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THE CO-OPERATIVE TOWN COMPANY OF TENNESSEE:
A CASE STUDY OF PLANNED ECONOMIC DEVELOPMENT

By J. FRED HOLLY

I

The period from the Civil War to around 1900 in southern history can be classified as an era of industrial promotions. Both "home grown" and northern enterprisers were recognizing the potentialities of the South and practically demanding the industrialization of the area. As a result of these activities many individuals and companies came to the South intent upon exploiting the resources of the region. These promoters usually purchased large tracts of land, made some improvements thereon, attempted to bring industries into the region, encouraged immigration, exploited local resources, and tried to sell their real estate at enhanced values, thereby deriving a profit from their activity. By 1890 Tennessee was the possessor of several such enterprises, and in the latter part of that year became the location of what was perhaps the most unique land company venture in the South.¹

In the fall of 1890 a group of influential politicians and businessmen, under the leadership of an Englishman, Robert P. Porter, organized a land company known as The Co-operative Town Company of Tennessee. This group, believing that the resources of the South could be exploited, decided to come to the region and share in the process of development. Porter had worked with the Tenth Census and served as superintendent of the Eleventh Census and the following statement is indicative of his conclusions on the trends portrayed by those studies:

Labor, capital, enterprise, energy, and all that goes to make up the substantial elements of industrial progress will flow southward in a mighty stream during the next decade. Great as the story of the industrial progress unfolded by the Eleventh Census reads, the Twelfth Census will have far more remarkable facts to chronicle about these Southern States.²

¹ A check of advertisements in one East Tennessee newspaper of 1890 revealed that at least eight land companies were in operation in East Tennessee alone in that year. Among the most notable were those at Harriman and at Cumberland Gap. William F. Donovan, Jr., "Real Estate Speculation at Cardiff and Harriman, 1890-1893," *Tennessee Historical Quarterly*, XIV (September, 1955), 253-56; Robert L. Kincaid, *The Wilderness Road* (Indianapolis and New York, 1947), 312-46.

² Robert P. Porter, "The New South," *Watanga Valley News* (Elizabethton, Tennessee), January, 1892.

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The promoters petitioned the Tennessee legislature for a charter of incorporation which was granted December 22, 1890. The charter states that the newly incorporated body was formed for:

The encouragement of immigration by facilitating the negotiation of sales of real estate to immigrants. . . . The said company is authorized to buy and sell real estate either on commission or as owner; to purchase large tracts of land, and sub-divide the same for purposes of sale; to negotiate loans on real estate for other persons, or for the corporation; to make contracts for furnishing labor to parties desiring the same; and generally to do all things as agent acting between buyer and seller as may have a tendency to introduce labor, capital or population into the State, and to sell, rent and exchange real estate on commission.³

Upon receipt of the charter the men interested in the venture met and completed the following organization:

President	Robert P. Porter
Vice President.....	Louis E. McComas
Second Vice President.....	S. M. Johnson
Treasurer.....	Alexander T. Britton
Secretary.....	Charles W. Adams
Resident Manager.....	Harry T. Cook
General Counsel.....	L. L. Carlisle
General Agent.....	D. Preston Parr, Jr.

BOARD OF DIRECTORS

Hon. John G. Carlisle.....	U. S. Senator from Kentucky
Hon. Isham G. Harris.....	U. S. Senator from Tennessee
Hon. H. C. Hansbrough.....	U. S. Senator from North Dakota
Hon. Robert P. Porter.....	Superintendent of the Census
Hon. Benjamin Butterworth.....	Secretary and Solicitor General of the World's Fair
Hon. Louis E. McComas.....	Ex-member of Congress (Maryland)
A. T. Britton.....	President, American Security and Trust Company, Washington, D. C.
S. M. Johnson.....	Manager, Southern Building and Loan Association
Augustine Davis.....	Manager, <i>National Journalist</i> , Chicago
B. A. Jenkins.....	President, Tennessee Coal Mining Company
William T. Love.....	Resident, Elizabethton, Tennessee
	Offices: Elizabethton, Tennessee; Knoxville, Tennessee; Washington, D. C.; New York City; and London, England. ⁴

When the organization of the company was completed, the leaders of the enterprise began looking for a suitable location for their proposed town. After inspecting over thirty sites in East Tennessee alone, the promoters agreed that the ideal spot for their enterprise was Elizabethton,

³ Charters of Incorporation (Office of the Register of Deeds, Knox County, Tennessee), Book 110, p. 105.

