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“The Grand Old Man of Cotton”: Colonel Henry G. Hester, Economic Innovation, and the New Orleans Cotton Exchange, 1871-1932

Joshua E. Lincecum
University of New Orleans, josh.lincecum@gmail.com

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Joshua Lincecum

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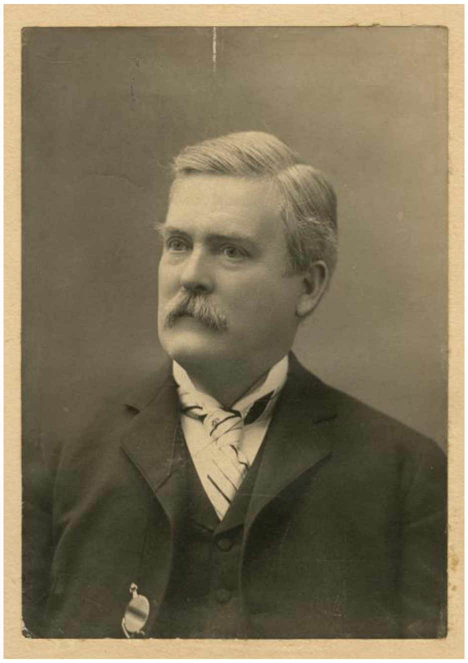
Abstract
After the American Civil War, and the collapse of the market in slave-produced cotton in the South, cotton merchants in New Orleans faced challenges in re-establishing the city as a central port for Southern cotton. As commodities exchanges emerged as centralized spaces for business in the 1870s, a new class of experts emerged, upon whose reports traders bought and sold newly developed securities derivatives. Henry G. Hester (1846- 1934), Secretary of the New Orleans Cotton Exchange, was an integral player in the development of the methods that governed sophisticated commodities trading around the world. His career at the New Orleans Cotton Exchange tells the story of the arrival of these methods and subsequent downfall of Euro-American centrality in the global cotton empire and contradicts previous histories that deemphasize Southern businesspersons' contributions to modernization.

Keywords: futures, commodities, New South, experts, business, statistics, Civil War



Introduction

Upon his retirement in December of 1932, Henry G. Hester's career was the subject of business periodicals across the United States and Europe, reporting on his contributions to the business of cotton. For sixty-two years, Hester served as secretary and superintendent of the New Orleans Cotton Exchange -from its establishment in 1871 until his retirement, two years before his death. He was widely recognized as the "Grand Old Man of Cotton," and the "Father of Cotton Statistics."[1] *Hester's Report*, his annual analysis on conditions contributing to the marketing of cotton from the interior of the United States were circulated throughout business communities from Galveston to Tokyo and his model for analyzing trends in the production, manufacturing, and consumption of cotton products were emulated across markets. Henry Hester and the members of the New Orleans Cotton

1 These titles were attributed to Hester by businessmen throughout the cotton industry and recorded in an personal sketch by Frost O. Miegs in 1922.

Exchange brought cotton business interests back to New Orleans after the American Civil War, reestablishing the city as the primary "spot market"[2] for cotton well into the twentieth century. Contrasting previous histories of the New Orleans Cotton Exchange and Reconstruction economics, this paper will argue that Hester's career demonstrates changing business methods in the New Orleans after the Civil War.

Historians have remarked on the decreasing role played by the New Orleans business community in the national economy during and after the Civil War. The once great city had been hailed as a Southern metropolis and a geographical asset since being acquired by the United States in 1803. Its strategic position at the mouth of the Mississippi River made it a center for agricultural exports and by the 1850s, New Orleans reigned over international cotton production. By that time, nearly 79 percent of cotton produced in the Southern United States was exported through New Orleans. However, with the outbreak of the Civil War and subsequent blockade of Southern cotton, exports collapsed and would never return to their former glory. Historian Scott Marler argues that even before the Civil War, the strategic position of New Orleans contributed to a lackadaisical attitude among the city's business community toward increasing competition from other Southern cities. The city's business elites did not embrace the modernizing infrastructural technologies that would change methods of transportation and distribution, nor did they adequately address crises in banking and finance. Despite modernization in other Southern cities like Atlanta, New Orleans -Marler argues- remained complacent in its success as a regional port for southern cotton. The unwillingness to embrace a new order in finance contributed to New

[2] In commodities trading, a "spot market" is a financial market where products are traded for immediate delivery, as opposed to a "futures market."

Orleans' fall from a "regional metropolis" to an irrelevant business center.[3] This view of New Orleans' business community fails to acknowledge broader changes in the globalization of cotton as well as individuals' contributions to an emerging order of cotton financing.

The career of Henry G. Hester –"The Grand Old Man of Cotton"- and his colleagues at the New Orleans Cotton Exchange contradicts this portrayal and the degree to which the New Orleans business community was part of an ongoing progressive movement aimed at modernizing the cotton industry at the close of the nineteenth century. With the establishment of the New Orleans Cotton Exchange in 1871, cotton merchants brought the business of cotton back to the city, although not to its prewar levels. By offering a central location for trading, telegraph connections to the interior and other markets, and analyses of factors affecting price and distribution of the crop, the New Orleans Cotton Exchange members adapted to emerging business practices in the United States. While other historians have emphasized the relative unimportance of New Orleans as an agricultural export center after the Civil War, the career of Colonel Henry G. Hester demonstrates how the New Orleans business community contributed to emerging market behaviors at the end of the nineteenth century. As a new class of experts emerged to supplement traditional forms of exchange, Hester and the Cotton Exchange brought to the New Orleans business community precise reporting of agricultural conditions, discussion of external pressures to the market (including labor disputes and price panics), and the perception of expert

[3] Marler, Scott P. *The Merchants' Capital: New Orleans and the Political Economy of the Nineteenth-Century South*. New York, 2013. Cambridge University Press. 9-11

authority, all of which informed the trading of the newly developed securities derivative, the "futures contract."

Historiography

The overlay between politics and business in what C. Vann Woodward refers to as the "New South" has been part of the classic discussion among historians about the legacy of the institution of slavery, the American Civil War, and Reconstruction. Woodward describes the transformation of conservative politics, as Democrats in the former Confederacy began taking on the political mantle of traditionalist Whigs. As this evolution was taking place in the decades following the Civil War, Democrats began to bifurcate, with some Southern conservatives filling the ranks of New South businessmen.[4] This new political class of "redeemers" had a tangible effect on the politics and business of the South, more so than the former Confederate planter class, as well as the Reconstruction Radicals.[5] Henry G. Hester, with his decades-spanning career at the New Orleans Cotton Exchange, was a part of this emerging class of business-driven Democrats who would shape the New South in the twentieth century.

