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Telephone Investigation

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Report on

CONTROL OF TELEPHONE COMMUNICATIONS

(Pursuant to Public Resolution No. 8, 74th Congress)

VOLUME IV

Politics of Control

June 15, 1937

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CHAPTER I
INTRODUCTION

Purpose of Report.

This report summarizes the public relations and propaganda activities of American Telephone and Telegraph Company and its Associated Companies, their efforts to influence and control public opinion, and their activities in relation to regulatory commissions and legislation. The report is made pursuant to Section 2(h) of Public Resolution No. 8, 74th Congress, which section authorized and directed the Federal Communications Commission to investigate and report:

Whether or not the companies have sought through propaganda or the expenditure of money or the control of channels of publicity to influence or control public opinion, legislative or administrative action, or elections.

Objectives of Bell System Public Relations Policies.

The general objective of the Bell System's public relations and propaganda activities may be succinctly stated as being the protection of its property, the maintenance of its position in the communications field, and the maintenance and increase of its revenues, without giving rise to unfavorable criticism. This broad aim of the System resolves into specific ends, which are briefly as follows:

1. The defense of the present organization of the Bell System as the best system to give efficient, inexpensive, universal telephone service.
2. The dissemination of the idea that Bell telephone service is the most efficient in the world, and as efficient as the progress of the art will permit.
3. The dissemination of the information that hundreds of thousands of investors have contributed their savings to build up the

Bell System, which thereby obtains the character of a "publicly owned institution."

4. Opposition to any tax legislation that may affect the Bell System revenues adversely.

5. Opposition to any legislation aimed at regulation of corporations that may reflect on or affect the interests of Bell Companies.

6. Supporting the principle of a regulated monopoly, and opposing extension of regulatory jurisdiction on the theory that existing regulation is sufficient to defend the public interest.

7. The justification and defense of Bell telephone rates existing at any given time as reasonable and fair; in general, opposing any moves to reduce them.

8. The defense of the license contract payments by the Associated Companies to American Telephone and Telegraph Company.

9. The justification of Western Electric Company prices upon which the value of Bell telephone plant is largely based.

10. The propagation of the theory of observed depreciation for valuation purposes and of accrued depreciation for operating charges, among legal and academic professions.

Methods of Bell System Public Relations.

To achieve these immediate objectives, all of which directly and indirectly are aimed at the protection of property and the maintenance or increase of revenues, the Bell System has used certain methods which are systematic and comprehensive. ^{1/} The psychological principles used are appeals to reason, and more important still, appeals to the heart and the emotions. This was well stated by

^{1/} Cf. "Conference Notes and Prepared Papers," the proceedings of the Bell System General Publicity Conference, April 11-17, 1928.

Vice President Hall of the American Telephone and Telegraph Company at the General Commercial Conference of 1921: 1/

That brings me to the next point that I want to bring up and touch on, and that is the thing that I think we have not kept clearly enough in mind, the two very distinct ways, different ways, of getting the right kind of public opinion and public relations. There are two very distinct ways. We have relied sometimes on one and not on the other, and vice versa and probably have never developed either one of them to anything like the maximum possibilities.

Too often we have not distinguished clearly between the two very definite lines of reaching this question of public opinion. I want to touch on that so that you may get your people to see the two different lines that they must work on, each supplementing the other.

The first is the appeal to the public through their brains. We have got a perfectly good case. We consider that the proposition that we have got a good case sufficient. We are not looking for inordinate profits. We are only asking for a fair return. We have accepted permanently and for all time the idea that this business is a public service. We have only asked for a square deal from them and we intend to give them a square deal all the time. There is nothing about our case that is not strong. I have hardly ever known a telephone company putting up a case to the public where the case was not all right. Of course, the first and only way to approach this thing if we have got a good case, as we have always had, let us educate the public to see it. * * *

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* * * Take the extreme case, that if every time, in a town, if every citizen of that town every time they met with or talked with a telephone man or woman, acting for the time being in their capacity as telephone man or woman, - if every time there is such a contact the reaction produced when the contact is over--"Those people are all right. I just kind of like to do business with those people because I feel a little better every time I get through doing business with them"-- whether it is the voice of the operator, it don't make any difference to them. "I would go across the street if I saw a telephone man coming, because I know him and I like to meet him."

Do you think we would have any trouble with public relations if that could be done? Do you think you would have any trouble with public opinion? Whatever trouble anyone else is

1/ Stenographic report of a talk of Vice President E. K. Hall at the General Commercial Conference, Jan. 24-Feb. 2, 1921; "Papers and Discussions," Vol. II, Sec. Y, pp. 18-19, 21-22.

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having we would not have any trouble if we could do the job 100 per cent. We would not have to argue our case out to a very great length with the Commission. Why? Because the Commission would never hear any other suggestion. "Well, now, that telephone bunch, they are all right. I know them. They know their job and they are doing it. I am ready to bank on them. If they say they need more rates they need more rates. You don't need to take the time to prove it to me. I will take their word for it." It would shorten up the rate case a lot and shorten up legislative committee hearings a lot if public sentiment was known to be almost universally back and in favor of the telephone company, and the men and women that go to make up the organization and do the job.

The more important approaches used are here enumerated, and will be more fully described and illustrated in later chapters:

Establishment of friendly contacts with newspaper editors, reporters and press associations.

Dissemination of news about the Bell System to newspapers.

Purchase of advertising space in daily and periodical publications, to befriend editors and suppress unfavorable criticisms.

Subsidization of authors of books on telephony.

Subsidization of newspapers and trade magazines.

Educational campaigns in schools.

Exhibition of motion pictures dealing with telephony.

Memberships in civic, athletic, professional and commercial clubs, societies and associations.

Extension of contacts with bankers through interlocking directorships and allocation of deposits.

Employment of a large number of attorneys with political influence.

Giving free telephone service to attorneys and others.

Cultivation of people entrusted with utility regulation.

Constant analysis of proposed legislation of American Telephone and Telegraph Company attorneys and systematic lobbying.

47) The Bell System philosophy of public relations seems to be to lull the public into a satisfied and sympathetic frame of mind, so that their case before courts, commissions and legislatures will receive favorable response. They do not rest their case on its merits by appeals to reason, but pave the way for a favorable decision through appeals to the emotions, senses and sympathies of their audience. In this, Bell System public relations partake of the nature of propaganda, which implies the use of the spoken and written word, and other means of communication, to appeal to the emotions or the self-interest of an audience, or to mislead the reason by an insufficient or erroneous presentation of facts, in order to obtain adherence, support and action by an increasing number of people in behalf of an idea, principle or institution.

Specific illustrations of these methods of moulding public opinion in favor of the objectives of the Bell System will be given in succeeding chapters of this report. Before proceeding to an elaboration of the Bell System's methods of propagandizing and affecting public opinion, legislation and administrative action, a brief summary of the System's resources in public relations is offered in the next chapter.

Organization of Bell System Public Relations.

Publicity and public relations problems of the American Telephone and Telegraph Company and each Associated Company are handled usually by one department, variously designated in each company; in most companies, in accordance with a preference which has been expressed and advised by American Telephone and Telegraph Company, the title "Information Department" is used. Whether that title or "Publicity Department" or "Public Relations Department" is used, the functions of such department in each company are substantially the same.

The Information Department of each company is headed by a person ranking high in importance among the officials of the company. His title varies in different companies, but he usually is a vice president or an assistant to the president. Most of the persons in charge of the Information Departments of the Associated Companies have apparently been "career men" in the telephone business. Some men have had experience outside of the telephone business, usually in the newspaper or publicity field. Many of them have been former newspaper reporters or editors, and at least one was a former publisher. ^{1/} There were, as of October 1, 1935, 398 persons directly engaged in the Information Departments of the Bell System Companies. ^{2/}

The functions of the Information Department of any company in the Bell System were simply stated by Arthur W. Page, Vice President of American Telephone and Telegraph Company, at the 1929 Publicity Conference: ^{3/}

Its most obvious function, of course, is to act as spokesman for the executive departments of the Company by the written word, motion pictures, advertisements, or any other way in which the Company speaks to the public. Its other function is the opposite of that. It is an endeavor by the Publicity Department to ascertain the public's point of view and to act as an interpreter of the public to the Company. Thus the Publicity Department has a great opportunity to be serviceable, both to the public and to the Company.

In general, the Information Department prepares advertising, reads the proofs, and attends to the physical details in connection with advertising campaigns. The officer in charge of the department consults closely with the commercial manager of the company and frequently with

^{1/} Arthur W. Page, Vice President of American Telephone and Telegraph Company.

^{2/} Exhibit 865, p. 5153, Official Report of Proceedings before the Federal Communications Commission, Special Investigation Docket No. 1 (hereinafter referred to as "Transcript of Hearings").

^{3/} Exhibit 2000, Transcript of Hearings, p. 6719.

the division commercial managers. The publicity organization serves in an advisory capacity to the other departments, its facilities being used to solve any problem of those departments in which relations with the public are involved. The publicity departments of Bell Telephone Companies also prepare news releases and stories for the use of the commercial departments and for circulation among employees, stockholders, subscribers and newspaper editors. Distribution of motion pictures is also a function of the public relations departments.

In furtherance of the American Telephone and Telegraph Company's practice to "advise" and "counsel" the Information Departments of the Associated Companies, "publicity conferences" are held under the auspices of American Telephone and Telegraph Company once or twice a year. At such conferences, problems common to all companies are discussed, the discussion being led by experienced men from the various companies.

The information or public relations departments are not the only organizations, and perhaps not even the most important, that deal with the dissemination of propaganda. The commercial departments are the real vehicles by which the public relations and propaganda activities are constantly pursued. That is one of their main tasks, and since they come into daily contact with the public and have an excuse for visiting people on operating matters and sales efforts, the members of commercial departments are really the protagonists of the unceasing Bell System campaign of good will. Public relations are a major item in the "commercial programs" of Bell Telephone Companies.

Other departments are equally conscious of the necessity of "selling" the Bell System and its policies to the public. The legal departments are active in this field, particularly in relation to specific objectives, such as defeat of bills in legislatures or

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prosecution of a case before courts or commissions. Indeed, the whole organization of the Bell System is inspired with the desire to further public relations.

Scope of Inquiry.

This report is not exhaustive. It does not cover the activities of all Bell System Companies. Considerations of economy of funds at the disposal of the Commission necessitated limitation of examination to the files of the parent company American Telephone and Telegraph Company, and Ohio Bell Telephone Company, Southern Bell Telephone and Telegraph Company, and Southwestern Bell Telephone Company. Notwithstanding this limitation, information pertaining to other Bell System Companies is included, for material found in the files of American Telephone and Telegraph Company very often applies to Associated Companies other than those examined. It may, therefore, be said that the policies and practices illustrated in this report are typical of the entire Bell System. In spite of the limits of the inquiry, the investigation was intensive. More than 12,500 photostatic copies were made of correspondence and memoranda from the many hundreds of files belonging to the companies examined. In writing this summary, it would naturally be impractical to use or refer to every one of these documents. Only a few specific examples will be given, therefore, to illustrate points brought out in the report.

CHAPTER II

BELL SYSTEM RESOURCES IN PUBLIC RELATIONS

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The peculiar importance of the public relations policies of the Bell System is derived from its magnitude, the variety of essential services for which the public depends on it, and the centralization of these policies in the officers of the parent company in New York City. The importance of the size and influence of the American Telephone and Telegraph Company (hereinafter sometimes referred to as the American Company) and the Associated Companies is well defined in the report entitled "Scope and Structure of the Bell System," wherein it is said: ^{1/}

The policies of American Telephone and Telegraph Company affect the life of every citizen of the United States without the slightest exaggeration. The telephone service in the home, in the office, or at the public pay station, used for social and business purposes by nearly the whole population of the country, is subject to the control of American Telephone and Telegraph Company, with the exception of the small percentage still in the hands of Independents. The foreign news services and American diplomatic communications which make use of the international radio telephone service must use facilities controlled by and subject to the supervision of American Telephone and Telegraph Company. The domestic press services that keep the people informed of the happenings in other sections of their own country must use American Telephone and Telegraph Company property whether the news is passed on to the editorial offices by telephone or teletypewriter. The voice of the air that penetrates 20 million homes to amuse, entertain, inform, educate or otherwise affect every member of the family must use devices licensed by American Telephone and Telegraph Company or property owned by it. And thousands of moving picture houses, patronized by millions every day, employ sound equipment manufactured or licensed by a Bell System Company, or may exhibit pictures financed by an affiliate of the Bell System.

It is plain, therefore, that American Telephone and Telegraph Company and its many subsidiary and affiliated companies command a strategic position in the social, educational, economic and political life of the American people. To an unprecedented degree in the world's history, communication of

^{1/} Exhibit 50, pp. 23-24.

intelligence by word or pictures and, to some extent, printed news, is under the control and surveyance of a single private interest.

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The magnitude, the variety of undertakings, the large number of employees -- these are all impressive evidences of Bell System's position in the American economy. But there are other factors which broaden the pervasive influence of the telephone industry upon the American scene. The Bell System reaches out into other fields and establishes a network of contacts through interlocking directorates, deposits in a large number of banks, purchases of materials and equipment from outsiders, the placement of insurance, the underwriting of security issues, and company-sponsored memberships by officers, directors, and employees in thousands of non-commercial societies.

The public relations policies of the Bell System are unique in that they are based upon the long-range cultivation of public opinion through constant and unrelenting propaganda and advertising by the use of every contact that is available to them. A Bell System employee is not only a worker, but a public relations agent as well. A deposit in a bank is not only a business arrangement, but a chance to communicate with and influence a prominent citizen in favor of the System. The employment of a lawyer does not only involve obtaining the best qualified legal talent for the task, but the establishment of valuable local contacts in a political and social sense in order that other influential citizens and political factions can be reached. The same is true of the selection of directors for Bell Companies, placement of insurance, awarding of contracts, memberships in non-commercial organizations; in fact, every conceivable channel and contact is employed in educating the public to the Bell System point of view, which is that they give the best possible service at the least possible cost consistent with

(f) financial safety. The cultivation of public sympathy is sponsored to diminish public criticism and increase the social, political and economic stability of the System.

In this chapter, a summary view is given of some of the contacts available to the System and used by it as channels through which the gospel of good will is constantly spread. In succeeding chapters, more specific cases of propaganda and pressure with particularized objectives will be cited and discussed.

Bell System Employees.

The Bell System stands out as perhaps the most important single employer of labor next to the federal government. At the height of employment in 1929, there were nearly 450,000 employees in all of the Bell controlled companies. At the end of 1936, the number was around 300,000. This number includes the people working in non-telephonic undertakings such as Electrical Research Products Inc., as well as the telephone employees. The characteristic thing about Bell System employment is that it is spread throughout the United States, reaching into all of the large cities and most of the counties throughout the Union. In this respect it differs from industrial concerns which employ large labor forces but which have their plants concentrated in comparatively few localities.

The total number of employees and the annual payroll of companies directly and indirectly controlled by American Telephone and Telegraph Company through ownership of 50 per cent or more voting stock were as follows during selected years:

	<u>Average Number of Employees</u>	<u>Combined Total Payroll</u>
1926	364,043	\$511,284,597
1929	446,362	689,123,887
1932	326,935	491,520,178
1936	296,582	493,056,338

U) Every employee in the Bell System is considered a potential public relations representative. The mobilization of the employees for this purpose was discussed by Vice President Hall of the American Company in the General Commercial Conference of 1921 as follows: ^{1/}

Now, when it comes to the question of mobilizing the men and women in the organization, the men and women are ready. Every man in this room knows how they jumped to it in the emergency of the past year, how they came in behind and ate it up just as far as they were given a chance to eat it up. Just perfectly delighted to get in where they could help some on the big problem that for the first time a great many of them, perhaps, were allowed to help on. That comes down to a point that I want to outline with you gentlemen here.

We have suggested that wherever there is employees' representation of any kind that the operating officials consider--it cannot be done in all cases, but there are undoubtedly some cases where it can--through these associations or committees, start inviting them to form and appoint either public relations committees, or perhaps in the case of the girls service committees, so that they can sit down with some of the representatives of the management and discuss from their point of view the situation.

That is the point of view of the firing line, of the people that are coming into contact all the time with the public, discussing this question of public relations and get it right, get the perspective right, and then occasionally they can make suggestions, and the management makes suggestions to them as to how the people in the rank and file of the firing line can begin to help mould this public opinion in the right direction.

Corporate Connections of the Bell System.

The corporate connections of the Bell System through interlocking directorates are very extensive. ^{2/} At November 1, 1935, American Telephone and Telegraph Company had 40 officers and directors. Of these, 23 men had official positions with 195 business organizations outside the Bell System, 137 of which controlled total net assets reported by

^{1/} Op. cit., p. 26.

^{2/} Federal Communications Commission, Special Investigation Docket No. 1, Exhibit 228, "Outside Contacts of the Bell System," Ch. I.

financial manuals to be nearly 30 billion dollars at December 31, 1934. Adding to this figure the total consolidated net assets of the Bell System, we would obtain a figure of 34 billion dollars in the conduct of which these 23 men had something to say individually or collectively. ^{1/}

These contacts were established through important positions held in outside concerns, such as president, chairman of the board, vice president, or director. Although these people do not have exclusive control over this wealth, it is unquestionable that with few exceptions each of them is the chief, or an important, executive officer of a corporation or bank, or an insurance company, which accounts for a substantial portion of the total assets above shown. Most of these men, in other words, occupy positions in other large concerns comparable to that of W. S. Gifford in the Bell System: For example, of American Telephone and Telegraph Company directors, W. W. Aldrich is Chairman of the Board of Chase National Bank; George F. Baker, Jr., ^{2/} Chairman, and S. A. Welldon, Vice President, of First National Bank of New York; Daniel Willard is President of Baltimore and Ohio Railroad; Philip Stockton, President of First National Bank of Boston; David F. Houston is President of Mutual Life Insurance Company; Myron C. Taylor, Chairman of the Board of Directors of United States Steel Corporation. Thus, if these men who are banded together on the Board of Directors of American Telephone and Telegraph Company do not control 34 billion dollars' worth of assets collectively, each one individually substantially controls the operations of large portions of this vast amount of wealth.

This situation is broader and more pervasive if the directorial ramifications of the whole Bell System are considered. Including only

^{1/} Id., pp. 8-12.

^{2/} Deceased, May 30, 1937.

35 Bell controlled companies, the most important of the more than 200 controlled companies in the Bell System, there were, on November 1, 1935, 537 officers and directors, 272 of whom had 2,400 positions in 1,468 non-Bell business concerns. They held 354 presidencies and 63 chairmanships, 1,436 directorships, 149 vice presidencies, 105 memberships on executive committees, 73 trusteeships, and many other important positions. Over 90 per cent of the positions were those of chairman of the board of directors, president, vice president, director, trustee, and member of executive and finance committees. With 165 of the 1,468 organizations, the Bell Companies had two or more people in common. These companies, plus the Bell System, represented total consolidated net assets of over 44 billion dollars. ^{1/} This amount includes, besides 90 per cent of the telephone assets of the country, 11.7 billions, or about 20 per cent, of the banking assets; 11 billions, or about 41 per cent, of all insurance assets; ^{2/} and nearly 5½ billions, or about 18 per cent, of the assets of steam railroads in the United States.

There are 19 organizations in the United States and the Dominion of Canada in which four or more men connected with the Bell System as officers and directors hold similarly important positions. These organizations, with the number of common representatives, are as follows:

<u>Organization</u>	<u>Number of Repre- sentations</u>
Banks and trust companies:	
Bank of Montreal	7
Chase National Bank of the City of New York	5
First National Bank in St. Louis	4
First National Bank of Boston	4

^{1/} This figure includes only 144 of the 165 corporations with two or more representatives in common with the Bell System. No information on the assets of the other 21 companies could be found in the standard financial manuals. The figure also includes \$5,732,000,000 reported assets of 18 Canadian companies.

^{2/} Exhibit 228, p. 22.

<u>Organization</u>	<u>Number of Repre- sentations</u>
Banks and trust companies (cont'd.):	
First National Bank of the City of New York	4
Guaranty Trust Company of New York	4
Massachusetts Hospital Life Insurance Company ^{1/}	4
Montreal Trust Company	4
Provident Institution for Savings	4
Royal Trust Company of Canada	6
St. Louis Union Trust Company	4
United States National Bank, Denver, Colorado	5
Insurance companies:	
Acacia Mutual Life Insurance Company	4
American Insurance Company, Newark, New Jersey	4
Mutual Life Insurance Company of New York	8
Security Insurance Company of New Haven	4
Other companies:	
General Electric Company	4
Steel Company of Canada, Ltd.	4
United States Steel Corporation	4

Most of the outside corporate contacts of the Bell System are effected through selection as directors of Bell Companies of men prominent in the financial and industrial life of the country. This indicates a definite policy on the part of the management of American Telephone and Telegraph Company to select a particular type of people, with a preponderant preference for men with banking and insurance connections, with railroads and utilities next in line. In the selection of directors, more weight is given to their standing in the community, to their social, political and financial contacts, than to their knowledge of the

^{1/} This company is reported to have retired from life insurance business in 1878 (The Insurance Year Book, 1935: "Life Insurance," p. 776). The company is now reputed to do a trust business.

communications system. ^{1/} This point is not important, since the operation of the system is carried on by a bureaucracy of career men.

Banking Relations of the Bell System.

The relations of Bell System Companies with banks in the United States are also very extensive. The American Company and 21 of the Associated Telephone Companies, not including their subsidiaries, have maintained deposits in between four and five thousand banks during the period 1926-1935. In 1929, they had deposits in approximately 4,900 banks; in 1935, in about 4,355 banks. As the total number of active banks in the United States decreased from 28,000 in 1926 to about 16,000 in 1935, the percentage of total banks used by Bell Telephone Companies has increased from 16 to 28 per cent of the total number of banks in the United States. ^{2/} The percentage of the total number of banks in different regions used by Bell Telephone Companies varies. The Mountain States Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company used, in 1935, nearly 67 and 62 per cent, respectively, of the active banks within their territories as depositories. ^{3/}

In May, 1935, the average daily balance of the American Company and the Associated Bell Telephone Companies was over 60 million dollars. Of this amount, over 40 millions were on deposit with 25 important banks, mostly in New York and Boston, the rest being scattered in smaller sums throughout the rest of the nearly 4,355 banks then in use. About half of the 40 millions in the 25 important Bell Telephone System depositories

^{1/} See Report on "Control of Telephone Communications," Vol. II, "Administrative Control of the Associated Bell Telephone Companies," Appendix 1.

^{2/} Federal Communications Commission, Special Investigation Docket No. 1, Exhibit 229, "Banking Relations of the Bell System," Table 1, p. 8.

^{3/} Id., p. 12. Only Indiana Bell Telephone Company used less than 10 per cent of the active banks within its territory. In most of the other states the percentage of banks used by Bell Companies varies between 25 and 35 per cent.

was concentrated in eight New York City banks. ^{1/} Most of the large depositories were also related to the Bell System by either or both interlocking directorship and voting control of substantial blocks of American Telephone and Telegraph Company common stock by the banks.

One of the primary considerations in the selection of depositories and the widespread distribution of deposits has been the cultivation of good will with bankers because they are influential citizens in their communities. A great many exhibits introduced in the course of this investigation show that in the selection of banks for use as depositories for Bell System funds, consideration is given to the standpoint of the company's public relations. ^{2/}

There is evidence that, in some instances at least, the public relations value of maintaining bank accounts has been considered paramount to the safety of the funds. That is to say, funds have been permitted to remain in banks for public relations reasons, with full recognition of the fact that such funds would be safer if transferred; and choice has been made of certain banks when it was acknowledged that stronger institutions existed in the same communities. ^{3/}

In making selection of banks from the standpoint of public relations, consideration has been given to the "influence" of their officers and directors and the activity of bank officials in the political and civic life of the community. ^{4/} The fact that officers and directors of banks are at the same time legislators or other state or city officials has been stated as a reason for favoring certain institutions. ^{5/}

^{1/} Id., p. 16.