⁴ Taken from a prospectus published by The Co-operative Town Company, 1892. It is interesting to note that only one member of the organizing group was listed as a resident of Elizabethton.

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which was located in the Watauga Valley in upper East Tennessee.⁵ The incorporators listed a dozen advantages of the location as follows:

First, it is the center of the Bessemer steel ore region of the South.

Second, it is the most beautiful town site in a section of East Tennessee beginning at Bristol and ending beyond Johnson City and Embreeville, which is bound to become the great steel producing region of the South.

Third, the surrounding country abounds in iron ore that must be obtained in order to supply 18 large modern blast furnaces in the mineral belt, some of which cannot go into blast until the Bristol, Elizabethton, and North Carolina Railroad to Doe Mountain is completed. Every ton of this ore and of Cranberry ore must pass through Elizabethton.

Fourth, it is advantageously located for railroads.

Fifth, the site is well adapted for economical grading and laying out and is easy for railway access.

Sixth, it has an abundant water supply and a water power for manufacturing purposes and for electric power unequalled in any city in the South.

Seventh, excellent natural drainage, pure air, and superb climate.

Eighth, plenty of room for a large, handsome, well-planned town, such as The Co-operative Town Company proposes to build.

Ninth, positively the best sites in the South for the establishment of diversified manufacturing. Good water, cheap coal, coke, and pig iron and splendid distributing facilities North, South, or West.

Tenth, an opportunity to grasp the entire trade of the long and fertile Watauga Valley, in which the Bristol, Elizabethton, and North Carolina Railroad is being pushed eastward and southward through the newly developed valley to Erwin and Embreeville.

Eleventh, the most picturesque spot in all the South to build cheap and beautiful homes for comfort and for health. The town-site abounds in numerous advantages for workmen's homes. There is abundant limestone and fine granite quarries.

Twelfth, a surrounding country that is rich in all agricultural products and inhabited by a sturdy, honest, thrifty population eager to do their share in developing the wonderful resources of this magnificent valley.⁶

The above listed advantages of the townsite emphasize that the promoters placed heavy reliance upon the mineral resources of the area. While the promoters described the location as a beautiful, well-watered, and fertile valley, their statements were eloquent only in relation to the rich and abundant mineral resources abounding in the region. The directors of the Town Company and several geologists repeatedly

⁵ In 1890 Elizabethton, the county seat of Carter County, was a small town possessing a population of 734.

⁶ Taken from a prospectus published by The Co-operative Town Company in 1892. Lack of historical interest is shown by the omission of any reference to Elizabethton and the Watauga Valley as the "birthplace of Tennessee," the site of the first permanent white settlement.

expressed the opinion that Elizabethton was to become the "Pittsburgh of the South." Since this period antedated the rise of Birmingham, Alabama, as the "Pittsburgh of the South," and since mineral resources were abundant in East Tennessee and the surrounding territory, there was some justification for the belief that Elizabethton could become a steel manufacturing center. The means for attaining this hope were outlined in several company reports, all of which emphasized the following factors.⁷ First, the finest Bessemer ore in the nation at the time was being mined at Cranberry, North Carolina, a distance of some thirty miles from Elizabethton. Cranberry, located in the mountains of western North Carolina, possessed a much higher altitude than that of the Watauga Valley. Since the only railroad outlet for this section of North Carolina passed through Elizabethton, the conclusion was drawn that almost by the operation of the force of gravity, iron ore could move from Cranberry to the townsite, thereby minimizing the cost of transportation. Similarly, in the mountains of southwestern Virginia, some eighty to ninety miles from Elizabethton, an abundant supply of bituminous coal suitable for the making of superior coke was available. Transportation facilities then in existence could move this coal to Elizabethton at a minimum cost; (again, the beneficent influence of the force of gravity was stressed). Third, at least eighteen blast furnaces capable of supplying pig iron to a large steel mill were in operation in the vicinity. Fourth, the region possessed all the necessary minerals complementary to the process of steel manufacturing. Fifth, the abundant labor supply and the excellent climate were favorable conditions. Finally, low freight rates were held to be possible between Elizabethton and the steel consuming areas of the nation. Henry B. C. Nitze, a metallurgical engineer and assistant state geologist of North Carolina, concluded his report on the townsite with the following statement:

