had extensive interests,<sup>32</sup> among them the Nashville Street Railway Company, which Baxter, Inman, and a local magnate, General William Harding Jackson, had controlled since 1894.<sup>33</sup> Inman's death was probably the occasion for the exchange of securities which brought McGhee into the company. John Inman's partner, James Swann, wanted to dispose of the interest held in the name of the New York banking house, Inman, Swann and Company.

Having recovered from his bad scare over the McKinley-Bryan election, McGhee was ready to embark on a new venture, and in November, 1896, he wrote Baxter that "after quite an amount of talk . . . I have

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<sup>31</sup>Holland Thompson, "John Hamilton Inman," in Dictionary of American Biography (20 vols. and index; New York: 1928-1945), IX, 484. Fuller, "History of Tennessee Coal," 125-28.

<sup>32</sup>Baxter actually moved his office to Birmingham in June, 1896, at the request of Tennessee Coal's board of directors. Ibid., 129-30.

<sup>33</sup>Nashville Banner, February 9, 1894.

concluded that I will buy the Swann interest at \$60,000 or thereabouts and pay him the floating debt." McGhee observed that this would give him a one-third interest, equal to that of Baxter and Jackson.<sup>34</sup> Baxter responded with a proposal that McGhee join him in buying out General Jackson, who appears to have been in financial straits.<sup>35</sup> Baxter would later have cause to regret his role in securing Jackson's interest, but the opportunity must have looked too good to resist. On December 11 it was announced that McGhee and Baxter had acquired a controlling interest in the company.<sup>36</sup> McGhee received 3,996 shares of stock and \$194,700 in bonds, for which he paid a total of \$185,209.63; but of this amount \$64,245.62 went to Inman, Swann to buy Nashville Street Railway's floating debt. Thus Inman, Swann took a loss in the securities it sold to McGhee, in return for which the latter assumed the unsecured note of over \$60,000, representing advances made by the banking house to the street railroad. McGhee therefore acquired stock and bonds with a par value of almost \$600,000 which actually cost him \$120,964.01.<sup>37</sup>

Only a financier sure of himself and with plenty of capital could have made such a lucrative deal. Nashville Street Railway had apparently never shown much earning power. Its large floating debt and the willingness of Jackson and Inman, Swann to part with their holdings at such figures were telltale signs that the company's performance had been poor

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<sup>34</sup> McGhee to Nat Baxter, November 13, 1896.

<sup>35</sup> Ibid., November 23, 1896.

<sup>36</sup> Nashville American, December 11, 1896.

<sup>37</sup> Leonhardt to McGhee, December 26, 1896; Journal, 52.

and that its prospects were uncertain. For McGhee, or indeed any capitalist who might have taken such an interest in it, the important thing was to control Nashville Street Railway's management. There was above all the matter of the floating debt which was certain to be paid only if the holder of the note had a free hand in the company's financial affairs. It is clear that after the purchase, McGhee, with Baxter's assent, exercised such absolute control.

McGhee approached the problem as he had approached similar ones. To provide for the floating debt and to pay the coupons on the company's bonds, he required that every spare penny be remitted to New York.<sup>38</sup> By May, 1897, something less than half of the debt to McGhee had been paid with interest.<sup>39</sup> Baxter approved this policy and urged McGhee to "make a clean sweep of what is left in the Treasury, and leave them to scuffle for their July [bond] interest." He hoped that June earnings would be enough to cover both operating expenses and July interest, but noted that "if it should not there will be no difficulty in obtaining an accommodation from the banks for the short term. . . ."<sup>40</sup> McGhee, however, was not such a hard taskmaster. He could afford to relax and wait a bit for the rest of his money. In reply, he observed "quite a bit of demoralization in Nashville Street Railway securities, and it occurs to me that it would be well to let them accumulate their July

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<sup>38</sup> McGhee to Leonhardt, January 2, 1897; T. M. Steger to McGhee, February 13, 20, and 27, 1897.

<sup>39</sup> Leonhardt to McGhee, May 10, 1897.

<sup>40</sup> Nat Baxter to McGhee, May 17, 1897.

interest before making any further payments. . . . After doing that," he said, "they can pay me my unsecured debt, and then can arrange to accumulate their January interest."<sup>41</sup>

After six months' experience with the property McGhee expressed himself as "delighted" with its earnings.<sup>42</sup> It was a good time to be in the street car business in Nashville. The Tennessee Centennial Exposition opened in May, 1897, and the railway was busy carrying throngs to visit the Exposition grounds during the summer and into the fall as the Exposition was held open until November. Typically, McGhee was guardedly optimistic about the road's future, but he kept in close contact with the company's president, Thomas M. Steger, a Nashville lawyer, and with its general manager, E. C. Connette. Both officers frequently consulted McGhee about details of operations, such as the desirability of using bumpers on the cars and the issuance of free passes. Likewise, the managers were expected to justify their expenditures to McGhee's satisfaction.<sup>43</sup>

It was perhaps well that McGhee maintained such close scrutiny of the company, for Nat Baxter proved to be a less than perfect partner. Baxter had little time to spare for Nashville Street Railway affairs because he needed all his energy to stay on top of Tennessee Coal. That company had for years been the target of Wall Street raiders, its stock

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<sup>41</sup>McGhee to Nat Baxter, May 19, 1897.

<sup>42</sup>McGhee to Steger, June 2, 1897.

<sup>43</sup>See, for instance, McGhee to Steger, July 14, August 13, 23, 25 and September 15; Steger to McGhee, July 6, 13, August 4, 12 18, and September 1; E. C. Connette to McGhee, July 16, August 2, 1897.

gyrating wildly as a result of the speculators' maneuvers. In 1897 Baxter was already losing control to a party of New York financiers, although his ouster from the presidency was still a few years in the future.<sup>44</sup> Much of his stock in Tennessee Coal, as well as all of his original Nashville Street Railway securities, was held as loan collateral by Inman, Swann.<sup>45</sup> As early as May, 1897, James Swann predicted to McGhee that "the time is coming when we will have to close up with Baxter, either by selling his [Nashville Street Railway] stock to someone else or by buying it ourselves. . . . Baxter's matters have been running with us so long, that we cannot, in justice to ourselves, continue much longer."<sup>46</sup> McGhee felt that Swann would be glad to take Baxter's 2,700 shares to settle the latter's \$125,000 debt, or that the New York banker would buy it outright at thirty dollars a share.<sup>47</sup>

Although effusively grateful to McGhee for taking the street railroad in hand, Baxter could not refrain from speculating in its stock.<sup>48</sup> "Captain Steger says," wrote McGhee's son-in-law, Lawrence D. Tyson, "that every time Mr. Baxter comes to town, he boosts the stock about a point, and that it is very hard to keep taxes down under such publicity."<sup>49</sup>

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<sup>44</sup>Fuller, "History of Tennessee Coal," 125-28; Walker, Alfred Montgomery Shook, 80-81, 114-15.