Woodward's argument in regards to the reforming of the Southern business community after Reconstruction follows a theme of discontinuity in the makeup of financial elites within the South. In Woodward's view, during Reconstruction, Southern business models and methods in governing began to reflect the models of those in the north. He shows how after the Civil War, even the most successful planter capitalists faced an uphill climb in reclaiming their former economic status, as the emancipation of Southern slaves

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[4] Woodward, C. Vann. *Origins of the New South*. 1951. Louisiana State University Press. 6

[5] Woodward. *Origins of the New* South. 22

took from them a major source of capital and credit.[6] Thus, new business methods created by Northern Republicans during Reconstruction resulted in the appearance of a new middle class. Other scholars as well point to a degree of politico-economic discontinuity in the post-bellum South, arguing for the emergence of a new business class representing its own interests at the expense of agrarians and poor tenant farmers.[7]

Interest in cotton production has increased among historians recently, with new studies connecting U.S. cotton production to the broader global economic changes brought on by economic developments in the nineteenth century. In his book *Empire of Cotton: a Global History*, Sven Beckert uses historical changes in the production of cotton to form a narrative of the changing economic and political relationships between individuals, states, and colonial powers. One recurring theme in Beckert's work is his reference to "war capitalism," a system of economic expansion that reconfigures the relationships between farmers, weavers, distributors, and merchants in colonial economies, replacing traditional modes of production with European technology and European dominance over the export of cotton cloth. Such a framework allows Beckert to give an analysis of the peculiar rise of the British cotton empire, a system of production and distribution centered in a continent that neither grew nor widely used cotton until the British colonized parts of Southeast

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6 Such a conception of emancipated slaves as a piece of property is not meant to diminish the humanity of those Americans who fell victim to the institution of slavery, or to cast slave-holding planters as victims of financially ruinous social policy. Instead, it is meant to put the economic effects of emancipation into the contemporary economic context of the time. Enslaved individuals held value as property and sources of credit, and regardless of the moral depravity of viewing another human being as a commodity, an economic analysis of the history of the South must take into account Southern modes of finance.

7 Woodward, *Origins*. 240, Woodman, Harold D. "The Political Economy of the New South: Retrospects and Prospects." *The Journal of Southern History* 67, no. 4. (Nov., 2001): 789-810

Asia.[8] While Beckert gives a critical look at how colonialism and the birth of modern capitalism are intertwined with one another, his is largely a history of the rise and fall of cotton production in Europe and the United States and its relationship to capitalism. This project fits into a time frame far smaller than Beckert's, and attempts to describe how Hester's methods redirected the postbellum South on a path towards modern exchange models.

Localized subjects such as the New Orleans Cotton Exchange tend to limit the scope of an inquiry to a shorter historical period. Marler's analysis of the role of the New Orleans Cotton Exchange in regional and national competitiveness appears to remain intact when comparing New Orleans as a center for exports to the relocation of these trading hotspots to new cotton metropolises on the Atlantic coast and Texas, but such an analysis fails to consider broader economic changes in the marketing of cotton to the world, as well as the role that individuals play in shaping business culture. In regards to the latter, Hester's methods for reporting the statistics on cotton received international recognition in most of the major cotton producing nations throughout the world. His purported expertise and consulting career with the U.S. Department of Agriculture demonstrate that he was an important figure in developing national perceptions of commodities trading, predating the rise of professional statisticians that emerged early in the twentieth century.

In addition to the restructuring of modes of production throughout the globe, cotton production, as well as the development of industrial capitalism, developed in tandem with the violent exploitation of African slaves whose labor supplied European mills with raw

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8 Beckert, Sven. *Empire of Cotton: A Global History.* (New York: 2014) Alfred A. Knopf. 56-63

materials. [9] Edward E. Baptist, in his work on the institution of slavery in the U.S. South, demonstrates how this profitable, finance-driven industry of the nineteenth century developed on the backs of enslaved people, toiling daily to plant and harvest the commodity upon which this analysis is centered. As technology increased the profitability of cotton, so too did it increase the number of enslaved Africans forcefully transplanted to the US South. In the last decade of the eighteenth century, the number of enslaved people imported into eleven southern states totaled 38,881. Thirty years later, the forced domestic migration of slaves into the South totaled 211,241. These states, the most prominent producers of cotton in the United States, built an agricultural empire on enslaved labor, and profited richly from their investments in human capital. In addition to giving a human face to the global empire of cotton, Baptist's work demonstrates empirically how the institution of slavery grew in the Southern states leading up to the American Civil War, countering the Whiggish historical perspective of slavery's unimportance to the war between North and South and positions the cotton industry as an important development in our national history, a subject that is typically relegated to regional histories of the Southern states. This structure of exploited labor also lays the foundation for future problems faced by Southern planters attempting to switch to new, free models of labor after Reconstruction.

Hester and the men who established the NOCE represented a new way of doing business in the South, imitative of Northern business models, while also employing their own methods. In 1871, Hester and his colleagues stood at the cusp of an industry transitioning from the dominating interests of the planter class represented by "factor" intermediaries, to a system dominated by merchants, railroad and shipping companies, and

9 Beckert. *Empire of Cotton*. 98-120

textile manufacturers represented by brokers in metropolitan export centers. Additionally, they represented a broader cultural shift toward evidence-driven analysis and the authoritative testimony of experts.

The Market, they believed, could be understood through graphing and charting past performance, and they would promote the business of cotton by reforming the way traders behaved. This effort to reinforce the foundations of industry with scientific knowledge was reflective of the larger Progressive movement in the South at the time. The study of the Progressive era of American history frequently focuses on the politics of social reform. An Atlantic-wide movement of individuals and groups began seeking the reform of politics into a system of government based on investigation and analysis. This new appeal to evidence-based analysis, however, represented a shifting of political authority away from the state and into the hands of capital holders and industry elites.[10] In this context, we can see that Hester's evidence-based analysis of the cotton trade represented more than an effort to standardize and streamline a poorly organized system of trading. His appeal to objectivity – as well as the industry's appeal to his authority- allowed Hester to create a prototype for government reporting and analysis. In the waning decades of the nineteenth century, Progressives emerged under the auspices of expert authority, to address social problems, gather evidence, and provide policy recommendations for governments. The development of professional academic associations specializing in economics, political science, and

[10] Rodgers, Daniel T. *Atlantic Crossings: Social Politics in a Progressive Age.* (Cambridge: 1998) 52-53.

sociology signaled a larger cultural movement away from idealism.[11] Previous studies of the Progressive era, however have both a geographical and institutional bias.