In conclusion of this section, I wish to dwell upon the most important fact that here in the East Tennessee Valley, between the famous Cranberry zone of iron ore and the rich coking fields of Southwest Virginia and Kentucky, Bessemer steel can be manufactured at a lower cost than in any other district of the United States. . . . Estimating the average cost of converting the pig iron into steel rails at \$10 per ton, we have less than \$22 per ton for total cost of making steel rails which will control the supply of the Southern markets . . . the primary

⁷ These reports were published in one volume as follows: The Co-operative Town Company, *Preliminary Prospectus of the Town-Site, Iron Ore, Granite, and Timber Lands Purchased by The Co-operative Town Company* (Elizabethton, 1891).

development therefore will be iron ore, but steelmaking will follow, and here the company hopes to locate one of the newest and best equipped plants in the South; also a paper mill for the higher grades of paper; also a number of smaller plants.⁸

While it is evident that the promoters considered their major purpose to be that of building a manufacturing town, the significance of this fact can be fully appreciated only if two additional factors are considered. The building of a steel center was not the ultimate objective of the enterprise; in reality it was a means to an end—the very tangible end of real estate profits. The co-operators relied solely on real estate profits for their reward and they held that the attraction of industry to the townsite was the ideal way to enhance the value of their real estate holdings. Secondly, it must be noted that the enterprisers had no ambitions to make their town an ideal community as the word co-operation in the company title would seem to indicate. Rather, their undertaking was a strictly capitalistic venture which employed widely held stock as a means of attracting capital. The following statement emphasizes this fact:

The central idea of the company, and in this respect it differs from all other enterprises of a similar character, is co-operation. This co-operation is attained by distributing the shares of the company in small holdings to individuals throughout the United States, thus interesting thousands of wide awake business men in the enterprise, all of whom may be counted upon to advertise and work for the development of the town in which they have become interested. Subscriptions for less than five shares of stock will not be accepted, nor will the company issue more than 500 shares to any individual holder, the idea being to distribute the stock as widely as possible.⁹

II

The promoters of the Town Company initiated a program of intense activity shortly after selecting the site of their proposed industrial city. Stock sales and promotion, land purchase, town surveying and planning were accompanied by an intensive advertising campaign directed toward prospective stock subscribers, immigrants, and indus-

⁸ *Ibid.* The only railroad operating through Elizabethton in the early 1890's was the East Tennessee and Western North Carolina Railroad, which was chartered by the Tennessee legislature, May 24, 1866. It had been completed from a junction with the East Tennessee, Virginia and Georgia (now the Southern) at Johnson City through Elizabethton to Cranberry, North Carolina, by July 3, 1882. All the ore movements from the Cranberry ore mines then passed through Elizabethton to the blast furnace operations located in Johnson City. William G. English, Jr., "The ET and WNC Transportation Company or The Evaluation of Transportation Facilities Within a Company" (unpublished Master's thesis, The University of Tennessee, 1955), 16-33.

⁹ *Ibid.*

trialists. Company prospectuses, newspaper articles, and other written materials were generally concerned with the entire range of proposed undertakings.

In January, 1892, the first issue of the *Watauga Valley News*, "A Journal of Southern Industrial Progress," was published in Elizabethton. The editors attempted to convince the reading public that there was an absence of affiliation between the *Watauga Valley News* and the Town Company. Since the president of the company and one of the company directors were editors of the newspaper and since its early issues were devoted entirely to the activities of the Town Company, there is little doubt that the newspaper was created for the sole purpose of serving as the voice of the Town Company. Articles in the *News* dealt with the superior resources abounding in the region, the honesty, reliability, and sound judgment of the company promoters, the advantages of purchasing stock in the enterprise, and the prospect of attracting immigrants and industrialists.

