

PROCEEDINGS  
of the  
**Massachusetts Historical Society**

VOLUME LXVI

OCTOBER, 1936-MAY, 1941



Rhode Island Historical Society

**Boston**

Published by the Society

1942

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# Weathering the Panic of '73

## An Episode in Rhode Island Business History

By ZECHARIAH CHAFEE, JR.

THE failure of the great Sprague textile business in the Panic of '73 is briefly mentioned in Rhodes's *History of the United States* and Bowers' *Tragic Era*, and a garbled account appears in the recent biography of Kate Chase by Mary M. Phelps. A few years ago I was given a scrapbook kept by my grandfather, containing newspaper clippings about the failure and the struggle to keep the mills going through the years of depression.<sup>1</sup> This material I am supplementing from reports of court decisions, from an extensive collection of briefs, affidavits, and other legal documents in the numerous litigations, from what my father remembers, and from secondary sources.

About 1808 William Sprague (the first) started a small calico mill at Cranston, south of Providence. This was twenty-one years after Samuel Slater had begun the American textile industry. "He first converted his gristmill into a factory to card and spin cotton yarn, using the crude machinery available for the purpose. As power weaving was then unknown, he arranged with the local farmers' wives and daughters to weave his yarn on their own hand looms and return the cloth to him. After bleaching it in the open air by the sun and water method he sold the finished product to merchants as far away as Baltimore."<sup>2</sup> Before his death in 1836 he had built six mills of more modern design. He was also among the first calico printers, for in 1824 he changed his original cotton mill into a bleaching, dyeing, and printing factory and began to make calicoes known as "indigo blues." Sprague's two sons, William and Amasa, formed the firm of A. & W. Sprague and rapidly extended the business. William (the second), called the Old Governor, was the real founder of the Sprague dynasty. A Providence newspaper said of him:

He had the indomitable purpose, the far-seeing sagacity and the genius for business which characterized so many of the founders of our American industry.

<sup>1</sup> The quotations herein are from these clippings unless otherwise identified. Unfortunately my grandfather did not have the habit of recording the date and source of each clipping.

<sup>2</sup> *Dictionary of American Biography*, xvii. 474-475.

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<sup>1</sup> *The Trial of John Gordon and W* (3rd ed., Providence, 1906).

The right or wrong of a question was never thought by him to be a matter worthy of the slightest consideration. . . . His methods were as unconcealed as they were reprehensible. . . . his representatives measured off calico in open town meeting and distributed it in return for votes. At the final hearing of cases against him in the courts it sometimes happened that all the witnesses against him had utterly lost their memories.

William made himself Whig governor of Rhode Island in 1838, just as Dorr was beginning the agitation against the charter of Charles II. In 1842, after the Dorr Rebellion, he became United States Senator, but the next year he had to resign and return to look after the family business because of the sudden death of his brother Amasa—from murder.

A trial, conviction, and execution duly followed, but within a few years a deathbed confession by another man convinced the people of Rhode Island that they had hanged the wrong person.<sup>1</sup> As a result, in 1852 they abolished capital punishment and have since had the satisfaction of seeing the homicide rate no greater than that of Massachusetts, while at the same time they decrease the morbidity of murder trials and avoid executions and the risk of more mistakes. Thus Amasa Sprague, otherwise undistinguished, made the greatest contribution of any of the family to the welfare of Rhode Island, however unconsciously and unwillingly.

The Old Governor also has his lasting memorial. Brown University was greatly in need of new buildings and sought to persuade the unacademic manufacturer to donate a new dormitory or chapel. Time went by, and no gift was forthcoming. Meanwhile the university undertook the erection of certain humble but necessary structures—the same sort whose removal from the Harvard Yard in 1870 constituted the main achievement noted in Eliot's first annual report. The students decided that these commodious quarters must be the new buildings expected from Governor Sprague and appropriately named them after him. The appellation "spragues" still sticks through successive hydraulic changes.

Under the Old Governor the business advanced steadily to a position among the foremost calico-printeries in the United States. The rudimentary nature of accounting in those days is indicated by his saying that he knew he was making money so long as he could

<sup>1</sup> *The Trial of John Gordon and William Gordon Charged with the Murder of Amasa Sprague* (3rd ed., Providence, 1906).

build a new mill every year. In the absence of federal income tax returns, the occasional valuations necessitated by the death of a partner furnish the most accurate measures of progress. When Amasa died in 1843, the firm's property was valued at \$100,000. When the Old Governor died in 1856, it was valued at three millions.

As his son and his daughter (Mrs. Hoyt) took no active part in the business, the Old Governor was succeeded in the management by the two sons of his murdered brother, who were also named William (the third) and Amasa. Amasa was "rough, good natured, fond of horses, and devoted to the coarser sort of pleasures." William, who plays a leading part in this story, was not his brother's equal in "horse sense" but was much more ambitious and unfortunately thought he was a complete replica of his uncle and namesake, the Old Governor.

In 1860 young William, only thirty, suddenly decided to go into politics and imitate his namesake's public career. The Republican candidate for the governorship of Rhode Island was accused of being too much of an Abolitionist, and William Sprague (though the family had been Whigs) was unexpectedly put forth as the Democratic and conservative candidate, who did not believe in running the South too hard. His election was estimated to have cost him \$125,000, the total electorate numbering about 20,000. It was said during the campaign that the city of Providence might have been called the New Jerusalem, for its streets were paved with gold. Tradition has it that on election night when young William did not come home at his usual bedtime, his mother sent the family coachman to find him. Pulling him out of a downtown hotel barroom in an advanced state of inebriety, the coachman brought home the newly chosen governor and, with the mother's help, put him to bed. In 1861 Sprague ran again as the Union candidate and was reelected by similar means. He dashingly put himself at the head of the Rhode Island troops and led them to Bull Run and back. In 1862 he was the only candidate in the field because of his prestige as a war governor. In 1863, again imitating his namesake, he passed to the United States Senate, and the overmastering influence of his family secured him a second term in 1869.

Now comes the rustle of skirts. In Providence, even at the time of the Spragues' greatest power, neither wealth nor high public office was able to give the family the social standing that was pos-

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<sup>1</sup> *The Tragic Era* (Boston, 1

<sup>2</sup> *Ibid.*, 253-254.

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essed by members of the only rival business, Brown & Ives, which still stands. Cultivation and refinement were too conspicuously absent. But Washington was less particular and welcomed the handsome young Senator who had braved the Confederates. Most beautiful and brilliant of its maidens was Kate Chase, whose father was Secretary of the Treasury, later Chief Justice. Bowers says of her: She had been the mistress of her father's household at an age when many girls still find amusement with their dolls. . . . While still in her teens, she was one of the most astute politicians in Ohio. . . . at twenty-one she was the belle of the town [Washington]. Her extraordinary beauty, grace, charm, her brilliant repartee, made her the darling of the diplomatic corps, her suitors were legion, her triumph complete. . . . Ambitious, brilliant, her imagination pictured her father President, and herself presiding at the White House. . . . At that time she was the most dashing young woman in the country, the most popular in official society since Dolly Madison.<sup>1</sup>

Whether it was her eye for the young Senator's good looks or, as Bowers thinks, her father's rueful comparison of a modest official salary with the Sprague millions, a marriage was arranged when she was twenty-four.