Defining "progressivism" as a distinct movement has proved problematic for historians of the late nineteenth and early twentieth centuries. Lacking a underlying ethos or set of common beliefs, self-described progressives are best grouped by their attempts to address social ills through hierarchical, extra-party political organizations. Characterized by their bureaucratic hierarchies, depending on large data inputs and policy recommendations, progressive organizations streamlines the political process through ward bosses, county and city groups, and directed efforts upwards to political institutions of power. In addition, their efforts to "modernize" geographies and institutions reflected their desire to bring cosmopolitan conformity to local communities. Racial politics and the enfranchisement of African Americans after the American Civil War also influenced the formation of these groups as they sought to streamline a dearth of constituents to support their particular brand of politics and business. The confluence of these new political developments as well as a cosmopolitan modernization of businesses in the United States helped shape the politics of New Orleans at the turn of the century. Henry G. Hester and his colleagues at the New Orleans Cotton Exchange exemplify this modernization process in politics and business.[12]

Classic studies like *The Emergence of Professional Social Sciences* by Thomas L. Haskell focus on the history and development of academic institutions dedicated to

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11 Haskell, Thomas L. *The Emergence of Professional Social Sciences: The American Social Science Association and the Nineteenth-Century Crisis of Authority.* 65-68

12 For more on progressivism and modernization, see Robert H. Wiebe, *The Search for Order: 1877-1922.* Also, Daniel T. Rodgers, "In Search of Progressivism," *Reviews in American History, Vol. 10, No. 4.*

evidence-based analysis. Using the American Social Science Association as a contextual lens, Haskell demonstrates how positivist attitudes of professionals during the nineteenth century shaped the modern social sciences. What is left out, however, is the role of non-academic professionals and institutions, especially those outside of the Northern United States. Hester and the men at the New Orleans Cotton Exchange certainly represented a new professionalized institution of scientifically minded businessmen whose interests were not in academic knowledge, but in keeping the South's agricultural market center to the global cotton trade. While his politics and motivations for doing so were not as altruistic, the legacy of Hester's methods influenced an international system of quantifying and reporting information. As Progressives attempted to address the social ills of the backwards South, Southern businessmen were witnessing and responding to broad changes in the American cotton industry.

Cotton Exchanges Before Hester

Among the few images associated with the New Orleans Cotton business, The painting, A Cotton Office in *New Orleans,* is arguably (FIG. #1) the most familiar. When Degas visited his family in New Orleans in 1873, he began painting the portrait reminiscent of the realist school that he would soon be famous for superseding. The painting itself captures a scene of cotton merchants running their hands through the plush commodity, examining its quality, and recording their observations. The crowded room of businessmen is emblematic of the fast-paced nature of industrial expansion, and historians have at numerous times used the image as a metaphor for nineteenth century capital expansion[13].

The reality of the cotton situation, however, is far different from Degas's painting.[14]

Figure 1: *A Cotton Office in New Orleans*

13 The image serves as the cover for Eric Hobsbawm's *The Age of Capital*, as well Thomas L. Haskell's, *The Culture of the Market: Historical Essays*. For more on Degas' painting, see Marilyn R. Brown, *Degas and the Business of Art: A Cotton Office in New Orleans*.

14 Marler, *Merchants' Capital*. 2-3

Figure #2: *Cotton Merchants in New Orleans*

At the forefront of *A Cotton Office in New Orleans* sits Michel Musson, Degas's uncle and lead partner at Musson, Prestidge & Co. Musson was the son of the wealthy merchant who had opened the firm, and until the 1870s operated in the city as a successful cotton merchant. Musson & Co. was a firm that was part of the antebellum business model of the "cotton factor." Prior to the establishment of single centralized exchange and the expansion of railroad infrastructure into the U.S. Cotton South, farmers hired men like Musson to represent their financial interests in the city. Until the Civil War, factors functioned as financial middlemen—as intermediaries between farmers and merchants—arranging buyers for crops that would then be consumed locally or transported to ports throughout the United States. In addition, factors also provided financial services by functioning as sources of credit for farmers, or securing credit within the city. Woodman also describes a deeper connection between factors and their clients, as most of them served the interests of the same farmers for years. After the explosion in cotton production in the 1830s, many farmers increased the production of the cash crop at the expense of growing foodstuffs. As a result, the factor often secured for the farmer manufactured goods sold in the city. In some cases, factors would even find schools or universities for the children of farmers. However, by the 1850s, the "factorage system" of cotton going to the market would be challenged by emerging sources of available credit and finished goods within rural communities.[15]

By 1873, the status of the cotton factor in New Orleans was more akin to Degas' lesser-known painting, *Cotton Merchants in New Orleans* (FIG. #2). Contrasting the busy image of his first painting, Degas's second depiction is more emblematic of the artist's now famous method of impressionism. In it, Michel Musson stands, staring pensively at a table, his hands slowly sinking into a sample of cotton. Instead of a busy office filled with merchants, only three men, including Musson, surround the dreary scene. Just a few weeks after Degas completed his painting, Musson, Prestidge, and Co. would close its doors permanently, reflective of the larger changes in how cotton moved from farm to factory in the Reconstruction South.[16]

The events of the Civil War had substantially disrupted the business of cotton in New Orleans and despite the monumental changes in the structure of cotton financing and

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15 Woodman, Harold D. "The Decline of Cotton Factorage After the Civil War." *The American Historical Review*, Vol. 71, No. 4. (July 1966), 1219-1296.

16 Marler, *Merchants' Capital*. 7-9

transportation, by the 1870's, individuals within the New Orleans business community increasingly sought to reestablish themselves as brokers between farmers and buyers. At this time, small offices located around Gravier and Carondelet, calling themselves "cotton exchanges" served as meeting places for buyers and sellers. There was no central organization to manage risk factors or standardize measures on deliveries, and the exchanges competed with one another to secure the business of those offering to buy or sell deliveries of cotton. A small collection of business men sought to improve on this loosely connected group of individual exchanges and in 1870, began planning for the opening of the first major cotton exchange in New Orleans.