^{2/} Exhibits 745 to 779, Transcript of Hearings, pp. 4911-4961, inclusive.

^{3/} Exhibits 749 to 754, Transcript of Hearings, pp. 4917-4926.

^{4/} Transcript of Hearings, pp. 4917 and 4918, and 4926-4961.

^{5/} Exhibits 757 to 764, Transcript of Hearings, pp. 4934-4942.

Of course, in predicating the selection of banks upon their public relations value, the companies expect that such banks will perform services of a public relations character as opportunities therefor arise. The evidence indicates that assistance has been rendered by bank officials favored with business, particularly in connection with rate cases. ^{1/} On the other hand, when bank officials have opposed efforts to obtain rate increases, their institutions have been penalized by the refusal of telephone company accounts. ^{2/}

Distribution of Insurance Business.

It has also been established that it is the practice of System companies to distribute the insurance which it carries on its various exchanges in a manner designed to promote and foster good public relations. ^{3/} In the selection of insurance agencies through which to place new business, or to renew insurance which is about to expire, reliance is generally placed upon the consideration of the question from a public relations viewpoint. Some of the considerations which actuate the selections and recommendations, as set forth in the documentary evidence, are the following:

City officials -- mayors, members of city commissions, etc. -- seem to be particularly favored as beneficiaries of the insurance business. ^{4/} In instances, these officials have performed specific services for the company while holding their public offices, ^{4/} and, presumably as a reward therefor, new business has been placed or old business renewed, through the agencies with which they have been connected. ^{4/} When an individual ceases to be a city official, but

^{1/} Exhibits 765 to 774, Transcript of Hearings, pp. 4942-4955.

^{2/} Exhibits 775 to 779, Transcript of Hearings, pp. 4955-4962.

^{3/} Exhibits 780 to 803, Transcript of Hearings, pp. 4962-4988, inclusive.

^{4/} Exhibits 784 to 789, Transcript of Hearings, pp. 4955-4961.

continues to be influential in his community and friendly towards the telephone company, he remains in the favor of the company in the placing of its insurance business.

Persons who are "prominent" or "influential" or who have "political influence" in their communities, are favored with insurance patronage. ^{1/} The placing of insurance with prominent or influential people, of course, enables the System to obtain their good will, with the expectation that such good will will be manifested as occasion therefor may arise. The evidence indicates that insurance agents who have been favored with the business have evidenced their good will by performing services of a public relations character, particularly in connection with rate cases. ^{2/}

Insurance has also been placed with persons who have connections with newspapers and with a state insurance commissioner. ^{3/}

Non-Commercial Contacts of the Bell System.

The facts hitherto summarized indicate that the management of the Bell System has made it a policy to extend its contacts deep into the far corners of the business life of the country. But this is not all. The ramifications of the Bell System reach into the social and club life of the people in many parts of the country. This, too, is done at the initiative of the companies; and the cost is paid by them, and, ultimately, by the telephone user. ^{4/}

As a general policy, Bell Companies encourage their employees to become members of business, social, scientific, professional, and

^{1/} Exhibits 780 to 803, Transcript of Hearings, pp. 4962-4988.

^{2/} Exhibits 792 to 802, Transcript of Hearings, pp. 4974-4987.

^{3/} Exhibit 803, Transcript of Hearings, p. 4988.

^{4/} For more exhaustive discussion of this, see Federal Communications Commission, Special Investigation Docket No. 1, Exhibit 228, "Outside Contacts of the Bell System," Ch. II.

athletic clubs, because the contacts so obtained may be of service to the companies. The local commercial managers of Bell Companies are in reality public relations agents, and chronic joiners of societies and clubs. The companies pay for their memberships.

The responses of Bell Companies to a Federal Communications Commission questionnaire show that at December 31, 1934, Bell Telephone Companies and Western Electric Company had paid dues and contributions to 5,178 non-commercial organizations for 7,960 memberships. The number of organizations, by types, and the number of memberships, with the amount of contributions, are given below: ^{1/}

<u>Type of Organizations</u>	<u>Total Number of Organizations</u>	<u>Total Number of Memberships</u>	<u>Total Dues and Contributions</u>
Chambers of commerce and boards of trade	1,721	3,765	\$206,062
Other business men's organizations	2,772	3,168	206,885
Social and athletic clubs	401	582	39,441
Professional and scientific societies	<u>284</u>	<u>445</u>	<u>21,295</u>
Total	<u>5,178</u>	<u>7,960</u>	<u>\$473,683</u>

During the ten years 1925-1934, inclusive, the total dues paid for memberships in such organizations amounted to \$4,848,048, divided as follows: ^{2/}

Chambers of commerce and boards of trade	\$1,964,195
Other business men's organizations	2,050,600
Social and athletic clubs	635,479
Professional and scientific societies	<u>197,774</u>
Total	<u>\$4,848,048</u>

^{1/} Id., Table 1, p. 28. Data included in this table for Western Electric Company, Incorporated, are for the year ended September 30, 1934.

^{2/} Id., Table 2, p. 28.

All but \$425,020 of the total sum was paid by Bell Telephone Companies. ^{1/} The telephone companies charged \$3,972,348 of the total amount to operating expenses, which ultimately loads these charges on the telephone user.

In some organizations the Bell Companies have a large delegation. In 1934, they had 108 memberships in the United States Chamber of Commerce, for which they paid \$18,725. During the ten years 1925-1934, inclusive, they paid \$180,187 to this one organization. Other groups have large Bell representation: 107 memberships in the Board of Commerce of Detroit, 100 memberships in the Chamber of Commerce of Indianapolis, 80 memberships in the Chicago Chamber of Commerce, and over 50 memberships in the United States Bar Association. ^{2/}

In addition to membership dues and contributions to these organizations, some Bell Telephone Companies invest money in the stock or mortgages of social, athletic, and civic associations. These are often written down to one dollar on the books, indicating that they are in the nature of contributions. ^{3/}

The purpose of buying memberships in these organizations is to further the public relations of the telephone companies, and to obtain support for the company in legislative proceedings and rate cases. The philosophy of this practice was enunciated by Mr. H. B. Thayer, President of American Telephone and Telegraph Company from 1919 to 1925, in a statement presented to the Bell System Presidents' Conference in 1921. The paper is called "Mobilization of the Forces for Better Public Relations." Under the subheading "Civic Bodies," Mr. Thayer stated: ^{4/}

^{1/} Id., p. 29.

^{2/} Id., pp. 33, 35.

^{3/} Id., p. 31.

^{4/} Transcript of Hearings, pp. 2257-2259.

Membership in such organizations as the United States Chamber of Commerce, National Labor Organizations and National Farmers Organizations, etc., local Chambers of Commerce, Rotary Clubs, etc., and civic organizations of every description, improvement societies, neighborhood groups, church clubs, consumers' leagues, etc., afford unusual opportunities for establishing contacts with the leaders in general public activities and those who are molding public sentiment.

It reflects credit on our organization to have our people identified with activities of this nature, no matter how small the group.

It is always with the realm of possibility in these organizations that telephone issues may be discussed.

A timely statement of the real facts with a prompt clearing up of some misunderstanding by an employee member on the spot might often prevent ill-considered action and would always tend to check a further spread of misstatements or misunderstanding. If the employee member is not sufficiently well informed to handle a given situation himself, his early information that the point is under discussion if brought to the attention of the proper officials would in some cases result in an explanation or adjustment before the matter had become an issue to which the organization had committed itself.

Employees should be encouraged to join organizations which will enable them to be better citizens and of more value to the company. No employee or class of employees should be required to join.

There are some types of organizations where the company should have representation and yet an employee would not care for financial or other reasons to join on his own account. In such cases the proper person may be designated to act for the company at the company's expense.

Vice President E. S. Wilson reiterated a similar opinion in a proposed program of topics for the 1924 Bell System Presidents' Conference. He wrote: 1/

* * * There are some two thousand national trade or industrial organizations in the United States, about two hundred of which are real factors in political and business activities, and maintain paid secretaries, in some cases research staffs, and in many cases, committees on transportation and communication.

1/ Transcript of Hearings, p. 2255.

By systematically cultivating the acquaintance of leading officials and active members of these associations our companies cannot only keep in touch with public sentiment, but can have available a medium through which to effectively place before the membership educational facts that will permit better understanding of telephone company problems and motives.

Contacts with Stockholders.

The large number of American Telephone and Telegraph Company stockholders, the largest of any company in the country, has also been considered and used as a means of spreading good will. When in the early twenties, the concerted policy of distributing American Telephone and Telegraph Company stock from the financial centers of the East into the hands of small stockholders in the West and the South was promoted through the instrumentality of Bell Telephone Securities Company and the help of Associated Company employees, the contacts thus engendered were exploited. The educational results, whether the interviews with prospective purchasers resulted in actual sales or not, were said to be important and far-reaching. ^{1/} The same attitude expresses itself in the routine contacts of the Treasury Department of American Telephone and Telegraph Company, as stated in the "Report of Treasury Activities" for 1934: ^{2/}

Activities of a routine nature designed to further friendly relations with stockholders included mailing the letter of welcome and the booklet "Some Financial Facts" to new stockholders and sending the termination letter to those closing their accounts. Contacts with stockholders through the welcome and termination letters totaled 58,000 during the year, a considerable reduction from the 1933 amount due to the reduced transfer activity. In addition, the Company mailed to all stockholders with the October, 1934, dividend checks a list offering them certain booklets on telephone history and development. About 15,000 stockholders and others returned the list, requesting more than 67,000 booklets. Some of the persons to whom the booklets had been sent were subsequently mailed a questionnaire,

^{1/} Federal Communications Commission, Special Investigation Docket No. 1, Exhibit 230, "Ownership of American Telephone and Telegraph Company," p. 58.

^{2/} Id., p. 59.

and others were interviewed by employees of several Associated Companies, in order to determine the value and use made of the booklets. These activities as well as the receipt by stockholders of their dividend checks, quarterly statements, annual reports, and annual meeting notices, brought forth comments and inquiries which indicated the continued confidence of stockholders in the management and its conduct of the business.

Suppliers of Materials.

The large amount of purchases by the Bell System, practically all concentrated in Western Electric Company, also offers the possibility of using economic pressure upon suppliers to bring about action on behalf of the Bell System. The American Company has not been oblivious of this possibility, as indicated by a letter from E. S. Wilson, Vice President of American Telephone and Telegraph Company, to E. S. Bloom, then Chairman of Indiana Bell Telephone Company. ^{1/} The letter states that in Indiana Western Electric Company purchased materials from 60 different concerns. The total purchases in 1920 had been over \$3,000,000. Wilson then goes on to say:

If you would be interested in having the names and locations of these concerns we shall be glad to send the information on to you. We have in mind that a frank statement to them of the treatment which has been accorded us in the State of Indiana would perhaps result in some affirmative action by the business associations looking to relief in connection with our rate cases.

In view of the tens and hundreds of millions of dollars spent by the Bell System in making purchases and placing contracts every year, this type of mobilization of business contacts can be a very powerful weapon of group pressure. That this resource is not generally overlooked, is indicated by the conditions under which contracts for directory printing are given. A separate report on manufacturing and printing of directories prepared in this Investigation shows that time and again

^{1/} Exhibit 203, Transcript of Hearings, p. 2035.

contracts are given to printers without competitive bids, or to bidders offering a price often considerably higher than the lowest bid, principally for political reasons.

Motion Picture Activities.

American Telephone and Telegraph Company has, over the past 10-year period, produced 56 motion picture films for publicity purposes. These films have been shown in all parts of the United States. ^{1/} The number of showings ranged from 33,211 in 1926, to 146,474 in 1931. The attendance at films produced by the American Company ranged from 18,557,313 in 1935, to 74,074,854 in 1931. The production and distribution cost of these films for the past six years, exclusive of salaries, traveling expenses of personnel and various other incidental expenses, amounts to more than one-half million dollars.

The Motion Picture Bureau of American Telephone and Telegraph Company was organized early in 1924. Though the Bureau had as its purpose the production and distribution of motion pictures for the companies comprising the Bell System, it produced none until 1926. The few telephone motion pictures produced prior to that time were made for American Telephone and Telegraph Company by outside industrial motion picture producers. ^{2/}

It is evident that the American Company regards its motion picture activities as important publicity work. The Motion Picture Bureau is a part of the Information and Advertising Department of American Telephone and Telegraph Company. J. M. Hamilton, Motion Picture Director of the American Company, in his "Report of Motion Picture Activities in the Bell System," 1929, stated: ^{3/}

^{1/} The Associated Companies have a definite program of motion picture showings. For sample, see Appendix 1.

^{2/} Transcript of Hearings, pp. 2104-2119.

^{3/} Exhibit 217, Transcript of Hearings, p. 2149.

In many ways the past year has been the most gratifying year we have yet experienced in this particular branch of the Bell System publicity work.

In his 1932 report, Hamilton stated frankly that "Bell System pictures are industrial pictures," ^{1/} but gave the reason theater managers would show them as being the fact that the Bell System pictures were not filled with advertising like most industrials, for "If he consents to review our pictures he will see for himself that they are purely informative and educational and will not detract from his program of entertainment." ^{1/}

As to the purpose of the distribution of Bell System films, Hamilton testified at the Commission's hearing on June 4, 1936, as follows: ^{2/}

Q. These pictures are produced for the purpose of conveying some sort of message to the audience, are they not?

A. Yes, of course. Some sort of a message, telling telephone facts, and how the business is managed. I should say how the business is conducted, that is, how it is giving service.

Q. Well, aren't these pictures what you would describe frankly as propaganda pictures, without going into the question as to whether it is good or bad propaganda?

A. I think we should have a qualification of the word "propaganda," Mr. Becker.

* * *

* * *

* * *

A. Propaganda is essentially, to my mind, the dissemination of information. Normally, I believe that the word should carry no sinister suggestion. Unfortunately, it has acquired in the minds of some people, perhaps, a sinister suggestion - that when the word is used, it means something sinister.

Now, if you will consider the word "propaganda" as being something harmless, and something that is helpful, then we might term our pictures propaganda pictures. But if on the

^{1/} Exhibit 220, Transcript of Hearings, p. 2149.

^{2/} Transcript of Hearings, pp. 2132-2133.

other hand, the term is used to imply something reprehensible and something sinister, - well, I disagree entirely that they are propaganda pictures.

Q. Well, Mr. Hamilton, you are, of course, familiar with your annual report for 1933. That is Exhibit 221, and I want to call your attention to an exhibit which you have included in there, which is an extract from a leaflet published by the Advertising Club of Montreal, is that correct?

A. Yes, that's right.

Q. You think the advertising men of Montreal might know what is meant by propaganda?

A. Perhaps they would. I don't know any advertising men of Montreal. I don't know anything about them. I should think they know what propaganda means.

Q. They are experts in this field of public relations, advertising people are, are they not?

A. It is to be assumed so. I am not qualified to say.

Q. Well, will you read what the advertising men of Montreal have said about your pictures that you put in your annual report? The first paragraph?

A. "Members who attended our crowded luncheon meeting last Wednesday, enjoyed one of the most subtle and powerful forms of propaganda ever demonstrated to the club. The two sound films entitled, "A Modern Knight" and "Getting Together," are two of the most skillful productions ever turned out and compete favorably with Hollywood's best."

Films produced by American Telephone and Telegraph Company have been shown by Bell System Companies throughout the United States. The total number of showings and total attendance by years, for the Bell System, with the exception of Canada, 1926 through 1935, are shown on the following page: 1/

1/ Exhibits 216 to 223, inclusive, Transcript of Hearings, p. 2149.

<u>Year</u>	<u>Total Number of Showings</u>	<u>Total Attendance</u>
1926	33,211(A)	20,101,904
1927	61,225(A)	27,634,820
1928	86,874	41,228,408
1929	131,696	52,932,769
1930	123,881	60,836,588
1931	146,474	74,074,854
1932	122,483	57,927,242
1933	117,317	48,162,371
1934	97,798	35,376,262
1935	66,856	18,557,313

(A) The Cincinnati and Suburban Bell Telephone Company did not report.

Various methods have been used by the Associated Companies in the distribution of Bell System films. In the case of theaters it has usually been done through contacts made with the directors of motion picture theater chains and with the managers of motion picture houses by telephone company officials. For example, during the months of January and February, 1932, the Bell System film "A Modern Knight" was shown in virtually all of the 68 Loew theaters located in Manhattan, Brooklyn, Bronx, Westchester County, and Long Island. This was arranged in December, 1931, by George B. Wellbaum, General Information Manager, New York Telephone Company, with Eugene Pickler, Chief Booker of the Loew Theatres. ^{1/}

A. F. Hardman, Advertising Manager of The Ohio Bell Telephone Company, wrote Hamilton on February 2, 1934: ^{2/}

In connection with the use of our pictures by theaters, Mr. B. C. Frazier of our Department, who is in charge of this activity, has kept up personal contacts with the managers of theaters throughout the State and has encouraged our local managers to do the same.

^{1/} Exhibit 219, Transcript of Hearings, p. 2149.

^{2/} Exhibit 221, Transcript of Hearings, p. 2149.

In addition to the showings of Bell System films in theaters, the Associated Companies arranged for many showing in schools and at civic association meetings. The films were supplied to the schools and civic associations free of charge, and, if necessary, an operator and projector were also supplied gratuitously. ^{1/}

In order to aid the Bell System representatives in placing films, Hamilton sent to all Associated Companies "An Imaginary Conversation with a Motion Picture Theatre Manager." ^{2/} The "imaginary conversation" included answers to any objection a theater manager might raise to showing telephone films. For example, if a manager objected to showing a film on the ground it contained propaganda, a part of the reply of the representative of the telephone company would be: ^{2/}

Well, it's a good kind of propaganda because the information is all true, and therefore no one considers it offensive.

It was suggested to the representative that he state to the theater manager that the films were a part of the educational work of the telephone company. His answer to a possible inquiry of the theater manager as to why the telephone company spent money on this educational work should be: ^{2/}

Simply in order that the public will understand us better and will understand the telephone better. * * * The prejudiced or careless people are usually those who just don't know the facts.

The telephone representative was also to point out to the theater manager the high regard of theater chains, such as the Loew circuit around New York City, for Bell System films and the wide use made of them.

^{1/} Transcript of Hearings, pp. 2152-2153.

^{2/} Exhibit 220, Transcript of Hearings, pp. 2134-2135.

In his 1932 report, Hamilton said: ^{1/}

I believe that many theater managers heretofore considered "difficult" will be found to be receptive, if properly approached by Telephone representatives.

H. S. LeDuc, Advertising Supervisor, The Bell Telephone Company of Pennsylvania, stated in a letter to Hamilton under date of January 24, 1933: ^{2/}

In general, we have found that it is now possible to get most of your pictures booked in the best theaters. * * *

Our pictures have also proven highly acceptable in various schools, notably in Philadelphia, Allentown and Pittsburgh. In these towns the Boards of Education have taken the entire series and shown them to the student bodies.

There are three divisions to the total cost of showing Bell System films: the cost to American Telephone and Telegraph Company for the production of the negative; the cost to Associated Companies for positive prints purchased from American Telephone and Telegraph Company; and the cost to Associated Companies for the distribution of these prints throughout their respective territories. No information was available regarding the cost to Associated Companies for a number of films produced by individual companies for their own use.

The total negative cost to American Telephone and Telegraph Company for the 56 films produced from 1926 to 1935, inclusive, was \$261,961. The tabulation on page 29 shows the division of this cost by years: ^{3/}

^{1/} P. 2 of Exhibit 220, Transcript of Hearings, p. 2149.

^{2/} Id., pp. 28 and 29, Transcript of Hearings, p. 2149.

^{3/} Exhibit 224, Transcript of Hearings, pp. 2120-2122, inclusive.

<u>Year</u>	<u>Number of Films Produced</u>	<u>Production Cost</u>
1926	9	\$ 25,770
1927	6	18,026
1928	9	30,993
1929	7	33,138
1930	6	27,964
1931	6	44,414
1932	4	24,649
1933	3	20,156
1934	3	13,732
1935	<u>3</u>	<u>23,119</u>
Total	<u>56</u>	<u>\$261,961</u>

The above figures were provided the Federal Communications Commission by American Telephone and Telegraph Company in a memorandum under date of February 25, 1936, and were qualified as follows: 1/

This represents what is known as negative costs and includes all expense incurred in the production of the negative of the various motion pictures listed. All prints supplied to Bell System Associated Companies were and are made from the negative. In no case does the production cost include the cost of preparing prints for Associated Companies.

The cost to Associated Companies for "Motion Picture Advertising Activities" for the years 1930 through 1935 was as follows: 2/

1930	\$106,286(A)
1931	82,519(A)
1932	60,896
1933	45,643
1934	50,836
1935	<u>44,206</u>
Total	<u>\$390,386</u>

(A) Estimated.

These costs were explained as follows: 2/

1/ Ibid.

2/ Exhibit 225, Transcript of Hearings, pp. 2149 and 2150.

These amounts represent "expenses incurred in connection with motion pictures (both silent and sound) such as the cost of films, packing boxes, shipping costs, catalogs, announcements, tickets or invitations, and other similar costs related to such activities." The amounts shown do not include any part of the pay, office, traveling or other expenses (such as postage, printing and stationery, furniture and miscellaneous expenses) of the Advertising Manager, his assistants, and office forces. They also do not include any expenditures for motion picture equipment.

For the period 1929 to 1935, inclusive, American Telephone and Telegraph Company sold a total of 2,492 motion picture prints to Associated Companies, at a total cost to them of \$117,417. The division by years was as follows: ^{1/}

<u>Year</u>	<u>Number of Prints</u>	<u>Cost to Associated Companies</u>
1929	554	\$ 22,544
1930	569	35,241
1931	432	21,923
1932	225	10,434
1933	239	9,716
1934	257	9,187
1935	<u>216</u>	<u>8,372</u>
Total	<u>2,492</u>	<u>\$117,417</u>

The above table was qualified as follows in the memorandum to the Federal Communications Commission from American Telephone and Telegraph Company dated February 25, 1936:

This represents the amounts paid by Associated Companies for the preparation of prints of motion pictures, for showings to employees and customers, which are made from the negative. It does not include any part of the production expense, which was borne in whole by the American Telephone and Telegraph Company.

^{1/} Exhibit 224, Transcript of Hearings, p. 2148.

The films produced by the Bell System have generally been of an educational type, some of cartoon or travel type, but mostly the so-called "plot" film. A rather good example of the "plot" type of film produced by American Company is the picture entitled "Getting Together."

Shortly after the popular introduction of the hand-set telephone instrument, a great deal of irritation and criticism on the part of the telephone subscribers arose, because of the extra monthly rental charges of the Bell System operating companies. Apparently in an effort to quiet some of these protests, American Telephone and Telegraph Company issued, in 1933, this picture dealing entirely with the hand set.

The picture was produced by trick photography, known as "stop motion," showing an automatic self-assembly of the hand set. Its scheme of treatment is as follows: First, a complete hand set is shown on a desk; next, an animated "imp" is shown arranging on a screen a list of the materials used in manufacturing a hand set; following that, an unassembled mass of the individual parts is portrayed; presently, the parts march to martial music, moving about the desk in a parade, and then are shown putting themselves together to re-form the completed instrument. The whole picture is accompanied by music. 1/

Hamilton stated in his 1933 report, referring to "Getting Together:" 2/

This picture was designed to show the great number of raw materials and separate parts in the handset and to suggest the difficulty of the manufacturing problems. It is reported to have silenced much criticism of the handset extra charge.

This particular film was one of the most popular and widely distributed films of the whole series, having been shown quite prominently throughout the entire System. 3/

1/ Transcript of Hearings, pp. 2191 and 2192.

2/ Exhibit 221, Transcript of Hearings, p. 2195.

3/ Transcript of Hearings, p. 2192.