Her wedding . . . [was] a social event, her trousseau that of a princess, her guests the most notable in the land, and Lincoln . . . claimed the privilege of a kiss. In less than a year, she was the acknowledged arbiter of the most exclusive society. . . . importing her gowns from Paris, she dazzled the drawing-rooms with her jewels, and in 1865 created a sensation by wearing a huge diamond on top of her bonnet. . . . The correspondent of the "Chicago News" . . . [wrote:] "She had more the air of a great lady than any woman I ever saw. She could make all the Astors look like fishwomen beside her." . . .

The birth of her first baby was a national event, every woman in the country reading descriptions of the layette. . . .<sup>2</sup>

Although her husband's drunkenness early humiliated her at social functions, her ambition never faltered. She had her father's beautiful place at Edgewood on the outskirts of Washington, her drawing room in his town house for her salon, and "Canonchet," the big wooden house she had built at Narragansett Pier with eighty rooms and a General Grant exterior.

Meanwhile, what of Rhode Island? Like other businesses, the Sprague mills piled up money during the war; and in the absence of their senatorial head they ran steadily on under the momentum of the policies of the dead founder and the subordinates he had

<sup>1</sup> *The Tragic Era* (Boston, 1929), 252-253.

<sup>2</sup> *Ibid.*, 253-254.

selected. In 1865, when most of the business was incorporated as the A. & W. Sprague Manufacturing Company, the assets were conservatively valued at four millions, and by 1873 a careful inventory showed them as having reached nineteen millions. At that time the Spragues were employing about 12,000 operatives and were running about 280,000 spindles and 28 printing machines. Their pay roll during the seasons of largest activity was nearly a quarter of a million dollars a day. The Cranston Print Works could turn out 40,000 pieces of cloth a week. Their cotton mills in several Rhode Island towns, at Baltic and Quidnick, Connecticut, and at Augusta, Maine, supplied their print works with nearly all the print cloths used by them, and when all were running on full time, the number of pieces turned out each week was 35,000.

At that time it was uncommon for any one corporation to perform more than one stage of textile manufacture. The Spragues, by carrying through the processes from the cotton bales to the printed cloth, were an early example of the vertical integration that is now familiar in the United States Steel Corporation, the Ford Motor Company, and many other large corporations.

But there was something even more unusual about the Spragues. They built up what might be termed a horizontal combination of textiles with other businesses—it cannot be called horizontal integration because most of the other businesses were unrelated to the cotton business. In Maine the Senator and Amasa acquired vast timber lands and sawmills and employed hundreds of men during the lumber season. In South Carolina they owned valuable water power and made large outlays of capital. They owned nearly all the stock of the Union Street-Railroad Company, which operated many of the horsecars in Providence. They were the largest stockholders of a steamship line to New York, and the Senator was its head. They controlled in Providence a sheet iron company, a mowing machine company, a horseshoe company, and a horseshoe nail company. They controlled five banks in the city of Providence, three national and two savings, which held nearly four millions of Sprague paper. The only parallel in the mid-nineteenth century was William C. Ralston, a millionaire in San Francisco who owned mines, hotels, banks, and steamship lines, and eventually jumped into the Bay.<sup>1</sup> Thus the Spragues anticipated the Mellons and du Ponts of our time.

<sup>1</sup> See Cecil G. Tilton, *William Chapman Ralston: Courageous Builder* (Boston, 1935).

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one corporation to perform the work. The Spragues, by carrying bales to the printed cloth, a migration that is now familiar to the Ford Motor Company,

unusual about the Spragues. The horizontal combination of interests were unrelated to the land and Amasa acquired vast hundreds of men during they owned valuable water. They owned nearly all the many, which operated many were the largest stockholders. Senator was its head. They company, a mowing machine, a shoehoe nail company. They Providence, three national and sons of Sprague paper. The y was William C. Ralston, mines, hotels, banks, and into the Bay.<sup>1</sup> Thus the a Ponts of our time.

*Prose Builder* (Boston, 1935).

The ramifications of the Spragues' economic power were illustrated by a disagreeable incident at a meeting of the trustees of the Franklin Savings Bank in Providence early in 1873. Probably half the 6,500 depositors resided outside Rhode Island, especially in Boston and Fall River. Massachusetts depositors were attracted to many Providence savings banks both by the high rate of interest paid and by the practical immunity from Massachusetts taxes, it being almost impossible for a tax assessor to get any information from these banks as to the names of depositors or the amounts held by them. At the Franklin Savings Bank meeting ex-Governor Hoppin protested against the fact that a quarter of the deposits had been invested in commercial paper of the Spragues. He requested that this protest be entered on the records of the meeting. A majority of the trustees voted against recording the protest, but the treasurer (acting as clerk of the meeting) felt it his duty to make the entry. The treasurer and the minority who supported him were promptly dropped from the board. Afterwards, when the bank had closed its doors, one of the trustees stated with some show of feeling that it was unfair to blame him for allowing the Spragues to borrow so much of the bank's money: his private business connection with the Spragues netted him \$20,000 a year, and he did not deem it judicious to oppose their wishes.

In a little state like Rhode Island such a business could be made a dangerous political power, given the disposition to control politics without scruple. The inhabitants were largely employed in manufacturing. Eight thousand of the Sprague operatives were in Rhode Island where the total vote varied from 12,000 to 23,000. Although some of these operatives were doubtless women and minors and hence could not vote, it is easy to see how important a factor these 8,000 and their voting relatives would be when all of them could be swayed by a single interest, especially since there was then no Australian ballot. It was almost certain ruin for a tradesman to oppose such a power. The good will of the Spragues meant prosperity to any kind of business. Their ill will almost as often meant disaster. Without this tremendous power behind him, no member of the family ever had a chance of securing a public office, for the Spragues never had any personal following in the state. Yet so enormous was their influence that two Spragues became governor and senator. The legislature, the Providence city government, even the courts, were all

more or less under the Sprague influence. The situation was a constant disgrace, and every honest, self-respecting man in the state felt the humiliation. But what could be done about it?

While this was going on in Rhode Island and Mrs. Sprague was wearing a tiara of turquoises and diamonds at Mrs. Hamilton Fish's ball, the head of the dynasty was warning the United States Senate that money was becoming predominant in government and was threatening the economic liberties of the people. The workingmen of Washington serenaded him, and he denounced the "money power" from the steps of his father-in-law's house, with the Chief Justice standing, beaming, by his side. Ten days later the Senator told a *New York Herald* reporter that Simon Cameron was "a vicious old fellow" who asked Sprague to drink champagne; and he described a North Carolina carpetbagger senator as a "puppy." The carpetbagger threatened horsewhipping, Sumner and John Sherman intervened as peacemakers, and Sprague avoided violence by explaining that he used the word "puppy" as a mere ornament to his composition and did not intend anything personal by its use. Another day the Senate experienced a sensation when the Chief Justice's son-in-law fulminated at lawyers. Obviously the immense managerial ability required by the numerous unrelated Sprague businesses was not to be found in such a man, even if his senatorial duties let him pay any attention to prosaic details of calico and mowing machines. Meanwhile the momentum supplied by the Old Governor was running down.