<sup>45</sup>McGhee to Tyson, June 30, 1897.

<sup>46</sup>James Swann to McGhee, May 24, 1897.

<sup>47</sup>McGhee to Tyson, June 30, 1897.

<sup>48</sup>Nat Baxter to McGhee, June 28, 1897.

<sup>49</sup>Tyson to McGhee, October 5, 1897.



Baxter, who was quite familiar with such practices through his Tennessee Coal experience, doubtless found a congenial atmosphere in Nashville for stock boosting. More than other Southern cities, Nashville was already a center for securities speculation, and the manipulation of a local company's stock on this market was not unusual.<sup>50</sup> Still, such a practice ran counter to McGhee's plans, which were to build a solid foundation for the company's future earning capacity and to spend net profits on the property to keep it in a "high state of physical condition." He found that Baxter wanted to pay stock dividends with the first available money. This, McGhee said, was "diametrically opposed" to his own views. In a New York conversation he told Baxter that "I did not want to be in his way, and that if he was opposed to the manner in which I managed the finances of the property that I would sell my stock to anybody he might select that would take care of the property." Baxter disclaimed any desire to have McGhee sell and pled his precarious financial condition as justification. McGhee wrote Tyson that Baxter expected to be in better condition the following year and added that "when he goes back home, I hope he will cease his efforts to bolster up the price of the stock."<sup>51</sup>

Two months later, however, Baxter's money problems caused an embarrassing incident. When Baxter bought half of General W. H. Jackson's street railway securities in December, 1896, he apparently gave the

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<sup>50</sup> John B. McFerrin, Caldwell and Company: A Southern Financial Empire (Chapel Hill: University of North Carolina Press, 1939), 2.

<sup>51</sup> The conflict with Baxter is fully stated in McGhee's letter to Tyson, October 7, 1897.

general a twelve-month note in payment. As the date due approached, Jackson advertised the stock and bonds for sale to satisfy the debt. A flurry of telegrams informed McGhee of this development, and Baxter asked him for a loan to pay Jackson, but before McGhee could respond Baxter secured from Jackson a renewal of the note.<sup>52</sup>

This incident was probably the occasion referred to in an anecdote related by J. C. Bradford, a nephew of James C. Bradford, who was intimately associated with Nashville Street Railway:

"Colonel" Nat Baxter, Jr. had executed a note to General William H. Jackson of "Belle Meade" in connection with a transaction in which Mr. Baxter had purchased an interest in a street railway company in Birmingham, Alabama [*sic*]. The note came due and Mr. Baxter mailed a renewal note to General Jackson. The latter mailed it back, saying that there was no understanding as to its renewal. This meant of course, foreclosure on the collateral. Mr. Baxter got his horse and buggy and a shotgun, drove out to "Belle Meade," and went to General Jackson's front door with the renewal note and the shotgun. When the general came to the door, Mr. Baxter asked him if he would not renew the note. General Jackson immediately accepted the renewal note, got the old note, and delivered it to Mr. Baxter. Thereafter, in Nashville banks when a note from Mr. Baxter appeared it was commonly referred to as a "shotgun note."<sup>53</sup>

The story may be apocryphal, but it fits the situation too well to be entirely discounted. Although he did not mention his shotgun, Baxter explained to McGhee that he had "arranged" a four-month renewal with Jackson. Baxter professed to have been shocked at the general's initial intransigence until he learned that Jackson was bitter about the original

<sup>52</sup>Tyson to McGhee, December 19; Steger to McGhee, December 19; Nat Baxter to McGhee, December 19, 21, 1897.

<sup>53</sup>William Waller (ed.), Nashville in the 1890s (Nashville: Vanderbilt University Press, 1970), 100-1.

sale of the securities to Baxter and McGhee. The general believed that Baxter had squeezed him, "and now he had the opportunity to squeeze me and had retaliated."<sup>54</sup>

In any case, Baxter kept his interest in Nashville Street Railway, and McGhee found that actual control of the property could be secured by working through James Swann, who still held a large block of the Baxter stock as security.<sup>55</sup> By the spring of 1898 McGhee had assumed complete direction of the company and his son-in-law, Lawrence Tyson, was installed as president, replacing Thomas M. Steger. James C. Bradford became vice president and general counsel. Close management and more prosperous times began to make the street railway a paying investment, fully justifying McGhee's gamble on its future.<sup>56</sup>

But if the company had by the middle of 1898 come a long way on the road to prosperity, its journey had not always been an easy one. Among the more persistent problems which faced McGhee and his associates was the railroad's relationship with government and the general public. Like most municipal public transportation facilities, Nashville Street Railway was a monopoly under a charter granted by the city government. The company was a big business with assets which were highly visible on the streets of Nashville, and transactions in its securities were quoted in the local press. The company naturally attracted the attention

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<sup>54</sup>Nat Baxter to McGhee, December 21, 1897.

<sup>55</sup>McGhee to Swann, December 22, and to B. S. Clark, December 27, 1897.