Further to advertise the co-operative venture, stock salesmen made house-to-house contacts, attempting to sell company stock and induce immigrants to move to the townsite; this activity was carried to its fullest development in the area from Kentucky and Virginia north and into the Mid-West. The chief burden of advertising the development, however, was placed upon the stockholder. President Porter was emphatic upon this subject:

I must emphasize the idea I have attempted to impress upon you—the idea of cooperation and help from our stockholders . . . Let every man who leaves this town this week take with him a bundle of literature to study upon his trip home, and when he gets there tell about Elizabethton, and keep on telling about it until every share of stock in series "C" is sold and enough lots are disposed of to cancel the indebtedness of this company and carry out its policy.¹⁰

Previous consideration has been given to the importance which the company officials placed upon industrialization, holding it to be a means for obtaining real estate profits. The promoters were well aware of the advantages of industrial diversification and, accordingly, stressed the superiority of the townsite for the following industries: textiles, wood-working, iron and steel, lumber, pulp and paper, tanning extracts, mar-

¹⁰ Address of The Honorable Robert P. Porter, President, to the Stockholders of the Co-operative Town Company, Second Annual Meeting, Elizabethton, Tennessee, April 13, 1893 (pamphlet), 10-11.

ble and granite mining, truck farming, and canning. The enterprisers also established certain policies which were primarily concerned with the attainment of the company objective; an understanding of these is basic to any evaluation of the efforts of the co-operators. These policies can be summarized in relation to the following: land purchase and improvement, immigration, financial promotion, attraction of industry, the relation of the company to city government, and the sale of land.

Various claims were made concerning the amount of land to be purchased by the company, the more common being that the intended purchase would total 5,000 acres of townsite land and 15,000 acres of mineral, timber, and farming tracts, making a total of 20,000 acres. Favorable tracts were brought under option and upon approval of the directors, the tracts were purchased. These purchases usually took the form of a small cash payment and a note secured by mortgage for the remaining sum of the purchase price. All land purchases were to be paid out of receipts from the sale of the corporation's capital stock.

The town plan was completed in the early part of 1892 and was very indicative of the optimism of the company founders, for Broad Street, the main thoroughfare of the proposed city, was planned to extend eastward up Watauga Valley for a distance of six miles. While detailed information is meager on the subject of improvements to the townsite, the data which are available seem to indicate that the company policy was rather general and would develop only as operating funds become available.

The corporate charter placed chief emphasis upon the encouragement of immigration to the townsite, and company advertising never failed to consider the immigrant. This advertising claimed that the climate of East Tennessee was the most healthful in the United States; the mild temperatures afforded a low cost of living, since fuel, construction, and clothing costs and requirements were at a minimum; co-operation would give industrial and civic peace and contentment together with a profit over and above normal wages; and the venture-some would find an ample opportunity to pioneer in the development of a new type of community. The enterprisers hoped to attract "people of quality and spiritual character" by prohibiting "any business or traffic in any vinous or spiritous malt or intoxicating liquor or any liquor whatever"; yet, the region was described as "a land flowing with milk

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The promoters often stressed the development of an ideal community; yet all available literature fails to indicate that they were interested in creating a Utopia in Carter County. Apparently, the only significance attached to the co-operative program was that it gave the company a novel slogan. It appears that the word co-operation had little more significance than the accepted meaning of a corporation with widely held stock.

The Co-operative Town Company had access to three primary sources of income: sale of capital stock, sale of real estate, and sale of franchises and services. The general agent of the company developed a fine art of propaganda to promote sales of capital stock. In addition, the company sold its stock on an installment purchase plan which was widely publicized. While all series of capital stock carried a par value of \$100 per share, Series A stock sold for \$10 per share; Series B for \$25; Series C for \$40; and Director's stock for \$10 per share. These various amounts were to be paid in monthly installments extending over a twenty to forty month period. It was assumed that once the subscription price had been paid, the earnings of the company would be sufficient to account for the difference between the subscription price and the par value of the stock. The income from the sale of capital stock was to be applied on the land debt until such was retired; then all future income from the sale of stock was to be placed in a development fund. The central idea was to sell sufficient stock to permit the retirement of the land debt without recourse to borrowing.