On September 24, 1873, the banking house of Jay Cooke & Company closed its doors, and many more banking and brokerage houses followed. Almost immediately the effects of the crash reached business generally.

Early in the autumn of 1873 it began to be whispered in financial circles that the Spragues were likely to have trouble in meeting their pecuniary obligations. Their vast expansions in the last decade and the failure of some of their enterprises, like the mowing machine business, were well known. Their liabilities were enormous; Providence was filled with Sprague paper. To a house whose credit system was so vast a mere suspicion of embarrassment was fatal. The suspension of payments came in October, and the resulting complications were as numerous and as intricate as the Spragues' power had been widespread. To quote a contemporary newspaper: "For a time

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To make the situation plain it should be explained that there are two very different types of business failures, considered practically and, for the moment, without reference to legal names and rules. In the first kind it is best to stop; in the second it is best to go on. In the first or liquidation type, the debts of the business usually exceed its assets. At any rate, there is probably nothing to be gained by continuing to operate. The most sensible course is to declare the business dead, cut up the corpse as evenly as possible among the creditors, and give the unlucky debtor a chance to start afresh at something else. In the second or going-concern type, the debtor is insolvent in the sense that he cannot meet his obligations as they fall due, but usually his assets are more than sufficient to pay all he owes if he be given more time. At any rate, the welfare of all concerned makes it advisable to nurse the business through its illness and set it on its feet again. This is particularly true of railroads and power companies, which the public cannot do without, but it may also happen with manufacturing and trading businesses that are temporarily in difficulties.

As for the legal devices for the settlement of these two types of failure, the first or liquidation type has been pretty well taken care of by old-fashioned bankruptcy, under various acts of Congress, but the second or going-concern type has caused much more trouble. During the financial crises of the nineties the federal courts kept the railroads operating under equity receiverships. This device was gradually developed and extended to manufacturing and other businesses. A few years ago it was recognized by Congress in an amendment to the Bankruptcy Act numbered Section 77B, which has been recently replaced by a separate chapter of the Chandler Act, our present bankruptcy law.

But in 1873 there was no Section 77B, and equity receiverships were unfamiliar even for railroads. Yet the Sprague failure was plainly of the second type. Although the Spragues could not pay their bills of exchange and promissory notes as they fell due, they did not owe more than they possessed. Their assets of nineteen millions represented a surplus of eight million dollars above their debts of eleven millions. And nobody realizes at the start of a panic how long it will last. Given the great prestige of the family, everybody assumed that if the mills went on operating, prosperity was

just around the corner, and in two or three years the debts would all be paid. Bankruptcy was possible, but bankruptcy would stop the mills, throw twelve thousand operatives out of work, and bring idleness and destitution to their homes. More than this, the bankruptcy of the manufacturing corporation meant the bankruptcy of the Sprague banks, peril to most other banks, loaded as they were with Sprague paper, and a serious undermining of the whole financial fabric of Rhode Island. "There was no man in the State," says a press account of the time, "who would have dared to advocate such a course openly. He would have been mobbed by the populace had he done so."

The vital task, then, was to keep the wheels turning. But how? Nowadays the Spragues or their creditors would have had the court appoint an officer (a trustee in reorganization) to operate the business, but in 1873 the only purpose in going to court would have been bankruptcy. Something, therefore, had to be done without the help of judges.

Three plans were successively tried to keep the Sprague business going. At first the Spragues declared that a temporary loan of a million dollars would tide them over their troubles. They called a meeting of the presidents of the banks holding their paper and proposed that these banks unite in making the loan, which would be secured by a mortgage on the company's property. The bank presidents considered and declined because their lawyers advised them that the mortgage might be void under the Bankruptcy Act of 1867 if the Spragues were later forced into bankruptcy by other creditors.

After that a general meeting of all the creditors decided that the Spragues should make a trust mortgage of almost all their property (corporate, partnership, and individual) to three experienced Providence textile manufacturers, who were to have absolute control of the property and manage it for the benefit of the creditors. Such a mortgage was drafted by the creditors. The three trustees named then engaged eminent lawyers in Providence, Boston, and New York to revise the draft, especially to meet one serious objection. What worried the three mill men was this: In order to operate the Sprague mills they would have to be constantly making large contracts, particularly for the purchase of cotton. The debts thus incurred would not be limited to the trust property like the debts of a receiver or trustee in bankruptcy. They would be just as much the personal

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debts of the trustees as their tailors' bills and might easily wipe them out. These negotiations occupied nearly all November, 1873. On Saturday, November 29, the three textile manufacturers sent a formal letter to the chairman of the creditors' committee, refusing, on advice of counsel, to act as trustees unless the creditors would agree in some way to protect the trustees against personal liability. In other words, if the trustees operated the business at a loss, the creditors must take care of the annual deficits out of their own pockets in addition to what they had already sacrificed in the old unpaid debts of the Spragues. The creditors balked at this: it would be throwing good money after bad.

During this tedious delay many of the creditors got restless, and some New York and Boston banks and supply houses with large claims were preparing to put attachments on Sprague properties. Even if this did not bring on immediate bankruptcy with all its drawbacks, it would force some of the most valuable mills to be sold at sheriffs' auctions for panic prices, pay the attaching creditors in full at the expense of the rest, and ruin the carefully matured scheme for the conservation of the property for the equal benefit of all the creditors. The local banks and their depositors would be the greatest sufferers.

The situation of the Spragues themselves was even more desperate. They would lose their surplus of eight million dollars. Their livelihood would stop, and the business pass out of the family forever. Not only their shares in the corporation would go, but also their personal investments and mansions, because the old firm of A. & W. Sprague was still alive, and its name was on much of the Sprague paper, making each partner liable for the debts in full. Senator William Sprague and his beautiful wife had kept out of Rhode Island during the whole period since the suspension of payments, but the three other partners were doing their best to satisfy the creditors and save the family. Besides Amasa, the lover of horses, there were two sleeping partners, the widowed mother of William and Amasa and the widow of the Old Governor, women in their seventies. The poorhouse stared the old ladies in the face at the end of lives of luxury.

The letter from the three mill men containing their refusal to act as trustees was written on Saturday, November 29, 1873. Whether it was delivered before Monday, December 1, does not appear. At

any rate, that Monday must have been an anxious day. The committee of creditors had no new solution to offer. On Tuesday Providence awoke to find that the Spragues had placed the entire sixteen million dollars of their property in the control of a man unselected by the creditors—Zechariah Chafee, President and Treasurer of the Builders Iron Foundry, who knew almost nothing about textile mills.