CHAPTER III

BELL SYSTEM RELATIONS WITH NEWSPAPERMEN

7

The cultivation of newspapermen is one of the principal methods of developing Bell System public relations. In the words of a Bell officer in charge of this work in the territory of Southern Bell Telephone and Telegraph Company, Evelyn Harris, Assistant to the President, contacts with newspaper men should follow a certain procedure. ^{1/} According to Harris, it is an important duty of managers to establish and maintain friendly relations with newspaper editors, publishers and reporters. The company's policy is to deal frankly and truthfully with representatives of the press and to give all reasonable information, except, however, that when newspapers request information which would serve no useful purpose if published, but on the contrary might cause misunderstanding or embarrassment, managers should exert every effort to induce press representatives not to jeopardize unnecessarily the company's relations with the public. While "reasonable" criticism of the company's policy and service is a proper function of the press to which the company cannot take exception, proper relations with the press will enable the manager to make a public statement of the company's position and may frequently result in withholding newspaper criticism until opportunity can be given to improve the service or correct the matter complained of. Press agents as such are obnoxious to newspapers, and company representatives should not make persistent requests for the publication of information which is not of interest to the community, but should feel that they are doing the newspaper a favor by keeping it informed of the news of the industry. News items should be given to

^{1/} Exhibit 584, Transcript of Hearings, pp. 4713-4715.

u/ newspapers with the statement that they are submitted because it occurred to the company representatives that they might be of news interest, rather than to suggest or intimate that it is desired to have the items published. The line between news and advertising is so fine that if company representatives continue to furnish inconsequential information, the newspapers will regard it as an effort to secure free advertising. The purpose should not be to see how much publicity can be secured, but to get proper publicity in a tactful manner at the time and in the place it will be of greatest value to the public, to the newspaper and to the company. These, then, are the cues that Associated Company representatives must follow in defending the company with newspaper editors and reporters. Let us see how these methods operate in practice.

Bell System News Service.

For a number of years, the press has been given a great many articles prepared by the Bell System Companies and presented to editors for publication. In general, these have dealt with construction activities, changes of service, human interest stories, information on rates, and other matters involving the telephone.

Although the subject matter may be classified as "news," the companies select and treat the material in such a manner that the public is likely to be favorably impressed. News matter is regarded by System publicity managers as more convincing to the general public than is similar information when presented in the form of paid advertising, for a large portion of the public construes news items as uninspired and indicative of the viewpoint of the editor.

In addition to the publicity received as a direct result of "hand-outs" or stories prepared for publication, the companies secure a large amount of publicity through the distribution of clip sheets,

employees' magazines, and other printed material placed in the hands of the editors by the commercial organization.

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The Information Department of the American Telephone and Telegraph Company compiles a monthly bulletin on telephone information for newspapers called "News and Views of the Telephone Service." This bulletin was preceded by "Telephone Press Service," which was inaugurated in October, 1921. These bulletins have been distributed through the Associated Companies to newspapers. Both "Telephone Press Service" and "News and Views of Telephone Service" contain a note to the editors, stating that no credit need be given when using the material therein offered. 1/

With the aid of the Associated Companies, the American Company distributed the following number of copies of "News and Views of Telephone Service," during 1926-1935: 2/

<u>Year</u>	<u>Number of Issues</u>	<u>Number of Copies</u>
1926	24	189,768
1927	24	193,744
1928	24	215,938
1929	24	198,990
1930	24	182,763
1931	21	134,413
1932	12	78,751
1933	12	75,152
1934	12	74,369
1935	12	75,484
Total		<u>1,419,372</u>

The American Telephone and Telegraph Company made a survey of the use made by newspapers of items appearing in "News and Views of

1/ Federal Communications Commission, Special Investigation Docket No. 1, Exhibit 230, Report on "Ownership of American Telephone and Telegraph Company," pp. 64-65.

2/ Exhibit 1324, Item 5.

Telephone Service." The company reports as follows: ^{1/}

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News and Views of the Telephone Service, issued monthly by this company, has been used by a number of the Associated Companies to supply information about the telephone industry to newspaper editors who requested it. In order to determine the type of information most useful to editors as judged by their own selections from material submitted, two special surveys were made in 1932 and 1934, respectively, of press clippings showing republished articles from this source.

The 1932 survey of a cross-section of clippings for the three months of March, April and May, showed 284 newspapers using 1157 items, totalling 12,525 1/2 column inches. From this sample an estimate was made of 103,770 column inches used in the entire year.

The 1934 survey, which was a briefer study of all 12 issues appearing during 1933, showed a total of 521 newspapers using different items, not further totalled. An estimate was made of 84,800 column inches used in the entire year.

The American Company also distributed a large number of "The Telephone Almanac" through the Associated Companies, which make them available also to editors of papers. "The Telephone Almanac" is a modern manual of information in ancient dress, containing many facts regarding the history of the United States, and particularly regarding the history and development of communication by the spoken word. The following is the schedule of distribution by the Associated Companies: ^{2/}

<u>Year</u>	<u>Number of Copies</u>
1926	901,874
1927	967,500
1928	1,338,625
1929	1,200,000
1930	1,309,131
1931	1,117,381
1932	1,606,676
1933	1,585,747
1934	1,599,308
1935	1,704,700
Total	13,330,942

^{1/} Id., Item 6.

^{2/} Id., Item 5.

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The Northwestern Bell Telephone Company has had several series of news services from time to time. Besides distributing the "Telephone Press Service," "News and Views of Telephone Service," and "The Telephone Almanac," issued by American Telephone and Telegraph Company, it has circulated "Telephone Tip Sheet" from 1920 to 1928, which consisted of "mimeographed publications distributed to telephone managers suggesting ideas for news stories, feature articles and illustrations about the telephone business which might be of interest to editors;" "Typical Newspaper Stories," from 1928 to 1935, "a binder distributed to managers containing sample stories on subjects which experience had shown are of interest to newspaper editors;" "Telephone News Outlines," since 1935, "a binder distributed to managers containing outlines on various subjects suggesting the facts on telephone events and occurrences which might be furnished to editors." ^{1/} Besides these regular services, the Northwestern Bell Company sends out literally thousands of pamphlets, leaflets, and news releases which it sends to newspapers. It is apparent from a statement of the Northwestern Bell Telephone Company about the volume of published newspaper articles that the publicity fed to papers has been widely used. Though information on this is not complete, the company writes: ^{2/}

Ninety-five per cent of the 534 newspapers published at exchanges operated by our company used something about the Northwestern Bell Company or the Bell System during 1927. A total of 9,888 stories or pictures appeared in 506 papers in 1927.

On the following page are the data relative to favorable and unfavorable editorial comments for the years 1926 to 1935, inclusive, in the territory of Northwestern Bell Telephone Company: ^{3/}

^{1/} Exhibit 1354, Item 5.

^{2/} Id., Item 6, p. 2.

^{3/} Id., Item 6.

<u>Year</u>	<u>Number of Unfavorable Editorial Comments</u>	<u>Number of Favorable Editorial Comments</u>
1926	35	308
1927	20	219
1928	15	110
1929	11	92
1930	30	152
1931	29	222
1932	27	154
1933	55	116
1934	14	77
1935	<u>8</u>	<u>108</u>
Total	<u>244</u>	<u>1,558</u>

The practices of the Associated Companies, and their experience with respect to number of items appearing in newspapers, and the proportion of favorable and unfavorable items, are by and large the same as those recited above. Wherever definite information was available, the companies provided it to the Federal Communications Commission in response to a questionnaire dated December 11, 1936, items 5 and 6. ^{1/}

In the 1927 Publicity Conference, Mr. Hardman stated that the Ohio Bell Company had succeeded in securing publication of its press releases concerning happenings in the state-wide telephone case "as written," and that stories submitted to newspapers were run without rewriting.

The following excerpts show the ease with which the company secured publicity in Ohio, and some of the results of the company's efforts to influence or control the press: ^{2/}

I have mentioned already the fact that there has been a change in the feeling of Ohio newspapers toward our company in the last four years as evidenced by amount of space they

^{1/} The responses of the Bell Telephone Companies were introduced into the Official Record of Commission Hearings in the Special Investigation Docket No. 1, as Exhibits 1324 to 1358, inclusive. Also cf. Appendix 2

^{2/} P. 153 of Exhibit 868, Transcript of Hearings, pp. 5200 and 5201.

v) are devoting to the industry, the fast diminishing number of unfavorable articles and editorials, as well as unsolicited offers to cooperate in many cases. This, it must be admitted, is evidence of a most desirable attitude and one indicating that our policy is effective.

There have been many outstanding specific incidents of the attitude of the Ohio newspapers toward our company and I would like to mention a few of these.

In rate cases Columbus newspapers and press associations do not send reporters to cover hearings but accept our stories as written.

In hearings where the evidence was against us, we gave the newspapers the story, bringing out those facts. It did not injure us; but rather helped our standing with the papers by impressing the editors with the fact that we are honest and are giving them straightforward stories. I believe that has gone a long way in building up a standing with them.

In dial system campaigns in three cities, newspapers have depended on the company for all stories and pictures.

Systematic Contacting of Newspaper Editors.

To further the efforts of the companies in favorably influencing the press, intimate contacts with editors and reporters are established and systematically maintained by Bell System representatives. Bell System publicity managers have advised local representatives to cultivate newspaper reporters as well as editors on a friendly basis, because it is the reporters' "copy that will appear as news" and because "He is the cub of today who will be the editor of tomorrow." ^{1/}

Particular attention is paid by commercial managers to the service and equipment of newspaper editors, for it is realized that it is important to see that service "to this type of customer is on a proper basis." ^{2/}

The Commercial Department, through its exchange, district, and division managers and other employees, is charged generally with maintaining these friendly relations. Newspaper publicity, editorial

^{1/} Exhibit 869, Transcript of Hearings, pp. 5188 to 5190.

^{2/} Exhibit 1046, Transcript of Hearings, p. 5421.

(1) matter, and advertising are furnished to the press by the regular commercial organization. Through these contacts, the companies have sought to win the confidence and friendship of persons connected with the press.

Some measure of the effect of contact and constant cultivation of the press can be found in the experience of the Michigan Bell Telephone Company. In discussing press relations in Michigan, C. W. Hungerford, Publicity Manager, said in a letter dated February 23, 1927, to Vice President Page of the American Company: ^{1/}

Through the constant contact of the publicity people with the press and that maintained for us by our commercial managers, we are enabled to more or less control items that go into the newspapers.

The following excerpts taken from the paper "Establishing and Maintaining Proper Relations with Newspaper People," a resumé of an address by F. B. O'Bleness, Advertising Manager of The Ohio Bell Telephone Company, indicate the policy and practice of one of the Bell System Companies. ^{2/} The address was delivered before the 1923 Publicity Conference.

In this discussion I have eliminated the newspaper business office. We will take it for granted that our associations with those who accept our money are pleasant. So let us enter the editorial rooms, for it is here that our relations with the newspapers are reflected in the news columns. * * *

* * * it is desirable that we enjoy the friendship and confidence of the newspapers, for through them is mirrored or molded the sentiment of their readers--our customers.

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* * *

The first step, of course, is to become acquainted with the newspaper people and assure them that you are anxious to be of service to them. Go out of your way if necessary to render a service. * * * Not only establish, but maintain your contact and friendly relations with the newspaper people, then when it is necessary to present your company's side of a ques-

^{1/} Exhibit 870, Transcript of Hearings, p. 5192.

^{2/} Exhibit 869, Transcript of Hearings, pp. 5188-5190.

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tion at issue you can talk to them as friend to friend; don't visit your newspapers only when you have an ax to grind or to ask a favor, it is much easier to secure the right kind of publicity for your problems or performances if you are so well acquainted with the newspaper man that you can slap him on the back and say, "Listen, old man, here are the facts," than if you have to talk with a total stranger.

* * *

* * *

* * *

Publicity (news stories) molds public opinion. If publicity is favorable public opinion will be favorable. The news story informs, educates, clears up misunderstandings and brings the company and the public closer together. * * * A news story leads the public to appreciate the company and its service. The better our relations with the newspapers the better our chances of getting our story to the public.

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* * *

I think we often expect too much from the newspapers. It is perhaps natural that utility people see only through utility eyes and, therefore, do not always get the viewpoint of the newspapers. A good editor will not suppress a news story, but the closer we are to the newspaper the better the chances he will edit the story and take out some of the sting.

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In this discussion I have referred to the editor only, but we must not overlook one of the most important factors in our relations with the press -- the reporter. * * * It is his copy that will appear as news. What and how he writes rests largely with you. It costs nothing to cultivate his good-will, and the investment of helpfulness, fairness and service to him yields big dividends. He is the cub of today who will be the editor of tomorrow. * * *

Further indications of cultivation of the press are found in the report of the Bell System Publicity Conference held in 1927. The following excerpts are from addresses made by Bell System Publicity Managers at the conference.

Publicity Director A. F. Hardman, of The Ohio Bell Telephone Company, stated that the press should be favored: ^{1/}

^{1/} P. 151 of Exhibit 868, Transcript of Hearings, p. 5187.

u) however, when the press asks for favors it is the wise policy to go farther than was asked in granting them. It is well to impress a newspaper or editor with our willingness to give the best, personal attention to the needs of our customers whenever the opportunity arises.

G. W. Hungerford, Publicity Manager of Michigan Bell Telephone Company, reported that contact with Michigan papers furthered the publicity efforts of the company. He said in part: 1/

* * * We find that the connection of the commercial managers in the field with the press, * * * is probably the most valuable contact with newspapers that we have; that the newspapers constantly call upon the managers for information. * * *

* * * They not only use the manager's first story, but they come around and ask as to the progress of the job. I think that is a mighty valuable part of our business. They ask us to affirm stories. They ask us for opinions on our side of the rate case stories right along. The press associations ask us for stories. * * * We think we have got pretty good relations with the press. * * *

Publicity Manager Crowell discussed at length the press contacts of the New York Telephone Company with the New York press, and indicated that these contacts had resulted in its being able to keep out of the papers "very misleading and very damaging" statements: 2/

I wonder whether there isn't something else besides confidence that we want to inspire in representatives of the press. That, of course, is fundamental, of the greatest importance, but having acquired the confidence of these various newspaper men in the territory, isn't it possible to go a great deal further and obtain or cultivate a very friendly feeling? * * *

In New York City Mr. Casler has the responsibility of contact with the press representatives; outside of New York City it is our local managers. * * *

Crowell then cited an example wherein a story already set in type and ready to run had been killed through H. W. Casler's intervention. Crowell said of this accomplishment: 3/

1/ Pp. 163-164 of Exhibit 868, Transcript of Hearings, p. 5187.
2/ Pp. 157-159 of Exhibit 868, Transcript of Hearings, p. 5187.
3/ Id., pp. 5205-5208.

* * * That wasn't because of confidence in the company entirely, but because of his very intimate relations. We go pretty far in trying to cultivate that spirit. * * *

He further told the conference that the company files with every city desk telephone numbers by which it can reach representatives of the company any hour of the day or night; that outside of New York City local managers are always available to the press, and that this has been very helpful: 1/

* * * We have been able to correct sometimes around one or two o'clock in the morning a story which otherwise would have had rather disagreeable statements, and a great deal of that is due to the very good relations that we seek to cultivate and maintain.

A memorandum from Southwestern Bell Telephone Company's General Manager S. R. Smith to the Commercial Superintendent and General Manager of the Eastern Division, dated July 11, 1931, urged them to maintain a high grade of service in newspaper offices, especially to watch for frayed cord or poorly maintained instruments. Smith stated that: 2/

* * * we should take steps immediately to see that service to this type of customer is on the proper basis. This should be a gradual job and should be combined with the District Managers' contact work. As a matter of fact, it affords an excellent opportunity for a contact.

These contacts with newspapers have enabled Bell Companies to obtain desired publicity in the press. Such was the accomplishment in the territory of Northwestern Bell Telephone Company, as indicated by a letter sent to all publicity managers of the Bell System by W. J. O'Connor, Assistant to the President of American Telephone and Telegraph Company,

1/ Exhibit 876, Transcript of Hearings, pp. 5202-5203.

2/ Exhibit 1046, Transcript of Hearings, p. 5421.

dated March 13, 1929. Attached to the letter were charts showing newspaper editorial comments maintained by the Northwestern Company. With reference to these charts, F. C. Bulta, Publicity Manager, was quoted in part: ^{1/}

You will note a tendency toward a decline in the number of both favorable and unfavorable comments during the past two years. This, no doubt, is a result of two conditions.

First, while we have established closer contacts with the editors in our territory, less effort has been made to supply material to them unless justified as real news.

At the same time, the editors in our territory have been perfecting their organizations to combat the free publicity wave that has descended on the press more intensively of late.

However, since the number of unfavorable comments have shown a greater proportionate decrease than the number of favorable comments, we feel that the general attitude of the editors in our territory is improving.

It has been admitted by System representatives that these contacts might cause an editor to remove the "sting" of an editorial or news story; ^{2/} that representatives have been successful in "killing" an unfavorable story, not because of the editor's confidence in the company, but because of the representatives' "very intimate relations." ^{3/}

Contacts through Press Associations.

Contacts with editors have been maintained not only through personal visits, but also by attendance at press association meetings. Evelyn Harris, Assistant to the President of Southern Bell Telephone and Telegraph Company, regularly attended meetings of the press associations of Alabama, Georgia, Kentucky, Mississippi, North Carolina and

^{1/} Exhibit 876, Transcript of Hearings, pp. 5202-5203.

^{2/} Exhibit 869, Transcript of Hearings, p. 5188.

^{3/} Pp. 156-157 of Exhibit 868, Transcript of Hearings, p. 5187.

South Carolina. ^{1/} In spite of the Southern Bell Company's desire to reduce expenses, it was believed advisable in 1930 to accept a membership in the Birmingham Press Club. District Manager T. M. Baird, who was offered the membership, withdrew from the Y. M. C. A., in order to become a member of this club. The membership of Alabama Manager W. E. Bare in the Press Club was also approved the following month, for it "will afford an excellent contact with the newspaper people." ^{2/}

The practice of company representatives taking advantage of every opportunity to contact personally newspaper editors is, apparently, as prevalent in the Southwestern Bell Telephone Company territory as it is in the other territories of the Bell System. In May, 1932, when it became known that the Arkansas Press Association would meet during the following month, General Manager S. R. Smith of the Southwestern Company notified the Division General Manager that since the convention "affords an opportunity for contacts with editors," the District Manager for the company should call on the local man in charge of the convention and aid in arranging telephone service, offer hospitality to visiting newspaper friends, etc. ^{3/}

In addition to attendance at press association meetings, it appears that the Southern Bell Telephone and Telegraph Company has courted the favor of press associations by granting free use of the telephone on toll calls. ^{4/} This privilege was accorded to the North Carolina Press Association over a period of years, to facilitate the legislative work of that association. According to the correspondence, the practice was discontinued in 1934. It was impossible to obtain from the Southern Bell

^{1/} Transcript of Hearings, pp. 4719-4720.

^{2/} Exhibit 587, Transcript of Hearings, p. 4720.

^{3/} Exhibit 1042, Transcript of Hearings, p. 5415.

^{4/} Transcript of Hearings, pp. 4720-4735.

41 Company complete information as to total monthly toll charges canceled for the Association, or the number of years the practice existed. The correspondence files of the company indicate that the toll charges were canceled at least from 1927 to 1934, and possibly longer. The detailed records of the company's dealing with this account for any time prior to May, 1932 have been destroyed. However, the records available for the period since May, 1932 show that the Southern Bell Company canceled toll bills for the North Carolina Press Association as follows: ^{1/}

May to December, 1932	\$217.40
Year 1933	469.50
January, 1934	<u>53.20</u>
Total	<u>\$740.10</u>

Miss Beatrice Cobb, the editor of "The News-Herald" of Morgantown, North Carolina, was Secretary-Treasurer of the North Carolina Press Association. ^{2/} On March 17, 1927, Miss Cobb expressed her appreciation to General Publicity Manager Harris for the free use of the long distance telephone in connection with Press Association matters, and enclosed a "little 'telephone' editorial" ^{3/} which she had written for her own newspaper. Harris expressed the hope that she "will not hesitate to continue to use it [toll service] whenever there is need for it." ^{4/}

On March 5, 1929, Miss Cobb reported to Harris upon the use of the telephone in connection with matters pending in the legislature, and stated: ^{5/}

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- ^{1/} Exhibit 588, Transcript of Hearings, p. 4721.
^{2/} Transcript of Hearings, p. 4721.
^{3/} Exhibit 589, Transcript of Hearings, p. 4723.
^{4/} Exhibit 590, Transcript of Hearings, p. 4724.
^{5/} Exhibit 591, Transcript of Hearings, p. 4725.

* * * The privilege of using the telephone for the Association was never of greater convenience than it proved today. Every time I put in a call to talk to the newspaper fellows I thought gratefully of you.

In his response, Harris stated that he thought it entirely proper that the company should assist the Press Association in its constructive work by canceling its toll bills within the state of North Carolina (although apparently local calls could not be treated in the same way because of regulations), and that he did not desire to restrict this activity in any way. ^{1/}

In a letter dated April 4, 1931, Miss Cobb stated that she knew she would have an "outlandish" long distance bill that month, for she had spent the time between trips to Raleigh telephoning members of the legislative committee of the Press Association, particularly in connection with a proposal to place a special tax on newspapers. She stated: ^{2/}

While I know you don't want me to make excuses, I thought I should tell you that I am hopeful that the Legislature will adjourn soon and I won't have to impose quite so heavily on your generosity. * * *

On March 31, 1933, Miss Cobb expressed apology to Harris for the extensive use made of the telephone during the then current session of the Legislature. ^{3/} Josh Horne, who was at that time Chairman of the Legislative Committee of the Press Association, also apologized to Harris, in a letter dated April 3, 1933, on the letterhead of "The Evening Telegram," Rocky Mount, N. C., for the extensive use of the long distance telephone, and indicated that Harris "could rightly be termed the butter and eggs man for the association." ^{4/} Horne expressed his appreciation

^{1/} Exhibit 592, Transcript of Hearings, p. 4725.

^{2/} Exhibit 593, Transcript of Hearings, p. 4726.

^{3/} Exhibit 594, Transcript of Hearings, p. 4727.

^{4/} Exhibit 595, Transcript of Hearings, p. 4727.

for the franking of long distance messages, and stated that if he could "reciprocate the courtesy at any future time you need but to command me." ^{1/} Under date of April 11, 1933, Harris responded that Horne's letter -

* * * reflects the spirit in which I am from time to time trying to be of some personal use to my friends in the North Carolina Press Association * * * ^{2/}

Again, on June 10, 1933, Miss Cobb apologized for the amount of her telephone bill in connection with the legislative session, but stated that Harris would -

* * * be glad to know that we used it ^[the telephone] rather effectively in checking detrimental legislation. * * * ^{3/}

The free use of the long distance telephone and other favors extended by the telephone company to Miss Cobb were reciprocated. With a letter dated December 8, 1932, which General Publicity Manager Harris sent to Miss Cobb, considering her "as a member of the family," ^{4/} some data which had been prepared for the supervisory people in the company a few months previously "when the agitation for a reduction in telephone rates became quite general," ^{4/} were included. This information was supplied for her personal information and in order that she might "answer questions which may arise in your ^[her] presence." ^{4/} Miss Cobb had occasion to use the information supplied on the very day that she received Harris' letter. Under date of December 11, 1932, she stated that the Mayor of Morgantown, North Carolina, Mr. E. M. Hairfield,

^{1/} Ibid.

^{2/} Exhibit 596, Transcript of Hearings, p. 4728.

^{3/} Exhibit 597, Transcript of Hearings, p. 4728.