<sup>56</sup>McGhee to Tyson, June 1, to Bradford, June 21, and to Nat Baxter, August 19, 1898.

of tax collectors, and it was understandably resented by some of its farepaying patrons. With a large stake in municipal government, some of the company's employees became involved in local politics. General Manager E. C. Connette was active in the Democratic party, and, using the company's patronage to expand his influence, he built something of a political machine and became president of the city's board of education.<sup>57</sup> While he never shrank from using political power to accomplish desired ends, McGhee disapproved of Connette's occupying such an obvious public position, but he was unwilling to have his general manager driven from office by critics who were beginning to attack not only Connette but Nashville Street Railway as well.<sup>58</sup>

"There is a daily newspaper here called 'The Sun,'" wrote T. M. Steger, "which has promoted and urged these attacks, and if it continues under its present management, it has other troubles in store for us."<sup>59</sup> In fact, by July, 1897, when the president reported thus to McGhee, the Nashville Daily Sun had made the Nashville Street Railway Company one of the chief objects of its war on "the corporations, the monopolies and the trusts."<sup>60</sup> From its inception in December, 1895, the Sun had proclaimed its readiness "to arraign at the bar of public opinion individuals,

<sup>57</sup> McGhee wrote Connette that "your political strength is largely due to the fact that you have had the patronage of the Company at your disposal--without the Company you would find yourself sadly shorn of power," McGhee to Connette, July 27, 1899.

<sup>58</sup> McGhee to Steger, July 12, 1897.

<sup>59</sup> Steger to McGhee, July 6, 1897.

<sup>60</sup> Nashville Daily Sun, December 19, 1895.

corporations, and public officials who invade or attempt to invade or disregard the rights of the people."<sup>61</sup> Founded especially to advance the doctrine of free silver, the Sun became the Nashville voice of left wing Tennessee Democrats and Populists, as well as a Bryan campaign organ in the election of 1896. After Bryan's defeat, it focused attacks on the Louisville and Nashville and the Nashville, Chattanooga, and Saint Louis railroads, blaming these corporations for opposing Bryan and for generally oppressing labor and the citizenry of Nashville.<sup>62</sup> In the spring of 1897 the newspaper began to assail several local public service corporations for a variety of offenses. Typical of these attacks was an editorial directed at Nashville Street Railway and entitled "Corporation Tyranny":

Nashville has come to look with great suspicion upon certain local corporations operating under grants from the people and growing fat by exactions from the people.

Take, for instance, our local street car company. There are a great many people who believe that it should pay more taxes. There are many who believe it should give some quid pro quo, owning as it does by grant of the city the right of way through streets and thoroughfares. There are those who insist that it should not be allowed to gobble up streets at its pleasure, or for its profit, and stop the running of cars on certain lines because the same may not be so profitable as others.

There are thousands who are of the opinion that this company should get out and stay out of politics and leave our Board of Education and our City Council severely alone.

All of these matters are going to be looked into, and The Sun gives its warning in due time. This is not a healthy

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<sup>61</sup>Ibid.

<sup>62</sup>Ibid., November 8, 13, 1896.

year for such methods as are unquestionably being complained of. There is a growing sentiment that these corporations are not so powerful that the people cannot take them in hand.

The Louisville and Nashville Railroad dwelt in false security when it imagined that the fight made by The Sun for a Railroad Commission would be a losing one. Let the Nashville Street Railway Company profit by the example of the Louisville and Nashville. There are new councils to be elected, and those who win will have to secure the support of the people. That support will be terribly slow in coming once those same people are aroused to a proper sense of their duty. Corruption cannot long thrive, tyranny has but temporary life, and the right is sure to be eventually done.<sup>63</sup>

Taxes proved to be the most effective stick with which to beat the corporations, and the Sun campaigned to raise the assessments of the street railway, gas, telephone, and electric companies.<sup>64</sup> After several weeks of editorial bombardment, the newspaper was able to claim a victory when the Board of Assessors announced a general rise in corporation assessments.<sup>65</sup> Nashville Street Railway's taxable assets were raised by the city from \$710,000 to \$860,000; the county assessment was raised to \$1,000,000. Although the Sun thought the assessment should be \$1,800,000, it was jubilant over the increases and promised that "we are not through with you yet, Mr. Street Railway."<sup>66</sup>

The Sun's attacks, while bothersome, did not at first seem of much importance to McGhee. When apprised of them, he was not inclined to give the matter much attention. "I can give you no views in regard to the newspaper," he wrote Steger, "as it is a subject that I do not

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<sup>63</sup>Ibid., May 31, 1897.

<sup>64</sup>Ibid., June 1, 2, 3, 4, 6, 7, 10, 18, 20, 1897.

<sup>65</sup>Ibid., July 2, 1897.

<sup>66</sup>Ibid.

understand, and I must leave it to you and Mr. Tyson."<sup>67</sup> Probably he was reluctant to spend money to stop the Sun, and he was too concerned with the larger financial affairs of the company to notice the clamor of a scurrilous Nashville newspaper. McGhee's Tennessee associates would have to handle the situation as best they could. At first it seemed possible that the Sun's victims might buy out their antagonist. Dissension among the paper's owners had become bitter as two factions fought for control, and so William Morrow, one of the original stockholders, approached Steger for help. The street railway executive organized a syndicate composed of his company, the gas and electric companies, and the L. & N. Railroad to furnish the money for Morrow to gain control of the Sun.<sup>68</sup> Other political or business interests must have sought to secure the paper, however, because Steger decided that the bid should be withdrawn when the price was driven up.<sup>69</sup> Having failed in the attempt to buy it, Steger hoped the paper would go into receivership, but, although beset by creditors, it continued to publish attacks on the street railway and other corporations.<sup>70</sup>

Perhaps it was an affront of a more personal nature which stung McGhee into striking back. In an editorial entitled "Quasi Public

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<sup>67</sup> McGhee to Steger, July 15, 1897.

<sup>68</sup> Steger to McGhee, August 4, 1897. Dr. William Morrow, a prominent Nashville capitalist, was originally from East Tennessee. He made a fortune in the manufacturing firm known as Cherry, Morrow and Company and in the leasing of convict labor from the state penitentiary. He was state treasurer of Tennessee, 1871-75. Waller, Nashville in the 1890s, 79.

<sup>69</sup> Steger to McGhee, August 12, 1897.

<sup>70</sup> Steger to McGhee, August 18; Tyson to McGhee, October 5, 1897.

Corporations," the Sun for the first time concentrated its fire on the man who controlled Nashville Street Railway:

The submissiveness of the American people comes not so much . . . from patience as from the circumstance that these wrongs are not directly inflicted by an individual, but through an impersonal entity, the corporation.

