

CHAPTER III 11 caps

CONSOLIDATING NATIONAL COMMUNICATIONS 11 c.r.s.c. letter #

An essential part of the country's equipment for carrying on business on a nation-wide scale was the telegraph. Already in 1880 its receipts totaled over sixteen and a half million dollars. Of this amount thirteen millions were taken in by one company, the Western Union, which that year paid an eight-per-cent dividend.¹ The Western Union was the most nearly perfect franchise ^{undertaking} trust in the country. It had originated in a combination of more than fifty companies a few years before the Civil War.² The effect on the business had been immediate. Patents were pooled, duplications were cut out, and the service rapidly improved. In 1866 the company ^{had} moved its headquarters from Rochester to New York City. It continued to grow by the double means of absorbing competition and extending its lines. ←

In 1878, when Norvin Green was made president, the mileage of the Western Union was 76,955 with 194,233 miles of wires.³

¹Seventy-six other companies reported to the census. Their combined receipts amounted to less than \$4,000,000, of which \$1,500,000 went to a concern called the Atlantic and Pacific. U. S. Compendium of the Tenth Census (1880), pt. ii, 1310-1325.

²A. C. Cole, The Irrepressible Conflict (A History of American Life, VII), 7-8.

³President of the Western Union Telegraph Company, Annual Report for 1878, 8.

Green was an energetic Kentuckian who ~~had gotten~~ his start in life by helping to operate a floating grocery on the Ohio and the Mississippi; then ^{he} had turned successively to medicine and state politics, and finally to the telegraph business. As president of the Southwestern Telegraph Company he had been active in promoting the formation of the Western Union, becoming its vice-president. [¶] Great as was the organization over which he now came to preside, it by no means satisfied his ambition. He set out to make it a complete monopoly. [¶]

By 1881 two important competitors disputed the field with him: the American Union and the Atlantic and Pacific. Raising the Western Union's capitalization to \$80,000,000, he absorbed them both at a cost of \$23,400,000. Fifteen and a half million of the new stock was distributed as a dividend to the Western Union stockholders.¹ In carrying out this refinancing he was aided by Jay Gould.²

The contracts under which the company operated were of enormous value. Nine tenths of them ^{were with} ~~being upon~~ railroad routes. They ^{roads} not only conferred the right to put up poles and wires ^{along} ~~on~~ ^{their routes,} ~~railroad territory,~~ but they provided ~~for~~ free transportation ^{of} ~~for~~ men and materials. Moreover, nine thousand of the more than twelve thousand telegraph offices were ^{supplied} ~~furnished~~ ~~free~~ by the

¹ President of the Western Union Telegraph Company, Annual Report for 1881, 5.

² Appletons' Annual Cyclopædia, n.s., VII (1882), 119.

railroads. In return for these advantages the Western Union furnished free wire service to the railroads^{companies}. It was with reason that President Green said in the report of his stewardship, made in 1882, that by his renewal of many of these contracts, most of them for long terms, the "company has been greatly strengthened."¹

His success was no doubt a powerful factor in deciding the American Union and the Atlantic and Pacific companies to sell. This accomplished, Green told his directors, "Successful competition with your Company is improbable if not actually impossible." Stating that the company "has attained such magnitude and strength, that it is no longer necessary to buy off any opposition," he added, "Competition may be a popular demand, and it may be good policy on the part of your Company to indulge competing lines between the principal points. This would not materially interfere with remunerative dividends"² In 1883 the Western Union transmitted forty million messages over four hundred thousand miles of wire.³

The public did not view the completion of the Western Union's control of the nation's telegraphs with anything like

1 Norvin Green, President to the Board of Directors, Remarks, September 13, 1882 (n.p., n.d.), 3.

2 Green, Remarks, 5.

3 U. S. Senate Committee on Education and Labor, Report (1885), I, 186, 368-369, 961.

Green's satisfaction. It felt that, ^{though} while it received efficient service, both the profits and the rates were too great. As a matter of fact, the profits rose from about three and a half million in 1878 to over seven in 1882, but tolls per message were reduced by only seven tenths of a cent. Moreover, there was a widespread doubt ^{as to} ~~of~~ the wisdom of allowing private monopolistic control of an instrument so essential to the economic life of the country.