The second primary source of company income was to be derived from the sale of company owned real estate. The income realized from this source would be used first as a development fund for physical improvements and the attraction of industry. Once the development fund had become adequate, further income from land sales would be used to pay up the capital stock from its subscription price to the par value; then additional sales would result in cash dividends. Techniques for selling land included advertising, salesmen, the individual efforts of the co-operators, and similar techniques to those used in other development efforts. It is impossible to overestimate the importance attached to the company's real estate operations, for in the final analysis the pro-

motors could make a financial gain for themselves only if they were able to sell their real estate at enhanced values and develop various public utilities. In essence, the Town Company's chief purpose was that of a large real estate concern. Co-operation and industrialization were not considered ends in themselves but only as means to the very tangible end of real estate profits.

The industrialization of the Watauga Valley was basic to the overall program of The Co-operative Town Company. To attract industry the enterprisers adopted a five-fold program featuring financial inducements, cheap power, co-operation, low freight rates, and available labor. No clear-cut statement of company policy was made relative to the granting of financial inducements to promote industry, but isolated references indicate that they were to include land grants, building aids, bonuses, and tax exemptions. The furnishing of cheap power to local industries involved the construction of a proposed "Watauga Valley Dam and Canal." Another inducement to industrialists was the promise of low freight rates on the railroads entering Elizabethton; the promoters not only emphasized the adequacy of existing and "assured" rail service but they reasoned that the presence of competing railroads would bring low freight rates. While the company stressed as an attractive feature the co-operative ownership of industry, President Porter stated:

I have ignored all industries brought by promoters and all schemes in which the projectors had not the necessary capital to carry them through. We have dealt only with first-class, reliable, energetic, progressive firms possessing gumption to start enterprises that they know all about and which they were capable of making successful.¹¹

It has been impossible to locate a specific reference to the relations between the Town Company and the city government. The promoters acted as though they were the local government and since the city had not advanced beyond the stage of providing mere police protection, it is reasonable to assume that the Company officials would find domination easy.

III

The land purchase policy of The Co-operative Town Company was inaugurated early in 1891. By March 31, 1893, when the purchase of land had been completed, 8,000 acres had been acquired at a purchase

¹¹ *Ibid.*, 3.

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price of \$425,699.18—an average of \$53.21 per acre.¹² An analysis of the deeds covering these transactions indicates that the typical down payment was one-fourth of the purchase price. As of July 31, 1894, a total of \$289,304.88 had been applied on the land debt, representing a payment of 68.2 per cent of the total purchase price.¹³ It is doubtful that the land debt was ever reduced beyond this point, for later data indicate that interest charges on the debt were increasing more rapidly than the liability was being reduced. The land purchase program pursued by the officials of the Town Company was exceedingly optimistic in inception, and little apparent care was exercised either in the amount of land to be purchased or in the purchase price.

Following the purchase of the land, a program of physical improvement was started. On April 14, 1892, ground was broken for the grading of streets. The original plan called for the grading of six of the proposed principal streets of the new city. Actually little work was done, and developments were never expanded beyond the stage of street grading. The operating statements for 1892 and 1894 indicate that the firm expended \$35,019.91 for "improvements." There is no reason to doubt that this sum was expended for "improvements," but specific accomplishments do not warrant the conclusion that it was spent on physical improvements to the townsite. The writer is of the opinion that a large portion of this sum was spent as follows: ". . . negotiations were entered into with the promoters of the partially constructed Bristol and Elizabethton Railroad. Substantial financial aid was given to the company. . . ."¹⁴

To provide homes at reasonable cost to immigrants, the Company contracted for the construction of ten cottages. After title to one of the houses had been transferred to the Town Company all of the dwellings burned. Later the company erected nine small homes, but no further attempts were made to build dwellings for immigrants or to encourage others to do so. The company proposal to erect a 50-room hotel was undertaken in December, 1892, but this venture also failed, and the structure was never completed.