^{4/} Exhibit 599, Transcript of Hearings, p. 4729.

who was also State Senator-elect, voluntarily brought up the subject of telephone rates in a discussion with her. ^{1/} The subject matter was on his mind because he had received a visit from a telephone company representative the day before. Apparently, Mr. Hairfield had expressed a viewpoint unfavorable to the telephone company, for Miss Cobb reported that he was in an argumentative frame of mind. She went on to say: ^{1/}

* * * Fortunately I had read some of the paper you sent and also remembered the "points" you gave me when we discussed the matter at Linville last summer. * * * Of course, I did not tell him of the communication from you. * * *

Miss Cobb stated that she believed she had some influence with Mayor Hairfield, because she had worked hard for his election both as Mayor and as Senator, and that she intended to study the paper supplied by Harris to be fully prepared for a further discussion with Hairfield. She gave the assurance that -

* * * not only with him but with anybody else with whom I have occasion to discuss the subject I shall always stand up for the telephone company to the utmost of my ability. In that stand I am not unduly influenced by (though I appreciate them) the favors you have extended me. * * * ^{1/}

Harris transmitted Miss Cobb's letter to President Ben S. Read and General Counsel E. D. Smith for their perusal, with the notation:

This letter is from the Secretary of the N. C. press assn, who is a very influential person in N C public affairs. * * *

Suppression of Critical Articles.

It appears to be the general practice of Bell System Companies to effect personal contacts with newspaper editors, whenever items appear which are in any way critical of the company, in an effort to influence the attitude and course of action which editors will take in the future.

^{1/} Exhibit 600, Transcript of Hearings, p. 4731.

In the Southwestern Bell Telephone Company, a regular routine, included as Section 9 of Part XII in the company's Commercial Practice, is followed when adverse publicity appears. The routine involves reports as to the nature of the publicity, the forwarding of clippings to division headquarters and advertising managers, the arranging of interviews with the editor of the paper and persons involved in the publicity, and the submission of written reports following such interviews. General Manager S. R. Smith interpreted this section of the company's Commercial Practice to mean: 1/

That it is the duty of whichever employee is assigned the clipping routine, to scan papers promptly and personally advise the District Manager as soon as any unfavorable item is noticed. Morning papers should be read the first thing in the morning; afternoon papers should be read on the day issued and as soon as possible after they are issued. The report to the District Manager should either be made personally, bringing him the item in question, or over the telephone, reading the item and, if necessary, repeating parts or all of it to a stenographer.

* * *

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* * *

The District Manager should immediately (within the hour) report the article to division headquarters, * * *. In addition to reporting the appearance and substance of the article, the District Manager will cover the general reasons for the appearance of the article, and outline his plans for seeing the editor of the paper and the persons involved in the article, and meeting the general situation.

In 1930, an editorial appeared in "The Anderson News" (Kentucky), which was critical of the service connection charge. The editor of the newspaper was interviewed, and it was reported by Southern Bell Company officials that, while the editor apparently was not satisfied with the explanation given to him, he indicated there would be nothing else written on the subject. 2/

1/ Exhibit 1052, Transcript of Hearings, pp. 5433-5435.

2/ Exhibits 722 and 723, Transcript of Hearings, p. 4875.

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The editor of the "Grenada Sentinel" (Mississippi), in an editorial on May 26, 1933, criticized the company's charge of fifty cents per month extra for hand set equipment. The editor was interviewed, and the explanation made that the company was in need of the additional revenue therefrom; that in other states, where the charge had been reduced, the companies could probably make the reduction without serious impairment of their financial structures. After the interview, the opinion was expressed by the District Manager that the editor would not write anything further detrimental to the company. 1/

An editorial in the "Meridan Star" (Mississippi) in December, 1932, called for a downward revision of the telephone, gas, and electric rates. The editor of the newspaper was interviewed, after which the District Manager of the company reported that the editor would be -

* * * more inclined to give a fair and impartial view in the future should he bring our Company into any further publicity, * * * 2/

It was further stated that representatives of the other utilities whose rates had been criticized had not called on the editor, and it was believed that the editor appreciated the interest of the telephone company representatives in calling on him. It was stated to be the purpose of the company to observe the situation carefully to prevent, if possible, the city authorities from including telephone rates in an investigation which had already been started in connection with power and gas rates. 2/

1/ Exhibits 724 to 728, inclusive, Transcript of Hearings, pp. 4875-4876.

2/ Exhibits 730 to 732, Transcript of Hearings, p. 4878.

Contacting Contributors to the Open Forum.

It is also the practice of Bell System Companies to investigate unfavorable items contributed to the open forum of newspapers. The companies apparently prefer to interview personally, than to attempt to answer through the columns of newspapers, subscribers who have written letters to editors critical of the telephone company. The companies have, in a great many cases, secured agreements from editors that they will submit such letters of criticism to representatives of the company for their examination before publication.

A. F. Hardman, Publicity Manager of The Ohio Bell Telephone Company, stated at the 1927 Publicity Conference: 1/

Letters to the editor frequently are shown to our managers before published and the name and addresses of the writers given. In many cases the letters never are printed after our side of the story is told.

In November, 1929, readers' letters critical of the Southwestern Bell Company appeared in the two newspapers of St. Charles, Missouri. Contact was made with the editors of both newspapers, and a promise obtained from them that before such articles would be printed in the future, the company would be permitted to give the editor the "facts" and to interview the writers of such letters. The result would be that articles "which contain information that is not correct" would be kept out of the newspapers. 2/

A reader's letter appeared in the "Arkansas Democrat" of Little Rock, Arkansas, on June 13, 1934, urging a reduction in utility rates. 3/ It was recommended by the Division General Manager that the author and

1/ P. 153 of Exhibit 868, Transcript of Hearings, p. 153.

2/ Exhibits 1063 and 1064, Transcript of Hearings, p. 5451.

3/ Exhibit 1065, Transcript of Hearings, pp. 5457-5458.

editor of the paper should not be interviewed, because the letter was an expression of popular sentiment and general in its content. ^{1/} However, General Manager Smith at St. Louis, Missouri, did not agree, and his reply is interesting, for it indicates the Bell System policy. The General Manager stated that the company desired to build the "highest type of public relations;" unfavorable remarks are inevitable, but each destroys good will; therefore, proper contact converts a "skeptical customer" to a "loyal friend;" finally, "unfavorable and unfair public criticisms against the company" must be curbed. Beginning with the second paragraph, Mr. Smith's letter states: ^{2/}

During this period of painful transition in the economic life of almost every one, it is no wonder that the cost of a service as important to the average citizen as telephone service is, should be questioned. So we readily agree with you that an occasional unfavorable remark is likely to occur.

However, while an occasional unfavorable remark might be inevitable, it is an indication of the prevalence of something less than the best possible public relations in a community, and each unfavorable item in a newspaper undoes some, if not a great deal of the good will we have built up over a period of years.

It is for this reason that we consider each adverse item worthy of the most careful thought in order to set up a plan to prevent a recurrence of similar unfavorable remarks about the company, its policies, rates, or service. To our way of thinking, the best possible public relations cannot be built upon a seeming indifference to public criticism. On the other hand, many a skeptical customer has been converted to a loyal friend by the proper type of contact.

And finally, if we are to build and maintain the highest type of public relations in Arkansas, it is imperative that unfavorable and unfair public criticisms against the company be curbed. If you disagree with our previous suggestions on how to deal with this situation, we should appreciate hearing your plans for reducing this type of adverse publicity.

^{1/} Exhibits 1066 and 1067, Transcript of Hearings, pp. 5457-5459.

^{2/} Transcript of Hearings, pp. 5460-5461.

The "Arkansas Gazette" of Little Rock also carried a reader's letter favoring an investigation into telephone company rates. This came nine days later than the letter mentioned above. A report on the writer was not forthcoming because the Division General Manager of the company was not able to find him in Little Rock. General Manager Smith replied on July 18, 1934, urging that, since the author of the letter in question could not be found, the editor of the Gazette should be reached again, and it should be explained that the writer was either a man of no standing in Little Rock or was writing under an assumed name. It was suggested that an attempt should be made to influence the editor, so that letters from unidentified correspondents would not be published. A "satisfactory" interview was then held with the editor, who promised to allow the company's answer to be printed in the future simultaneously with any letter questioning company practices and rates. ^{1/}

Rate Case Publicity Campaigns.

In connection with a proposed or pending rate case, as well as in the continual publicity used by Bell System Companies to lull any possible protest against rates, Bell System publicity reaches its peak. The publicity of the companies before and during a rate case is along the lines of a systematic campaign.

Following the World War, when the telephone properties were returned to their owners by the Federal Government, there was a period of intense activity throughout the Bell System to revise rates upward. In answer to public demands for lowered rates, Bell System Companies sought increased rates, or to have continued the schedule set under the Federal Government's regime.

^{1/} Exhibits 1068 to 1072, inclusive, Transcript of Hearings, pp. 5463-5466.

Since it was necessary for the American Company to take an active part in aiding the Associated Companies in the conduct of these many cases, Eugene S. Wilson, who had been General Counsel of a group of Associated Companies, was made Vice President of the American Company early in 1920, to take charge of matters connected with revenue and the general policy of presentation of rate cases before rate-controlling bodies. ^{1/}

Wilson applied a new technique to the conduct of rate cases. He believed that publicity was a highly important weapon in the conduct of a rate case. ^{2/} According to the philosophy he inculcated, a petition for increased rates was to be spoken of as a request for rate "revision," not a rate "increase," since it was desirable not to call attention to the fact that actually an increase was desired by the company, because it was "better psychology" to say "revision" than "increase." ^{3/}

Wilson further believed that the publicity campaign should be conducted systematically. In accordance with his ideas of the proper publicity campaign to be conducted in conjunction with rate cases, he sent a letter to all Associated Company presidents in 1920, enclosing a memorandum entitled "Suggestions for Rate Revision Publicity," and sent each president a bound binder of exhibits describing the coordinated campaign that Bell System Companies should execute in attaining higher telephone rates. The exhibits were classified as follows: ^{4/}

Exhibit A - Preparatory canvass for public endorsement of rate project.

- 1) Brief description of methods used in Montana, with sample forms of written consent and order of commission.

^{1/} Transcript of Hearings, pp. 1734-1743, inclusive; also, 1919 Annual Report of American Telephone and Telegraph Company, p. 11.

^{2/} Transcript of Hearings, pp. 1744 and 1745, inclusive.

^{3/} Exhibit 141, Transcript of Hearings, p. 1746.

^{4/} Id., pp. 1746-1863, inclusive.

- 2) Brief description of methods used in Wisconsin, with sample forms.
- 3) Brief description of methods used in Michigan outside of Detroit.

Exhibit B - Newspaper advertisements.

- 1) Preliminary to hearing.
- 2) During the hearing.
- 3) Following decision.

Exhibit C - Publicity for employees.

Letters, booklets,
Pay envelope enclosures.

Exhibit D - Publicity for Subscribers and General Public.

Letters, booklets,
Envelope enclosures.

Exhibit E - Publicity for the Press.

News stories, interviews,
Suggestions for editorials.

Exhibit F - Suggestions, talks to commercial clubs, and similar organizations.

Exhibit G - General Publicity for Specific Territory.

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Exhibit H - Publicity for Window Posters.

Exhibit I - Samples of Resolutions adopted by Commercial Clubs, etc.

Exhibit J - Samples of Publicity used by Other Utility Companies.

Exhibit K - Specimen Synopsis of Advertising Campaign.

The rate case publicity campaigns of several of the Associated Companies were described in detail at the hearings held by the Federal Communications Commission. ^{1/} The campaigns, which have been continued by the Associated Companies in the Bell System to the present time, have all been of the same general character.

^{1/} Transcript of Hearings, pp. 1746-2103, inclusive.

The publicity campaign, according to Wilson's procedure, began sometime before hearings were to be held by the regulatory commission. It consisted of newspaper advertising and news items issued to newspapers; contacts with editors, city officials, and "key people;" entertainment and demonstrations before civic associations; pamphlets issued to employees and telephone users; pay envelope and bill inserts, etc.

The purpose of the Bell System publicity program for a proposed or pending rate controversy rests on the theory that the public must be "educated" ^{1/} prior to the time that the "revised" rates are announced by the commission, so that such rates will not come as a shock, but will be received by the public with as little opposition as possible; likewise, the public service commission must be protected against public criticism, for this might dissuade the commission from the decision which the company desires. ^{2/}

The necessity for "education" is expressed in a letter written in May, 1920, by E. S. Wilson to G. M. Welch, Vice President of Michigan State Telephone Company, as follows: ^{3/}

Please let me know if you have planned to see the commercial organizations and different Rotary Clubs outside of Detroit in connection with the application for increased rates in the State. It is my impression that the Commission will grant us some relief in Detroit at this time, and after they see how the increase is taken they may perhaps have courage to grant us temporary relief in the State. Although we expect to argue for relief in the State on the 15th I doubt if we shall secure it. For this reason I want to make sure that we are doing educational work in the State to pave the way for the increase which is needed. If public sentiment is with us, I think the Commission will more readily grant our request for temporary relief. Perhaps you have already covered this, but I wanted to make sure that we are leaving no stone unturned to pull us out of the hole in Michigan at the earliest possible moment. (Underscoring supplied)

^{1/} Transcript of Hearings, pp. 1782 and 1783.

^{2/} Transcript of Hearings, pp. 1775, 1776, and 1782-1783.

^{3/} Exhibit 145, Transcript of Hearings, pp. 1783 and 1784.

T. G. Feeney, Publicity Manager of New England Telephone and Telegraph Company, discussed the subject of rate case publicity at the 1925 Publicity Conference. Notes made by H. G. Stokes, of the American Company, at that conference state: ^{1/}

Mr. Feeney said that in his opinion rate cases are always held before two juries--one is the jury of public opinion, the other, the jury consisting of the constituted authorities hearing the case. He pointed out that the conduct of the New England rate case illustrated the support that is always available in any emergency upon call to the American Telephone & Telegraph Company or any of the associated companies. He mentioned specifically several of the other companies that had come to their assistance in New England and helped in the preparation of rate case publicity, and used this as an example to show the unity and spirit of cooperation existing in the Bell System. (Underscoring supplied)

At the Third Personnel Conference, held in 1920, H. W. Casler, Assistant Vice President of New York Telephone Company, had noted that W. J. O'Connor, at that time Assistant to the President of Southwestern Bell Company, now Assistant to the President of the American Company, had been following the same procedure. Casler wrote: ^{2/}

Mr. O'Connor, of the Southwestern Company, stated that his company plans to try rate cases in newspaper offices, that is, by presenting facts to the editors of newspapers before the case is presented to the commission for hearing. Representatives of this company will point out the plan of action proposed by the Telephone Company and emphasize to the editors the necessity of chronicling the facts. It is believed that public sentiment will be crystallized sufficiently to win the case. There will be danger, of course, of editors coloring the facts, and this Mr. Hall pointed out must be guarded against. (Underscoring supplied)

Eugene S. Wilson, Vice President of the American Company, testified at the hearings on the Telephone Investigation before the Federal Communications Commission on June 2, 1936, as follows: ^{3/}

^{1/} Transcript of Hearings, pp. 1787 and 1788.

^{2/} Transcript of Hearings, pp. 1792 and 1793.

^{3/} Transcript of Hearings, pp. 1775-1776.

Q. Isn't it true also that one of the reasons you wanted a favorable public opinion was so that the State Commissions would not perhaps be worried about adverse public opinion in the event that they granted an increase?

A. That is right.

Q. In other words, by building up a favorable public opinion, you thought you might take away from State Commissions any reluctance on their part that might be occasioned by what they considered adverse public opinion, to grant you an increase, is that correct?

A. Right. Some of the Commissions, you know, Mr. Becker, are elected and some are appointed, and sometimes campaigns are out to reduce rates of utilities, and if the State Commissions found that the public were not hostile to an increase in telephone rates, I think they might feel differently about it than they would if there was united opposition protesting against these rates, and certainly where the State Commissioners are elected.

Q. Of course those sorts of considerations have nothing to do with the merits of the case?

A. Oh, no, not at all.

CHAPTER IV
BELL SYSTEM ADVERTISING

The Purpose of Advertising.

Bell System advertising may be divided into two general classifications, namely, institutional advertising to sell the System to the public, and service sales advertising to sell the services of the companies. The committee on uniformity in advertising at the 1923 Publicity Conference stated that the aim and objective of newspaper advertising should be -

* * * to help the public to understand the policies, practices, problems and ideals of the System to the end that the Companies may be able to furnish the best possible service at the lowest possible charges.

The American Telephone and Telegraph Company had a study made of Bell System institutional advertising by J. David Houser and Associates, Inc. A report was made in June, 1929. ^{1/} Under the heading "The Nine Aspects of Bell Advertising Studied," the report states: ^{2/}

The major purpose of Company advertising has been the creation of the greatest amount of good will possible. The advertising, therefore, has been directed at feelings, attitudes, and emotional beliefs of the public through the dissemination of specific types of information.

A painstaking preliminary study of the American Telephone & Telegraph Company advertising for a period of years preceeding ^{1/} the making of this survey, revealed that there were nine large general aspects under which Company advertising appeals could be listed logically. Advertisements were first grouped according to specific types of appeal like:

^{1/} "A Study of Institutional Advertising, Made in Pittsburgh, for The American Telephone and Telegraph Company," by J. David Houser and Associates, Inc., June, 1929.

^{2/} Id., p. 18.

Constant expansion requires new inventions.

Bell growth has kept pace with needs.

Old equipment discarded for better, etc., etc.

And these in turn were placed under headings which represent people's feelings, attitudes, and emotional beliefs. * * *

The headings representing people's feelings, attitudes, and emotional beliefs were listed as follows: ^{1/}

Constant Progress.
The Telephone Is a Convenience and a
Necessity.
Efficiency of Operation.
Constant Service Improvement.
Popular Ownership.
Necessity of Central Unified Control.
Romantic Elements of Communication.
The Subscriber Must Do His Part.
Superiority of U. S. Phones.

It will be noted that the foregoing represents a statement of the purpose of advertising only in so far as its hoped-for effect upon the public is concerned. In addition, it appears that, even if it is not its primary purpose, advertising also enables the telephone company to dis-
pense patronage in an effort to purchase the good will of the press. Concrete examples of the use of advertising for this purpose will be hereinafter cited.

Policy as to Use of Advertising Media.

In a memorandum prepared in 1925, Evelyn Harris, Assistant to the President of Southern Bell Telephone and Telegraph Company, stated that the policy of the company with reference to the use of advertising media was the following: The needs of the company are best served by patronizing the daily newspapers in large exchanges, and the weekly or

^{1/} Id., pp. 18-20.

semi-weekly newspapers where there are no daily newspapers; advertising is most effective and profitable when used in newspapers published in towns where the company has 500 or more subscribers, but managers should not hesitate to recommend the use of newspaper advertising in smaller communities if there is a definite need for it; the company does not use other advertising media, such as trade publications or special editions of newspapers, "except when there is some urgent reason to recommend a special case;" and advertising copy, mats and plates are sent to local managers to be delivered to the newspapers, because this gives "a personal contact with newspapers." ^{1/}

Public relations considerations are involved in the selection of newspapers for advertising. In a letter of April 3, 1923, J. F. Greenawalt, Publicity Manager of the Mountain States Telephone and Telegraph Company, stated to J. D. Ellsworth of the American Company, that his company used three times as many newspapers per unit of stations as the average company: ^{2/}

* * * I discovered, however, that one of the companies does not advertise in newspapers published in exchanges of less than 500 stations. I can't conceive of any justification of this policy from the standpoint of public relations. Personally, I would rather cut down on city papers than to cut out the smallest weekly newspaper published in a town in which we operate an exchange no matter how small the number of stations. * * *

Advertising Manager Rolfe, of Southern New England Telephone Company, said at the 1927 Publicity Conference: ^{3/}

* * * it should be borne in mind that as a part of our friendly relationship with the press we advertise consistently in the majority of newspapers in the state throughout the year * * *.

^{1/} Exhibit 601, Transcript of Hearings, pp. 4735-4741.

^{2/} Exhibit 2001, Transcript of Hearings, p. 6719.

^{3/} Pp. 92-93 of Exhibit 868, Transcript of Hearings, p. 5187.

Use of Advertising to Influence the Press.

Correspondence found in the files of Bell System Companies indicates a practice of using advertising patronage to influence the attitude of the press towards the telephone company in connection with rate matters, and generally to secure the good will of the press.

In 1923, advertising was placed in a special edition of the "Clarion Ledger" of Jackson, Mississippi, because the paper had been "very unfriendly toward the telephone company" ^{1/} and "We have been using continued efforts to bring this paper into line, and I feel that we have about accomplished our object." ^{2/} Apparently, a change in attitude on the part of the newspaper was brought about, for the following postscript appears on one of the intercompany letters calling attention to a clipping from the paper: "Notice clipping from Clarion-Ledger re: Attorney General injunction. The increased advertising has helped." ^{3/}

In 1923, the subscribers of Mullins, South Carolina, were complaining of the telephone service. Therefore, advertising was placed in a local newspaper, because "If we can keep the newspaper editor in a good frame of mind, possibly we will come out all right." ^{4/}

In 1927, instructions had been given to discontinue all advertising in weekly newspapers in South Carolina. Mr. Walter E. Duncan, owner of "The South Carolina Gazette" of Columbia, and the "Aiken Standard," protested, stating: ^{5/}

"The South Carolina Gazette" is a statewide weekly of large circulation and not a country weekly, and while the Aiken Standard is a county seat weekly, it is true, Aiken is a splendid point of business for your company.

^{1/} Transcript of Hearings, p. 4758.

^{2/} Id., p. 4759.

^{3/} Exhibit 625, Transcript of Hearings, p. 4761.

^{4/} Exhibit 627, Transcript of Hearings, p. 4762.

^{5/} Exhibit 605, Transcript of Hearings, pp. 4746-4747.

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Right now the Southern Bell is seeking to secure an increase in rates in Aiken, and your Mr. J. J. Roach who has had the matter in charge, will bear me out that I have been of assistance in this matter. There has been opposition.

I had hoped at the beginning of the year to have had more copy, * * *

Advertising in Mr. Duncan's papers continued, because, according to Mr. Spier, Southern Bell Manager in the Carolina's: 1/

* * * We have up with the Council of that Town [Aiken] and with the Railroad Commission the matter of an increase in our rates, and I think it advisable to do nothing at this time which would affect that situation.

The "Louisville American" of Louisville, Kentucky, was given advertising in 1928, for the reason stated by Mr. Webb, Southern Bell Manager in Kentucky: 2/

I am inclined to think that serious consideration should be given at this time to the carrying of an advertisement in this paper for at least a year as we will probably have a local rate case coming up here in July.

The "Winn Parish Enterprise," a newspaper at Winnfield, Louisiana, was placed on the list to receive Southern Bell Company advertising in 1926, because "This paper recently changed hands and the present Editor is of the right type and it might be to our [the company's] interest to do so." 3/

Complimentary advertisements were given in 1928 to a Birmingham, Alabama, newspaper published by one Thomas L. Cannon. The Southern Bell District Manager in Birmingham wrote to Evelyn Harris, General Manager, on December 19, 1927, as follows: 4/

1/ Exhibit 607, Transcript of Hearings, p. 4748.

2/ Exhibit 609, Transcript of Hearings, p. 4750.

3/ Exhibit 642, Transcript of Hearings, p. 4776.

4/ Exhibit 659, Transcript of Hearings, pp. 4800-4801.

* * * because this paper is being supported by all of the public utilities in the Birmingham district, and while I am of the opinion that we should give him an occasional advertisement, it was not my intention to put them on the regular schedule.

In view of the splendid work that is being done by Colonel Cannon in connection with his fight against the question of taxes against the State of Alabama, I thought it would be well to give him a complimentary advertisement.

In 1932, rate reduction agitation existed at Paducah, Kentucky, and the friendship of the editor of the "Sun Democrat" at Paducah was considered essential to the telephone company. ^{1/} Thus, Kentucky Manager Webb wrote as follows to General Commercial Manager Bars: ^{2/}

It is imperative that we know that we continue to have the good will of Mr. Mitchell and his newspaper. So far he has been just as nice to us as can be, and under the circumstances I do not see how we can avoid increasing our advertising appropriation at this point. * * * If our bill amounts to as much as thirty dollars per month now, certainly if we double that amount, he should be satisfied.