Irritation against the Western Union was increased by a spectacular strike.¹ At ten minutes past noon on Thursday, July 19, 1883, practically the entire telegraph operating force in all the cities between New York, New Orleans and Omaha, as well as many in Canada, left their instruments. The business of the whole country was seriously disorganized. The strike ~~gave~~ ~~the nation a~~ dramatic ^{ally} demonstration of the place the telegraph had assumed in the world of business. "The function of the telegraph in our highly organized commercial and social life," said Harper's Weekly, "has come to be as general and as important as that of the mail. In some respects it is even more of a necessity. . . . Not only is it an indispensable instrumentality in ordinary exchanges, but it is absolutely necessary for the safe and sure administration of the railways themselves."² The

¹ Senate Committee on Education and Labor, Report, (1883), I, 103-106; Nation (N. Y.), XXXVII, 68, 88, 108, 110, 127, 130, 132-133 (July 26, Aug. 2, 9, 16, 1883).

² Editorial, Harper's Weekly, ^{Wkly.} XXVII, (July 28, 1883), 467.

employees made out a good case. ^{for their action} "The company has shown in its dealings with the operators something of the same grasping and unscrupulous spirit that it has betrayed in its stock operations," said the editor of Harper's Weekly. This the public generally believed, but the company had the upper hand. Slowly the strikers saw that they were losing and, after a month, they returned to work.

If they had suffered the company had also suffered. It was held responsible for the strike because of ~~its~~ unfair treatment of its employees. This new source of resentment, added to the older ones, caused increasing demands that the telegraph should be taken over by the government or, if not, that there should be a governmental postal telegraph. The ^{demand for} ~~proposal~~ of one or the other began to appear in the programs of many protesting and reforming groups: the Farmers' Alliances, the National Grange, the Knights of Labor, the American Federation of Labor, the International Typographical Union, the People's party and the Prohibitionists as well as many boards of trade.¹ Bills for the establishment of a postal telegraph were submitted to Congress. By the end of the century seventy-five bills advocating such an adjunct to the post office had been introduced and seventeen different investigating committees had reported in its favor. But the movement ^{made} ~~got~~ no further progress.

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U. S. Industrial Commission, Report (Wash., 1900-1902), IX, 890-896.

Postmaster-General John Wanamaker argued the case for government ownership in 1892 in these words:

The mail and telegraph are the life current of business, and to a large extent of social life, and the private monopoly of either system must result in creating a preferred class, to which high rates may not be objectionable. The humbler citizen must do without. It was said long ago that the telegraph was a monopoly, and so is the postal system; but the difference is that one is operated for private gain and the other for public good. The Government follows a settler across the plains and into the mines and establishes a post-office, in order that his family may have letters and newspapers and be more content in a frontier home. The telegraph goes where it can find paying business only; and so it falls out that only a sixtieth part of the people of the United States, owing, not to the need, but to the inconvenience and charges, employ the telegraph. . . . The fact is that in some respects the telegraph seems to get farther and farther away as the capital and the power of the corporation increase.¹

To thinking people all this was obvious, but congressmen generally felt too beholden to the Western Union to take an action which it opposed. A member of the Industrial Commission, after hearing abundant testimony, declared, "A liberal use of the franking privilege gives the corporation power in legislation"; and he quoted a former president of the Western Union as saying, "The franks issued to Government officials constitute nearly a third of the total complimentary business."²

¹Quoted in testimony of A. L. Randall, U. S. Industrial Commission, Report, IX, 243.

²U. S. Industrial Commission, Report, XIX, 676.