Of course, there is an individual or several individuals behind the corporation. . . .

Take, for instance, the street railway company, which, while it benefits, perhaps to the extent of \$150,000 from the Centennial, yet it is a daily and constant source of danger and annoyance to our people and to strangers who visit the city.

If the people of Nashville realized exactly that it is Col. Charles McGhee of Knoxville, who owns the monopoly of the use of the streets for street car transportation, they would look upon the concern as an impersonal corporation.

Colonel McGhee is a worthy gentleman and an excellent citizen of Knoxville. His chief and probably only interest in Nashville is entirely confined to knowing how much his exclusive right to tax the people of this city will add to his yearly income.<sup>71</sup>

Early in November McGhee went to Tennessee. The reasons for his visit to his native state may have been varied, but certainly the problem of the Sun was one of them. On November 10, he wrote A. B. Andrews, the Southern Railway's vice president: "The news-paper deal was closed a few days since, and under the agreement I paid \$1250.00 on your account, in addition to \$1250 on my own account. Please remit check at your earliest convenience for \$1250.00."<sup>72</sup> Four days previously the paper had revealed that E. T. Noel, W. W. Page, and David Crutchfield had sold their interest in the paper to Wharton Allen, the Sun's business

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<sup>71</sup>Sun, October 17, 1897.

<sup>72</sup>McGhee to A. B. Andrews, November 10, 1897.



manager.<sup>73</sup> The paper's staff and policies would remain the same it was announced, but five weeks later the Sun abruptly ceased publication.<sup>74</sup>

From McGhee's correspondence it is possible to reconstruct the story of the demise of this radical journal. When he went to Tennessee, McGhee arranged for the cooperative purchase of the Sun by his street railroad, the Southern Railway, and probably a number of other corporations. Once the paper was bought by a "dummy," Wharton Allen, its control was entrusted to J. C. Bradford, vice president of Nashville Street Railway.<sup>75</sup> No abrupt change in editorial policy occurred, but references to specific individuals or corporations disappeared. The Sun continued to pursue a generally reformist line, calling occasionally for the assessment of franchises and attacking the issuance of free passes by railroads to public officials.<sup>76</sup> Thus the new owners averted suspicion. "We have been able to mystify people completely about the ownership of the paper," wrote Bradford, "and no one knows who are the real parties. It has been whispered on the streets that the gas and street railroad companies controlled it; and again it has been said Bob Taylor's friends controlled it."<sup>77</sup> So well was the secret kept that Jacob M. Dickinson, the local attorney for the Illinois Central Railroad, one of the participating owners, did not know of his company's involvement. Suspecting that the street railway controlled the Sun, he

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<sup>73</sup>Sun, November 6, 1897.

<sup>74</sup>Ibid., December 17, 1897.

<sup>75</sup>J. C. Bradford to McGhee, December 17, 1897.

<sup>76</sup>Sun, November 12, 17, December 1, 3, 4, 1897.

<sup>77</sup>Bradford to McGhee, December 17, 1897.

threatened to complain to McGhee about an editorial which criticized the railroads' opposition to the state railroad commission.<sup>78</sup> Dickinson need not have worried, for the paper's new owners had decided that it must die, and soon after its second birthday, they ended the Sun's crusading career. Ironically, Nashville Street Railway continued to have occasional troubles with the press. The Nashville Daily American, organ of the Nashville, Chattanooga, and Saint Louis Railroad, took an antagonistic position in the summer of 1898, and McGhee complained to Bradford:

I have been surprised at the course of the "American" in regard to the matter. In order to get the "Sun" out of the way and stop its abuse of Maj. [John W.] Thomas and ourselves we contributed \$1500 [sic] to the purchase of the "Sun" and we had a right to believe that the "American" would be friendly to us. It seems to me that [Mayor E. C.] Lewis and Thomas have treated us badly in the matter.<sup>79</sup>

Differences with the American, however, could not seriously discomfort McGhee as Nashville Street Railway seemed to go from strength to strength. In the summer of 1898 its debt was lower than at any time since he had bought into the company, and earnings for the first quarter of fiscal 1898 were almost \$12,000 above operating expenses and interest.<sup>80</sup> Early in 1899 he and his associates decided to sell out to a syndicate led by Hambleton and Company, a Baltimore firm which owned other street railroads around the country.<sup>81</sup> Besides Nashville Street Railway, Hambleton bought Cumberland Electric Light and Power Company, and Citizens

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<sup>78</sup> Ibid.,; Sun, December 12, 1897.

<sup>79</sup> McGhee to Bradford, August 25, 1898.

<sup>80</sup> Ibid.,; McGhee to Nat Baxter, August 18, 1898.

<sup>81</sup> McGhee to Baltimore Trust and Guarantee Company, February 11, 1899.

Rapid Transit Company, thus consolidating all of the city's street car and electric power interests. These purchases were underwritten by the Baltimore Trust and Guarantee Company which expended \$1,697,709.81 in buying the securities of the various companies. McGhee sold his stock at fifty dollars per share and received a bonus of \$40,000, which brought his total receipts to \$240,000, or roughly twice his original cash investment in Nashville Street Railway.<sup>82</sup> Not included in the sale were bonds with a face value of \$194,700 which he retained. He also participated in the syndicate which consolidated these electric and transportation properties into a new company called Nashville Railway, but by the beginning of 1900 McGhee had to all intents retired from the active management of the Nashville street car business.<sup>83</sup>

In smoothing the way for the new Nashville Railway Company, McGhee played the role of elder statesman which had become typical of his later years. He was able, for instance, to instruct the new Yankee managers in some of the finer nuances of doing business in the South. When the city ordinance which was necessary for the consolidation of the companies encountered the opposition of some Nashville politicians, McGhee wrote a long letter of advice to T. Edward Hambleton, president of the new company:

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<sup>82</sup>Ibid.; Commercial and Financial Chronicle, April 15, 1899.

<sup>83</sup>"Original Syndicate Agreement," April 6, 1899. Nashville Railway soon suffered bankruptcy, probably as a result of its rapid expansion. The company was reorganized in 1901 under the leadership of a Nashville businessman, Percy Warner. Commercial and Financial Chronicle, August 24, 1901.