The officials of the Town Company were also unsuccessful in the establishment of co-operatively owned plants. Although they claimed

¹² *Watauga Valley News*, April, 1892.

¹³ *Address of the Honorable Robert P. Porter*, 27.

¹⁴ *Watauga Valley News*, April, 1892.

to possess a novel plan of co-operative ownership of industrial plants, it is doubtful that they were ever seriously interested in such a development. There are no references to any discussion of this plan with industrialists, and no co-operative industrial plants were established in Elizabethton.

Although the decade 1890-1900 saw the population of the town increase by 104.3 per cent (from 734 in 1890 to 1500 in 1900), this increase was small in comparison with what had been expected. Thus, the promotion was a distinct failure.

While it is impossible to determine the total subscription price of all stock which the Town Company planned to issue, it is apparent from extant records that the promoters planned to issue over 40,000 shares at a total subscription value in excess of \$700,000.¹⁵ Actual sales of stock were far below the anticipated volume. The final published operating statement of the enterprise revealed that the total subscription price on all subscribed stock amounted to only \$392,485 on July 31, 1894, and on the same date collections amounted to only \$350,721.31.¹⁶ Not only did the firm have difficulty in marketing its stock but it faced a prodigious task in collecting the subscriptions. On March 31, 1892, a total of 30,417 shares had been subscribed by over 1,600 individuals, and delinquent shares already amounted to \$42,450 in value.¹⁷ From March 31, 1892, to March 13, 1893, the total shares subscribed and in good standing declined from 30,417 to 27,785 despite the addition during the period of 1,126 shares of Series C stock and 5,280 shares of Director's Stock.¹⁸ In the period from March 13, 1893, to July 31, 1894, the subscribed shares in good standing declined by an additional 865 shares.¹⁹

Since the promoters planned to sell sufficient stock to retire the land debt of the Company, stock sales should be compared with land purchases. This analysis also clearly shows the inadequacy of stock sales since land purchases (\$425,699.18) exceeded capital stock sales (\$350,721.31) by \$74,977.87. The sale of capital stock at a price far below the assumed "paid-up" or par value of \$100 made possible the use of the watered stock device. In fact, on the basis of the 26,920

¹⁵ *Ibid.*, April, 1893.

¹⁶ *Ibid.*, August 18, 1894.

¹⁷ *Ibid.*, April, 1892.

¹⁸ *Ibid.*, April, 1893.

¹⁹ *Ibid.*, August 18, 1894.

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shares in good standing on July 31, 1894, it would have been possible to "write up" the company assets by \$2,341,279, the amount by which the par value exceeded the subscription price.²⁰

The board of directors of the Town Company refrained from initiating real estate sales until the beginning of the second fiscal year which began on April 12, 1892, after which they vigorously promoted the sale of company-held real estate, with unsuccessful results. From the aforementioned date to July 31, 1894, the firm succeeded in selling \$104,029.75 in real estate.²¹

The final and permanent source of company income was to be the sale of franchises and public utilities. Unfortunately, the company was never able to develop its policies into a program in this field of endeavor. The failure to attract immigrants and industrialists, together with the poor financial condition of the company, removed all possibilities of utilities' becoming a permanent source of revenue; thus, no attempts were ever made by the promoters to carry out their well planned program of utilities development.

Armed with the previously considered advantages of Elizabethton for industry, the company representatives expended \$12,096.56 in the first year of operations in "Locating Industries."²² Yet, the only interest evidenced in the concern by a steelman was shown in 1894 when representatives of a steel company of Johnstown, Pennsylvania, were searching for a plant location. Although the report of the steel company's engineers was generally favorable the firm did not locate in Elizabethton.