Though the agitation failed to attain its major objective, it helped to stimulate competition ^{on the part of} ~~by~~ the few remaining independents. The company, operated as an adjunct of the Baltimore & Ohio Railroad, became so strong a rival that Jay Gould, now named ^{by} ~~A~~ press and public as the financial head of the Western Union, paid five million dollars for it and made a fifty-year contract for the use of its lines.¹ But the most active competitor was the Postal Telegraph Company which had charge of the land lines set up by the Commercial Cable Company.

The Commercial Cable Company, founded in 1883, was owned by John W. Mackay and James Gordon Bennett, editor of the New York Herald. In 1884 it had laid two cables ~~across the~~ Atlantic in competition with the transatlantic service which two years before the Western Union had undertaken by leasing for fifty years two cables from the American Telegraph and Cable Company.² Mackay had plenty of money left for the development of land lines, for he owned two fifths of the bonanza mines of the Comstock lode in Nevada.³ Bennett, his

¹ President of the Western Union Telegraph Company, Annual Report for 1888, 5; Appleton's Annual Cyclopaedia, n.s., XII (1887), 273.

² This lease would have expired in 1932 but in 1930 the Western Union purchased the cable company. Anon., Short History of the Western Union Telegraph Company (issued by the Western Union Telegraph Company in mimeographed form, n.p., n.d.), 4.

³ For the Comstock lode, see Allan Nevins, The Emergence of Modern America (A History of American Life, VIII), 136-137. In one year, 1874, Mackay and his partner, James G. Fair, had taken \$150,000,000 out of the ground.

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 partner, ⁵ helped by giving the lines the great and growing news business of the New York Herald. They could also depend upon considerable patronage from those who wanted to "encourage competition."

A disastrous rate war followed the Postal Telegraph Company's entry into the field in 1886 -- so disastrous that within a year its president, Albert Brown Chandler, was willing to listen to overtures from the Western Union for a peace treaty. Few men had had so long an experience in the business as Chandler. After learning telegraphy as a boy in a West Randolph, Vermont, office, he never later left the telegraph. In 1863 he had entered the United States military telegraph service, occupying what was called the "President's Room," the room to which President Lincoln resorted night after night to read line by line copies of all messages received and sent -- his way of finding out how the war was really going.¹ After the war Chandler had shuttled in and out of the Western Union and the Atlantic and Pacific, and was president of the latter in ¹⁸⁸¹ 1882 when the Western Union acquired it in its campaign to establish a monopoly. With his extensive experience in the business ^{Chandler} ~~Mackay~~ fully appreciated the dangers to the Postal Telegraph Company of cut-throat competition with the Western Union.

8 ¹ Interview of A. B. Chandler with author, ^{See} also Ida M. Tarbell, The Life of Abraham Lincoln (N. Y., 1900), [^] II, 105-106, 141.

The understanding worked out in 1887 did not include a division of business or an interchange of stock or property. It was an agreement to follow the same schedule of rates, ^{and} henceforth to give up those competitive practices which, Chandler said, were "equivalent to paying for the obtaining of business. . . . Under the system of rebates," he told the Industrial Commission, "the meanest would get the largest favor." It went to "the one who insisted on having the largest rebate that could be allowed, or else he was 'going to give his business to the other company.'"¹ By establishing uniform rates and sticking to them the telegraph companies themselves cured an abuse which had by 1887 grown to such proportions on the railroads that the federal government undertook to regulate it.

One abuse not ended by the peace treaty was the franking privilege. The Western Union had long granted this favor. "Our property," Norvin Green once remarked, "is more or less subject to the action of national, State, and municipal authorities, and the judicious use of complimentary franks among them has been the means of saving to the company many times the money value of the free service performed."² If Chandler's testimony before the Industrial Commission is to be believed, the Postal Telegraph Company for many years restricted franks to members of Congress

¹Quoted in testimony of A. B. Chandler, U. S. Industrial Commission, Report, IX, 195.