Establishment and Hester's Early Years

Henry G. Hester was born in New Orleans, in November of 1846 to Charles and Sarah Hester. The Hesters migrated from England some time before the birth of their first son in 1838. It is unclear why the Hesters chose New Orleans as their home, but Charles's profession as a collier suggests that he was a merchant.[17] Henry attended secondary school in the city and subsequently began a career in law, clerking for a district Judge. After abandoning his career in law, Hester began as a financial journalist. At the time of the Exchange's establishment in 1871, Hester was working as an editor for the *New Orleans Picayune*.[18]

Hester married Frances Lea at the age of 21, with whom he had at least two children. His marriage lasted until his wife's death in 1900, three years after the tragic

17 U.S. Census Bureau, New Orleans, Ward 11, Orleans, Louisiana. 1860

18 Myers, William E. *The Convention of '98*. Democratic Party State Central Committee, La: 1898. 20

death of his son, Harrison, who died in a boating accident in 1897.[19] After the death of his first wife, Hester remarried to Laura Dickson, a widowed mother of two children, Emma and Sulye Dickson. By 1910, Hester and Laura (along with her two children) rented a house on St. Charles Street in the fourteenth ward of New Orleans. An area populated by the city's political and financial elite, Hester's dwelling here demonstrates his position within the business community: an integral, but bureaucratic, figure for the cotton business.[20]

Eighteen men involved in the New Orleans cotton trade established the New Orleans Cotton Exchange in 1871, the stated purpose being to "promote the business of cotton," as well as supply information pertinent to those who bought and sold the cash crop. Henry G. Hester invested his time and expertise upon the opening of the Exchange, while other founding members invested their money and reputation. An interview with Hester provides a retrospective into the beginnings of his career at the exchange. In a 1922 interview, nearing the end of his career, Hester recalled the moment the President of the Exchange approached him offering him a position. He was working as a reporter with a handsome salary when Exchange President E.H. Summers called for him to appear in his office. Summers offered Hester the position of superintendent, a position whose duties were not yet determined. He offered Hester an annual salary of $2,500, stating that those invested in the endeavor stood to lose $10,000. Hester refused the salary, agreeing to take the job on the condition that he have the latitude to determine his own duties. "If you can risk your ten thousand dollars, I can risk my time. Forget about the salary. I'm going to see

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19 *Find a Grave*, database and images (http://findagrave.com : accessed 25 March, 2016) memorial page for Henry G. Hester (1843-1934) Find A Grave Memorial no. 21281899, citing Metairie Cemetery, Metairie, Jefferson Parish, Louisiana.

20 U.S. Census Bureau. New Orleans, Ward 14, Orleans Parish, Louisiana. 1870, 1910

what I can do with this job," Hester recalled saying.[21] Hester's claim to have not initially taken a salary is open to question, but the story sheds light on the moment of the Exchange's establishment as well as the uncertainty in its success and risk assumed by those who established it.

By the early 1870s, contracts for future delivery or "futures" were increasingly traded on commodity exchanges in the place of "spot contracts." The *Times Picayune* article that announced the opening of the New Orleans Cotton Exchange stated that the first trade on the Exchange was actually a futures contract. However, traders' wide use of futures contracts on various cotton exchanges did not eliminate the widespread perception that them as a source of financial instability. Critics equated these unconventional methods with gambling, calling them "immoral" and "unnatural." [22] Even as late as 1919, the United States Department of Agriculture questioned their use in the exchanges. In one telegram, Hester defends the use of futures contracts, explaining to the acting chief of the Bureau of Markets, George Livingston, that they serve an invaluable function to traders.[23] Hester's telegram argued that futures contracts allowed traders to hedge regular spot positions and decrease their exposure to falling prices.[24] Hester did not invent the futures contract, but he was

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[21] Frost, Meigs O. "'Hester Says-' an Intimate Personal Sketch of the World's Greatest Cotton Authority." *New Orleans Sunday States*. 1922.

[22] Aroni, Julius. *Futures*. (New Orleans: 1882) J.A. Gresham.

[23] Hester to Livingston, 22 December 1919, Box 1, Folder 3, Correspondence, New Orleans Cotton Exchange Records 1871-1979, LaRC, Tulane University Libraries.

[24] A trader's ultimate goal is to offset all risk in a transaction. Because price fluctuation makes this essentially impossible, the trader may "hedge" a trade, in this case by taking a long or short position on a futures contract. For example, if the trader for Sterling Cotton knows he will be selling an order of 20,000 bales of cotton in the future where the spot price is $11 per bale and the futures price is $10 per bale, the trader can take a short position on futures and close the contract when it has come to call, ensuring that he will receive $10 for each bale of cotton, rather than risk the spot price falling to $9.

instrumental in bringing this financial innovation to the cotton exchange in an effort to modernize the business of cotton.

There were two types of markets for cotton during the later nineteenth and early twentieth centuries; the distributive "spot" markets, wherein traders exchanged physical cotton for delivery on-site, and futures markets, where traders could hedge spot trades in order to reduce the risk of doing business. Reducing the risk of carrying actual cotton to the market was only possible when taking into account accurate information. Understanding how the futures market functioned in tandem with spot trading is essential to understanding the value of Hester's reports.

As shippers carried cotton from the field to the market, their price margin (the difference between their buying price and selling price) had to be enough to pay for operation costs as well as gain a profit on the transaction. Ideally, a shipper would bring cotton to a distributive market and sell it at a higher price than that for which he purchased it. That difference –or margin- had to be enough to pay for the cost of shipping, handling, and financing cotton but also had to produce a profit for the shipper. If, when the shipper arrived at the distributive market, prices did not cover the margin, he would lose money. To mitigate this risk, a shipper would take the opposite position in a cotton futures market by purchasing futures contracts through a broker member of the exchange.[25]

Additionally, a futures market allowed a shipper to sell excess cotton that exceeded the amount the buyer wished to purchase. For instance, if a spinner placed an order for 1,000 bales of cotton to be delivered later in the year, the shipper then sought out a farmer

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[25] For a contemporary description of the function of futures, see Alston Hill Garside, *Cotton Goes to the Market*. For more on the early development of futures contracts, see William Cronon, *Nature's Metropolis*. For an economic explanation of futures, see Jerome L. Stein, *The Economic of Futures Markets*.

with an expected crop of cotton that matched the classification required. The farmer however wanted to sell his entire crop. Thus, the shipper buought from the farmer 3,000 bales. The shipper could immediately sell the excess 2,000 bales for "future delivery" to another shipper who wished to hedge his position on his own crop. While these practical applications served as justification for the existence of these financial instruments, traders on the exchange began using futures in other innovative, controversial ways.