General Publicity Manager Harris supplied the desired advertising for one month only, pleading that the reduced advertising budget of the company rendered continued increased advertising impossible. ^{3/} However, Kentucky Manager Webb replied: ^{4/}

* * * We think it highly important, however, that the extra advertisement not be eliminated in July and August, and that we continue to give him at least one extra advertisement each month, even if it is necessary to cut down on some other newspaper in the state.

Increased advertising for those two months was forthcoming. In 1933, it appears that advertising in Paducah's "Sun Democrat" had increased so

^{1/} Exhibits 668 to 673, Transcript of Hearings, pp. 4810-4817.

^{2/} Exhibit 668, Transcript of Hearings, p. 4814.

^{3/} Exhibit 669, Transcript of Hearings, p. 4814.

^{4/} Exhibit 671, Transcript of Hearings, p. 4815.

U) that at least four three-column advertisements were being used monthly. Webb regarded the situation as being so bad that it was imperative to continue extensive advertising. 1/

Prior to 1935, Southern Bell Company advertised in "The Parish News" (Alabama). As part of its policy of retrenchment, the company eliminated this newspaper from its advertising schedule. Subsequently, the editor gave much publicity to the company in a rate hearing, and for the betterment of public relations it was decided that Southern Bell Company should resume advertising at this point in 1935. 2/

Considerations in the Selection of Newspapers for Advertising.

Often, one of the factors taken into consideration by Bell System Companies in the distribution of their advertising patronage has been the possible political influence of the newspaper owner or editor.

Southern Bell Telephone and Telegraph Company favored the "Everglades News," Canal Point, Florida, with advertising in 1929, although the company did not operate an exchange at that point, on the ground that it was "good policy" to do so, for the editor was a member of the House of Representatives of Florida. 3/ In recommending that the paper be given advertising, Florida Manager David Laird stated: 4/

Mr. Sharp [the editor] was a member of the last Legislature and was one of the few members who appeared to have a grudge against us. He voted in favor of practically every bill that was antagonistic to our interest and has expressed himself several times as being "agin the Bell Trust." * * *

Advertising was placed in 1932 with the "Carolina Watchman," a weekly newspaper of Salisbury, North Carolina, although it was realized

1/ Exhibit 673, Transcript of Hearings, p. 4816.

2/ Exhibits 674 to 676, Transcript of Hearings, pp. 4820-4821.

3/ Exhibit 680, Transcript of Hearings, p. 4828.

4/ Exhibit 679, Transcript of Hearings, p. 4825.

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that advertising "in that paper, we do not believe, would really do us any good," so far as telephone subscriber interest was concerned, and "would really be more in the way of a donation than anything else." The editor was a member of the State Legislature the preceding year, but was defeated in 1932. Notwithstanding the fact that the District Manager considered advertising in the Watchman a donation, it was felt by the local manager that the company's public relations would be improved, and some little advertising was allocated to it. ^{1/}

The "Elizabethtown News" (Kentucky) was favored with advertising beginning in 1924, because "the Editor of this paper is very influential in that section as well as in State politics." ^{2/}

The "Chilton County News," Clanton, Alabama, was selected for company advertising in 1927, because "Mr. J. B. Atkinson, owner of the 'Chilton County News,' is also Mayor of Clanton and a very influential attorney." ^{3/}

The "Flagler Tribune," Bunnell, Florida, in 1928, was given advertising, because the publisher of the newspaper "is Mayor of Bunnell, is very friendly toward the company and for sometime has been soliciting a part of our advertising." ^{4/}

The "Bourbon Stock Journal," Louisville, Kentucky, a trade publication, was selected as an advertising medium in 1925, because Kentucky Manager Webb felt the stock yards people were among the largest toll users: ^{5/}

^{1/} Exhibits 684-689, Transcript of Hearings, pp. 4829-4832.

^{2/} Exhibit 690, Transcript of Hearings, pp. 4833-4834.

^{3/} Exhibits 692 and 693, Transcript of Hearings, pp. 4835-4836.

^{4/} Exhibit 694, Transcript of Hearings, pp. 4836-4837.

^{5/} Exhibit 699, Transcript of Hearings, pp. 4840-4841.

* * * and because Mr. Birch, General Manager of the Stock Yard Company and the Editor of the Journal, has been very friendly and helpful to us in many matters, and I think that a few dollars spent with this paper will tend to maintain the cordial relations now existing between the Stock Yard People and this Company.

In 1933, the "Democrat Reporter" of Linden, Alabama, was placed on Southern Bell Company's advertising schedule. In urging that this paper be included, Alabama Manager Biard informed General Publicity Manager Harris that its editor, Robert Sutton, was also representative from that county. ^{1/} The Linden exchange had been recently acquired by the company.

Contributions in Lieu of Advertisements.

In some instances, Bell System Companies, in order to court the good will of the press, buy advertising space which is not used, considering this as a donation. Generally these donations, which are usually credited to charity, are to newspapers running special editions, in which the System, as a matter of policy, does not advertise. The obvious purpose of the companies in having the space credited to charity is to satisfy the paper concerned and at the same time not incur the ill will of the rival papers by having the space credited to the company.

Memoranda belonging to The Ohio Bell Telephone Company, indicate that \$1,875.08 was spent by that company for "Space bought during 1927 but no copy run in publications:" ^{2/} "Charity Advertising - 1931" shows expenditures of \$877.50. ^{3/}

Secrecy of Advertising Expenditures.

Notwithstanding the fact that millions of dollars are expended annually and thousands of employees are used to inform the public of

^{1/} Exhibit 704, Transcript of Hearings, pp. 4846-4847.

^{2/} Exhibit 936, Transcript of Hearings, pp. 5271-5272.

^{3/} Exhibits 936-937, Transcript of Hearings, pp. 5271-5272.

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policies, practices and news of the Bell System, the many millions of dollars that have been expended for advertising are generally guarded as a secret. When such figures are given, if at all, they are for confidential use, and the circumstances surrounding the instances of the release of this information indicate that the proposed use will result to the benefit of the System. For example, the American Newspaper Publishers' Association received statistics on newspaper advertising for 1931 from certain Bell System Companies. The use of these data was to be confidential, as indicated by a letter dated April 12, 1932, from T. T. Cook, Advertising Manager of the American Company, to William A. Thompson of the American Newspaper Publishers' Association, Chicago, Illinois. In this letter Mr. Cook said in part: ^{1/}

I know that some of them did specify that they were furnishing their expenditures in confidence and so, in the interest of prudence and uniformity, may we ask that you do the same thing with all?

It is evident that the American Company did not object to the Bureau of Advertising of the American Newspaper Publishers' Association knowing just to what extent Bell System Companies were contributing to the financial well-being of newspapers.

During 1932, the American Company received letters from stockholders questioning the necessity for the advertising expenditures of the company and expressing concern over these expenditures. Form letters were prepared for mailing to such correspondents. ^{2/} In these letters the company stated that it was convinced that advertising had sold many millions of dollars worth of telephone service and that it "is valuable in bringing good-will to the telephone industry." ^{2/} The extremely

^{1/} Exhibit 2003, Transcript of Hearings, p. 6719.

^{2/} Exhibit 867, Transcript of Hearings, pp. 5176-5178.

small expenditure for advertising when compared with the annual dividend was mentioned. The enlightening statement made in this instance was that advertising costs were but 1/150 of the amount of the annual dividend to stockholders: 1/

* * * In other words if it were discontinued altogether it would not essentially change the financial picture.

The stockholder who expressed concern over advertising expenditures was advised that it was insignificant so far as the financial picture was concerned, notwithstanding the fact that over \$6,800,000 had been spent by the Bell System for advertising during 1931.

The following is a statement of Bell System advertising expenses for the period 1922-1935, as supplied by the American Telephone and Telegraph Company to the Federal Communications Commission:

STATEMENT OF
BELL SYSTEM ADVERTISING EXPENSES 2/

<u>Year</u>	<u>Newspaper and Periodical Advertising</u>	<u>Total Advertising (Account 642)</u>
1922		\$2,405,794
1923		2,770,486
1924		3,229,000
1925		3,562,094
1926		4,124,697
1927		4,767,869
1928		5,966,675
1929		7,477,108
1930		7,173,279
1931	\$3,781,296	6,835,876
1932	3,297,251	5,482,858
1933	3,043,777	4,271,731
1934	3,209,333	4,645,217
1935	3,500,201	5,138,567

1/ Ibid.

2/ Exhibit 866, Transcript of Hearings, p. 5167. The Newspaper and Periodical Advertising Expenses shown are summations of the expenses of the Associated Operating Companies, the American Telephone and Telegraph Company General Department, and the American Telephone and

Editorial Good Will and Radio Advertising.

Though the Bell System is one of the greatest beneficiaries of radio broadcasting through the leasing of long lines for program transmission, and though many large advertisers have used radio as a means of bringing their message to the public, the American Company has done comparatively little advertising by radio.

From a letter dated September 27, 1934, from N. W. Ayer & Son, Inc., Advertising Agents for the American Company, to the company, it is inferred that there are two major considerations involved which the company fears might prove embarrassing if the radio should be used extensively. ^{1/} These are: the probable effect upon the established good will of the editors, and the possibility that the public's attention would be drawn to the amount of money that is being spent for advertising. N. W. Ayer & Son, Inc. recognized the value of editors' good will, placing it second only to patents. They recognized also the possibility that the rate payers might wonder why rates for service could not be reduced if a utility could spend so much money for advertising.

(continued from preceding page)

Telegraph Company Long Lines Department. The sources of these figures are indicated below:

Associated Operating Companies - 1931 Newspaper and Periodical Advertising (Account 642-26) as reported on the form "Provisional Estimate of Advertising Expense - Account 642" (partly estimated); 1932-1935 - Newspaper and Periodical Advertising (Account 642-26), as reported on Monthly Analysis No. 12.

American Telephone and Telegraph Company General Department - 1931-1935 - Cost of Space and Cost of Collateral Work, as reported on C. R. 38.

American Telephone and Telegraph Company Long Lines Department - 1931-1935 - Cost of Space and Cost of Collateral Work, as reported on Monthly Report No. 59 of the Long Lines Department. Data prior to 1931 are not available.

The Total Advertising Expenses shown for each year of the period 1922 through 1935 are the Advertising Expense (Account 642) reported on Bell System Monthly Report No. 5.

^{1/} Exhibit 2002, Transcript of Hearings, p. 6719.

Comments in this letter which establish the fact that press relations are considered a most important part of the American Company's advertising program follow: 1/

No new advertising medium should be added in 1935 that would give too much visibility. Utilities and communication systems are under attack, or investigation. People would be quick to sense anything spectacular and might consider it a defensive measure, * * *.

Present advertising expenditures of the Bell System can be defended as normal -- * * *. A sudden spectacular increase could not be defended so easily.

The common knowledge that radio broadcasting involved large expenditures was discussed, and the relationship of such expenditures to rate questions was touched upon. "If they can spend all that money on the air, why can't they reduce the rates?" 1/

The financial difficulties of many publishers as a result of the depression was discussed, although editors were said to blame the depression for only a part of the blow: 1/

* * * Radio is their pet hate. They are always adding up the amount of money spent on the air and figuring how it would help if it were spent in their columns.

* * *

* * *

* * *

* * * The whole organization knows that advertising pays the freight.

That many editors and publishers looked upon radio as a threat to the existence of the newspaper was stated.

This writer placed the good will of editors and writers second to patents. "It should be preserved. A single editorial might open a rate case that would cost millions of dollars." 1/

The writer further discussed the possibility of securing good will of radio broadcasters, as well as possible unfavorable repercussions through the use of only a portion of available broadcasting stations, pointing out the impossibility of using all available broadcasting stations because of the tremendous cost involved.

1/ Ibid.

CHAPTER V

BELL SYSTEM SUBSIDIES TO PUBLICATIONS AND AUTHORS

The asserted policy of the Bell System in regard to the preparation and distribution of publicity is stated to be, first, "to sign nothing we have not written and to write nothing that we cannot sign," ^{1/} and, second, "we never issue any publicity through anyone except the proper channels in the Bell System." ^{2/} A. W. Page, Vice President of the American Company, testified that these were the "general" policies of the System. ^{3/}

Examination of the System's files, however, indicate that the above statements of policy have not been followed wholly; that the System frequently writes material which it does not sign, and occasionally has signed material which it has not written; further, that the company consistently has distributed publicity material through channels which are not commonly believed to be part of the Bell System. The evidence shows that the Bell System has disseminated propaganda, sub rosa, through subsidized newspapers, news agencies, and books.

Subsidized Newspapers.

The preparation and distribution of publicity for the Bell System to be discussed herein does not include material which bears the Bell symbol, appears in American Company or Associated Company publications, or otherwise shows clearly its source. This chapter considers only the preparation and distribution of publicity material favorable to the Bell System, which is accomplished in an indirect fashion, by

^{1/} Exhibit 880, Transcript of Hearings, pp. 5210-5212.

^{2/} Exhibit 883, Transcript of Hearings, pp. 5213-5216.

^{3/} Transcript of Hearings, pp. 5210-5216.

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subsidized agencies. Special attention will be given in this chapter to newspapers and authors subsidized by a Bell System Company for the specific purpose of having favorable news items, reprints or editorials, published by newspapers, or to have books prepared on telephony and issued under the name of the author without indicating the financial support of the Bell System.

There have been two definite examples of subsidization of newspapers found in the files of Bell Companies. Both newspapers are in the field of "labor" press, being entitled "The Union" and "Work."

Payments to "The Union," of Indianapolis, Indiana.- "The Union" at the time covered herein was a newspaper published at Indianapolis, Indiana. It claimed to be "The Oldest Labor Paper in the United States" and to have the endorsement of the State Federation of Labor.

"The Union" had printed previous to April, 1918, a series of articles under the general title "How About Conserving the Public Utilities." M. B. Hennessey, Associate Editor of the paper, offered to the American Company these articles reprinted in pamphlet form at \$25 per thousand. ^{1/} The American Company ordered, in all, during 1918, 45,400 copies, to be distributed according to a list supplied by the company.

Subsequently, in 1919, the American Company ordered 10,000 copies of an article entitled "American Labor Must Destroy Bolshevism," and 10,000 copies of an article entitled "Adequate 'Phone Rates Must Be Provided" ^{2/} at \$12.50 per thousand.

During the seven-year period from 1918 to 1924, inclusive, the American Company continued to subscribe for articles to be reprinted

^{1/} Exhibit 930, Transcript of Hearings, pp. 5265-5270.

^{2/} Exhibit 931, Transcript of Hearings, pp. 5265-5270.

and distributed in pamphlet form by "The Union." The articles were, in general, favorable to the utility and telephone interests, and covered labor, political and legislative subjects. ^{1/}

A total of \$3,507.02 was paid to "The Union" during the years 1918-1924, inclusive, by American Telephone and Telegraph Company. ^{2/} By totaling the number of copies of "The Union" and reprints and pamphlets made from its articles which the American Company ordered, there appears to have been a distribution of 120,400 such reprints, pamphlets, etc.

Payments to "Work," a labor paper, Columbus, Ohio.- Another example of subsidization of a newspaper through payment by American Telephone and Telegraph Company or an Associated Company in return for the printing of favorable news or editorial matter is the newspaper "Work," published in Columbus, Ohio.

In a letter dated November 13, 1925, the Assistant to the President of The Ohio Bell Telephone Company (Mr. D. H. Morris) wrote to President C. P. Cooper as follows: ^{3/}

Mr. Moran of Columbus, Ohio, has been to see me again with reference to a contribution to his publication entitled "Work." Mr. Moran is a former labor leader, one time head of miners' unions in Pennsylvania and Ohio.

For a number of years he has been publishing a paper in Columbus entitled "Work," the objectives of which are indicated by the attached circular. Mr. Reed was accustomed to make a contribution to him from time to time and that has been continued up to about a year ago. On October 1st last year with your approval the Publicity Department paid Mr. Moran \$100.00 and Mr. Moran ran in his publication your story on the Telephone Situation in Ohio as reading matter.

I would recommend that Mr. Hardman be authorized to again contribute \$100.00 to Mr. Moran and that he supply Mr. Moran from time to time with reading matter relative to the Columbus situation which might be beneficial to our case.

^{1/} Transcript of Hearings, pp. 5265-5270.

^{2/} Exhibit 929, Transcript of Hearings, pp. 5262-5263.

^{3/} Exhibit 935, Transcript of Hearings, pp. 5271-5272.

The above letter indicates that in 1924 The Ohio Bell Telephone Company was able to obtain favorable publicity in a "labor" newspaper, which publicity was written by the company, in return for a payment to the newspaper "Work." Ohio Company officials were in favor of continuing that arrangement in 1925.

Information available indicates that similar contributions were made to "Work" for three additional years, at least, although it is not known definitely whether publicity favorable to the Ohio Company was carried in the columns of "Work" during those years.

A memorandum from the Ohio Company headed "Space Bought During 1927 But No Copy Run in Publications - Probably Same Amount During 1928" ^{1/} states that \$100 was paid to "Work." A similar memorandum for 1931, entitled "Charity Advertising," carries a payment to "Work" of \$100, dated February 4, 1931. ^{2/}

Subsidized News Services.

By the use of certain news services, the Bell System has been able to obtain publicity favorable to itself, and to have such publicity widely circulated. The two best known avenues for distribution of propaganda by public utilities, and formerly widely used by them, were the publications issued by E. Hofer & Sons, commonly known as the "Hofer Service," and the state public utilities information committees.

The publicity service of E. Hofer & Sons is referred to many times in the Federal Trade Commission report on propaganda activities of electric and gas associations. ^{3/} In the files of American Telephone

^{1/} Exhibit 936, Transcript of Hearings, pp. 5271-5272.

^{2/} Exhibit 937, Transcript of Hearings, pp. 5271-5272.

^{3/} Exhibit 888, Transcript of Hearings, p. 5272. Also "Summary Report of the Federal Trade Commission to the Senate of the United States, Pursuant to Senate Resolution No. 83, 70th Congress, 1st Session, on Efforts by Associations and Agencies of Electric and Gas Utilities to Influence Public Opinion," pp. 92-98.

and Telegraph Company there appears much correspondence between James D. Ellsworth, head of the Information Department and Assistant to the President until his retirement in 1927, and R. M. Hofer, manager of "The Manufacturer" and "Industrial News Bureau," commonly called the "Hofer Service."

Apparently, American Telephone and Telegraph Company's connection with the Hofer Service was maintained actively, from approximately 1918 to 1925, inclusive. Sporadic communications between the two organizations continued until 1929. At the present time, American Telephone and Telegraph Company apparently has no relations with the Hofer Service.

The Hofer Service was a syndicated news service, and published a "news sheet" giving news and editorial comments, which was sent to newspaper throughout the country, ^{1/} particularly in the Northwest. The service was conducted without charge to the papers for the articles they received. The Federal Trade Commission Report on Utility Corporations, No. 71A, stated that the Hofer Service represented itself to be an independent publication dissociated from direct connection with any industry, in spite of the fact that 50 per cent of its support came from the utility interests, including the Bell System. ^{2/}

The news articles and publicity issued by Hofer Service in behalf of the Bell System were often written, and always distributed, at the instance of the System, a fact which was very unlikely to have been known to those persons who used the releases of the Hofer Service. ^{3/}

In response to a request, American Telephone and Telegraph Company furnished an itemized list of payments to E. Hofer & Sons by

^{1/} Exhibit 956, Transcript of Hearings, p. 5292.

^{2/} P. 95 of Exhibit 888, Transcript of Hearings, pp. 5273-5274.

^{3/} Transcript of Hearings, pp. 5284-5304, inclusive.

the Bell System Companies. A total of \$102,306.76 was paid from 1915 to 1931, the bulk of such payments being in the period from 1923 to 1928. Payments were made monthly during this period, with few exceptions, each payment being \$1,200. The purpose of the payment was stated to be a "Subscription to Industrial Development Campaign, including proportionate share of subscription price 'The Manufacturer' sent to Newspapers." ^{1/}

All the above payments were made to the end that publicity favorable to the System might be introduced into a number of newspapers in the United States, which totaled 14,000 at one time (November 5, 1924), according to a statement of R. M. Hofer, Manager of the Hofer Service. ^{2/}

Subsidized Magazines.

"Public Utility Reports" and "Public Utilities Fortnightly."- The Federal Trade Commission revealed that "Public Utilities Reports Annotated" and "Public Utilities Fortnightly," the first being reports of state utility commissions and court decisions affirming or revising the commission decisions, and the second a publication of material of interest in the utility field, have been subsidized by the utility interests. There was no indication, however, that American Telephone and Telegraph Company had been one of the subsidizers.

The subsidizing arrangement which was originated in 1915, and apparently continued until 1930, roughly consisted of the formation of a Utilities Publication Committee, composed of certain persons delegated by utility interests. Certain utilities agreed to contribute a maximum annual subscription each year, which was held by Bankers Trust

^{1/} Exhibits 940 and 941, Transcript of Hearings, pp. 5277-5278.

^{2/} Exhibit 956, Transcript of Hearings, p. 5292.

Company of New York City as trustee. The Utilities Publication Committee used such funds held by the trustee to prepare and publish the two publications in question. Headquarters of the Utilities Publication Committee were in the Munsey Building in Washington, D. C.

American Telephone and Telegraph Company participation.-

The American Company, as one of the subsidizing interests, known as the "underwriters," agreed to contribute a maximum of \$6,000 annually, from January 1, 1915 to January 1, 1930. ^{1/} Under the agreement, the American Company paid during the period from 1916 to 1928, a total of \$15,150. ^{2/} A similar underwriting agreement was continued for five years from January 1, 1930, under which \$10,000 annually was to be contributed by the American Company. Payments of the annual subscription were made in response to calls by the trustee.

However, shortly after this last agreement was entered into, doubt as to its advisability was expressed by American Company executives. Thus, Vice President Page wrote to Vice President Wilson asking to have restated for his benefit the connection between the American Company and the publications. He wrote on July 16, 1930: ^{3/}

As I understand it our only connection with magazine Public Utilities is to buy a certain number of copies? I ask this because I think it possible since they have become more a magazine and not a mere publication of commission rulings, that they will be looked upon by the Senate as a piece of public utility propoganda. I think, therefore, we ought to know just what our relationship to it is.

The above query from Page may have been the forerunner of a memorandum from Wilson to Vice President Carter on December 1, 1930,

^{1/} Exhibit 1033, Transcript of Hearings, p. 5392.

^{2/} Exhibit 1034, Transcript of Hearings, pp. 5392-5394.

^{3/} Exhibit 1036, Transcript of Hearings, p. 5401.

U) which indicates that the advisability of the method of subsidization being followed was in question. After reminding Carter of the P. U. R. Trustees' meeting to be held in Philadelphia during the week of December 1, Wilson discusses "the points which we want to present:" 1/

Sooner or later the information will come out that these reports are supported by the "big interests." When this fact is disclosed the situation would be embarrassing for all of the Trustees and perhaps the Underwriters.

The Press no doubt realizes that this publication is subsidized and a publication which is subsidized would receive little or no sympathy from the Press of the country.

Any publicity or information that we put out, we desire to put out over our own name and not by others. * * * In view of Senator Norris' threat to make the power question an issue in the coming campaign, it may be advisable to be rid of any embarrassing situation that may be avoided.

The editor and publisher should be absolutely free to take the stand on investigation or inquiry and state that he reports to no one for the policy of the magazine. * * *

We will not name a substitute for E. K. Hall on the Committee.

It appears, however, that Wilson was not averse to subsidization of the publications, but only to the way in which it was being done, for he continued: 1/

1/By canceling the Trustee's Agreement and agreeing to take so many subscriptions/ the same results would be accomplished to the embarrassment of standing sponsor for any publication that may be issued.