²U. S. Industrial Commission, Report, XIX, 676.

who enjoyed what he called "reciprocal relations which entitled them to free service." Later, however, "perhaps under the necessity of meeting our great competitor as much as for any other reason," it extended the privilege to other congressmen as well as to aldermen, mayors and judges. By the close of the twenty years the evil was ^{more} widespread than at the beginning.

The truce with the Postal Telegraph left the Western Union virtual master of the field. The period between 1882 when President Green saw it apparently free from competition and 1887 when it recognized the Postal Telegraph as an ally had been hard on profits. They had declined from over seven and a half million in 1883 to under four million in 1886. The public, however, had benefited, for the average toll fell from ³⁸ ~~thirty-eight~~ cents in 1883 to 31.3 in 1886. It was never again to go higher than 32.5, and that for but a single year: 1891. After 1887 profits recovered steadily, rising to six million in the last year of the century. But this was profit on an enormously increased business. In 1886 the Western Union sent a little over forty-three million messages, in 1890 nearly fifty-six million, and in 1898 more than sixty-two million.¹

The Western Union's struggle for supremacy had been complicated in the late seventies by the appearance of an entirely new form of communication, an invention by which one

¹ President of the Western Union Telegraph Company, Annual Report for 1898, 6.

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spoke directly over a wire to an auditor at a distant point.¹
The Western Union had regarded it at first as a mere "electrical toy." On one occasion it declined the opportunity to buy Alexander Graham Bell's rights to his invention for \$100,000.²
But when the public began to take the telephone seriously, the company revised its judgment. Too late to take advantage of Bell's offer, it espoused the claims of a rival inventor, Elisha Gray, and in December, 1877, launched the American Speaking Telephone Company with a capital of \$300,000. By every means fair and foul the interlopers fought the Bell interests. Not only did they possess the advantage of wealth and of experience in organization, but they used their political influence to prevent communities from giving franchises to the Bell Company. They could, and did, prevent Bell wires from going along many a highway and street, and, as for getting into a railroad office, ^{that} ~~it~~ was out of the question.

Then something happened which they had not foreseen. The Bell group found a leader, experienced in management, unafraid, and fully convinced of the great future of the telephone. This was Theodore N. Vail, a young man of thirty-one, who had held the important position of general superintendent of the railway

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¹ Nevins, Emergence of Modern America, 88-89; A. M. Schlesinger, The Rise of the City (A History of American Life, I), 93-97.

² H. N. Casson, The History of the Telephone (Chicago, 1910), 58-59.

mail service of the United States, which he had completely reorganized.¹ One of the first acts of the new general manager was to bring suit against the Western Union for infringement of the Bell patents. The Western Union made a spirited resistance, but when finally the testimony was all in, its own lawyers convinced them that their case was hopeless, that they had been infringing on Bell's patent, and that the sensible course was to settle.

By this time the American Speaking Telephone Company, pushed ^{*}as it had been by men controlling not only ample capital but many franchises and connections invaluable in the business of communication, had set up some fifty-six thousand telephones in fifty-five cities. Moreover, its service was more satisfactory than that of the Bell system because of its control of the Edison transmitter, an invention which cleared up the static on the wires. But even with such advantages it could not go on if the Bell patent was valid. Hence in November, 1879, it concluded a settlement by which it recognized Bell as the inventor of the telephone and ^{consented} ~~agreed~~ to retire from the business. The Bell Company agreed to buy the telephone system of the Western Union and to pay for seventeen years a twenty-per-cent royalty on all rentals and royalties.²

There could not have been a finer bit of advertising for the Bell system than its victory over the Western Union. Every-

¹A. B. Paine, In One Man's Life (N. Y., 1921), chaps. xii-xv.