My grandfather was then nearly fifty-nine years old. Born in 1815, the son of a master stonemason in Providence, he went to work at the age of eleven for a pressing creditor of his father and left him the moment his labor had discharged the debt. In the late 1830's, after he had become of age, he settled in Pittsburgh and became a partner in a prosperous grain business. Pittsburgh was then a principal grain center in the United States, as the grainfields of that day lay just to the west. After fifteen years of hard work and thrift he returned to Providence soon after 1850 and bought the controlling interest in an old iron foundry. He built up a considerable business in structural iron work, not then superseded by the new processes for making steel, supplied the Spragues and other textile manufacturers with castings, and during the Civil War made large cannon. He was much interested in banking, served on several boards of bank directors, and later, when the Rhode Island Hospital Trust Company was founded, became its first president. During the years immediately preceding the Sprague failure he had occasionally been called in to settle the financial affairs of some small businesses, and he had discharged those tasks satisfactorily. When it was evident that the three proposed Sprague trustees would refuse to act, three or four of my grandfather's friends among the creditors asked him to undertake the Sprague management with two other men. He replied that if he did it, he would do it alone. Probably his strongest motive for thinking favorably of the trusteeship was the peril in which the Sprague failure put most of the depositors in Providence banks. At ten o'clock on the critical Monday night he went around the corner from his house to that of the mother of William and Amasa. The trust mortgage drafted on behalf of the three textile manufacturers was spread out, his name was written there instead of theirs, and the three Spragues (Amasa and the two Sprague widows) signed, thus transferring to him for the benefit of the creditors all the mills and other businesses that belonged to the A. & W. Sprague

Manufacturing Company their individual residence of the Spragues who signed suit as he did a few months

The creditors had not nine months in which to mortgage with my grandfather the Spragues, he was not creditors. His success in confidence in his ability that he would act impartially him would mean bankruptcy was that before the nine months accepted the new arrangement not been able to identify New York, which held \$ what in nature from the

Under the provisions accepted 1,650 negotiable the debts for three years expected the panic would be nine million dollars and called that this rate of .0 able on many United States

My grandfather's own appreciate the magnitude

When I entered upon the 1873, I found the whole Sprague degree. The indebtedness in ten millions of dollars (\$10,000,000) two hundred and twenty-five running twenty-eight (28) parasites upon the Sprague Company by the A. & W. Sprague Company prosecuting lines of business in selling cotton goods. These corporations, which was indebted to the Iron Company, which was indebted above its mortgage to the Company engaged in the manufacture of amount of about \$126,000,000

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Manufacturing Company and the firm of A. & W. Sprague, and their individual residences and investments. It was the expectation of the Spragues who signed at this time that William would follow suit as he did a few months later.

The creditors had not been consulted at all, but they were given nine months in which to decide whether they would accept the trust mortgage with my grandfather as trustee. Although the choice of the Spragues, he was not known to be hostile to the interests of the creditors. His success in previous small trusts had inspired public confidence in his ability and fairness, and there was a general belief that he would act impartially in the Sprague case. To decline to accept him would mean bankruptcy with the evils already noted. The result was that before the nine months expired all the creditors had accepted the new arrangement, except a Boston bank which I have not been able to identify, and the National Bank of Commerce of New York, which held \$100,000 of Sprague paper differing somewhat in nature from the bulk of the indebtedness.

Under the provisions of the trust mortgage the creditors accepted 1,650 negotiable promissory notes of the Spragues, extending the debts for three years until January 1, 1877, when it was expected the panic would long be over. These notes aggregated nearly nine million dollars and bore interest at 7.3 per cent. (It will be recalled that this rate of .02 per cent a day was then the interest payable on many United States bonds.)

My grandfather's own words, seven years later, help one to appreciate the magnitude of the trustee's task:

When I entered upon the discharge of my duties as trustee, in December, 1873, I found the whole Sprague property complicated and entangled to a great degree. The indebtedness in various forms, direct and collateral, was more than ten millions of dollars (\$10,000,000). Besides the mill properties, aggregating two hundred and twenty-five thousand (225,000) spindles, and a print works running twenty-eight (28) printing machines, there were various corporations, parasites upon the Sprague Company, the stock of which was principally owned by the A. & W. Sprague Corporation, or the members thereof, and which were prosecuting lines of business foreign to the business of manufacturing and printing cotton goods. These corporations were the Sprague Mowing Machine Company, which was indebted to the amount of about \$800,000; the Perkins Sheet Iron Company, which was indebted to the amount of about \$335,000 over and above its mortgage to the Cranston Savings Bank; the Comstock Foundry, engaged in the manufacture of stoves and castings, which was indebted to the amount of about \$126,000; the Wilcox Caloric and Steam Engine Company,

which was indebted to the amount of about \$56,000; the United States Flax Company, which was indebted to the amount of about \$2,000,000; the Columbia Water Power Company, in the State of South Carolina, which was indebted to the amount of about \$117,000; the Kennebec Land and Lumber Company, in the State of Maine, which was indebted to the amount of about \$42,000; the Coburn Land Company, in the State of Maine, which had obligations outstanding to the amount of \$1,000,000; the Point Street Iron Works, which was indebted to the amount of about \$386,000; and the Rhode Island Horse-Shoe Company.

This last-named corporation was the only one that was self-sustaining, although it had a large outstanding indebtedness to be taken care of; all the others above named were enterprises in which the said Amasa Sprague, William Sprague, and the corporation of the A. & W. Sprague Manufacturing Company had furnished substantially all the capital, and which had been sustained by the Sprague credit; and in all the Rhode Island corporations the stockholders were individually liable for all the corporate debts.

In addition to these complications, the A. & W. Sprague Manufacturing Company, and Amasa and William Sprague, were involved with the New York [commission] house of Hoyt, Spragues & Co., which house had suspended payment and was hopelessly insolvent to the extent of nearly ten millions of dollars (\$10,000,000).

Upon assuming my office I proceeded at once to put the management of the business upon a better footing, by curtailing expenses and stopping every leak that I could discover. It is true that I had not previously had any experience as a cotton manufacturer or printer. I therefore selected those whom I believed to be, or who were recommended to me as, the most capable and efficient of the company's servants, and made changes to a great extent in the force employed, with a view to economy and efficient service. I established myself in the counting-room and organized a system by which every expenditure could be critically scrutinized and brought under my personal supervision. I familiarized myself by degrees, and as fast as possible, with all the details of the business, and have now such familiarity with all the departments of manufacturing cotton cloth and converting it into prints as would come from close, daily, personal attention to the business during a period of seven years. I retained Amasa Sprague as manager of the print works, and received daily reports of all details from him. I visited Washington and had an interview with William Sprague. I learned from his own statement to me what was commonly understood in this community, that for five years previous to the failure of the corporation, the said William Sprague had given no personal attention whatever to any of the business concerns with which he was connected, and during the first two years of the administration of my trust he remained in Washington, and took no part whatever nor interest in the business in my hands.<sup>1</sup>

At the start an almost insurmountable obstacle for the trustee was to get the extensive credit needed for purchasing the great

<sup>1</sup> Affidavit in *Latham v. Chafee* (7 Fed. Rep. 520), 5-7 (hereafter cited as Affidavit).

amounts of cotton needed. He was not rich even with the liquidation of \$150,000, with 225,000 spindles of cotton. Spragues already owned property who would trust my credit naturally the trustee of this friend in need.