From Baxter's letter, a copy of which I sent you, and from my conversation with Judge [J. C.] Bradford, it seems that the power most potent against favorable action by the Mayor [of Nashville] is the influence of Judge Malone, president of the Gas Company. This being the case, it occurs to me that you should authorize your representatives, Judge Bradford and [Major E. C.] Lewis, to assure Judge Malone in the most positive terms that it is not your intention to attempt to operate opposition gas works. You know, of course, better than I do the importance to your syndicate of the passage of the consolidation ordinance. In my judgment the acquisition of the gas works is a matter of no importance whatever as compared with the consolidation ordinance. Please telegraph me on receipt of this letter and let me know whether you will give such authority to Judge Bradford and your representative in Nashville. If your answer is in the affirmative, I think I can send some telegrams to Nashville that will be of great service to you, as my relations with Judge Malone and the Mayor are most cordial. Judge Malone and the Mayor were in the same regiment and in the same company during the war of the Rebellion, and the Mayor will not, in my judgment, do any act that will materially affect the interests of Judge Malone.<sup>84</sup>

The Nashville Street Railway experience conformed to the pattern which McGhee followed--or attempted to follow--in numerous business investments. His formula was to buy at a bargain and to consolidate his control of the company's management, especially of its financial policy. Acting directly, or through trusted associates and subordinates, he would pursue a conservative program, eschewing short term profits and dividends, improving the company's physical plant and protecting its securities from other speculators. He never hesitated to make unsecured advances to a company at reasonable interest rates--a safe investment if he in fact controlled the company's management. When the company was in sound condition McGhee could buy or retain its bonds, secure in the knowledge that the coupons would be paid. If, as in the case of

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<sup>84</sup> McGhee to T. Edward Hambleton, September 4, 1899.

Nashville Street Railway, he could sell out his stock at a large profit, he would do so because he was essentially an investor with speculative instincts rather than an entrepreneurial developer or empire builder. In this way he was different from the promoters, traction magnates, or Wall Street raiders who were his contemporaries. His insistence upon "sound" or conservative business principles in the operation of the companies which he controlled set him apart from the ambitious, imaginative "spinners of dreams" as well as from the unprincipled "sharks" of Wall Street. Neither did he seek to dominate any particular industry or territory. In business his goal was profit, and his pursuit of profit was characterized by shrewdness, perseverance, and the application of what he considered to be sound business principles. If McGhee's methods and his objective prevented him from being an entrepreneurial innovator or a charismatic captain of industry, they also saved him from the stigma of being a ruthless "robber baron."

## CHAPTER VIII

### LEGACIES OF A FINANCIER

The active business career of Charles McGhee ended during the last years of the nineteenth century, and although he lived until 1907, his time was spent not on Wall Street but with his family in Knoxville and at various resorts. In a real sense all the accumulation of money had probably been for the benefit of his wife, his daughters, and their husbands and children, and indirectly for the multitude of others who claimed kinship with them. It was a fortune which, if not equal to the demands of all of his kith and kin, was sufficient to support a dynasty of wealth that consisted of his immediate family and their descendants.

Unfortunately McGhee's papers do not contain complete statements of his assets and liabilities, but his extensive financial records are enough to give some indication of his wealth. In 1888 a list of his securities showed stocks, bonds, and other negotiable commercial paper with a par value of almost \$3,000,000.<sup>1</sup> Much of this amount was in bonds which had a value near or even above par, but the stock was probably worth far below par, and it is not possible to determine the market value of many of the items on the list. Nor is there a listing at the time of his real estate holdings, the personal and unsecured company notes that he held, or his liabilities. At various times these items involved large amounts.

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<sup>1</sup>Letterbook, 1888-1889, p. 24. The list is reproduced in the Appendix. All manuscript citations in this chapter are from the McGhee Papers.

He owned a number of business buildings in Knoxville, for instance, and in 1895 his rental property was valued at \$312,688.46.<sup>2</sup> In 1892 he held forty personal notes with a combined value of more than \$20,000,<sup>3</sup> but these did not include special loans to relatives or important friends such as Senator John B. Gordon of Georgia who owed him \$5,000 throughout the decade.<sup>4</sup> Although McGhee himself often owed a large amount, this was usually in the form of a single loan from a New York bank.<sup>5</sup> During 1895 he filed a return for the federal income tax which was later ruled unconstitutional. On this statement he declared an income of \$70,266.66 in 1894, of which \$13,200 was salary from the East Tennessee Railroad and the Western Union Beef Company.<sup>6</sup> During that same year he made \$21,716.38 in speculation and lost \$4,141.50. The bulk of the rest of his income came from interest and dividends. McGhee listed as deductions \$6,716.16 paid out in interest and \$5,627.34, the amount of local taxes paid.<sup>7</sup> He thus had an annual disposable income of about \$58,000 at a time when the national per capita income was under \$357.<sup>8</sup>

Withal, he did not consume lavishly but spent conservatively and lived in comfort. In New York he stayed at the Murray Hill or Plaza

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<sup>2</sup>Ledger, 48.

<sup>3</sup>Letterbook, 1892-1894, p. 267.

<sup>4</sup>Gordon to McGhee, August 16, 1892; McGhee to Gordon, October 10, 1898.

<sup>5</sup>McGhee to F. P. Olcott, May 17, 1889.

<sup>6</sup>Leonhardt to McGhee, February 13, 1895.

<sup>7</sup>Ibid.

<sup>8</sup>Kirkland, Industry Comes of Age, 401.

hotels where a typical weekly bill was \$197.25.<sup>9</sup> He belonged to the New, Manhattan, and New York clubs, as well as the New York Southern Society, and he bought steadily from Park and Tilford Co. which supplied him with liquors and cigars.<sup>10</sup> Although he was naturally generous with himself, friends, and family, he paid close attention to details and hated to be cheated, as a letter to his tailors illustrates:

Your bill has been received but before paying it, I must insist that you make my last pair of trousers fit me. I returned them once but they are still too long. I also have a pair of blue serge pants that you made for me last summer which I have not worn [sic] until now and I find them a misfit also, being to [sic] long, and not seeming to fit anyway.