²Paine, In One Man's Life, chap. xxiii.

spell out
body now was struggling for stock. It sold as high as \$1000 a share the day after the agreement was announced.¹ When the American Bell Telephone Company, as it was now called, made its returns to the census takers of 1880, it reported total assets of over \$9,500,000 and an authorized capital stock, common and preferred, of \$10,000,000, of which \$7,350,000 had been issued. It had a big progeny, reporting to the census one hundred and forty-seven companies, most of them small.² A significant item was the number of people to whom the telephone was giving work as managers, accountants, electricians, linemen, operators and the like. The employees numbered well over three thousand.³ Indirectly the telephone also gave employment to workers in the established industries: carpenters, plumbers, mechanics, miners, etc.

The rapid growth of the telephone stimulated attack on the Bell patents.⁴ The Bell Company fought out thirteen law suits of which five were carried to the federal Supreme Court. It encountered five hundred and eighty-seven other law suits of

¹Paine, In One Man's Life, 142.

²U. S. Compendium of the Tenth Census, (1880), pt. 11, 1332-1333.

³U. S. Compendium of the Tenth Census, pt. 11, 1338.

⁴Casson, History of the Telephone, 88-89, 100.

various natures; but with the exception of two trivial contract suits it never lost a case. Besides, it was beset by promoters and stock^hobbers who, in one period of three years, started ²one hundred and twenty-five competing companies in open defiance of the Bell patents. Unlike the Western Union, their main object was not to conduct a legitimate telephone business, but to sell stock to the public. Although few of these companies ever sent a message, the face value of their stock was \$225,000,000.

b.c. The most startling of these attacks as well as the most significant for a student of business methods in the eighties and nineties was a suit brought in September, 1885, by the federal ~~Attorney-General's~~ office, charging that, when Bell made his application for a patent, he knew of the prior invention of the telephone by a German, Philip Reis.¹ This Reis invention was familiar to the courts and to scientists. In Lord Kelvin's words, it was "not in any sense a speaking telephone." It did transmit sound, but, as Edison said, the man at the other end must know what was coming if he was to understand the words.² There was a second charge: that Bell's attorneys had bribed patent-office officials to turn over Bell's specifications to them and that they had doctored them to meet certain claims which they feared would invalidate his patent.

¹Catherine Mackenzie, Alexander Graham Bell (Boston, 1928), 257-275; Paine, In One Man's Life, 157-158.

²Casson, History of the Telephone, 95.

l.c. In the absence of Attorney-General Augustus H. Garland, the ~~Solicitor-General~~ had brought this suit on twenty-four hours' notice, without consulting the patent office and certainly without knowing anything of the history of the Bell patent. The plaintiff was the Pan-Electric Company, a Tennessee corporation already convicted of infringing the Bell patents. Another thing l.c. the ~~Solicitor-General~~ did not know was that the ~~Attorney-General~~ had himself refused to bring the suit.¹

(The litigation might have gone the way of all its predecessors, with little more than annoyance and expense to the defendants, if the New York Tribune at this juncture had not brought to light the fact that the ~~Attorney-General~~ had been the legal adviser of the Pan-Electric from its start and held a block of its stock. Not only was Garland a stockholder, but so were three United States senators, also various other gentlemen in public office. ¶ The newspapers, notably the Republican press, made the most of this scandal in President Cleveland's official household. ↩

The World, the Sun, the Evening Post and the Tribune demanded that Garland be dismissed and the suit dropped. The Times, loyal to Cleveland, ^{insisted} ~~cried~~ that ^{the proceedings} ~~it~~ go on, and ~~it~~ turned its guns on the Bell Company. It was a "greedy monopoly" based on ^a patent "fraudulently amended." It played up the Jay Gould prejudice,

8 | ¹ Allan Nevins, Grover Cleveland (N. Y., 1932), 294.