As futures contracts became more prevalent on the New Orleans Cotton Exchange, brokers began speculating on the short-term price of futures themselves. When derivatives are exchanged in a market, it provides an opportunity for quick gains if a trader can accurately predict –or guess- how the price will rise and fall. If a trader believes the price of futures contracts will fall, he may choose to buy 500 bales of futures, despite the fact that he actually does not own any (this is understood as "selling short"). Because there is time between the point of sale and the time when the market closes, he still has an opportunity to purchase the amount of contracts he just sold from a different broker. If his prediction was correct, and the price does fall, he can then purchase at a lower price. At the close of business that day, he will have sold 500 bales of futures at the higher price and bought them at the lower price, clearing the difference. The problem of speculation, however, is that it causes volatility in the market.[26]

If we take the previous example of the speculating trader and put him on the trading floor with dozens of other traders, who can all see his actions, a problem emerges. If enough traders join the first in "selling short" on the future contracts, this will cause the price to fall indefinitely. This aspect of futures trading became endemic in the exchanges

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[26] Garside. *Cotton Goes to the Market*. 366-376

during the 1870s, and critics challenged the wisdom, morality, and validity of such contracts.

Julius Aroni, a member of the New Orleans Bar Association, published a collection of court cases in 1882, two years after futures trading became standardized in the bylaws of the New Orleans Cotton Exchange. His reasoning was to educate lawyers representing clients who dealt in futures contracts as to the legal precedents that justified their existence and validity. In compiling court cases from across the United States and Great Britain, Aroni provides a legal defense of futures contacts, challenging much of the typical criticisms, mainly that the contracts constitute a mutual understanding between a seller and a buyer, just as any other contract. The content of this document demonstrates both that these new financial methods were controversial, and that there was a clear need for lawyers to understand the legal aspects concerning this financial instrument that was gaining popularity in the midst of controversy.[27]

Hester's Role in Daily Business

Henry Hester's most notable function at the Exchange was to issue reports on factors affecting the cotton business, consisting mostly of reports from the previous years. He also examined market conditions, including market panics, shortages, surpluses, and price falls. Hester sought to understand the underlying factors affecting the price of cotton and published his findings for all members to see, with the authority of an expert. The rise of the social sciences in the United States reports in the late nineteenth and early twentieth century meant a more scientific, rational approach to a variety of social problems, and agricultural seem to reflect this trend in numbers-based analysis. This is not to say that

27 Aroni. *Futures*. 1-5

prior to the 1870s that financial analysis was not evidence based, but that laying out numbers in charts and graphs became an increasingly popular way to inform readers of the changes in industry.

Hester corresponded often with officials at the Departments of Agriculture and Commerce, sometimes representing the interests of members of the Exchange. Established as an independent department with cabinet status in 1862, the Department of Agriculture acted as the federal government's chief collector of agricultural information, similar to that in Hester's reports. The Department of Commerce acted to promote economic growth and job creation. Much of Hester's correspondence with these departments seemed to be advisory in nature. In a telegram from December of 1919, Hester wrote to John Hohn of the Division of Statistics at the Department of Commerce to correct their published figures on cotton holdings that year. Hester contended that the figures published by the Department of Commerce did not match his own, and explained how their numbers failed to represent the actual amount of cotton coming to market that year by failing to include some of the key export sites for cotton. "Comparing your figures with mine, for period August to November 1919… I find the following Differences."[28] He goes on to correct discrepancies that underestimated exports by 133,843 bales over a four-month period. In that period, the New York ports exported 75,204 bales, putting into context the scope of the discrepancy. Hester wrote a similar letter to the Federal Reserve Board, Division of Analysis and Research correcting their numbers on the 16th of the same month. Mistakes in the data were likely commonplace, but Hester's readiness to correct mistakes as well as supply his own accurate numbers demonstrate that he closely watched official data coming from the

[28] Hester to John Hohn. New Orleans Cotton Exchange Records, 652, Box 1, File 3, p 167-169. LaRC, Tulane University, New Orleans, La.

federal government regarding cotton, and that he had the ability to provide expert information to the official agencies overseeing agricultural analysis.

Hester's Reporting

A series of telegrams sent from Hester to various individuals throughout the cotton interior and export cities could provide evidence of Hester's methods for collecting the information in his reports. Three of the individuals that Hester refers to as "freight traffic managers," employed at various railroad companies including the Louisville & Nashville Rail Road and the Texas Mexico Railway Company. He also sent similar telegrams to J.O. Davis, a collector of customs in San Francisco. In the telegrams, Hester requested that each recipient send him the latest figures they have on information "that would be valuable to the business of cotton." While the collection referenced does not include the information provided by the freight managers or the customs collector, the requests demonstrate the way that Hester may have compiled his reports by maintaining daily correspondence with officials who may have insight into information regarding the production and movement of cotton, before a crop arrived at one of the dozens of exchanges and cotton presses. In telegrams sent the same day, Hester thanked the men for their cooperation for the previous year, wished them happy holidays, and included a box of "100 Havana cigars" to arrive through the mail.[29]

[29] Hester to C.M. Fish, 16 December 1919, Fox 1, Folder 1, Correspondence, New Orleans Cotton Exchange Records 1871-1979, Louisiana Research Collection, Tulane University Libraries. Hester to J.O. Davis, 16 December 1919, Box 1, Folder 1, Correspondence, New Orleans Cotton Exchange Records 1871-1979, LaRC, Tulane University.