It is too much trouble for me to run back and forth to get my cloths [sic] to fit and also pay you whatever you may see fit to charge. I shall therefore not pay the bill until your work is satisfactory.<sup>11</sup>

McGhee's warmest and most tender feelings were reserved for his daughters, and he certainly must have agreed with Sanford who wrote him that "I think we can both safely feel that it is not for ourselves that we are working. With the start we will be able to give our children, if they can't take care of themselves, they could not keep what we give them no matter how much it might be."<sup>12</sup> Still it was hard for him not to worry about them, especially after the death of his daughter, May Lawson, who married David Shelby Williams and died after childbirth in 1883.

<sup>9</sup>Receipt from Plaza Hotel, October 2, 1899.

<sup>10</sup>See, for instance, receipt from Park and Tilford, August 8, 1887.

<sup>11</sup>McGhee to Leavens & Thompson, July 5, 1887.

<sup>12</sup>Sanford to McGhee, December 5, 1890.



This tragedy, made more heartbreaking by the death a few months later of her baby, was an agonizing reminder to McGhee of the loss of his first wife and their son many years before.<sup>13</sup> Often he was in New York while his family was in Knoxville or elsewhere, and on such occasions he fretted, as in a letter to his son-in-law, Calvin McClung:

It was necessary for the family to go to Tennessee and this has brought about a separation that is very distastful [sic] to me as I find myself tied here by business connections although I am continuall [sic] trying to arrange matters so I can run down and see them. It does seem to bad that Nellie's health should be so delicate and for poor Annie to be such a sufferer. Nellie's health and the worry [sic] of the present financial situation has left me in no comfortable frame of mind but still I feel that I am in the line of duty, which is one of the greatest comforts one finds in life.

I find myself in about as much worry about Nellie as I was when she was sick last winter. She is my baby.<sup>14</sup>

Despite the tragedies and anxieties he was fortunate that each of his daughters was apparently happily married to a man of means and promise. Margaret, the eldest, married George White Baxter, sometime territorial governor of Wyoming and an official of the Western Union Beef Company.<sup>15</sup> After McGhee's wife, Cornelia, died in 1903 the Baxters returned from the West to Knoxville and made their home at McGhee's Locust Street mansion.<sup>16</sup> Next door to this house lived Calvin McClung

<sup>13</sup> McClung, McClung Genealogy, 37.

<sup>14</sup> McGhee to McClung, August 16, 1887. McGhee's youngest daughter, Eleanor, married James Columbus Neely, Jr., of Memphis. She died in 1964 at the age of ninety-one. Knoxville News-Sentinel, April 17, 1964.

<sup>15</sup> McClung, McClung Genealogy, 37.

<sup>16</sup> Ibid.; Knoxville City Directory, 1905, p. 133.

and his wife Annie, McGhee's third daughter, who died suddenly in 1898.<sup>17</sup> The relationship between McGhee and this son-in-law was especially close, and for years McClung managed McGhee's property in Knoxville, as well as running a highly successful wholesale hardware business. Since McClung was interested in history and book collecting his father-in-law took pleasure in finding rare volumes for him in New York.<sup>18</sup> He showed his regard for McClung in an even more important way when he wrote him that "You have husban[d]ed and taken care of the money which I have heretofore given Annie in a satisfactory manner and I herewith enclose your notes for \$20,000. . . ."<sup>19</sup>

Much of his money and his influence with politicians were used to advance his sons-in-law, particularly Lawrence D. Tyson, who married McGhee's daughter Bettie in 1886.<sup>20</sup> On several occasions he used his connections to help Tyson's career, and it was probably a result of McGhee's efforts that the young West Point graduate was assigned as professor of military science and tactics at The University of Tennessee in 1891.<sup>21</sup> While at this post Tyson studied law, resigning from the army in 1895 to join the Knoxville law firm of Lucky and Sanford.<sup>22</sup> Prior to serving at the University, however, Tyson considered becoming a merchant, and McGhee

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<sup>17</sup>McClung, McClung Genealogy, 37.

<sup>18</sup>McClung to McGhee, April 20, 1889.

<sup>19</sup>McGhee to McClung, July 2, 1889.

<sup>20</sup>McClung, McClung Genealogy, 37.

<sup>21</sup>See, for instance, McGhee to James D. Porter, August 2, 1887.

<sup>22</sup>Rothrock, French Broad-Holston Country, 498.

agreed to invest \$50,000 in the mercantile business of Daniel Briscoe and Company so that his son-in-law could become a partner.<sup>23</sup> Tyson later repaid McGhee's interest with a number of military, financial, and political successes. He volunteered for service in the Spanish-American War and World War I and achieved the rank of brigadier general during the latter. Between the wars he was active in some of the Knoxville companies in which McGhee was interested, and in 1924 was elected a United States senator from Tennessee.<sup>24</sup>

It was both natural and easy for McGhee to be generous to his own daughters and their husbands, but his assistance to his many less successful relatives and friends is a further demonstration of his devotion to the mores and principles of the time in which he grew to manhood. The bond of kinship was so important that he seemed never to be able to refuse at least the first appeal from anyone who had such a claim upon him and who really needed his help. Over a period of at least fifteen years he gave and lent money to his brother Barclay's son, John B. McGhee, and was sometimes irritated by his nephew's inability to do without this aid. Usually he gave John perfunctory advice, as when he wrote, "Enclosed I send you check for \$300.00. Please sign the enclosed note and return to me. The only suggestion I have to make is greater economy and more energy."<sup>25</sup> Occasionally, however, he became angry and poured out his exasperation:

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<sup>23</sup> McGhee to McClung, May 15, 1889. In the end Briscoe made other arrangements and Tyson did not become a partner.

<sup>24</sup> Rothrock, French Broad-Holston Country, 498-99.

<sup>25</sup> McGhee to John B. McGhee, November 3, 1894.

I have tried to make you a successful business man, and would have been willing to aid you further if I could see any hope of you becoming self sustaining. You have in some way run behind several hundred dollars each year, and if it continues the end is not difficult to predict, nor would any aid I could give you avert it. Contrary to my advice you have kept a little store where you and your family set [sic] around when you should have been out on the farm at work. The position of [United States] Commissioner pays you but little and keeps you running around to attend the Federal Courts. If you can satisfy me that you will change in the management of your business affairs which will enable you to become self sustaining, I will lend you money to pay your debts, take a mortgage upon your entire farm. But if you are to continue running your little store and your Commissioner's business, instead of working on your farm, I shall not attempt to give you any temporary relief, as it will do no good whatever.