We recommend that all Trustees' Agreements be cancelled, that all underwriters be interviewed, and that the amount be taken in subscriptions to the magazine with the understanding that editors and publishers are free to conduct discussions in any way that seems desirable at the time. If necessary we will pay the full \$10,000 for additional subscriptions although we will probably not be called upon for more than \$7,500 of the \$10,000 underwriting under the present arrangement.

1/ Exhibit 1038, Transcript of Hearings, p. 5403.

For the year 1930, the last year in which the old arrangement of "underwriting" the publications was maintained, a total of \$10,000 annually was guaranteed to the Utilities Publication Committee, as previously pointed out. That amount was paid for 1930, for which 525 subscriptions to "Public Utilities Fortnightly" and 50 subscriptions to "Public Utility Reports" were received by the American Company. ^{1/}

The new scheme of subsidization suggested above, that is, agreeing to take subscriptions instead of an outright payment of money, was followed. An order dated May 19, 1931, signed by Vice President Page of the American Company, directs "Public Utilities Fortnightly" to enter 533 subscriptions to that publication and 47 subscriptions to "Public Utility Reports" for the years January 1, 1931 to December 31, 1934. The grand total of the above order was an annual liability of the American Company for \$9,992.50. ^{2/}

In 1935, the number of subscriptions was reduced by the American Company from 533 copies of "Public Utilities Fortnightly" and 47 copies of "Public Utility Reports" to 435 copies of the former and 38 copies of the latter, the American Company paying \$9,113.75 during 1935. ^{3/} In 1936, the subscriptions were further reduced to 429 copies of "Public Utilities Fortnightly" and 40 copies of "Public Utility Reports," the American Company paying \$8,235. ^{3/}

Subsidized Books.

Three books which may properly be described as propaganda for the Bell System have been prepared and published under the auspices of American Telephone and Telegraph Company. In each case the author of

^{1/} Exhibit 1035, Transcript of Hearings, pp. 5392-5394.

^{2/} Exhibit 1033, Transcript of Hearings, pp. 5393-5402.

^{3/} Exhibit 1035, Transcript of Hearings, pp. 5392-5394.

U, the book was paid by the American Company for its preparation, and the company secured a publisher for the volume after it was written. In no case did the connection of the American Company with the volumes appear on the books themselves.

The three subsidized books are: "History of the Telephone," by Herbert N. Casson, published by A. C. McClurg & Company (Chicago) in 1910; "Government Telephones," by James F. Mavor, published by Moffat, Yard & Company (New York) in 1916; and "The Telephone Idea," by Arthur Pound, published by Greenberg, Incorporated (New York) in 1926.

Casson's "History of the Telephone." - This book is a story of the original invention of the telephone, with emphasis on the early struggles of Alexander Graham Bell, including the patent litigation, an explanation of telephone problems, and a comparison of the Bell Telephone System with those in foreign countries, closing with a denunciation of governmental ownership of telephone systems. ^{1/}

The author, Herbert N. Casson, was formerly an editor on the staff of the "New York World" and later on "Munsey's Magazine." At the time of the preparation of the "History of the Telephone," he was engaged as a lecturer and independent writer. In addition to preparing "History of the Telephone," Casson was used by utility interests in 1927 when reprints of an article of his dealing with the British Government's housing program were distributed by the Joint Committee of National Utility Associations. ^{2/}

Information furnished by the American Company indicates that a total of \$8,414 was paid to Casson by the company; \$2,014 in 1909, \$400 in 1910, and \$6,000 in 1914. ^{3/} The first payment, for "historical work," apparentl:

^{1/} Exhibit 886, Transcript of Hearings, p. 5217.

^{2/} P. 136 of Exhibit 888, Transcript of Hearings.

^{3/} Exhibit 889, Transcript of Hearings, p. 5223. Also American Telephone and Telegraph Company voucher 12322, December 31, 1909.

was Casson's fee for writing "History of the Telephone," since such payment coincided in date with that of publication of the volume. The larger payment in 1914 was for "services and expenses."

The distribution of the volume was arranged through the publishers, A. C. McClurg & Company. Correspondence of the American Company shows that there was no indication given to the party receiving the book, whether a reviewer or a library, that it had been prepared or distributed by American Telephone and Telegraph Company. ^{1/} Thus, to an outsider, the book seemed to have been written in the usual fashion by a free-lance journalist who had arranged with McClurg & Company, as publishers, to distribute it for him.

On September 13, 1910, Browne, for the publishers, wrote to J. D. Ellsworth, Assistant to the President of the American Company, concerning a list of libraries to which the book could be distributed. Apparently, it was contemplated to distribute 6,500 volumes in that manner. Browne continued: ^{2/}

The enclosed is an example of the slip we usually send out with our review copies of books. Will this be satisfactory for the Telephone book, or do you want a special slip stating that the book comes with the compliments of your Company? Also please let us know if a special slip is to be printed for copies going to Libraries, etc., stating that the book is sent with the compliments of your Company, or should we print our own slips as though the book comes from us?

On September 17, 1910, Ellsworth replied: ^{1/}

Your regular slip to the Editor is all right, and I think that the slips to libraries, etc., should also go over your Company's signature.

^{1/} Exhibit 892, Transcript of Hearings, p. 5227.

^{2/} Exhibit 893, Transcript of Hearings, p. 5228.

It is not known exactly how many copies of the book "History of the Telephone" were distributed. A letter from the publishers dated November 1, 1910 states that 10,230 copies had been distributed at that time, presumably to librarians, technical and popular journals, reviewers, etc. ^{1/} Since that date, the idea has recurred at least twice to republish and distribute copies of the book. It has been reprinted at least once.

On January 11, 1922, W. P. Banning, Assistant to the Vice President of the American Company, ordered a special edition of 250 copies of "History of the Telephone" at a cost of \$1.50 per copy, to be printed by the publisher, A. C. McClurg & Company. ^{2/} There is no indication to whom these volumes were distributed.

Again, on April 28, 1925, Banning wrote a memorandum to his superior, Ellsworth, reading as follows: ^{3/}

Referring again to the idea of reprinting the Casson book with supplementary illustrated chapters bearing hard on telephone development, System growth and universal service, etc., it occurs to me that such a revision might be usefully distributed with the compliments of Associated Companies, as a souvenir of the fiftieth birthday as follows:

- 1.- To all public utility commissions;
- 2.- The Interstate Commerce Commission;
- 3.- Selected judges;
- 4.- Certain editors;
- 5.- Certain special writers, such as financial columnists;
- 6.- Certain college presidents, college professors, normal school instructors, college libraries, state, county and municipal school superintendents;
- 7.- Certain other public men, particularly lecturers, evangelists, popular preachers.

Mavor's "Government Telephones." - "Government Telephones" is a discussion of government ownership and operation of the telephone

^{1/} Exhibit 896, Transcript of Hearings, p. 5228.

^{2/} Exhibit 899, Transcript of Hearings, p. 5229.

^{3/} Exhibit 900, Transcript of Hearings, p. 5231.

service in Manitoba, Canada. The volume is a strong condemnation of government ownership of utilities. It comprises three chapters, consisting of an account of, first, the development of telephone service in Manitoba under the private operation of The Bell Telephone Company of Canada, culminating in a public demand for lower rates, which eventually was answered by sale of the Bell Company to the Provincial Government; second, operation of the telephone service under the Government Commission and extensive criticism by the author of alleged political mismanagement, deceptive accounting methods, uneconomical construction policy of the Commission, etc., which resulted in increased rates and the appointment of a Royal Commission to investigate the Telephone Commission; and third, the reorganization of the Telephone Commission, the author's criticisms of the new commission being similar to his criticisms of its predecessor. ^{1/}

The author, James N. Mavor, was professor of political science at the University of Toronto. He died sometime prior to May, 1926. Apparently, he was a prominent economist in Canada, where he had made several studies of government ownership of utilities during his lifetime. Professor Mavor is mentioned frequently in the Federal Trade Commission's summary of utility efforts to influence public opinion, where it appears that he was subsidized by the National Electric Light Association in 1925, that organization having distributed copies of Mavor's book "Niagara in Politics," a condemnation of the Ontario hydroelectric system, which was a venture in government ownership. ^{2/}

Information furnished by the American Company indicates that a total of \$2,050 was paid to James N. Mavor for the years 1914, 1915

^{1/} Exhibit 885, Transcript of Hearings, pp. 5217-5232.

^{2/} Pp. 114-115 of Exhibit 888, Transcript of Hearings, p. 5218.

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and 1916 for "Special services and expenses." ^{1/} Although the connection of the American Company with the preparation and publication of the volume is not shown in the volume, it apparently handled the publication and distribution of the copies. It is not known just how wide a distribution of "Government Telephones" was made by the American Company, but it was, apparently, sent to reviewers and public and college libraries.

Pound's "The Telephone Idea." - "The Telephone Idea" is the most elaborate of the three propaganda books which have been prepared under the American Company's auspices. Written in a flowing style, it sets out briefly the history of the invention and development of the telephone and sketches its present social importance, making occasional references to the quality of management of the American Company, the diversity and number of its stockholders, etc. ^{2/} Arthur Pound, the author, has served as editor and contributor to prominent newspapers in the United States. At the time he was commissioned to write "The Telephone Idea," he was serving as editor of the "Atlantic Monthly Press" and associate editor of "The Independent." ^{3/}

Information furnished by the American Company indicates that a total of \$2,385.12 was paid Arthur Pound by the company between the dates February 5, 1926 and November 8, 1926. Of that total, \$2,200 consisted of payments made at irregular intervals in return for "special services," the remaining \$185.12 being payments for traveling expenses. ^{4/}

After the book had been prepared by Pound and approved by the American Company, it was not easy for the company to secure a publisher.

^{1/} Exhibit 889, Transcript of Hearings, p. 5234.

^{2/} Exhibit 887, Transcript of Hearings, p. 5241.

^{3/} Transcript of Hearings, pp. 5242-5243.

^{4/} Exhibit 910, Transcript of Hearings, p. 5245.

The first publisher approached was Macmillan Company of New York City, which declined to publish "The Telephone Idea." Macmillan Company wrote the American Company in October, 1926: 1/

While the propaganda or publicity elements are very skillfully constituted, the book still is propaganda or publicity, and while perfectly legitimate in its own field would seem a bit out of place on a general publisher's list.

The second publisher contacted, Payson and Clarke, Ltd. (New York City), also declined to publish "The Telephone Idea," replying that it was "too obviously propaganda." 2/

The author, however, had evidently been active in attempting to find a publisher after he had been advised by Ellsworth of the Macmillan Company's refusal to undertake publication of "The Telephone Idea," for he wrote to Ellsworth on October 12, 1926, on the stationery of Greenberg, Publisher, Inc., stating that Greenberg had agreed to do the projected work. 3/ It should be observed that Pound apparently realized that it would be difficult to secure any of the better known general publishers, and that it was necessary to obtain a publisher whose book list would allow inclusion of "The Telephone Idea" without the nature of that volume being obvious. This conclusion is justified from Pound's letter mentioned above, which read as follows: 3/

Mr. J. W. Greenberg agrees to publish upon the following basis:

He will pay you \$.55 a copy.

He will sell in lots of 100 or more to subsidiaries of yours at \$1 a copy.

He will sell to the book trade at \$1.50 less the usual trade discount of 40%, \$1.50 being the list price.

1/ Exhibit 916, Transcript of Hearings, pp. 5250-5251.

2/ Exhibit 918, Transcript of Hearings, pp. 5251-5252.

3/ Exhibit 919, Transcript of Hearings, pp. 5252-5253.

He will catalogue the book, ship, bill, etc. * * *

U, I have known G. for five years, and can vouch for him as thoroughly dependable. He has lately merged with Warshaw and so his list will carry enough works on economics and sociology to make the inclusion of our book seem logical therein.

Upon receipt of the above letter, Ellsworth evidently communicated with Greenberg immediately, for a letter from J. W. Greenberg of Greenberg, Publisher, Inc., dated October 15, 1926, confirms "the arrangement which we made yesterday at your office, covering the method and terms of our handling the publication of THE TELEPHONE IDEA." ^{1/} Briefly, the arrangement consisted of: (1) a promise by the American Company to print a special de luxe edition of 1,000 copies of the book to be distributed gratis among American Company officers and their friends; (2) a promise by the American Company to print and bind a regular edition of 10,000 copies, 2,000 of which were to be retained by the American Company for its own use; (3) the remaining 8,000 copies were to be held by the binders for distribution by Greenberg, who alone might sell them; (4) for each copy sold by Greenberg, the American Company was to receive \$.55; (5) the book was to be published at \$1.50, selling to the book trade at the usual discounts; (6) copies were to be sold to all Associated Companies of the Bell System in lots of 100 or more for the price of \$1 per copy; (7) additional copies desired by the American Company were to be purchased from Greenberg; (8) the book was to be listed in the catalogue of Greenberg, Publisher, Inc.; and (9) the publisher also would take care of all shipping, billing and collecting.

The effect of the above agreement is significant. The American Company desired to have "The Telephone Idea" published, but

^{1/} Exhibit 920, Transcript of Hearings, pp. 5254-5255.

did not want the book to appear to be privately published, nor did it want its own connection with the volume to appear. Therefore, it entered into an agreement with Greenberg as publisher, which provided that he should "publish" the book, carry it on his book list, and attempt to sell it to the retail trade at the usual discounts, and do all the shipping, billing and collecting incidental to all sales. Also, he would sell all copies to the Associated Companies of the Bell System, having that exclusive right, for \$1 each, paying in turn \$.55 to the American Company. For the use of his name and his appearance as a normal wholesale publishing outlet, therefore, Greenberg was to receive \$.45 for each copy of "The Telephone Idea" which was sold, although (as appears below) he was not required to print or bind the book, those arrangements and expenses incidental thereto being handled by the American Company. Since all the actual work of preparation and publishing of the book was attended to by the American Company, Greenberg served merely as an agent for distribution of the volume, so that to an outsider the connection of the American Company with the volume would not appear. Of course, the printed volume itself discloses no such connection. ^{1/}

Although normally the publisher of a book attends to the printing and binding as part of his publishing duties, in the case of "The Telephone Idea" the American Company, through J. D. Ellsworth, engaged the printers and delegated to them the task of selecting the binders for the work.

Sidney A. Storer (New York City), printer, contracted with the American Company to produce the book, at a price of \$.55 each for the regular edition and not more than \$2.20 each for the special

^{1/} Transcript of Hearings, pp. 5255-5257.

edition. ^{1/} It should be noted that Greenberg, the publisher, had previously contracted to pay the American Company \$.55 for each volume of the regular edition of "The Telephone Idea" which he sold to the Associated Companies. In accord with that agreement, on October 19, 1926, Storer, the printer, notified Ellsworth that 8,000 copies of the regular edition of "The Telephone Idea" had been placed at the disposal of Greenberg, Publisher, Inc. ^{2/} and that 2,000 copies of the regular and 1,000 copies of the special edition would be delivered to Ellsworth.

The first correspondence with the Associated Companies regarding distribution of "The Telephone Idea" occurred in December, 1926. It is not know whether they had been advised of the preparation of the book previously or not. However, on December 9, 1926, Ellsworth wrote to the publicity managers of all Associated Companies, sending each of them twenty sample copies of the volume. ^{3/} After stating that President Gifford of the American Company was sending copies of the special limited edition to all presidents and directors of the Bell System, and that the American Company was attending to distribution in public and college libraries, Ellsworth continued: ^{3/}

I assume that you will wish to handle such distribution of this book as seems desirable to the public utility commissioners, newspaper men and others.

The book is published by Greenberg, Publisher, Incorporated, 112 East 19th Street, New York, and we have arranged that you may buy it of him in lots of one hundred or more at the rate of \$1.00 a copy. Beyond this first sample distribution, which we are making, we also buy at the same price.

This book is not designed for a widespread distribution. We hope, however, that it may interest thinking men and give them, in a brief time, some of the high lights of the telephone industry. Moreover, if newspaper editors are interested in it, it may be a means of some favorable publicity.

^{1/} Exhibit 921, Transcript of Hearings, p. 5258.

^{2/} Exhibit 922, Transcript of Hearings, p. 5257.

^{3/} Exhibit 925, Transcript of Hearings, pp. 5259-5260.

Ellsworth's suggestion was apparently received with enthusiasm. The thorough distribution made of "The Telephone Idea" by the various Associated Companies indicates that the book was considered to have great public relations value. Of the regular edition of 10,000 volumes, there were but 1,000 still undistributed, and of the special limited edition of 1,000 there were still 450 undistributed, in December, 1934. ^{1/}

^{1/} Exhibit 928, Transcript of Hearings, p. 5261.

CHAPTER VI

ACTIVITIES IN CONNECTION WITH REGULATORY COMMISSIONS

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In all but three states, namely, Delaware, Iowa and Texas, the power to regulate the rates and services of telephone companies and other public utilities is vested in state commissions.

Officials of Bell System Companies have made it a practice, apparently, to contact personally members of the commissions whenever possible, and repeatedly hold informal conferences with commissioners at which the subject of rates and pending decisions is discussed. Bell System officers go a long way to ingratiate themselves with commissioners. For instance, free telephone service is allowed in the residences of the members of the commission in four of the states served by Southern Bell Company. This service is apparently not authorized by the statutes of the states wherein the concessions are granted. Furthermore, Bell System officers have sought in some cases to influence commission action indirectly by endeavoring to have certain unfriendly commissioners or commission engineers removed from their positions. They have sometimes interfered with antagonistic officials and witnesses. By the practice of suppressing criticism at its source, the System has kept from commission attention and from public prints, evidences of discontent with its policies and practices and movements for reductions in rates.

Relations with Commissions.

North Carolina.- The North Carolina Corporation Commission started in 1932 a general inquiry into the matter of rates of all public utilities, including telephone companies, in response to public sentiment and protests. A great many of the complaints to the commission pertaining to the telephone companies were in regard to the monthly fifty-cent hand set charge, one of the strongest complainants being the City

of Asheville, North Carolina. ^{1/} Members of the North Carolina Commission were immediately contacted by Southern Bell officials, and attempts were made to settle the question in the commissioners' minds before the opposition had had any opportunity to present its side of the case.

G. C. Cauthern, District Manager at Raleigh, wrote General Counsel E. D. Smith in June, 1932, stating: ^{2/}

I had a very satisfactory meeting last Friday with Commissioner Winborne and went over with him in detail the Asheville situation. Up to this writing the Commission has not received the petition from the Asheville citizens in connection with rates on handsets and elimination of toll charges between Arden and Asheville.

Copy of the Asheville franchise together with your brief was presented to Mr. Winborne and we went over together the different points brought out in your letter. Mr. Winborne expressed himself as being very much pleased with the manner in which you presented the matter. It is my opinion that the Commission is in agreement with us on these two questions.

The next paragraph of Cauthern's letter indicates that one of the members of the North Carolina Commission had already formed an opinion as to the reasonableness of the hand set charge: ^{2/}

After having discussed the different phases of the question, Mr. Winborne took occasion to read to me a part of a letter which he had just written to a party in Greensboro in answer to complaint about our failure to make reduction in rates. The arguments presented by Mr. Winborne were very much along the lines of the Alabama Commission's recent presentation. He also related to me his experience in handling a recent complaint from Mr. C. W. Tillett, a prominent attorney of Charlotte, N. C., with reference to rates on hand sets. He said that his explanation was so satisfactory to Mr. Tillett that he received a very complimentary letter in which Mr. Tillett advised him that after having had the matter presented in such a clear way that he was satisfied that the rates on hand sets was entirely justifiable.

^{1/} Pp. 5003 and 5004 of Transcript of Hearings.

^{2/} Exhibit 812, Transcript of Hearings, pp. 5003-5010.

5 The two letters mentioned in the above quotation were not the only letters Winborne wrote in defense of the hand set charge, however, for in July, 1932, he wrote C. M. Ketchum, Secretary of the Greensboro Chamber of Commerce, a closely typed two-page letter, a copy of which Winborne sent to Morgan Speir, Carolina's Manager of Southern Bell. In his letter to Ketchum, Winborne argued that the "French" type telephone was optional and a luxury, and, therefore: ^{1/}

* * * it is wiser to require a customer, who wants this luxury service, to pay the additional charge rather than to require the customer, who is satisfied with the standard equipment, to pay a rate sufficient to offset the revenue which would be lost by the abolition of the extra charge for the luxury phone. Furthermore, if there were not extra charge made for this type of phone and there was general demand made for the installation of same, the phone companies would be required to expend thousands of dollars for new equipment and discard old equipment for which it could realize nothing, as they now have a great surplus on hand. * * *

The Southern Bell Company case was protracted, and late in April, 1933, Fred Turner, the Carolina's Manager, had an informal conference with the "active member of the Commission," Commissioner Winborne, regarding a proposed public hearing to be held in May, 1933, and the type of information and data to be presented by Southern Bell Company.

This is disclosed in an unaddressed and unsigned memorandum dated April 27, 1933, found in the files of C. M. Bracelen, General Counsel of American Telephone and Telegraph Company, entitled "Memorandum of conversation with Mr. Fred Turner, Carolina's Manager, today." In the upper left-hand corner of this memorandum are the words "Confidential & to be Destroyed," written in the handwriting of E. D. Smith, General Counsel of Southern Bell Company. ^{2/} The memorandum states that Turner: ^{3/}

^{1/} Exhibit 813, Transcript of Hearings, pp. 5003-5010.

^{2/} Exhibit 813, Transcript of Hearings, p. 5009.

^{3/} Exhibit 814, Transcript of Hearings, pp. 5009-5018, inclusive.

* * * stated, in substance, to Mr. Winborne that by May 17th it would be impossible for the Company to get together all the information in relation to its earnings on the book basis and the reproduction cost basis plus the information necessary in order to inform the Commission, and justify, the Company's maintenance charges and depreciation rates; and that there were two courses that seemed to be available: the first, to have the meeting on May 17th as scheduled and talk about these matters generally, showing the Company's results on the book basis and in general showing what its maintenance charges consisted of and what it is doing about the matter of depreciation; the second to postpone the hearing until the Company could prepare fully.

Mr. Winborne stated that he thought it would be better to have the meeting on May 17th. The idea of this meeting was to make it open to the public and the newspaper people, and that at this meeting a good attendance was expected.

That it would be all right to have the Company's statements made general in nature and it was his desire that such statements as were made be put in simple language so that they could be understood by the public as well as by the Commission. His thought was that the Company would desire to appeal as far as possible to the public in this hearing.

He suggested that in this hearing the Company bear down as far as possible on the matters that would interest the consumer, such as taxes, low earnings, etc.

At this hearing, also, he desired to have the Company bear down on the hand set proposition, showing all the added costs connected with the hand set, and why; stating that the Commission was being bombarded with letters showing what was being done in other states by way of reduction in hand set rates, and that the matter was becoming embarrassing to the Commission.

Regarding depreciation, investments, revenues, expenses, etc., to be submitted to the commission, the memorandum stated: ^{1/}

The conference ended with an understanding on Mr. Turner's part that on May 17th the Company would file such statements as it had available on the investment basis showing its investment, revenues, expenses, etc., for its North Carolina business.

That the Commission would indicate that it would want to take time to study these statements.

^{1/} Exhibit 814, Transcript of Hearings, pp. 5009-5018, inclusive.

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That the Company would indicate that it would be able shortly to file its detailed inventory and appraisal and such other information as might be indicated by the Commission, and that the Commission would then, later than May 17th, over a period of possibly 30 or 60 days have three or four more sessions with the Company in which additional information in detail might be submitted to the Commission. These sessions not to be publicly advertised; and that the Company would have an opportunity to go in further detail not only as to its earnings, etc., on the different bases, but into its depreciation rates and practices in order to sustain them if the Commission had any doubt about them.