An ingenious plan was devised by the creditor before my grandfather's property was the Quiddnick Company, though not the W. Sprague Manufacturing Company, enabling the business to obtain credit of the Quiddnick Company that company duly executed a stocking contract with the company agreed to furnish machinery and supplies (natural cotton, mills and print works). The Sprague Company agreed to put into printed goods as the Quiddnick Company. It was agreed upon, for the company to remain its proper share were to be applied to other expenses, and a commission of 1/4 per cent to be paid to the Sprague manufacture. In short, it was a commission, to the trustee, say about a loss, but which, however, had the value of the mortgage materials bought with

For some reason the trustee under the original trust

<sup>1</sup> *Quiddnick Company v. C.*

6,000; the United States Flax about \$2,000,000; the Columbia Carolina, which was indebted to the Land and Lumber Company, an amount of about \$42,000; the [unclear] which had obligations outstanding to the Iron Works, which was in the Rhode Island Horse-Shoe

the that was self-sustaining, all to be taken care of; all the others were owned by Amasa Sprague, William Sprague Manufacturing Company which had been sustained by the [unclear] the stockholders were

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to put the management of the [unclear] and stopping every leak [unclear] previously had any experience as [unclear] those whom I believed to be the most capable and efficient of the [unclear] extent in the force employed, I established myself in the counting-house [unclear] expenditure could be critically [unclear] supervision. I familiarized myself with the details of the business, and have [unclear] of manufacturing cotton cloth [unclear] close, daily, personal attention [unclear] I retained Amasa Sprague as [unclear] reports of all details from him. [unclear] William Sprague. I learned [unclear] only understood in this community [unclear] corporation, the said William [unclear] er to any of the business [unclear] the first two years of the [unclear] ad- [unclear] on, and took no part whatever

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amounts of cotton necessary to operate the mills. Though well-to-do, he was not rich even for those days. His own foundry had a capitalization of \$150,000, a mere trifle compared to mills in four states with 225,000 spindles. At first William J. King, to whom the Spragues already owed a large sum, was the only cotton merchant who would trust my grandfather. Others followed King's lead, but naturally the trustee continued to deal to a considerable extent with this friend in need.

An ingenious plan to finance purchases was used, which had been devised by the creditors and the three proposed textile trustees before my grandfather arrived on the scene. The only solvent mill property was the Quidnick Company, the stock of which was principally, though not wholly, owned by the stockholders in the A. & W. Sprague Manufacturing Company. The only feasible means for enabling the business to be carried on was to make purchases on the credit of the Quidnick Company. Hence on December 18, 1873, that company duly approved and executed what was known as a stocking contract with the Sprague Company.<sup>1</sup> The Quidnick Company agreed to furnish from time to time the necessary means, stock, and supplies (naturally including raw cotton) for running the Sprague mills and print works so long as this contract continued in force. The Sprague Company agreed to manufacture all such stock and supplies into printed goods and consign the same as fast as manufactured, in the Quidnick Company's name, to such commission houses as might be agreed upon, for sale on account of the Quidnick Company and to remain its property till sold. The proceeds of sales of such goods were to be applied first to the payment of freight, insurance, and other expenses, and the repayment of all Quidnick advances, with a commission of  $\frac{1}{4}$  per cent thereon for their trouble; the balance was to be paid to the Sprague Company as its compensation for manufacture. In short, if there was a profit, it went, except for a small commission, to the Sprague Company. The contract had nothing to say about a loss, but obviously it fell on the Quidnick Company, which, however, had an ample margin of security in the increased value of the mortgaged finished goods as compared with the raw materials bought with the Quidnick's credit.

For some reason the Spragues had not put this Quidnick stock under the original trust mortgage, but now they transferred all their

<sup>1</sup> Quidnick Company v. Chafee, 13 R. I. at 369 (1881).

shares to the trustee as further collateral security for the payment of the creditors. He was so thoroughly assured of the support of the old ladies that he did not deprive them of the power to vote their large blocks of Quidnick stock, in which they still held dry equities. He was elected treasurer of the Quidnick Company but unfortunately let William Sprague continue as president.

The trustee fixed his compensation for managing property worth sixteen millions at \$25,000 a year. "This I did," he says, "after consultation with various parties, and after inquiries as to compensation paid in cases of similar trusts, placing the amount considerably below what I learned other parties received under like circumstances. This was always well known to both Amasa and William Sprague."<sup>1</sup>

Although my grandfather credited himself with \$25,000 a year on the books of the company, he drew out only \$18,000. From much of this he derived no benefit because women with small Sprague claims would come weeping to his house in the evenings, and he would relieve their necessities by buying up their claims. This generous practice was, of course, technically improper, being speculation by a trustee in the trust property, and he was later censured for it by the Rhode Island Supreme Court.

At first all went well. The trustee made operating profits, and in 1874 and 1875 he paid the creditors their interest on the extension notes. Ten thousand employees stayed on their jobs and continued there until after 1880, so long, in fact, as the trustee was allowed to operate the mills. In addition, my grandfather tried a little "boon-doggling." An article in a New York newspaper, which received attention elsewhere, describes him as saying:

Although these hands are now receiving less wages than at any period since the establishment of the Sprague Works, nearly half a century since, he has never seen them so contented. He ascribes the cheerful condition of his working people under low wages and the general labor disturbances mainly to the fact that the estate furnishes each head of a family enough ground for a good-sized garden, or from  $\frac{1}{4}$  to  $\frac{1}{2}$  acre of tillable land.

The scant wages have forced them to carefully cultivate these little plots, and the people find they can almost raise subsistence for their families. So, instead of want, they have fair support, and even many luxuries for their families, and from the lowest wages are able to lay by. Besides, the care of cultivating these gardens, and keeping a pig or cow, or both, not only holds the men from dissipation incident to idle hours, but furnishes healthful recreation and inculcates a home

<sup>1</sup> Affidavit, 11-12.

sentiment and sense of security and morale of the laborer.

This arrangement afforded employment. Wages can be withheld from the laborer is withheld from his home interests. But when he is idle, or seek other employment, farming has opened the way for laborers in one branch a emergency, and removes the mechanic when thrust from

By 1876 the trust was still around the The extension notes they matured, and the But 10,000 employees the localities over \$20 profit, besides repair the Baltic Mill (the largest more on improving annual report to the cre

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<sup>1</sup> Affidavit, 43-44.



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This arrangement affords a safety-valve and protection to both employer and employed. Wages can be reduced without instantly threatening starvation. The laborer is withheld from hasty severance of his connection by regard for located home interests. But when there is a surplus of miners or artisans, and some must be idle, or seek other pursuit than the accustomed trade, then this miniature farming has opened the way to work that will always support. It is giving skilled laborers in one branch a reserve trade which they can always fall back upon in emergency, and removes that pitiable helplessness that attacks the strongest mechanic when thrust from his regular trade and he has no such reserve.