I will try to get Mary to Cincinnati some time in June.<sup>26</sup>

Mary was John's daughter, and McGhee paid for her musical education. While he often warned her that he would "be greatly disappointed if you fail to cultivate and develop [sic] your talent,"<sup>27</sup> he wanted her to enjoy herself:

I want you to have everything to make you comfortable and to enable you to keep yourself neat. If your companions are from time to time in the habit of going to places of amusement, I want you to feel at liberty to use some of the money for the purpose of seeing something of the theatrical world. You ought, however, never to go to any places of amusement with a young man alone.<sup>28</sup>

He was anxious that his relations should go to school, and he paid to educate John's children as well as those of his sister's son, Thomas W. Humes. Taking what he felt was a practical approach he advised that "A thoroughly good English education is about all that you can reasonably

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<sup>26</sup>Ibid., May 29, 1895.

<sup>27</sup>McGhee to Mary S. McGhee, July 26, 1895.

<sup>28</sup>Ibid., October 18, 1895.

expect to give them and it is all that is necessary to success in life and a respectable situation in society. A clasical [sic] education," he added, "I do not consider of any substantial value."<sup>29</sup>

Unfortunately, neither "success in life" nor "a respectable situation in society" was achieved by John McGhee and his children. When she was a few weeks short of her fourteenth birthday, John's daughter, Alvah, married Thomas C. Howard, thus enraging her father against the Howard family and causing a feud to break out in 1898 when John McGhee and his son, Joseph, killed Thomas Howard's brother, Ernest.<sup>30</sup> For four years the killings continued until in 1902 Thomas Howard was shot to death by John McGhee's nephews, Joshua and Moultrie Jones.<sup>31</sup> Loyal to his kinsmen though revolted by their troubles, McGhee paid the legal expenses for the defense of John and Joseph McGhee in their trial for murder.<sup>32</sup> He kept in close touch with the lawyers, and wrote one of them at "I have felt very much like coming to Knoxville in order to be near at hand, but really the whole matter has so nauseated me that I think I shall stay away and rely on you . . . to do what is necessary."<sup>33</sup> Repulsive though the affair was, he must have taken a certain pride in remaining loyal to the end to his unhappy relatives.

<sup>29</sup> McGhee to John B. McGhee, June 10, 1887.

<sup>30</sup> State of Tennessee v. John B. and Joe McGhee, Brief for Appellants in McClung Historical Collection.

<sup>31</sup> McClung, McClung Genealogy, 35-36.

<sup>32</sup> McGhee to McCroskey & McCroskey, June 22, 1899. The McGhees were eventually acquitted, but Joseph was murdered in 1933.

<sup>33</sup> McGhee to W. L. Welcker, September 12, 1899.

If he stood by these members of his more immediate family McGhee was also generous to distant cousins and old friends. When they needed a house to live in, medical treatment, or a loan he was glad to oblige if they were truly in need.<sup>34</sup> Yet his generosity was based on traditional personal relationships, and it does not seem that he was especially responsive to some of the larger needs of society. Thus when he made a "generous response" to an appeal for the Sisters of St. Mary home for children in Memphis it was probably because the applicant was the daughter of an old friend.<sup>35</sup> He could also adroitly turn aside requests which did not touch his interest or sympathy. Dr. William Morrow, a wealthy supporter of Emory and Henry College, asked for a donation, and McGhee replied half seriously:

I feel a deep interest in the cause of education. Emory & Henry is an old institution and should be supported in the good work which it is doing. Feeling entire confidence in your earnestness, and ability to succeed in any thing to which you put your shoulder, I shall in the future feel no anxiety in regard to that time honored institution, but shall turn my attention to other beneficiaries that have not secured the interest of such an able supporter.<sup>36</sup>

McGhee's greatest philanthropy was the public library which he gave to Knoxville as a memorial to his daughter, Lawson. The city's public library movement had been a struggling enterprise before he decided to build a three-story building to house the collection of books. He selected a lot at the north-east corner of Gay and Vine streets in the heart of the

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<sup>34</sup>See, for instance, McGhee to Mrs. Anne Thompson, December 6, 1888, July 8, 29, August 15, 1889, November 5, 1895.

<sup>35</sup>Lizzie J. Tate to McGhee, July 16, 1895.

<sup>36</sup>McGhee to Morrow, January 29, 1889.

downtown business district as the site, for it was his intention that the first floor of the building should be rented for commercial purposes to help support the library.<sup>37</sup> When the cornerstone was laid in 1885 the occasion was hailed as "the beginning of an epoch,"<sup>38</sup> and when the building was completed at a cost of around \$50,000, a Knoxville newspaper claimed that "There is not in the Southern States such an elegant building."<sup>39</sup> Having donated the building which made a true public library possible, McGhee was determined that the people of Knoxville should support it. In response to a request from Judge O. P. Temple, the president of the board of trustees, for "\$5 to 10,000 of books,"<sup>40</sup> he replied that "with such a donation as you suggest there would be nothing left for the community to do but enjoy the benefits, that would be improper, they should have a part to perform."<sup>41</sup> Some years later, however, he did make at least one donation of \$1,000 to Lawson McGhee Library.<sup>42</sup>

His code owed much to the patriarchal ethos of the Old South, but he also believed firmly in the newer Social Darwinism of the late nineteenth century. McGhee's fortune had been accumulated by skill and hard work, and he gave no indication of believing that he did not deserve every penny of it. Neither did he pass judgment on the financiers and businessmen

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<sup>37</sup>Rothrock, French Broad-Holston Country, 243.

<sup>38</sup>Ibid., quoting Knoxville Journal, July 25, 1885.

<sup>39</sup>Tribune, October 29, 1886.

<sup>40</sup>Temple to McGhee, May 5, 1887.

<sup>41</sup>McGhee to Temple, May 13, 1887.