That (and this came by way of direct statement from Mr. Winborne) there would be no decision by the Commission until these matters were entirely finished as between the Company and the Commission.

The North Carolina Corporation Commission and Southern Bell Company, in July, 1933, arrived at a compromise reduction of certain rates, principally reducing the hand set charge from fifty cents to twenty-five cents per month, and inside moves from three to two dollars.

The commission, however, reopened the case in July, 1934, and after several hearings were held, with long postponements in between, the case was settled again on a compromise basis in the spring of 1936. ^{1/}

Mississippi. - Early in 1927, R. E. Steen, a candidate for the Mississippi Legislature, who had been employed as attorney in several rate matters during that year by Southern Bell Telephone and Telegraph Company, wrote E. D. Smith that Chairman Alexander of the Mississippi Commission -

* * * is getting uneasy over the prospects of his election for Commissioner and is under the impression that Mr. Deal is working against him and for this reason, wanted to see you and get you to call off Mr. Deal. * * * ^{2/}

^{1/} Pp. 5015-5018 of Transcript of Hearings.

^{2/} Exhibit 816, Transcript of Hearings, pp. 5022-5024.

The Mr. Deal mentioned in the preceding quotation was, in 1927, Mississippi Manager for Southern Bell Company. Alexander was re-elected and served through 1929.

In 1930, Southern Bell Company made application to the Mississippi Commission for an increase in rates at Jackson, Mississippi. There was, according to John C. Hay, Mississippi Manager of the Bell Company, "bitter political and personal feeling existing" between Mayor Scott of Jackson and Chairman John L. Smith of the Mississippi Commission. 1/

There was an exchange of correspondence between Mayor Scott and Commissioner Smith, in which Smith invited Scott to the Southern Bell Company hearing, which invitation Scott refused. 2/ Mississippi Manager Hay was in some manner able to obtain copies of this exchange of correspondence, which he sent to General Commercial Manager Bare with the following advice: 3/

Here is a copy of some correspondence we received this morning but which is confidential.

Apparently, Southern Bell Company officials felt that there was some possibility of the case going against them, but they were counting upon the assistance of Commissioner W. R. Scott, not to be confused with Mayor Scott of Jackson. Commissioner Scott wrote Hay in December, 1930: 4/

I wanted to see you before I left Jackson at the December meeting but just had time to catch my train when the Commission adjourned. I am sure you understand my position in reference to Jackson proposition. This being purely a local matter, I will have to be governed largely by Mr. Smith's wishes. If the case was in my district I would be for it, because I think you made such a good case and I think a city of Jackson's size should have such a system.

1/ Exhibit 817, Transcript of Hearings, p. 5025.

2/ Exhibits 818 and 819, Transcript of Hearings, p. 5025.

3/ Exhibit 817, Transcript of Hearings, p. 5025.

4/ Exhibit 820, Transcript of Hearings, p. 5027.

I don't know just what Mr. Smith intends to do about the case but if there is anything I can do to assist you I will be glad to do it.

This letter is written you in strict confidence.

Hay answered Commissioner Scott on December 19, 1930: ^{1/}

I appreciate your attitude in connection with our rate case and will thank you for any assistance you can render in influencing Mr. Smith in the matter.

The Mississippi Commission, in April, 1931, granted an increase in business, but not residential, rates, conditioned upon a conversion of all service to dial operation. Southern Bell Company declined the order until such time as all rates could be increased.

Oklahoma.- In at least two cases, Southwestern Bell Company officials endeavored to have certain persons removed from regulatory commissions. Southwestern Bell was apparently very anxious in 1921 and 1922 to get W. H. Hubenthal, Telephone Engineer of the Oklahoma Corporation Commission, dismissed from the commission. ^{2/} Possibly one of the reasons the company was interested in getting rid of Hubenthal was the same reason why Elias, then Vice President, arranged for Hubenthal to go through the Western Electric Hawthorne plant while he was visiting Chicago. In writing E. S. Bloom about taking Hubenthal through the plant, Elias stated: ^{3/}

* * * he questions our Western Electric relations probably more than any other Commission Engineer, and I was particularly anxious to have him visit the Hawthorne factory.

H. J. Benzel, company representative in Oklahoma, wrote Elias in 1922, giving him partial results of the Oklahoma election. The

^{1/} Exhibit 821, Transcript of Hearings, p. 5028.

^{2/} Exhibits 1129-1143, Transcript of Hearings, pp. 5581-5593.

^{3/} Exhibit 1132, Transcript of Hearings, p. 5582.

letter states, regarding Frank C. Carter, who was elected to the Oklahoma Corporation Commission: 1/

Perhaps can work out a way to get rid of Hubenthal and Mackay after Carter gets in, as he nor his right-hand man like Hube. Also Hube is thinking about the secretaryship of the Tel. Assn. in Okla. if it can be created. Am working on this also with the officials of the assn. Boles our Con. Co. man at Frederick - (Carter's Home) is a good friend of ours and close to Carter - doesn't like Hubenthal, but good friend of ours, says he will see that Carter gives us fair play etc. Judge thinks we can get in good too.

Whether or not Southwestern Bell Company was instrumental in getting Hubenthal appointed as Secretary of the Independent Telephone Association of Oklahoma is not apparent; however, he did accept that position, and resigned from the Oklahoma Commission.

Elias wrote E. F. Carter, then General Commercial Manager of the company, in 1924, that Still, President of the Texas Independent Telephone Association, in a conversation with Hubenthal, stated that the Southwestern Bell Company had -

* * * engineered his resignation from the Commission to get him out of the way. Mr. Hubenthal told Mr. Benzel of the conversation and Mr. Benzel spoke to me about it after assuring Mr. Hubenthal that there was no truth in the statement. Doubtless some of our people believe it to be true and I think Mr. Hoag and the Texas people should be cautioned against expressing any such idea. 2/

Hubenthal thus resigned, the inference being that the Bell Company had something to do with his removal. 3/ When it was apparent, after the resignation of Hubenthal, that a B. Richardson was being considered to succeed Hubenthal, the Southwestern Bell Company checked up with other public utilities and telephone interests in an effort

1/ Exhibit 1133, Transcript of Hearings, p. 5585.

2/ Exhibit 1136, Transcript of Hearings, p. 5588.

3/ Transcript of Hearings, p. 5594.

to find out what might be expected from him should Richardson be appointed. ^{1/}

6, Kansas.- The company was desirous, in 1917, of having Commissioner Kinkel removed from the Kansas Commission, and a man favorable to them appointed. ^{2/} One candidate whom the company was sponsoring was a Dr. Lindas. Lindas, in writing General Manager Hopkins about his chances of getting appointed, said: ^{3/}

* * * After thinking the matter over I have come to the conclusion that it would not be a very difficult matter to bump Mr. Kinkel off, but if that is done the probability is that the man in the eastern part of the state would get the job. If it is considered advisable to do this then you could get a good man in eastern portion of the state that would get after it. I will begin a campaign with the idea of getting rid of the present commissioner and securing a new one, which in all probability would not be myself. If it is not considered advisable to start anything, please let me know and I will go down to Topeka and square myself with the commission and push the matters we have before them to some sort of a conclusion.

Hopkins informed Nims, then First Vice President, that company representatives were endeavoring to find an acceptable man from the eastern part of the state. The efforts of the Southwestern Company were, however, unsuccessful, because Kinkel was re-appointed.

Concession Service Allowed Commission Personnel.

The Southern Bell Company has been supplying, for a number of years, full concession service to the personnel of four of the state regulatory commissions in its territory, namely, the commissions of Alabama, Mississippi, North Carolina, and South Carolina.

In the company's answer to the Federal Communications Commission's Telephone Order No. 6A, concerning concession service allowed

^{1/} Exhibits 1137 to 1142, Transcript of Hearings, pp. 5589-5593.

^{2/} Exhibits 1144 to 1145, Transcript of Hearings, pp. 5594-5597.

^{3/} Exhibit 1144, Transcript of Hearings, p. 5594.

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by the company in 1934, it was shown that free residence telephone toll service was allowed the commissioners of Alabama and Mississippi, and free residence, toll and exchange service was allowed the commissioners of both North Carolina and South Carolina. Company officials informed members of the staff of the Telephone Investigation that it would be an almost impossible task to ascertain the amount of concession service allowed commission personnel over a period of years, and that the cost of obtaining the data would be almost prohibitive. Under the circumstances, the information was not requested.

In answering the questionnaire in Order No. 6A referred to above, the company, under the caption "Reason for Allowing Free or Concession Service" to the Alabama commissioners, cited "Sections (9709-9710) (9822-9823) Alabama Code 1923." ^{1/} Careful review was made of the sections cited by the Southern Bell Company, and it was noted that nowhere in the foregoing provisions is free or concession service mentioned. The sections cited give the commission jurisdiction over telephone companies, and authority to: ^{1/}

* * * supervise, regulate and control, in the public interest the rates, fares, and charges, facilities, practices, rules and service * * *

Of course, the Alabama Commission has permitted the concession service allowed by the Southern Bell Company, but the state laws of that state make no specific reference to free or concession telephone service which either requires or permits the company to grant such service in the residences of commissioners, although there seems to be no definite statutory prohibition.

In the case of Mississippi commissioners, the company in its answer to Order No. 6A, under the caption "Reason for Allowing Free or

^{1/} Appendix 3, Sheet 1.

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Concession Service," cited "Sec. 7096, Miss. Code." ^{1/} In reference to North Carolina commissioners, the response of the company cited "Secs. 1112(b) 1112(o) Sup. to N. C. Code, 1931." ^{2/} The sections cited in the case of both the Mississippi and North Carolina codes are, in general, the same as those of the state of Alabama, and simply provide the commissions with supervisory power over the rates and service of companies under their jurisdiction, but make no mention of free or concession telephone service.

As the "Reason for Allowing Free or Concession Service" to the South Carolina Commissioners at their residences, the company cited "Sec. 47 of Act No. 972 S. C. Acts 1934." The act cited is one making appropriations to meet the expenses of the state government for the fiscal year beginning July 1, 1934. Section 47 relates to the Railroad Commission, and contains the following provision:

Provided, further, That Telephone Companies are authorized to furnish free telephone service for the official business of the Railroad Commission.

It will be noted that the foregoing provision makes no reference to "residence" telephone service for commissioners or staff employees, but is limited to service "for the official business of the Railroad Commission." It is reasonable to raise the question whether a proper construction of the statute authorizes free service to the commissioners and staff employees at their residences, or, on the other hand, is confined to free service to the Railroad Commission offices. It is also noted that the authority cited for the granting of such free service was not approved until April 14, 1934, whereas the company's response to Order No. 6A shows that the service was granted for

^{1/} Id., Sheet 2.

^{2/} Id., Sheets 2 and 3.

the entire year of 1934, and correspondence found in the company's files indicates that the practice has existed for years.

u) In August, 1927, Morgan Speir, the Carolina's Manager, reported to F. L. Woodruff, then General Commercial Manager, regarding concession service allowed in North and South Carolina, and speaking of South Carolina Commissioners: 1/

S.C.R.R. Commission- We are, of course, continuing to approve these calls as they are presented.

* * *

* * *

* * *

S.C. Blease (chairman of R.R. Commission)
Earle R. Ellerbee (Member of R.R. Commission)
We will have to continue the franking of these calls.

Regarding R. O. Self of the North Carolina Corporation Commission, Speir stated:

R.O. Self (Secretary N.C. Corporation Commission)
Our relations with Mr. Self are such that I think it would be a serious error to require him to pay for his calls.

Again, in September, 1930, when the company officials were making a study of "Concessions - Not Specifically Authorized in Tariff," General Commercial Manager Bare wrote Speir regarding concession telephone service allowed to the following: 2/

Columbia, S.C.,	J.P. Darby, Secretary,
"	" R.R. Commission
"	" A.P. Walker, Official Reporter
"	" R.R. Commission
"	" Z.F. Sloan, Rate Expert
"	" R.R. Commission
"	" J.C. Coney, R.R. Commissioner
"	" W.W. Goodman, Supt of Motor
"	" Transportation, R.R. Commission.
"	" Mrs. Mary E. Carr, Stenographer,
"	" R.R. Commission.
Glover, S.C.,	J.E. Beamguard, R.R. Commissioner
Raleigh, N.C.,	W.T. Lee, Chairman, Corporation
"	" Commission.
"	" R.O. Self, Secretary, Corporation
"	" Commission.

1/ Exhibit 828, Transcript of Hearings, p. 5044.

2/ Exhibit 829, Transcript of Hearings, p. 5054.

In his letter, Bare stated: 1/

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* * * For reasons that are obvious, is it advisable to continue these as concessions?

Speir replied to this: 2/

All of the concessions listed above are on telephones of the Commissioners, Secretaries and Clerks. It has always been customary for us to allow these concessions. Similar concessions are granted by the Railroad Companies and other Public Utilities. I am of the opinion that these concessions should be continued.

That the practice of allowing the concession service to the personnel of the Carolina Commissions had been carried on for years, is borne out by the following statement made by Speir:

* * * It has always been customary for us to allow these concessions.

Company officials consider the granting of concession service of some importance as a factor in a decision to be handed down by a commission. This is borne out by evidence concerning the South Carolina rate case of 1931-1934, the details of which will be covered fully in the next succeeding section of this chapter. When the rate case was coming up before the commission, General Counsel E. D. Smith of the Southern Bell Company wrote District Manager Crouch: 3/

In getting ready for our South Carolina Rate Case, which I fear we are going to have, I am assuming that Messrs. Ellerbe, Coney, Blease, Nance, Tatum, Beamguard, and Pearman, of the Commission and Attorney General Daniel, are both subscribers and patrons of our Company.

Crouch answered: 4/

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- 1/ Exhibit 830, Transcript of Hearings, p. 5054.
 - 2/ Exhibit 829, Transcript of Hearings, p. 5054.
 - 3/ Exhibit 831, Transcript of Hearings, p. 5056.
 - 4/ Exhibit 832, Transcript of Hearings, p. 5057.

V) In reply to your letter of May 28 concerning South Carolina Rate Case, beg to advise that Messrs. Ellerbe, Coney, Beamguard and Attorney General Daniel are patrons of our Company. Messrs. Ellerbe, Coney and Beamguard have telephones in their residences on full concession basis, and we also frank their long distance messages.

Messrs. Nance, Tatum and Pearman live in towns where our Company does not operate from an exchange standpoint. Mr. Nance lives in Cross Hill which is a privately owned exchange. Mr. Tatum lives in Bishopville which is an exchange of the South Carolina Continental Telephone Company, and Mr. Pearman lives at Starr in Anderson County, at which point the telephone exchange is privately owned. Attorney General Daniel lives in Columbia and is a regular subscriber to our service. The long distance calls of Messrs. Nance, Tatum and Pearman are franked in the same manner as the calls of Messrs. Ellerbe, Coney and Beamguard.

Thus, the Southern Bell Company had been supplying full concession telephone service to members and employees of the Mississippi Commission for a number of years.

Possibly because of the interest shown by the Federal Communications Commission in its Telephone Order No. 6A, Southern Bell Company officials decided in December, 1935 that it might be wise to have the Mississippi Commission pass an order requiring the company to grant such concession service. Therefore, at the suggestion of Hays, Southern Bell Manager for Mississippi, a draft of an order was prepared by Naff and Smith, Southern Bell Company attorneys, and submitted to the commission for its approval. The commission, on February 5, 1936, passed the order verbatim as drafted by Southern Bell Company. ^{1/}

The South Carolina Rate Case, 1931-1934.

Origin of the rate case.- It appears that the first action taken in South Carolina looking towards a reduction in telephone rates, in this particular case, was the adoption of a resolution of investigation by the South Carolina Railroad Commission, the state regulatory

^{1/} Exhibits 833, 834 and 835, Transcript of Hearings, p. 5058.

body, on April 30, 1931. That resolution ordered a general investigation of telephone rates, for the purpose of determining whether they should be reduced, and required all telephone companies operating in the state to appear at a hearing on May 12, 1931. ^{1/}

The initial hearing, however, was not intended to inaugurate a general rate case, but was to give the commission a general outline of the telephone situation in the state, in order that the commission might thereafter cite any particular company it deemed proper to appear before it as a result of the facts developed at the hearing. The commission had considered citing the telephone companies to show cause why a general reduction in rates should not be made, but after consultation with the Attorney General of the state, it was decided merely to issue a "general call" to the telephone companies to appear at a hearing. ^{2/}

At this hearing, which was held on May 12, 13 and 14, 1931, representatives of the independent telephone companies operating in the state appeared and gave testimony. Also, Southern Bell Telephone and Telegraph Company presented four of its officials as witnesses. Appearances were entered on behalf of several chambers of commerce and traffic bureaus, but evidence was received only from the telephone companies. Only one of the witnesses for the independent companies gave testimony considered by Southern Bell Company as "hostile" to it. ^{3/}

The two individuals most active in behalf of rate reductions appear to have been State Senator Edgar A. Brown and P. W. Lowry, Traffic Manager, Columbia Transportation Association. Senator Brown petitioned the commission on June 13, 1931 to cite Southern Bell

^{1/} Transcript of Hearings, pp. 5064-5065.

^{2/} Exhibit 839, Transcript of Hearings, p. 5071.

^{3/} Exhibit 836, Transcript of Hearings, p. 5058. The Southern Bell Company attempted to nullify the efforts of Brown and Lowry by retaining the first at a substantial fee and by fighting Lowry through indirect means. These two approaches will be discussed here briefly as examples of the extent to which a Bell Company will go in fighting a rate reduction proceeding.

Company and American Telephone and Telegraph Company to show cause why a general reduction of at least 20 per cent should not be made in telephone rates. Shortly thereafter, Lowry began to solicit funds to finance the prosecution of a rate case before the commission, and to obtain signatures to a petition which requested the Railroad Commission to review the rates of Southern Bell Company.

The case of State Senator E. A. Brown, South Carolina. - ^{1/}

The correspondence concerning State Senator Edgar A. Brown begins with a letter dated June 15, 1931, from W. S. Nelson, of the firm of Nelson & Mullins, Columbia, South Carolina, who appears to have been the most active of the local counsel retained for the South Carolina rate case, to General Counsel E. D. Smith, of Southern Bell. With this letter, Nelson enclosed a copy of a letter written by Senator Brown to the Chairman of the South Carolina Railroad Commission, which he reported "was handed to me by a member of the Commission today." ^{2/}

Senator Brown's letter to the commission dated June 13, 1931 (subsequent in point of time to the initial hearing before the commission), asked that body to -

* * * cite the Southern Bell Telephone Company and the American Telephone and Telegraph Company to show cause why a general reduction of at least twenty per cent should not be made in their South Carolina rates. ^{3/}

Brown stated that he had been giving some independent thought and study to the situation, based on his files and records. -

* * * accumulated during the hearing on the opposition to the general raise which the Southern Bell sought to put into effect two or three years ago.

^{1/} Biographical data on Senator Brown from the 1935 Legislative Manual of South Carolina: "BROWN, Edgar Allen (Barnwell County) -- Lawyer, firm of Brown & Bush, and farmer; colonel on Gov. Cooper's staff; official court stenographer, 1908-18; chm. Barnwell Co. Dem. Exec. Comm. continuously from 1914; chm. State Dem. Exec. Comm. 1922-26, resigning this to enter race for U.S. Senate; delegate-at-large Nat. Dem. Conv., N.Y., 1924; previous service in House 1921-26, Speaker 1925-26; Senate without opposition 1929-34."

^{2/} Exhibit 837, Transcript of Hearings, p. 5067.

^{3/} Exhibit 838, Transcript of Hearings, p. 5067.

He stated that so far as he knew, there had never been a reduction in telephone rates in South Carolina, and asked whether the telephone company should be allowed -

* * * to continue to charge rates on inflated values that were of force twelve to fourteen years ago?

He stated further that he was perfectly sure the public was entitled to a 20 per cent reduction in rates, and asked the commission to issue the necessary citation and fix a time for hearing, stating that in the meantime he would have an analysis made of the company's financial statements and would be -

* * * prepared to produce an abundance of testimony upon which you [the commission] would be authorized, in my opinion, in passing the necessary order in the premises.

The response of the commission to Senator Brown's letter, dated June 18, 1931, stated that it had under consideration, at the time the general investigation was instituted, the matter of citing the telephone companies to show cause why a general reduction should not be made in their rates, but that after consultation with the Attorney General, it was decided instead to issue a general call to the telephone companies to appear before the commission at a hearing on May 12, 1931, which had been held for the purpose of giving the commission a general outline of the telephone situation in the state, in order that the commission might thereafter cite any particular company it deemed proper to appear before it as a result of the facts presented at the hearing. ^{1/} The commission stated that it would be glad to confer with Senator Brown relative to the matter.

Senator Brown had been responsible for, and in charge of, opposition to an application previously filed by Southern Bell Telephone

^{1/} Exhibit 839, Transcript of Hearings, p. 5071.

and Telegraph Company for a modification of toll rates and practices in South Carolina. He was reported also to have been very active, in association with his brother-in-law, in the matter of power rates in South Carolina, and apparently had much to do with lowering electric rates in different cities and towns. ^{1/}

General Counsel Smith, in a letter to Nelson under date of June 16, 1931, stated that, in connection with Senator Brown, he was "afraid we would have some trouble from that source," ^{2/} and asked Nelson to "size up the situation" and let him know whether Senator Brown's appearance on behalf of the public in the case would have any adverse effect. ^{2/} Nelson responded on June 19, 1931 that he had been giving a good deal of thought to the matter and expressed the opinion that, while Brown's appearance on behalf of the public would not have any particular effect, "however, any adverse appearance is more or less hurtful and agitates the situation, particularly before a political body." ^{3/}

There is no documentary evidence available to supply information specifically as to the terms or nature of the negotiations conducted with Senator Brown between the date of filing his petition, June, 1931, and April 25, 1932, when State Senator Brown of South Carolina received the first installment of his retainer.

The change in Senator Brown's attitude took place in this period. Mr. E. D. Smith, General Counsel of Southern Bell, who hired Brown on a retainer, testified before the Telephone Division of the Federal Communications Commission on January 15, 1937, as follows: ^{4/}

^{1/} Exhibit 840, Transcript of Hearings, p. 5072.

^{2/} Exhibit 841, Transcript of Hearings, p. 5073.

^{3/} Exhibit 836, Transcript of Hearings, p. 5058.

^{4/} Transcript of Hearings, pp. 5077-5078.

Q. Well, the fact is, that Senator Brown was retained in these proceedings, wasn't he?

A. He was, by me, about April, 1932. I was informed at the time that Senator Brown had expressed himself that he had taken no part in the case; that he had definitely determined not to be employed by the other side or to go into the case, and that he was open to employment by us.

Q. Who informed you to that effect, Mr. Smith?

A. My recollection of it is that it was Mr. Barksdale, who lives in Greenville, South Carolina, and who is an independent telephone man and is a personal friend of mine.

I telephoned Mr. Brown, found him in Columbia, and asked him in substance if this information I had received was true. He said, yes. I asked him to come to Atlanta, and he came to Atlanta and I made arrangements with him while he was in Atlanta, to assist us in that case, and he did.

Q. What was the date of his retainer do you know?

A. The exact date I don't know, but I think it was April, 1932, the latter part.

Q. He received a payment of \$2,050.00 on April 25, 1932.

A. As a retainer.

Q. Is that correct?

A. Yes, sir.

Subsequent payments were made on October 13, 1932, in the amount of \$1,500, and January 6, 1933, in the amount of \$1,500. ^{1/} Accordingly, an aggregate of \$5,050 was paid to Senator Brown.

Ten days after Senator Brown received the first installment on his retainer, May 3, 1932, the commission held the first hearing at which testimony was received from the public, or from others than representatives of the telephone companies.