By 1876 the trustee's difficulties began to multiply. Prosperity was still around the corner—the depression was worse than ever. The extension notes could not be paid on January 1, 1877, when they matured, and the interest for 1876 and 1877 was also defaulted. But 10,000 employees were still at work, all taxes were paid, giving the localities over \$200,000, and he continued to show an operating profit, besides repairing damages of a quarter of a million caused the Baltic Mill (the largest of all) by a flood, and expending \$150,000 more on improving mill properties. He was able to state in his annual report to the creditors on January 1, 1878:

The Mill property is, as a whole, in better condition than it was at the time of the execution of the Trust Deed.

The machinery of the different mills and print works has been kept up to the proper standard for working most economically; besides, too, the productiveness of the mills has been greatly increased, by increasing the speed at which the spindles are run; it was formerly the rule to run the spindles at a low speed, on the idea that the loss of production was more than compensated by the gain in wear and tear; within the last three years, however, the mills which have accomplished the best results have been run at high speeds, and the spinning machinery has been adapted to such change in the conditions of its operation.

It has been the aim in this property to alter and improve the machinery of all the mills, from time to time, so that the best results, in point of economy, could be obtained; and I believe that the Sprague Mills will compare, in this respect, favorably with the best mills in the country. . . . the capacity of production of the Sprague Mills at the present time is about eight and one-half million yards per annum in excess of what the mills were capable of producing in 1873.<sup>1</sup>

Elsewhere the trustee denied

that there was anything exceptional in the condition of the Sprague manufacturing properties as compared with all other cotton and print goods manufacturing interests at that time in the country. The estate . . . was . . . during my

<sup>1</sup> Affidavit, 43-44.

management, thoroughly systematized in all its departments. The expense for running the business in the way of labor and cost of supplies was lower than it has been under the Sprague management. There were no useless attachés, and every man in the service of the company was held to strict accountability.<sup>1</sup>

My grandfather conceived the plan of a new corporation to take over all the Sprague assets, in which the creditors should take stock proportionate to their claims. However, a special legislative charter was necessary, and the General Assembly balked at conferring corporate powers of a type unusual for Rhode Island manufacturing corporations. Such reorganization through incorporation is now frequent and was successfully used in a Rhode Island brokerage failure in 1933.

The financial pages of the Boston and New York papers gave much space to the Sprague mills and recognized that the trustee was doing as well as could be expected under very trying circumstances. Besides mastering a great new business and making an operating profit in a depression, he was constantly bothered with criticism in and out of the press and with numerous perplexing litigations. The trouble was that my grandfather was not acting exclusively for any one group to which he could turn for solid support. The Spragues had appointed him, but he was trustee for the creditors. Yet the creditors had not chosen him and had preferred more experienced men. In a way he was acting for the community. An old-time employer of labor, he had the welfare of the operatives much at heart. A business man and bank officer, he knew what keeping the mills going meant to the economic life of Rhode Island. As Mr. Brandeis said in the Lenox bankruptcy—and was almost kept off the Supreme Court in consequence—my grandfather “represented the situation.” Hence he was attacked on all sides and could count on no sure help except from his own lawyers and subordinates. He could not throw the main responsibility of preserving the business on some court as a trustee in reorganization under Section 77B can do today. When he went to court, as he did many times, he was usually dragged in as defendant by somebody who was attacking his administration of the trust and thus interrupting his task. He had to stand alone and make all the decisions.

Some attacks were from various interests who, claiming the right to be paid in full at once, levied attachments on the entire Sprague

<sup>1</sup> Affidavit, 19.

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<sup>1</sup> Hoyt v. Sprague, 103 U.

, thoroughly systematized in all its departments. The expense of business in the way of labor and cost of supplies was lowered under the Sprague management. There were no useless attachments, the service of the company was held to strict accountability. My grandfather conceived the plan of a new corporation to take over the Sprague assets, in which the creditors should take priority to their claims. However, a special legislative committee, and the General Assembly balked at conferring powers of a type unusual for Rhode Island manufacturing corporations. Such reorganization through incorporation is not as successfully used in a Rhode Island brokerage business as it is in the financial pages of the Boston and New York papers. My grandfather, to the Sprague mills and recognized that the time had come as well as could be expected under very trying circumstances. He was mastering a great new business and making a profit in a depression, he was constantly bothered and hounded out of the press and with numerous perplexing troubles. The trouble was that my grandfather was not acting for any one group to which he could turn for solid support. He had appointed himself, but he was trustee for the creditors who had not chosen him and had preferred other trustees. In a way he was acting for the community as employer of labor, he had the welfare of the operating mills in mind. A business man and bank officer, he knew that the mills going meant to the economic life of Rhode Island. He said in the Lenox bankruptcy—and was affirmed by the Supreme Court in consequence—my grandfather was in a "difficult situation." Hence he was attacked on all sides and could get no help except from his own lawyers and subordinates. He threw the main responsibility of preserving the company in court as a trustee in reorganization under Section 77B. When he went to court, as he did many times, he was named as defendant by somebody who was attacking the interests of the trust and thus interrupting his task. He had to defend and make all the decisions. He was attacked from various interests who, claiming the right to be paid all at once, levied attachments on the entire Sprague

property. When a solvent corporation is doing business, unpaid debts ought to be able to exert pressure to collect their debts, but this is obviously undesirable when a business is operated by a trustee for the benefit of all creditors alike. Nowadays, a corporation in voluntary receivership or under Section 77B will be protected by the trustee against attachments. If there are liens, the court can order the property sold free of liens and then let a lien-claimant seek preferred status out of the cash proceeds. My grandfather, however, was not protected without any court to protect him. Every lien-claimant meant a possible shutdown of the mills and a sure cloud on the trustee's shoulders. Preventing any sort of liquidation to meet the creditors' notes, such attachment was by the ejected honest treasurer of the Franklin Institution for Savings, now its receiver. He got a judgment of \$700,000 against the A. & W. Sprague Company, but there was nothing to pay it with, he found, for my grandfather now owned all the property. Another was by the National Bank of Commerce of New York, which had kept out of the trust and had to be paid off with one hundred cents on the dollar, except for interest. A third attachment was by the heirs of the Old Governor, who maintained that their property had been improperly left in the mill trust. Less, when they were minors, without their consent. This suit was justly cut under the whole trust and would have given everything to this branch of the family without a cent for the creditors. As long as this claim was outstanding, the trustee could not find a trustee or a purchaser for any of the trust property—his title was too shaky. It was not until 1881 that the annoyance was finally removed by the United States Supreme Court.<sup>1</sup> Outside from such alleged priorities, the trustee stood among three sides. First, the creditors became impatient as year after year went by without payment of principal or, after a time, even interest. Ignoring the prolongation of the panic, they accused him of favoring the interests of Sprague and his family and letting them occupy their valuable houses. Eventually the bank creditors, loaded up with their loans on Sprague paper—the Franklin Institution and another bank—closed after the Sprague failure—sued to remove the trustee on the grounds of mismanagement. This suit dragged on for years before it came to a hearing, and when at last it did, all the judges of the Rhode Island Supreme Court were found to be disqualified because they

<sup>1</sup> *v. Sprague*, 103 U. S. 613 (1881).

owned stock in banks involved in the Sprague failure. Eventually two of the judges sold out, heard the case, and decided for the trustee.