<sup>42</sup>Leonhardt to McGhee, January 17, 1900.

of his era except in individual cases, as when he described Robert Garrett, president of the Baltimore and Ohio Railroad, as "not worthy to associate with the brokers of Wall Street."<sup>43</sup> In the last years of his life he must have enjoyed the knowledge that he had endowed his descendants with a fortune which could last for generations.

As had become his custom, he spent the winter of 1907 in Florida, returning to Knoxville in late April. Shortly after his arrival he developed penumonia and for two weeks he sank steadily.<sup>44</sup> His last moments were described by his son-in-law, Calvin McClung:

On the evening of a beautiful Spring Sunday, May 5, 1907, at ten minutes before 7 o'clock, Colonel Charles McClung McGhee peacefully passed away, in his bed-room on the first floor at the South-west corner of his old Homestead, 505 Locust Street, Knoxville, Tennessee, aged 79 years 3 months and 12 days.

At his bed-side were his daughters, Margaret W. Baxter and Bettie McGhee Tyson, his sons-in-law, George W. Baxter, Calvin M. McClung and Lawrence D. Tyson, his old friend and physician Dr. John M. Boyd, Dr. R. P. Oppenheimer, and his attendant and nurse for some three years past, Otto Lutts.

He was buried in Old Gray Cemetery between his two wives on the afternoon of Wednesday, May 8th.<sup>45</sup>

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<sup>43</sup> McGhee to W. T. Walters, July 13, 1887.

<sup>44</sup> Journal and Tribune, May 6, 1907.

<sup>45</sup> Calvin Morgan McClung, "Record of Births, Marriages and Deaths of Members of the McClung and Related Families," unpublished manuscript volume in the McClung Historical Collection.



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## APPENDIX

AMOUNT OF SECURITIES AND WHERE PLACED<sup>1</sup>  
February 25th. 1888.

Texas Rios, 230,000.		Securities in Safe and Box	
R. T. Wilson & Co.,	220,000.		
Moore & Schley,	10,000.		
New Orleans P. Bonds, 237,000.		M. & O. Stock,	3,000.
J. W. Davis & Co.,	20,000.	Roane Iron Co. Stock,	87,800.
A. M. Kidder & Co.,	35,000.	Chase Nat. Bank Stock,	8,300.
Moore & Schley,	1,000.	Knox. Water Co. Stock	39,000.
R. T. Wilson & Co.	181,000.	" " " Bonds,	10,000.
Cotton Seed Oil, 80,000.		Memphis Elevator Bonds,	2,500.
R. T. Wilson & Co.,	80,000.	Knox. & Ohio Stock	8,500.
Texas Stock 530,000.		" Fire Ins. Stock,	10,000.
R. T. Wilson & Co.,	20,000.	" Woolen Mills Stock,	20,000.
Moore & Schley,	30,000.	E. T. I. & Coal Stock,	90,000.
J. W. Davis & Co.,	300,000.	Citico Furnace Stock,	11,400.
A. M. Kidder & Co.,	180,000.	Mabry & Bell Ave R.R. Stk.	1,000.
Knoxville & Ohio Bonds 108,000.		Crown Cotton Mill Stock,	3,120.
Cent. Trust Co.,	100,000.	New River Mining Co. Stock	5,000.
R. T. Wilson & Co.,	8,000.	J. Allen Smith Stock,	5,000.
E. T. First Pfd., 9,300.		American Cattle Trust Stk.,	300,000.
J. W. Davis & Co.,	200.	L.N.O.&T. 1st Mort Bonds,	67,000.
Box	9,100.	Do 2d " "	53,000.
E. T. Consols, 256,000.		Do Incomes,	56,000.
Cent. Trust Co.,	200,000.	Do Stock	27,800.
Moore & Schley,	56,000.	Coal Creek Debnt Bonds,	35,000.
Mo. Pacific, 100,000.		E. T. Extentions	90,000.
A. M. Kidder & Co.,	100,000.	Duluth So. Shore Bonds,	5,000.
Texas Consols, 179,000.		Do 1st Stock,	12,500.
Kuhn, Loeb & Co.,	144,000.	Do Com. "	15,000.
A. M. Kidder & Co.,	14,000.	Sundy Creek Coal Stk Pfd.	6,000.
J. W. Davis & Co.,	21,000.	" " " " Com.	7,500.
Mich. & Ohio Trust Rects., 82,000.			
R. T. Wilson & Co.,	82,000.		
Richmond Terminal, 100,000.			
Moore & Schley,	100,000.		
Wabash 2d Mort., 20,000			
A. M. Kidder & Co.,	20,000.		
Fort Worth Firsts, 50,000.			
J. W. Davis & Co.,	50,000.		

<sup>1</sup>Letterbook, February, 1888-February, 1889, p. 24, McGhee Papers.  
Numbers represent par values of securities.

## VITA

William Joseph MacArthur, Jr. was born in Gaffney, South Carolina, on April 19, 1938, and graduated from the Baylor School, Chattanooga, Tennessee, in 1956. He received the Bachelor of Arts degree from Limestone College in 1963 and the Master of Arts degree in history from the University of South Carolina in 1966. His Master's thesis was entitled "Antebellum Politics in an Up Country County: National, State, and Local Issues in Spartanburg County, South Carolina, 1850-1860."

During the academic year 1964-65 Mr. MacArthur was a part-time instructor in history at the University of South Carolina Extension Division. In 1965 he joined the faculty of Presbyterian College, Clinton, South Carolina, as an instructor in history, a position which he held until 1967 when he entered the Graduate School of The University of Tennessee, Knoxville. He received the degree of Doctor of Philosophy in history in March, 1975.

Since September, 1970, Mr. MacArthur has been head of the McClung Historical Collection at Lawson McGhee Library, Knoxville. He is also an instructor in Tennessee history at The University of Tennessee Center for Continuing Education. A member of the East Tennessee Historical Society, Mr. MacArthur is the editor of that Society's quarterly newsletter, Echoes. He is a member of the Tennessee and East Tennessee Library Associations, a trustee of the Blount Mansion Association, and a director of Knoxville Heritage, Incorporated.

Mr. MacArthur and his wife, the former Penelope Ross, are the parents of two children and reside in Knoxville, Tennessee.