TABLE 11.—*The production and consumption of cotton and the number of spindles in the United States in years named.*

YEAR.	Section.	COMMERCIAL BALES.		Spindles (number).
		Production.[1]	Consumption.	
1905	North		[2]2,138,829	15,865,790
	South	13,693,279	[2]2,140,151	8,211,734
1904	North		2,035,390	15,250,000
	South	10,014,455	1,928,591	7,963,866
1903	North		2,146,374	15,200,000
	South	10,784,473	2,014,587	7,039,633
1900	North		2,155,784	[3]15,118,198
	South	9,507,786	1,483,711	[3]4,354,034
1890	North		1,881,294	12,937,043
	South	7,472,511	534,290	1,613,280
1880	North		[4]1,487,930	[4]10,111,387
	South	5,755,359	[4]183,453	[4]542,048

[1] Crops of previous years.
[2] Not including foreign cotton.
[3] Not including idle spindles.
[4] In cotton mills.

Figure #3: The above image depicts a typical chart that would be part of Hester's report. This chart appeared in a 1904 publication on the commercial valuation of railways in the United States.

Hester's reports on cotton appeared in trade journals and small reference books issued to traders for quick referencing. *The Cotton Yearbook*, published in 1923 by the New Orleans Cotton Exchange and edited by Charles Griffith, contained pertinent information regarding the growth, production, and consumption of cotton from the previous year and included Hester's annual report. Hester's report was largely a table of information comparing various aspects of the cotton trade to the same aspects of previous years, broken down into monthly intervals. The report also included a narrative introduction, speculating on the business of cotton that year, prescribing solutions for downturns in the market, and recommendations for traders.[30] His reports also appeared alongside those of other experts in publications issued in 1905 by the Department of Commerce and Labor. This document included a table of information collected by Hester. One table shows net receipts of cotton deliveries from ports across the country, including New York, New Orleans, Savannah, and San Francisco. Another table includes the production and consumption of cotton from 1880 to 1905, broken down into North and South, showing that a person could recognize that during this time, cotton production had more than doubled in the South and that annual consumption had increased by about one million bales in the North and by about two million in the South. [31]

Hester's testimony in periodicals around the time of his retirement portray him as a man whose methods were ahead of his time in terms of objective financial reporting. To maintain the integrity of his reports, Hester barred any of his employees from holding interests in cotton, including owning a single bale. The sources that informed Hester's reports provided actionable information for traders, and being the first person to see the compiled numbers put the Colonel and members of his office in an advantageous position as informed insiders.[32] In an interview with Rose Lee Martin of the *Houston Post*, Hester

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30 Hester, "Annual Report on Cotton Corp of the United States," *Cotton Year Book*. Ed. C.B. Griffith, 1923. Williams Research Center, New Orleans, Louisiana.

31 North, S.N.D. *Commercial Valuation of Railway Operating Property in the United States*: *1904*. Washington, 1905. Government Printing Office. P 14-15.

32 By "insider," I mean to describe the current understanding of the word: illegally trading securities based on material, non-public or proprietary information available to the trader through his or her position within a company. A famous example of insider trading is the case of ImClone Systems, wherein numerous executives at ImClone sold their stock in the company just prior to revealing that the company had failed to get FDA approval for a much-anticipated drug. An investigation by the Securities and Exchange Commission

opines that acting on the information available to him, he and his employees "…could have been millionaires… and we aren't millionaires. But we have our honor." He claimed to have never owned a bale of cotton in his life, or never to have had financial interest in the trade beyond the salary he collected for his position.[33] Thus, well before the Securities Act of 1933, which barred insider trading, Hester recognized the impropriety of acting on non-public information and avoided the appearance of conflicted interests all together.

However above reproach Hester's office may have been to critics of commodities trading, his integrity did not go unquestioned. During a 1914 investigation by the Senate Committee on Agriculture, Senator Smith of South Carolina questioned Hester's numbers by implying the Colonel had financial interest in the Lancashire mills in England. It is not clear from his testimony what prompted this accusation, but Smith meant to question the reliability of the information that Hester had provided in his reports. Shortly after his testimony, Senator Ransdell of Louisiana encouraged Smith to recant and later in the proceedings, Smith would apologize for the misunderstanding in front of the committee stating that, "It is a fact that the world does accept Mr. Hester's statement as being official, as he is looked upon as the statistician for the cotton interests of the world." There is very little to suggest that Smith's implications about Hester's financial interests were accurate, but the episode does illustrate Hester's reputation as a man above reproach and an

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resulted in the arrest of numerous ImClone executives, as well as Martha Stewart, who sold her stock in the company after being tipped off by her broker.

33 Martin, Rose Lee. "Colonel Henry G. Hester… Grand Old Man of Cotton." *Houston Post*. April 24, 1934. Williams Research Center.

authority on cotton statistics. In addition, it shines light on a relationship between Hester and his congressional representation.[34]

To make sense the numbers Hester provides as actionable information for traders, one must understand the politico-economic situation in the United States, and the implications for the South's economy. Natalie Ring illustrates how the production of cotton as a major cash crop in the post-war South posed problems for the region's long-term stability. Treating cotton as the South's major source of economic growth intertwined the regional economy with commodity pricing that was subject to wide fluctuation resulting from circumstances that were mostly out of anyone's control. Unpredictable levels of rainfall could significantly alter the amount of cotton produced, making projections difficult. Devastation brought by insects could ruin an entire years' crop. These unpredictable circumstances usually resulted in bringing cotton from the previous year's crop to the market, which had devastating effects on cotton growers seeking to gain the highest price to repay debts accumulated throughout the year. To combat the perception of cotton as an unreliable source of economic growth, boosters appeared throughout the country whose purpose it was to promote the business of cotton as a viable form of industry. While there is much literature on cotton boosters in the United States, little analysis has focused on individuals like Hester, whose business it was to provide hard facts about the cotton industry while promoting the crop as a viable basis for regional economic growth.