which might have been pertinent if the Western Union or certain railroad systems had been involved, but which was baseless in the case of the Bell Company. It further charged a "criminal and corrupt league of an insolent corporation with venal newspapers." "This case must be tried," thundered the Times, "in spite of the outcry kept up by certain newspapers in the pay of the Bell Telephone Company."¹ It was not until the Supreme Court gave a decision favorable to Bell in 1888 that the Times ceased its clamor.²

The growth of the telephone company in spite of all attacks was due largely to the astuteness of Theodore Vail's management. He established a great engineering department ^{to} ~~which~~ [^] ~~should~~ study all imaginable mechanical improvements. He gave the greatest attention to every detail of the service and insisted on the fairest and most courteous treatment of ~~the~~ patrons. To meet public irritation at the danger and inconvenience of the multiplication of overhead wires, he began to test the feasibility of underground lines as early as 1882 in a series of trials near his Massachusetts home. So satisfactory were the results that cables began to go underground at once. All sorts of wrappings for the wires were tried, most of them failures, but by 1890 the type now in use was discovered; the paper-wound

¹ Mackenzie, Alexander Graham Bell, 269-270.

² Mackenzie, Alexander Graham Bell, 275.

cable. By 1898 several hundred thousand miles had been put underground.¹

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Vail also improved the quality of the wire. Bell had "made iron talk," but iron was not always a reliable conductor and the distance it would carry was limited. Vail, hearing of a hard-drawn copper wire, tried it out. With copper wire one might connect cities, as he had insisted from the start. In face of the strongest opposition of his associates he strung a double wire of the new material in 1884 between New York and Boston.² It marked the birth of "long distance."

A new company, the American Telephone and Telegraph Company, was organized in 1885 with a capital of \$100,000.³ Its immediate purpose was to build and own long-distance lines for the American Bell Company, but its remoter aim was to unite under one leadership all the telephone companies in the United States. This vast ambition was partially achieved in 1900 when, reorganizing with a capital of \$250,000,000, it took over the American Bell Telephone which since 1888 had been paying dividends of from fifteen to eighteen per cent, giving two shares for one.⁴ Thirty-five subsidiaries entered the merger.

¹ Casson, History of the Telephone, 128-134; Paine, In One Man's Life, chap. xxx.

² Casson, History of the Telephone, 170-172; Paine, In One Man's Life, 169-172.

³ Paine, In One Man's Life, 179-181, 349-351.

⁴ John Moody, The Truth about the Trusts (N. Y., 1904), 373.

Many small towns, particularly in the rural parts of the West, continued to maintain their own local telephone service, however. Indeed, their number increased after the expiration of the basic Bell patents in 1893. No fear of their ultimate fate kept communities from setting up their own plants. When a company did not come their way or, coming, proved too expensive, small-town folk took the matter into their own hands. Nor was it unusual for a group of farmers to buy receivers, insulators and batteries and ^{to} string wires, using the home of their leader as an exchange.¹ When the Industrial Commission made its survey, it found that at the very time the American Telephone and Telegraph Company was capitalizing itself at \$250,000,000, small Wisconsin towns were forming local companies, giving a fifty-dollar share to each receiver and no share to anybody not renting an instrument. With the service costing about \$1.00 a month for a home and \$2.50 for a business, one company paid a dividend of 75 cents a month. ^{In New York City} At that time, ^{patrons} ~~one~~ paid in New York City \$240.00 a year for service.²

But the Wisconsin company could not give a connection outside its own limits, while from a New York telephone the user could talk to Chicago --five minutes for \$9.00. The great telephone trust

¹ Bureau of the Census, Telephones and Telegraphs, 1902 (Special Rep.), 9-11.

² Casson, History of the Telephone, 178-179.

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was on its way. As ~~it had been~~ from the start, it was in the hands of those who had built it, with the same financial backers, conservative men, not stock manipulators. Far different in its business ethics from the Western Union, and much newer in the field, it joined with the great telegraph trust to form a system of lightning communication which embraced the entire land and gave greater unity to the nation's economic life.