The Spragues, in their turn, accused him of crowding them out of the business and favoring creditors, especially of buying all his cotton from Deacon King at high prices. The trustee had retained Amasa Sprague as manager of the print works and had taken William into his employ when the latter ceased to be senator in 1875. He let the old ladies occupy their Providence houses and William live in Canonchet with the aforetime belle of Washington because it was impossible to sell these houses while the titles were clouded with attachments. Eventually he discharged Amasa as incompetent and William as that and more. The trustee declared in an affidavit to the federal court:

His [William's] personal habits and behavior became such that I did not feel justified in continuing him longer in my service. Besides, too, he had seized the record books of the Quidnick Company and secreted them, and refused to produce them upon my request, to enable the same to be inspected or proper entries to be made therein. Moreover, at the time of his dismissal a bitter hostility existed between the said William and Amasa Sprague, and this state of things produced great embarrassment to me in the administration of the business. . . .

I wish to be understood, however, that I will not permit or suffer any interference on the part of William Sprague or Amasa Sprague, with the management of a property which they have wrecked, and which I hold as trustee for the benefit of creditors, and for which I am responsible to them.<sup>1</sup>

He concluded the long affidavit with words recalling charges in Washington society that Sprague's Senate speeches showed mental unsoundness:

And as to the allegation that I have frequently reported that the said William Sprague is insane and a lunatic, I have to say, that especially in the winter of 1878-79, and on many occasions since, the said Sprague exhibited such strangeness of speech and eccentricities of conduct, that I have had reason to believe, and do believe, and may therefore have so stated, that he is of unbalanced intellect, and unfit for the management of any business, this seeming to me the most charitable construction to put upon his acts.

The old ladies now sided with William and Amasa and turned against my grandfather. The Spragues then stirred up a married sister in New York to bring a suit in the United States court to oust

<sup>1</sup> Affidavit, 15, 19, 29.

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<sup>1</sup> Latham v. Chafee, 7 Fed. R. failure are: De Wolf v. A. & Quidnick Co. v. Chafee, 13 R. 14 R. I. 75 (1883); Waterman A. & W. Sprague Mfg. Co., 1 402 (1884); Austin v. A. & V 15 R. I. 135 (1885); Chafee v

the trustee for mismanagement. Ben Butler led the attack but lost,<sup>1</sup> only to return for a fresh onslaught in the state courts.

This breach between William Sprague and the trustee deepened the difficulties of Kate Chase Sprague, already alienated from her husband by his drunkenness and infidelities. A scandal column tells of his getting into a drunken row with his mistress in a cottage at Nantasket Beach, with guests from the nearby hotel flocking to see the show. With Sprague's senatorial salary ended and his income from the mills stopped, pecuniary embarrassments began to cloud his wife's life. She owed a Washington tenant of hers for vegetables; he stopped paying rent; and she employed Roscoe Conkling as her lawyer to evict him without settling for the vegetables. She owed a Washington photographer for pictures of the dead Chief Justice's library. On being sued, she swore she owned no separate estate in the District of Columbia, although she had inherited \$45,000 from her father. She got Conkling to persuade Congress to exempt Edgewood from taxation. This reduced her former popularity in Washington to a low ebb, for it was urged that if the nation wished to honor the dead Chief Justice by enriching his daughter, it ought to have paid the taxes out of federal revenues instead of increasing the burdens of other Washington homeowners. There was nasty gossip about the manner in which, at the wedding of General Sherman's daughter, Mrs. Sprague elbowed her way past the usher into the only vacant pew left, which happened to be reserved for President and Mrs. Grant, so that the Grants, who had been delayed by an accident, had to sit in seats usually kept for orphans. Kate Sprague's name began to be linked with that of Conkling, who was seen joining her in the Senate gallery on adjournment and accompanying her down in the elevator into the basement, where Lincoln's portly friend, Senator David Davis, jocosely remarked: "Brother Conkling, I offer myself to you as a substitute," and Conkling sharply replied: "I don't want any substitute."

But far worse followed: a scandalous quarrel at Canonchet between her husband and Conkling which filled columns in the Boston

<sup>1</sup> Latham v. Chafee, 7 Fed. Rep. 520, 525 (1881). State decisions growing out of the Sprague failure are: De Wolf v. A. & W. Sprague Mfg. Co., 11 R. I. 380 (1876), 12 R. I. 133 (1878); Quidnick Co. v. Chafee, 13 R. I. 367, 438 (1881); Chafee v. Quidnick Co., 13 R. I. 442 (1881), 14 R. I. 75 (1883); Waterman v. A. & W. Sprague Mfg. Co., 14 R. I. 43 (1882); Chafee v. A. & W. Sprague Mfg. Co., 14 R. I. 168 (1883); Riker v. A. & W. Sprague Mfg. Co., 14 R. I. 402 (1884); Austin v. A. & W. Sprague Mfg. Co., 14 R. I. 464 (1884); Chafee v. Sprague, 15 R. I. 135 (1885); Chafee v. Sprague, Admr., 16 R. I. 189 (1886).

and New York papers for days afterwards. The newspaper accounts are conflicting.<sup>1</sup> According to some stories, Sprague came home to Narragansett Pier from Washington on a Friday in August, 1879, found Conkling staying in the house, and drove him out with a double-barreled shotgun or perhaps a revolver; Sprague followed him to the village, where they exchanged words in a café on the water front. According to a milder version, she had previously engaged a German tutor for the children on her own responsibility. Sprague had taken a violent dislike to the man and dismissed him without any pay. The tutor went to Canonchet on the fatal August Friday in the hope of getting some money. Conkling had sailed over during the day from Newport to talk over legal business with Mr. and Mrs. Sprague and was staying for lunch with other guests. Sprague arrived, saw the German tutor, became infuriated, and took a shotgun to him. Conkling took no part in the affair, but he and the other guests thought it a good time to leave. Meeting his former colleague later on the water front, Conkling said he could not understand how Sprague could act so like a wild man, and was told to mind his own business. Whatever happened, it was bad enough. Kate Chase left Canonchet forever with her daughters. Next year she filed a petition for divorce on all sorts of grounds. Sprague filed a cross bill charging infidelity. After two years of haggling, a settlement was arranged by which he dropped his cross bill and she obtained a divorce for only desertion and nonsupport.