By the 1920s, Hester's expertise was well established within the community of cotton businessmen. During times of crisis, the Board of Directors of the New Orleans

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34 *Henry G. Hester Cotton Exchange Scrapbook*. 2008.0001.21. Williams Research Center, New Orleans, Louisiana

Cotton Exchange would call on the Secretary to instill confidence by publishing a report about the existing conditions. One such panic in the summer of 1920 threatened to see cotton prices fall off of the chart, and mills "throwing over-board" their supplies of nearly worthless cotton. The price per bale of cotton had dropped nearly 48 percent between August and October, resulting in a prevailing fear among "Southern Producers" that the price of cotton would fall below production costs. Upon hearing the fears of producers, cotton mills in Europe and the United States began flooding the market with stock supplies of lint cotton in hopes to sell their stocks, further intensifying the drop in price. Hester referenced Census Bureau statistics and described a decrease in stock supplies in Europe and the United States of about 788,000 bales between July 31st and October. In other words, in a span of three months, mills that had strategically held excess stocks of cotton staples in order to maintain steady pricing had brought twenty seven percent of that excess to the market, where demand was already falling. The original drop in demand expressed by producers compounded with excess stocks flooding the market threatened a panic, wherein the price of cotton would continue to drop until producers and mills regained confidence and resumed storing cotton staples.[35]

The Board of the Directors at the Cotton Exchange responded by issuing a report, authored by Hester, in which he argued for the stability of long-term demand. Recalling a similar panic from 1914, when cotton prices fell during the outbreak of the first World War, Hester reasoned that just as in the past, markets in Europe would continue to buy cotton and that mills should not be overly concerned with carrying over cotton supplies to the next year.

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35 Hester, Henry G. *Cotton Situation*. October 20th, 1920 and October 14th, 1926. "Explains Fall in Cotton," *New York Times*. October 21, 1920. 29

> "War or no war, the world needed our cotton and that if the channels of trade were blocked for a time, a way would be found to open them in the near future…Why then should we after four seasons in which our raw cotton… had exceeded in value seven billions, nine hundred and seventy millions of dollars, balk at carrying a few million bales pending a temporary lull in demand."

Prices would stabilize by the end of the year, and there is no way to measure the effectiveness of Hester's remarks. Still, it is clear from the Board's issuing of the report that they believed by informing participants in the market of the real conditions of cotton crop they could prevent a panic. They would issue a similar report in October of 1926, when rumors of increased supply again caused mills to slow their buying while waiting to see how far prices would drop. In the latter report, Hester urged producers to hold their prices steady, at which time he predicted mills would resume normal purchasing.[36]

Hester and Politics

Hester's role within New Orleans politics reflected a wider set of political norms throughout the country, as voting rights were extended to larger parts of the population. More voters meant a new political machine in American cities. After Jacksonian Democrats expanded the voting rights of white men in the 1830s, organizations began popping up to direct the political will of newly enfranchised voters.[37] In New York during the 1850s, William M. Tweed, the "Boss" of the Tammany Hall political machine, mobilized the votes of Irish Catholics as his base for political capital and successfully positioned himself and his society of Democrats as brokers of power in the city. Similarly, the Choctaw Club in New Orleans represented the interests of businessmen and powerful citizens, while deriving its power from a broad base of supporters in the community. Machine politics functioned as a

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36 Hester, Henry G. *Cotton Situation*. October 20th, 1920 and October 14th, 1926

37 For more on Jackson and white populism during the 1830s, see Baptist, Edward E. *The Half has Never been Told: Slavery and the Making of American Capitalism. 218*-219, 224-229

hierarchical system, distributing power in exchange for political support, most often in the form of delivering voters to the polls. While the organization promoted nefarious operations including gambling and prostitution in Storyville, the Choctaw Club's level of corruption did not rise to that of Tammany Hall's, an organization whose most notable leader died in prison after being convicted of corruption. Hester's membership in the Choctaw club, however, gives evidence to the important social and political connections associated with his position within the New Orleans business community.

Locally, the Choctaw Club's members represented the higher echelons of New Orleans politics and business. Listed among its ranks were individuals with social and professional prestige, such as Henry C. Ramos (proprietor of the Sazerac Bar), Louis Grunewald (developer of the Roosevelt Hotel), and multiple port and railroad presidents. Among its politically minded operatives, the organization included U.S. Congressmen, judges, police commissioners and countless attorneys.[38] These relationships provided more than simple comradery or social superiority, as local organizations became a central connecting point between business and politics in the city. This symbiotic relationship delivered to businessmen fast-tracking for their interests throughout the city, and for politicians, a group of socially prominent individuals to mobilize Democratic voters in the various neighborhoods throughout New Orleans. This *quid pro quo* relationship characterized much of the city's business community. Hester was one of the many important businessmen throughout the city who prompted the strong relationship between the Democratic political machine and the business community.[39]

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38 Haas Edward F. *Political Leadership in a Southern City: New Orleans in the Progressive Era, 1896-1902*. (Ruston: McGinty Publications, 1988), 137-155.

39 Hass, 76-77

Correspondence authored by Hester on behalf of the Exchange shows that the institution frequently involved itself in local, national, and international politics, especially when politics interfered with business. After the armistice of World War I, cotton businessmen were concerned over their inability to easily extend credit to European merchants, a practice that had been central to the business of cotton at the time. In a telegram sent to Senator Ransdell in 1919, the Board of Directors at the Exchange implored Congress to act swiftly in coming to a settlement in peace negotiations with post-war Europe. "While the war is over, the country and especially the cotton section is in many respects suffering the same as if war actually existed… pending a condition of peace, and the establishment of a known basis for the continuance of international trade, no adequate credit plans can possibly be established."[40] Ransdell was a frequent recipient of lobbying efforts on behalf of the Exchange, including a telegram calling for the expatriation of labor radicals, as well as one calling for opposition to trade restrictions proposed by the U.S. Department of Agriculture. Thus, in addition to their role at the Exchange, cotton businessmen in New Orleans actively pursued issues that crossed over into politics when such issues affected their business.

A challenge in writing a history of the industry in New Orleans from the records of a financial institution comes in attempting to reconcile the rise of the New Orleans Cotton Exchange and the prosperity of its members with the farmers, sharecroppers, and laborers directly involved with producing, moving, and shipping cotton. Despite the fact that the problems of an agriculturally based economy in the South were widely reported by commercial journals throughout the post-Civil War period, cotton farming remained a

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[40] New Orleans Cotton Exchange Records, 652, Louisiana Research Collection, Tulane University, New Orleans, La.

widespread way for small farmers to make money, and much of the population in the South dedicated increasing amounts of land to growing the cash crop. In addition, the industry relied upon workers to work the cotton presses and load shipments from the interior onto boats for export to the North and European markets. By the turn of the twentieth century, a progressive labor movement was in full swing, calling for higher wages and better working conditions. While the every day correspondence of the Cotton Exchange leaves little to be said about a worker's experience, aside from numerical tabulations and predictions about how strikes may affect output, a few times the leaders of the Exchange acted unanimously to admonish labor movements. In one telegram sent on behalf of the Board of Directors and the Exchange President, Hester writes a scathing rebuke of the Industrial Workers of the World:

> The Congress of the United States should immediately enact a law providing for the summary deportation of every alien in this country who is a member of the I.W.W, or any other organization of like teaching and tendency and the said law should provide for the immediate cancellation of the citizenship papers of any naturalized citizen who shall affiliate with any such organization.[41]

Anti-IWW rhetoric in New Orleans echoes broader movements against organized labor throughout the United States at the time.[42] The labor group's intersection with textile mills was becoming palpable as early as 1912, with the strike of workers in Lawrence, Massachusetts, as well as the 1913 silk strike in Patterson, New Jersey. While mill workers became increasingly marginalized by new technologies at the turn of the twentieth century,

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[41] Hester to Jos. E. Ransdell. December 20, 1919. New Orleans Cotton Exchange Records. 652, Box 1, File 3, P 146. LaRC, Tulane University, New Orleans, La.
[42] Violent reaction against laborers associated with the IWW spanned a wide array of industries. In July of 1917, striking mine workers in Bisbee, Arizona were rounded up by a deputized posse of citizens and illegally deported to Mexico because of alleged associations with the IWW.

anti-capitalist sentiment rose among minority workers not embraced by organizations like the American Federation of Labor. These workers became intrigued with the radical rhetoric of the IWW, and the rising number of members in such organizations had tangible consequences for industry leaders. In July of 1917, local authorities acted against striking mine workers in Bisbee, Arizona by deputizing a posse of citizens who then rounded up and deported 2,000 individuals alleged to have associations with the IWW. As Hester neared retirement, the Southern United States experienced a marked growth in the number of cotton mills, a huge part of the industrial labor in the region. Hester's rebuke of the IWW, on behalf of the board of directors, demonstrates the Exchange's entanglement in national issues of labor and culture, and episodes such as the deportation of striking mine workers in Bisbee, Arizona, demonstrate the measures some community leaders were willing to take to protect productive industries, whose corporate profits were being threatened by what they framed as anti-American views.

Hester's Retirement

Hester would continue to operate as secretary and superintendent of the New Orleans Cotton Exchange until his retirement at the age of 86. *The Houston Chronicle* said of Hester, upon his retirement in December of 1932, "before the United States government began to issue its estimates of the American crop [cotton], Hester's figures were accepted as authoritative the world over." According to the article, Hester's reputation throughout the international community of cotton business people was once demonstrated when a Japanese admiral visited New Orleans and immediately said he "would be highly honored to meet one of [the city's] citizens, 'a man greatly admired and respected in my country. I refer to Mr. Hester.'" [43]

A London publication entitled *The American Syren and Shipping* has Hester as a member of the Progressive Union League, honorary member of the Naval Battalion, and belonging to the Boston, Pickwick, Merchants', Young Men's Gymnastic and Choctaw club.[44] Upon his retirement, Hester received a cablegram from Norman L. Cappel, president of the Liverpool Cotton Exchange that read, "On behalf of members of the Liverpool Cotton Association may I offer you our sincere congratulations on your distinguished career as secretary of the New Orleans Cotton Exchange for such a long period… Your name for years to come will be recognized as one of those who have been famous in the world of cotton and although only few of our members have met you personally we feel that during your term of office you have shown yourself to be a man of wide views and friendly feelings to this and all other cotton exchanges with whom you have corresponded. May years of good health and enjoyment follow your retirement." By the time Hester retired in 1832, his family owned a Jefferson Avenue home along the boundary of the prestigious fourteenth ward of New Orleans, valued at $25,000.[45]

Conclusions

In his memoir, *The Age of Turbulence*, Alan Greenspan recalls where he was during the collapse of the American housing market in 2008. Flying back to New York, the former chair of the Federal Reserve of the United States contemplated the long-term consequences of the financial meltdown, while formulating a strategy to calm markets upon his arrival.

43 *Hester Scrapbook*
44 ibid
45 U.S. Census Bureau. New Orleans, Ward 14, Orleans, Louisiana. 1830.

He explains that prior to addressing the public on "just what the hell was going on that week," he understood how his words might affect investors' behavior, possibly exacerbating an already calamitous situation. He admits that despite his comparatively optimistic address, privately he had deep concerns over how difficult economic recovery would be for the country. The parallels between such an influential figure as Mr. Greenspan and Colonel Henry Hester are that both men (and the people they represented) understood how their words could influence the business cycle. Thus, a point can be made about Hester's character of authority, his speaking to farmers, brokers, and manufacturers in order to calm the market during times of crisis. As fields such as finance and economics become bogged down with jargon and empirical analysis, it is important to acknowledge the role played by individuals in shaping the behaviors that contribute to how markets function.

In terms of New Orleans's rise and fall as an entrepot for exporting raw cotton, when placed in an international perspective, the city was simply one of the first institutions to lose influence during a sequence of events that moved cotton production from the United States and Europe first to peripheral nations and eventually into low-wage economies like China, where production remains today. In a sense, arguing that New Orleans fell from its place in the cotton empire assumes that it logically occupied such space to begin with, as opposed to being part of a broader economic empire artificially constructed through colonial exploitation. Broadening the scope of Marler's analysis by only a few decades demonstrates that the fall of New Orleans as a central metropolis for cotton exporting is emblematic of larger changes in the shape of the global cotton empire.

Even in its fall from grace, the New Orleans business community was, ironically, ahead of its time.

The argument proposed by Woodward and Woodman appears to be more nuanced than a case of Northern businesses usurping economic power in the South. While there was a contradiction between the poverty experienced by rural farmers and the prosperity of traders on the exchange, one can see when reviewing the career of Henry G. Hester that Southern businessmen were active participants in constructing and maintaining the financial methods that appeared at the end of Reconstruction. As Woodward argues, large plantation owners continued to receive most of the profits from growing cotton while smaller farmers fell into debt, thus perpetuating a socioeconomic structure with the same planter families at the top of the hierarchy. However, Hester's rise to prominence at the New Orleans Cotton Exchange is emblematic of a new class of experts that influenced how cotton was financed, traded, exported, measured, and analyzed.

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Vita

Joshua E. Lincecum was born in Metairie, Louisiana. He obtained his Bachelor's degree in history from Southeastern Louisiana University in 2010. He joined the University of New Orleans history graduate program to pursue a MA in history, where he assisted in teaching American and world history.