When it became obvious that the firm would be unable to bring large industries to the area, the company promoters concentrated their efforts in the latter part of 1893 and in 1894 upon smaller manufacturing concerns. By concessions which were never enumerated the Town Company succeeded in bringing a few exceedingly small industrial establishments to the town by the end of 1894. These concerns included a shoe factory, woolen mill, twine manufacturer, tannery, and three small planing mills; their combined total employment did not exceed 40. While it is quite true that the company had an excellent townsite and that the industrial potential of the surrounding region was great,

²⁰ The watered stock device was used at least twice: first, to create an "Undivided Profits" account of \$57,415.25 to cover a \$2.00 "book dividend" (1/31/93); and second, again in 1893, to overstate company assets by at least \$846,255.30.

²¹ *Watauga Valley News*, August 18, 1894.

²² *Ibid.*, April, 1893.

the financial panic of 1893, technological improvements in steel manufacture, the spatial isolation of the region from the large markets, and excessive regional freight rates combined to hamper the industrial development of the area.

By April, 1893, company obligations exceeded resources by \$59,830.05.²³ The failure to build reserves upon which the company could draw in hard times completely removed its chance of survival. For nearly two years after April, 1893, the company managed to retain title to most of its assets by appeasing creditors and by the sporadic introduction of rumors that new industries were coming to the region. Such activities, however, could not indefinitely postpone the inevitable demands of creditors that their claims be paid.

The directors found it impossible after March, 1895, further to delay the payment of many of the creditors, of whom some twenty-eight were pressing claims against the company in the amount of \$80,630.32.²⁴ The directors, being unwilling to see their enterprise succumb, bargained with the creditors and found that the claims in question could be satisfied temporarily by the payment of \$21,101. The directors borrowed \$15,000 on a mortgage from the American Security and Trust Company of Washington, D. C., and added thereto \$6,101 on their own account and paid this sum to the creditors. The payment of this sum postponed the collapse of the company for a few months, but by the end of the year it was evident that the organization was doomed to failure.

IV

In 1896, in an attempt to perpetuate their enterprise, the directors of The Co-operative Town Company obtained stockholder approval to transfer all company properties to an individual who had agreed to assume all liabilities of the enterprise. Immediately upon the completion of this transaction, the properties were in turn transferred to three trustees who adopted the name of the Watauga Land Company. In effect, the Land Company was nothing more than a front for the directors of the Town Company. The apparent purposes of the trusteeship

²³ *Ibid.*

²⁴ This figure and the data immediately following were taken from: *The American Security and Trust Company, et. al., v. John G. Carlisle, Henry W. Coffin and Charles P. Toncray, et. al.*, United States Circuit Court, Northeastern Division of the Eastern District of Tennessee.

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were to continue the company program until prosperity returned; to accumulate working capital; and perhaps to eliminate the claims of company stockholders. Although the trustees were vigorous in their attempts to sell stock and industrialize the town they met with little success; consequently the trusteeship endured a hand-to-mouth existence from the time of its founding in 1896 to 1901. In 1902 the directors of the former Town Company encouraged the American Security and Trust Company of Washington, D. C., to institute receivership proceedings in the federal courts against the trustees. Under the receivership, company-owned lands were sold and sufficient monies were obtained to pay the secured claims in full and to pay 10 per cent of the claims of the general creditors.

There were several reasons for the failure of the co-operative venture. First, the industrialization program featuring the development of a major steel industry never succeeded, partly because of technological advances which eliminated the favorable cost advantage of the area in steel production. Following these technological improvements, high grade ores were no longer required in the production of quality steel. Too, southern markets failed to develop; so the region did not become an effective sales area, and excessive freight rates virtually embargoed steel shipments to the North and West. Other factors contributing to the failure of the company were an inflexible industrialization program, an over-optimistic financial policy, a nation-wide business depression, a disastrous flood, and questionable action of some of the company officials.

It is doubtful that the direct participants in the venture gained anything; in fact, in the majority of cases these individuals sustained losses. On the other hand, Elizabethton and the surrounding area experienced several important benefits from the enterprise. The natural advantages of the region were widely advertised; business activity was increased and one permanent manufacturing plant was established; the spatial isolation of the area was reduced, and a town plan was developed which later served as a basis for the present physical layout of the city.