Meanwhile, Sprague and his boy Willie led a desolate life in Canonchet, but not for long. The trustee, having got rid of all the attachments in 1881, was anxious to sell this large estate at Narragansett Pier. He found a willing purchaser, who signed a contract, and my grandfather went down to put him in possession, taking along a sheriff and some deputies. Willie and the hired men appeared at the gate with shotguns, while my grandfather stamped up and down outside the fence with his one crutch. The purchaser was hardly ready to take title under these conditions, so the trustee gave up and went home. It is not true that Sprague knocked my grandfather down, as Kate Chase's biographer says.<sup>2</sup> Then my grandfather brought an ejectment suit, but the local jury found for their old

<sup>1</sup> See also Mary M. Phelps, *Kate Chase, Dominant Daughter* (New York, 1935), 253-260, which differs from all the newspapers and is badly garbled.

<sup>2</sup> Phelps, *Kate Chase*, 305.

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neighbor Sprague. The verdict was set aside on appeal, and an amusing new suit followed, which the trustee won after Sprague had vainly tried to set aside his own trust deed as being in fraud of creditors.

At last the antagonism of the Spragues succeeded in blocking the whole scheme for continued operation of the mills and in eventually forcing a liquidation, which yielded nothing to the Spragues and left the creditors with less than they might otherwise have obtained. The center of the trust plan was the Quidnick Company, and it was the most vulnerable point because William Sprague was its president and ran off with the books, while the old ladies retained the voting power and refused to reelect my grandfather treasurer. Thus my grandfather lost his power to pledge the credit of the Quidnick Company for cotton and other mill supplies. The Spragues, back in control, set out to sabotage the stocking contract. After my grandfather had failed to get the Quidnick Company put in the hands of a court receiver, his best course, now that he had at last cleared off all the clouds on his title, was to sell out the whole Sprague mills.

Here he met a third group of antagonists in addition to the creditors and the Spragues. Ben Butler was apparently allied with a New York syndicate which wished to buy the Sprague mills at a bargain price, and so he associated himself with the Spragues in order to embarrass the trustee in operating the mills and force him to sell for whatever he could get. It was Butler who resisted the trustee's attempt to regain control of the Quidnick Company. The appearances of Massachusetts' Greenback governor in court led to many amusing passages of arms.

Thus Butler and Thurston, the trustee's most eminent counsel, were accustomed to shake hands each day on meeting in court. Once, when Thurston had to make an important argument, Butler remarked: "Not looking well this morning, Mr. Thurston." Thurston replied: "No. Just a touch of malaria"; whereupon Butler burst out: "Malaria! Hell no! Bright's disease! I ought to know, my son died of it." Mr. Thurston's argument that day was very weak.

Butler was particularly active in attacking the trustee's cotton transactions with William J. King, to whom Butler always referred with much emphasis as *Deacon* King. After a while Mr. King remonstrated. Butler replied, with reference to King's dealings in the

cotton market: "I call him *Deacon* King because he deals in futures. Bob Ingersoll does not believe in futures. Deacons do."

On the same day, alluding to the fact that both Butler and Sprague had been at Bull Run, Butler said: "Governor Sprague is not a man easily intimidated or frightened. I saw him where he didn't fear danger and *where I didn't see Chafee*." Reflecting on Mr. Thurston's not having gone to war either, Butler remarked that he had been fighting the nation's battles while other lawyers were staying at home "getting large fees for small cases." Mr. Thurston, however, once found the opportunity to make a good repartee. Butler was insisting that an iron manufacturer like my grandfather could never be fit to run a cotton business. Thurston replied that such a transformation was easily possible, for "Have we not seen an able lawyer become a distinguished general?"

There is a good deal more that could be told about the trustee's refusal to accept the offer of the Butler syndicate, and about his disappointment when an expected bid for the whole property from a local syndicate was not made at a public auction where all the creditors were gathered and afterwards became very indignant at the trustee when the sale collapsed. Consequently, the Sprague property had to be sold off piecemeal to various purchasers. The creditors were gradually paid off and got about thirty cents on the dollar. Early in 1889 my grandfather said that he expected the whole matter to be closed up before the grass was green again. Instead, he died at the end of March, 1889; and the final court decree in the Sprague litigation was made thirty-eight years later, in 1927, when the second substituted trustee was told by the court to destroy all the Sprague books by fire, and was discharged. It was a windy day, and the trustee wished his lawyer to advise him that the books could be macerated; but the instructions of the court were plain, and he was told to wait for calmer weather. So the books were burned, and the Harvard Graduate School of Business Administration is now lamenting the fact that they are not in its library.

This story may appropriately end with the following extract from an affidavit in the federal court by a prominent New York commission merchant, Gardner H. Colby:

I consider Mr. Zechariah Chafee a man of clearly defined business ideas, of untiring energy, and of a capacity for accomplishing good results, which is not only natural to him, but has been increased by the experience of a varied and

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<sup>1</sup> Affidavit, 65-66.



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busy life. He has acquainted himself to a remarkable degree with the method of manufacturing cloths and printing them. His devotion to the business, his watchful care over its various departments, notwithstanding the changeable markets of the past few years, combined with his strict integrity, have enabled him to keep the property confided to his trust in a condition far better than similar properties of many other manufacturers, who have not been surrounded by the same difficulties.<sup>1</sup>

<sup>1</sup> Affidavit, 65-66.

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property. When a solvent corporation is doing business, unpaid creditors ought to be able to exert pressure to collect their debts, but this is obviously undesirable when a business is operated by a trustee for the benefit of all creditors alike. Nowadays, a corporation in equity receivership or under Section 77B will be protected by the court against attachments. If there are liens, the court can order the property sold free of liens and then let a lien-claimant seek preferred payment from the cash proceeds. My grandfather, however, was trustee without any court to protect him. Every lien-claimant meant a possible shutdown of the mills and a sure cloud on the trustee's title, preventing any sort of liquidation to meet the creditors' notes. One such attachment was by the ejected honest treasurer of the Franklin Institution for Savings, now its receiver. He got a judgment of \$700,000 against the A. & W. Sprague Company, but there was nothing to pay it with, he found, for my grandfather now owned all the property. Another was by the National Bank of Commerce of New York, which had kept out of the trust and had to be bought off with one hundred cents on the dollar, except for interest. A third attachment was by the heirs of the Old Governor, who maintained that their property had been improperly left in the mill business, when they were minors, without their consent. This suit obviously cut under the whole trust and would have given everything to this branch of the family without a cent for the creditors. So long as this claim was outstanding, the trustee could not find a purchaser for any of the trust property—his title was too shaky. It was not until 1881 that the annoyance was finally removed by the United States Supreme Court.<sup>1</sup>

Aside from such alleged priorities, the trustee stood among three fires. First, the creditors became impatient as year after year went by without payment of principal or, after a time, even interest. Ignoring the prolongation of the panic, they accused him of favoring Senator Sprague and his family and letting them occupy their valuable houses. Eventually the bank creditors, loaded up with their bad loans on Sprague paper—the Franklin Institution and another had closed after the Sprague failure—sued to remove the trustee for mismanagement. This suit dragged on for years before it came to a hearing, and when at last it did, all the judges of the Rhode Island Supreme Court were found to be disqualified because they

<sup>1</sup> Hoyt v. Sprague, 103 U. S. 613 (1881).