There is no evidence that Senator Brown performed any services for Southern Bell Company in the rate case, other than failure to prosecute his petition or otherwise to appear in the proceeding on the public

^{1/} Transcript of Hearings, pp. 5078-5079.

behalf. At the time he rendered his first bill for services, on April 23, 1932, Senator Brown asked for citation to a case in which it was held that the company was entitled to earn as much as an 8 per cent return, and for other information which had been promised him. ^{1/} General Counsel Smith responded on April 25, 1932, forwarding statistical information on company revenues and expenses and related subjects, and giving citation to the case mentioned. ^{1/} Later, on July 2, 1932, Smith sent Senator Brown a copy of the company's brief, and on January 6, 1933, made an appointment to meet him in Columbia.

An examination has been made of the transcript of testimony taken in the case to ascertain if there was any evidence of participation by Senator Brown in any way, either by entering his appearance for the company or otherwise, but none was found. ^{2/}

In his reports to C. M. Bracelen, General Counsel of the American Company, on the course of the proceedings taken and the status of the South Carolina case, General Counsel Smith of the Southern Bell made no reference to Senator Brown's part in the case, although the fee received by Senator Brown approximated that received by the two other local attorneys retained who did perform services, W. S. Nelson and F. B. Grier and associates. ^{3/}

The character of the work Mr. Brown did for Southern Bell in this case was described by General Counsel Smith before the Telephone Division of the Federal Communications Commission as follows:

Q. Did Senator Brown participate in any of the hearings?

A. He went with me to several of the hearings; sat with me. I examined all of the witnesses myself, nobody else

^{1/} Exhibit 841, Transcript of Hearings, p. 5073.

^{2/} Transcript of Hearings, pp. 5081-5082.

^{3/} Transcript of Hearings, pp. 5085-5086. W. S. Nelson received for his services a total of \$8,725, which covered both the commission and court cases. F. B. Grier and associates received \$5,500, while Senator Brown was paid \$5,050.

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examined any of the witnesses on our side. I briefed the case myself and argued the case by myself. I am under the impression that he was there when I argued the case. I know he went over to the hearings with me once or twice, several times. 1/

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* * *

Q. Mr. Smith, how many conferences would you say that you had with Senator Brown in this matter?

A. Mr. Becker, I do not know. I had a number of personal conferences with him and I had a number of talks with him over the telephone. There was very little correspondence between us, but there would be no way for me to approximate that.

Q. At the conferences, what was the character of your discussion, I mean, business discussions?

A. Well, you can see here that I sent Senator Brown the information about the case that I had, consisting of the law and facts. We discussed that.

And we discussed the practical side of the case. My object was, at the time I employed him, it was special employment, and my object was to try and get this case settled, or to get it in such shape that we would have time to produce our inventories and our detailed appraisals. It had not been completed by April at the time he was employed and I thought we were not going to be able to complete it by the time the Commission was apparently rushing to, and I had made an effort myself to settle the case and we had had a long history of experience in South Carolina and I was dealing in a situation largely with men who had participated in it with me before. I was a little bit afraid we had gotten in a groove, or rut, and I felt like I wanted a little new blood and I wanted some independent advice about general conditions in South Carolina and some independent assistance if I could, to see if we could get this case settled or pushed along until I could get my appraisal in.

Q. Did he -- you did not itemize the bill?

A. No, sir. We had our agreement about the fees at the first talk I had with him.

Q. Did you have any idea of the amount of time he spent in this case?

A. Well, I could not say that personally. He told me he spent a lot of time with it from time to time, but no definite time? [sic]

A. No, sir.

Q. And what do you suppose he would have been spending a lot of time on in this case?

A. Trying to get the situation in such shape as we could settle it, or so we should be sure to get our inventory and appraisal in, and--

Q. (Interposing) Well do you mean he was discussing it with the Commission?

A. I am sure he was discussing it with Mr. Tatum and possible [sic] others of the Commission.

Q. What evidence do you have of that?

A. He told me at the time.

Q. Is there any indication of that in your correspondence?

A. I do not think so; I had very little correspondence with him.

Q. We have found none other than what I have shown you.

A. Yes, sir. I have not found any other either.

Q. Now, Mr. Smith, there cannot be any question in your mind, can there, that at the time you telephoned him, the first conversation you had with him, that he advised you that he was at liberty and was not interested in the case any longer?

A. Oh, yes, yes.

Q. Did you ask him how he had been stepping out of it when he had been in on the public side?

A. No.

Q. Did he volunteer any explanation without your asking him?

A. No, there was not any detailed explanation of it as I remember. ^{1/}

State Senator Edgar A. Brown of South Carolina submitted an affidavit to the Federal Communications Commission, dated April 10, 1937, in which he gave the history of his relations to public utility cases in the state.^{2/} He stated substantially that he had not appeared pro bono publico in the 1928 telephone toll rate case, nor in his initial

^{1/} Transcript of Hearings, pp. 5091-5094.

^{2/} Senator Brown's affidavit has been introduced into the record of the Telephone Investigation.

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petition to the Public Service Commission in the 1931 telephone investigation. In both cases he was acting for John T. Stevens, his brother-in-law. In the latter instance, P. W. Lowry had attempted to secure his services, but Lowry failed to comply with his demand to put up a guarantee for his fees (\$100 per day for appearances and \$50 per day for briefing and consultation). Mr. Brown states:

* * * Mr. Lowry failed to comply with my demands and I definitely refused to go into the hearing. I so advised Mr. John T. Stevens and others who had contributed to this fund, on the theory that I would have charge of the case, that I was not going into the case with Lowry. There was no misunderstanding about my attitude. I practice law for a living. My services were for hire and when Mr. Lowry did not comply with my demands, he nor the public had any claim whatever upon my legal services. * * *

This was in the early part of 1931. Senator Brown was drawn into the case again in June, 1931, at the initiative of Mr. Stevens. Brown writes:

* * * Mr. Stevens was very much upset because I was not to appear in the rate hearings and along about the first of June, 1931, contacted me, stating that neither Lowry nor the Railroad Commission appeared to be going after the Southern Bell Telephone & Telegraph Company and suggested that rather than have the whole matter fall through that he would prefer to make a direct complaint against the Southern Bell Telephone and Telegraph Company, put me in charge of it and pay the expenses. As a result, on June 13, 1931, I wrote to the Honorable Earl R. Ellerbe, Chairman of the Railroad Commission, copy of my letter being exhibit 838 in this investigation. That letter speaks for itself. The then Chairman of the Railroad Commission, Mr. Ellerbe, was not very friendly with me and on June 18 wrote me as shown by exhibit 839 in this investigation. Mr. Ellerbe wrote me suggesting, in effect, that he noted my interest in the matter but did not invite me to participate in the telephone rate hearings. Thereafter, I took no further interest in the complainant's side of the matter.

Mr. Brown further states:

Thereafter, I received many requests as to my attitude with regard to that hearing and in response to all of them, I stated substantially, the history of the matter. I discussed

5) this matter with Mr. Thos. H. Tatum, who was presiding in these telephone hearings. Mr. Tatum was the only lawyer on the Commission, and a gentlemen [sic] of highest integrity and character and possessed much ability.

I heard nothing more about the matter for some time and, in fact, dismissed telephone hearings from my mind. It became generally known, among people interested in telephone rates, that I had not been employed to appear against the Telephone Company and my opinion of Mr. Lowry was also known.

In April or May, 1932, E. D. Smith, General Counsel of Southern Bell, called Mr. Brown by long distance from Atlanta "to inquire if I had been retained by the complainant, or by the Railroad Commission to appear in his Company's rate case." Mr. Brown told him that he had not, and that Mr. Lowry and he had not been able to get together in the matter. He was then asked to go to Atlanta at the company's expense to discuss the matter of being retained. Brown writes on his own behalf:

* * * Mr. Smith stated that his Company had no objection to any honest investigation that the Railroad Commission desired to make but he was irritated at the methods adopted by the complainant, Mr. Lowry, in this case. He was familiar with the campaign which Mr. Lowry had waged to raise funds supposedly to cover this investigation. I could see that Mr. Smith would be very pleased if he could retain my services. At any rate, Mr. Smith asked me if I was in position to be retained. There was no reason why my services as a lawyer were not available. I told him that I was not in position to be retained generally nor to change my attitude with reference to public utilities in the State but that inasmuch as I had no connection whatever with the complaint on which this hearing was to be had, I was in position to be retained by his Company for consultive purposes.

Other legislators considered for employment.- It appears that officials of the Southern Bell Company had several members of the South Carolina Legislature under consideration for employment in the rate case, in addition to the employment of Senator Brown. The following list, on the letterhead of the Piedmont Hotel, Atlanta, found in the files of Southern Bell Company, contains the names of several attorneys, all except one of whom were members of the Legislature: ^{1/}

^{1/} Exhibit 844, Transcript of Hearings, p. 5096.

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Albert E. Hill, Atty., Spartanburg
Sen. S. K. Nash, Atty., Sumter
Sen. John F. Williams, Atty., Aiken (Crouch)
Sen. E. L. Ard, Atty., Hemingway
Hon. Allen M. Sapp, Atty., House Member, Lancaster
Hon. Calhoun Thomas, Atty., House Member, Beaufort

Negotiations were conducted for the employment of Senator John F. Williams, on the foregoing list, for the rate case, but as appears from the correspondence, because of disagreement as to the fee to be paid, the matter was permitted to "rest." ^{1/}

Reference to the list just quoted shows the name of Albert E. Hill, who was not a legislator. Hill received fees totaling \$500 from Southern Bell Company -- \$250 in December, 1931, and \$250 "later." ^{2/}

The case of P. W. Lowry. -- At some time prior to September, 1931, P. W. Lowry, Traffic Manager of Columbia Transportation Association, Columbia, South Carolina, began to solicit funds to finance the prosecution of a rate case against Southern Bell Company before the South Carolina Railroad Commission, and to obtain signatures to a petition requesting the commission to review the rates of the company.

It appears that at the time Lowry began his activities, the proceeding before the commission was lying dormant. Although a hearing had been held on May 12, 1931, Attorney Nelson reported to General Counsel Smith, under date of October 2, 1931, that he had made inquiries of members of the commission and had appeared before that body on other matters four or five times "recently," but that the information was "that no further action has been taken and no move made in the rate hearing." ^{3/}

It was charged by Lowry that personal attacks were made on him by representatives of Southern Bell Company, obviously for the

^{1/} Transcript of Hearings, pp. 5098-5099.

^{2/} Transcript of Hearings, p. 5100.

^{3/} Exhibit 847, Transcript of Hearings, pp. 5105-5112.

purpose of discrediting him. In a letter to Thomas Crouch, District Manager, Columbia, South Carolina, under date of September 10, 1931, Lowry advised that he intended to bring a rate complaint against Southern Bell Telephone and Telegraph Company, directed against the rates of the company and not against individual employees, and asked Crouch -

* * * to refrain from any personalities in any defense you may attempt in this connection, as I in addition to listening to you personally have been advised by a number of friends of mine that you are directing your attacks against me personally and at most employing erroneous statements. * * *1/

Lowry threatened to bring a law suit against Southern Bell Company and Crouch, presumably a libel or slander suit, and former United States Senator Cole L. Blease was retained by the company to assist in the defense in the event the suit were initiated. Blease was paid a total of \$500. The payments were not made to Blease directly, but were vouchered to Nelson, who in turn paid Blease. It does not appear, however, that the suit was ever brought by Lowry. 2/

In a letter dated October 2, 1931, Nelson reported to Smith concerning Lowry's activities that he had not had any considerable success in Columbia, that he had solicited subscriptions in Orangeburg, and that: 3/

* * * The situation at Spartanburg and Greenville has been prepared as well as practicable to meet him when he attacks those points.

In preparation for the case before the commission, Lowry desired to present evidence, among other things, to show the downward

1/ Exhibit 848, Transcript of Hearings, pp. 5105-5112.

2/ Transcript of Hearings, p. 5112.

3/ Exhibit 847, Transcript of Hearings, pp. 5112-5121.

trend of commodity prices "of all classes of business operating in the state, excepting of course, that of utilities." ^{1/}

v) In a letter to A. F. McKissick, of Greenville, South Carolina, Lowry advised that "Mr. Robert E. Ligon of Anderson has kindly consented to appear as a witness at the hearing to testify as to the trend of costs in connection with cotton mills in South Carolina," and asked for McKissick's assistance. ^{1/} McKissick advised that he was otherwise occupied and could not get up the data desired. Nelson obtained copies of this correspondence from McKissick and forwarded the same to General Counsel Smith, with a letter dated February 2, 1932, commenting: ^{1/}

Mr. McKissick is one of the outstanding manufacturers of the state * * * He will be in Columbia tomorrow and next day and I will talk with him. Mr. J. B. Harris of Greenwood and Mr. T. Frank Watkins of Anderson will also be here tomorrow.

It appears that Southern Bell Company paid Watkins \$250 for legal services "in the matter mentioned by Mr. Nelson" on February 6, 1932. ^{2/} The impression is that Watkins was retained to bring some pressure to bear to prevent Ligon and others from testifying in Lowry's case.

In addition, General Counsel Smith reported to President Read at about the same time, that is, on February 2, 1932, as follows: ^{3/}

At your suggestion, our local people were asked to see Mr. B. E. Geer, our Greenville, South Carolina, director, and seek to enlist his help in dealing with Messrs. Ligon, Richardson and other rather prominent textile men, who were credited in the papers with having joined Mr. Lowry, of Columbia, in seeking to have our rates reduced over the state.

^{1/} Exhibit 849, Transcript of Hearings, pp. 5112-5121.

^{2/} Exhibits 850 and 851, Transcript of Hearings, pp. 5112-5121.

^{3/} Exhibit 852, Transcript of Hearings, pp. 5118-5119.

It gives me much pleasure to say that I have received reports that Mr. Geer has shown a great interest in this matter, that he has approached such of these gentlemen as he has had opportunity to see, and that his work with them has been very effective.

The testimony on this point in the hearings before the Federal Communications Commission continued:

Q. In other words, the idea was for Mr. Geer and Mr. Watkins and those people to try to see if they could not induce witnesses not to testify in Mr. Lowry's behalf, is that correct?

A. Well, now, let us not put it that way, Mr. Becker.

Q. Well, how would you like to put it, Mr. Smith?

A. I would rather put it this way. That this testimony business of Mr. Ligon's was incidental. Anybody could have gotten commodity price reductions and labor cost reductions. The thing that was bothering us was the interest that men of that type appeared to be taking in this Lowry petition, and what we were trying to do then was -- with Mr. Watkins and Mr. Geer and such others as we would appeal to, was to keep this petition down and to keep these contributions from being made if we could.

An examination has been made of the transcript of the testimony taken before the South Carolina Railroad Commission, both in Lowry's case and in the general investigation, from which it does not appear that either Ligon or Richardson testified as witnesses. ^{1/}

^{1/} Transcript of Hearings, p. 5121.

CHAPTER VII
EDUCATIONAL POLICIES OF THE BELL SYSTEM

This chapter deals with the attempts of the Bell System to establish and maintain friendly relations with educational institutions, and to spread, as far as possible, ideas and doctrines that are favorable to itself. To accomplish this, there has been built up an organization and a definite program.

The purposes in maintaining friendly contacts with schools are: (1) training and recruiting of college men for employment in the Bell System, and (2) indoctrination of teachers and students.

Methods of Contacting Educational Institutions.

The methods used in achieving these ends are several. As in other fields, teachers in universities, particularly those teaching economics or public utilities, are systematically cultivated. Gifts of equipment are made to cement good public relations. Lectures are sponsored in utility courses. In secondary schools lectures are sponsored, and motion pictures are shown, on a systematic schedule on various technical aspects of telephony, radio, television, etc., to impress the young minds with the wonders achieved by the Bell System.

College representatives.- At some time prior to 1922, all relations with colleges were coordinated in the hands of so-called "college representatives," of which each Associated Company had at least one. These men handled all contacts with the colleges, including advertising, publicity, recruiting of new employees from among the graduates, presentation of gifts of equipment, contacts with members of the faculty, and all other related matters. This policy is stated as follows in the minutes of the Conference on College Recruiting

and College Relations held February 1 to 3, 1922: ^{1/}

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The question of coordination of effort and assignment of the responsibility for leadership at the various institutions was next considered. It seemed to be the sense of the conference that the whole task of maintaining contacts with, of promoting Bell System publicity at, and of actual recruiting from an institution should be considered as a unit and coordinated under the leadership of one man, known as the chairman for that institution. It further seemed best that, for all institutions except certain ones listed below, the chairmanship should be assigned to a representative of that associated company in whose territory the institution was located. A committee consisting of the conference members representing the Commercial and Engineering Departments of the Western Electric Company, the departments of Development and Research, Operation and Engineering, and Long Lines of the American Telephone and Telegraph Company, and those associated companies in whose territories the institutions were located, later recommended that the chairmanships for the following institutions should be assigned for 1922 to the different System companies as shown: * * *

The minutes also state: ^{2/}

It seemed the sense of the conference that the duties of the chairman for an institution should include the following:

1. The selling of the entire Bell System to the institution. In accomplishing this he may count on the help of the various System interests which represent different fields of activity and should see to it that these interests present a balanced picture of the System.

2. So far as possible, the capitalization of the influence of alumni now in the Bell System and of the opportunity for promoting good public relations with future influential citizens of the territory.

Gifts of equipment.- A General Committee of American Telephone and Telegraph Company, including representatives of the Personnel Department, Operating and Engineering Department, Development and Research Department, the Engineering Department of the Western Electric Company, and others, decided (sometime prior to April 26, 1924) upon a campaign

^{1/} Summarized Minutes of Conference on College Recruiting and College Relations, February 1-3, 1922, pp. 2-3.

^{2/} Id., p. 3.

of presentation of telephone apparatus to educational institutions. It was planned to spend \$250,000 as a gross initial outlay, with an annual outlay of \$50,000 for maintenance. The gifts were to go primarily to schools of the highest type which furnished most of the recruits for employment by the Bell System. The general purpose of making these gifts was stated by Colonel Rees in the following memorandum: ^{1/}

It would seem, although the file record does not so indicate, that the committee in determining upon a gross initial outlay of \$250,000 had in mind the participation of the American Telephone and Telegraph Company, and the Western Electric Company in the cost involved. On account of the national character of both these organizations it is believed that benefit will accrue to them, considering the broad field of public relations, even though the more tangible results of securing better trained college graduates may not accrue. Such contribution by the headquarters organizations would also materially aid each Associated Company in strengthening its relations with the educational institutions in its territory.

Lectures and demonstrations.- Most of the Associated Companies, as well as American Telephone and Telegraph Company and Western Electric Company, have a concerted program of lectures and demonstrations in schools. For example, the Southwestern Bell Telephone Company employees gave 97 lectures in schools within its territory, with 46,785 attendance, during the year 1934. ^{2/} Other Bell Companies have similar programs. ^{3/}

A representative of Western Electric Company reported at the Bell System Publicity Conference of 1927 that his company had "reached nearly one million people by word of mouth" during the year 1926. He stated: ^{4/}

Last year we reached nearly one million people by word of mouth at a cost of about ninety or ninety-two cents per lecture, and I think it is one of the most effective mediums that

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- ^{1/} Memorandum dated September 12, 1924, from R. I. Rees, Assistant Vice President of American Telephone and Telegraph Company, to E. K. Hall, Vice President.
- ^{2/} See Appendix 4.
- ^{3/} See Appendix 5, Sheets 1, 2, and 3.
- ^{4/} Report of 1927 Publicity Conference, pp. 186-187.

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we could employ because it is giving us a direct personal contact with very representative people in all kinds of organizations, particularly the boards of trade, the Chambers of Commerce and these various service clubs. A great part of our work, however, is being done in the upper grades of school. We are dealing with the potential future business man and woman and we are inculcating these ideas into the youthful minds. We are spending large sums of money for other media to do that. If these youngsters come out of school and don't go into business, we feel they will have had some preliminary education in some of our problems. We find that is very effective. The commendatory remarks that our officers receive and our lecture bureau representatives receive in the form of letters and verbal comments are exceedingly pleasing and satisfying and they show us that (at least I think they do) we are doing a very constructive job in that direction. (Underscoring supplied)

Another delegate at the 1927 Publicity Conference paid tribute to Western Electric Company for getting the confidence of the schools by being "extremely careful in keeping out anything that looks like advertising or propaganda." 1/

A representative of Western Electric Company announced that his company had called upon the New York City Board of Education and offered to present in the city schools an illustrated lecture entitled "Adventures in Geography," based upon the booklet "From the Far Corners of the Earth," published by Western Electric Company. He stated that the Board of Education consented to the presentation of these lectures at the schools. He stated further: 2/

* * * I can see that it is one of the biggest, one of the most effective, one of the best things we have done in an educational way with the adolescent mind. My problem is going to be in getting the necessary approval to bring Western Electric propaganda to them.

Another delegate referred to the advertising value of the lectures as follows: 2/

1/ Ibid.

2/ Report of 1927 Publicity Conference, pp. 203-205.

Again, in this lecture that Mr. Casler speaks of, we have been able to introduce the Western Electric Company's name several times by pointing out that the Western Electric Company, as the manufacturer of telephones that you use and that are used all over the United States in the Bell System, is satisfied only with the best. Therefore, we must go to the far corners of the world to get the best; we can get cotton in the United States, but the very best cotton comes from another part of the world; so as they will only have the best, we must go to this far distant corner of the world. We bring out that idea several times and mention the Western Electric Company wherever we can, trying to pay a portion of our debt to them.

Bell Participation in Public Utility Information Bureaus.

Formation of early committees.- The Federal Trade Commission summary report on efforts of associations and agencies of electric and gas utilities to influence public opinion refers to the organization of the first state committees on public utility information as a publicity agency by the National Electric Light Association, American Gas Association, American Electric Railway Association, and American Telephone and Telegraph Company, thus crediting the latter with active participation and sponsorship of the movement. Statements made by officials of the Bell System and correspondence of those officials found in the files of American Telephone and Telegraph Company substantiate this conclusion.

The titles of the state committees are various, but all have approximately the same function: the distribution of publicity favorable to utility interests. Some are known as "Committee on Public Utility Information," or "Public Service Information Bureau;" others, as "Public Utility Information Bureau," or "Utility Association," or "Public Service Bureau," etc.

At the Bell System Publicity Conferences, the activities and problems of each company are discussed frankly by persons who, because of their positions, are spokesmen for their respective companies on publicity matters. At the 1927 Publicity Conference held at Briarcliffe, New York, the work of the state public utility information committees (or bureaus) was discussed. John L. Spellman, speaking as Publicity

Manager of the Illinois Bell Company, indicated the connection between Chicago Telephone Company, predecessor of Illinois Bell Telephone Company, and the first state public utility information committee. Spellman stated: 1/

We started the first committee; we have always had control of it. Others must have found it useful or they would not have gone into it in other states. It does none of our general publicity work; we wouldn't permit it to, nor would any other company in our territory. It handles nothing of a general publicity nature at all * * *.

MR. PAGE: What does that handle if it doesn't handle general publicity?

MR. SPELLMAN: Principally things that have to do with public ownership, home rule, state control, as against city control of utilities and so on, very general questions that a single company perhaps could not very successfully carry on a campaign against. It also maintains a very elaborate speaker's bureau. Through that bureau last year we reached a little over 1,200,000 folks on specific things having to do with our companies, not on the broad general questions of all. That work was in schools, colleges, and so on. We have found it very, very useful.

Regarding these committees, Mr. E. S. Wilson, a Vice President of the American Company, testified as follows: 2/

Q. You did proceed to advise the associated companies to get into this movement and to start these committees in the states, didn't you?

A. My recollection is I wrote some of the companies that we had found it very effective in Illinois, and urged their consideration of similar organizations.

Most of the Associated Companies did join the state information bureaus. At least two companies, Southern Bell Telephone and Telegraph Company and New Jersey Bell Telephone Company, have retained their respective memberships in the Kentucky and New Jersey committees.

1/ Exhibit 868, pp. 160 and 161, Transcript of Hearings, p. 5334.

2/ Transcript of Hearings, p. 5340.