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Telephone Investigation

Special Investigation Docket No. 1

Report on

CONTROL OF TELEPHONE COMMUNICATIONS

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

VOLUME V

Financial Control of the Telephone Industry

June 15, 1937

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FEDERAL COMMUNICATIONS COMMISSION

Telephone Investigation

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CONTROL OF TELEPHONE COMMUNICATIONS

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VOLUME V

FINANCIAL CONTROL OF THE TELEPHONE INDUSTRY

June 15, 1937

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SUMMARY

1. The American Telephone and Telegraph Company and its controlled subsidiaries constitute the nation's largest single aggregation of investment capital, totalling over five billion dollars, increasing at an average rate of over a half million dollars a day during the past twenty years. The company, therefore, presents an investment study of outstanding significance.

2. The conditions under which this amount of investment capital has been accumulated, as well as the identity of the individuals concerned and the methods employed, constitute the subject of this inquiry. Since the source of this capital is external to the company, some attention is given to the course of events outside the company itself.

3. The objective of investment capital, over the period covered by this report, has been to pre-empt the industry in which the investment is made, in order to exclude competition with its resulting diminution of return on the invested capital. The railroad transportation field offers an example of this objective.

4. The history of the period 1894 to 1909 indicates that the investment capital available for American investment in large sums was aggregated through well-defined groups of representatives of investment capital. Competition developed between these groups for the opportunity to control the several industries open to investment of large sums of capital.

5. The first competition for control of the telephone industry occurred in 1878-1879, while William H. Vanderbilt and Jay Gould were fighting for control of the telegraph industry. The Gould threat to use the infant telephone invention in furthering the attack upon Vanderbilt control of the Western Union Telegraph Company caused the latter company to effect a hasty compromise of its competition with the Bell Company for control of the telephone industry. The contract of November 10, 1879, recording this compromise, excluded the telephone patents from any competition with the telegraph, in return for surrender of all patent priority claims by Western Union to

the Bell company.

6. The effect of this compromise was to exclude the Bell company's one potentially powerful competitor during the life of the basic patents, up to 1894. During this period Bell's monopoly control of the industry permitted it to charge telephone prices sufficiently high to limit national telephone development to a rate which the Bell company and its stockholders could finance out of earnings and dividends.

7. After the expiration of the basic patents in 1894, and the practical nullification of the November 10, 1879 contract, competition developed throughout the country, in the form of many small independent telephone companies. This competition was followed by a reduction in the price of telephone service, and forced the Bell company to undertake rapid and expensive construction to obtain its share of the latent demand for telephone service thus stimulated.

8. The loss of monopoly control over the industry and the resultant loss of control over the prices charged, as well as the heavy expenditures incurred in construction of telephone lines into territory previously not served, increased the Bell company's capital requirements well beyond the point where it could finance itself out of earnings and dividends. While the Bell system faced the alternative either of accepting a minor role in the national telephone industry or accepting the conditions which a new and stronger source of investment capital might impose, the available sources of investment capital had coalesced into two well-defined major groups of opposed sources of investment capital, and a third group, less homogeneous and less cohesive. These separate sources of investment capital were competing strongly for the opportunity to occupy and dominate the several fields of industry in which investment capital could be invested in large units.

9. The two major groups are identified as the "Stillman-Rockefeller" group and the "Baker-Morgan" group. The Stillman-Rockefeller group included James Stillman of the National City Bank of New York, John D. Rockefeller of the Standard Oil Company

and various other individuals more or less closely affiliated, among whom were Edward H. Harriman of the Northern Pacific and other railroads, and George J. Gould (son of Jay Gould) of the Western Union Telegraph Company. The Baker-Morgan group included George F. Baker, President of the First National Bank of New York, J. P. Morgan, member of the firm of J. P. Morgan and Company, as well as other affiliated individuals and institutions, including T. Jefferson Coolidge, Jr., Chairman of the Board of the Old Colony Trust Company of Boston and John I. Waterbury, President of the Manhattan Trust Company of New York. The third and minor group included the firm of Kuhn Loeb and Company, of which Jacob Schiff was the dominant figure. This firm was identified with the Stillman-Rockefeller group until 1901 when the two major groups engaged in a competition for control of the Northern Pacific Railroad. After the compromise settlement of this conflict, and in the face of growing popular and political opposition to increasing combination and diminution of competition in industry, the two major groups were less definitely competitive and more inclined to compromise their differences while facing the common threat from Theodore Roosevelt's "trust busting" activities. After this period, Kuhn Loeb and Company showed an increasing tendency to cooperate with the Baker-Morgan group. Another member of this third group was Edgar Speyer and Company, an old firm which pursued a more nearly independent course of conduct. Associated with the Speyer firm was Lee Higginson and Company of Boston, a firm which had been closely identified with the Bell company during the period when it was financed largely through its own earnings.

10. The climax of the era of competition between distinctly opposed sources of investment capital occurred at about the time the Bell company was faced with its alternative either to lose control of the telephone industry or to accept the terms of a new and stronger source of investment capital. The Bell company in 1907 controlled a bare majority (51%) of the country's telephones, and the numerous independent companies were increasing the number of their telephones 34% more rapidly than Bell. The

telegraph industry was almost completely occupied by Gould's Western Union and Clarence H. Mackay's Postal Telegraph System.

11. Evidence of competition between the two major groups of investment capital for control of the electrical communications field appeared in the organization, in 1899, of the Telephone Telegraph and Cable Company with reported plans to combine Gould's Western Union telegraph with the Bell telephone. The directorate of this company also indicated an affiliation with the group (Stillman-Rockefeller) of which Gould was a member. The Baker-Morgan and the Stillman-Rockefeller groups were at that time engaged in a competition for control of the gas and electric utilities of New York City, which involved William C. Whitney and P. A. B. Widener. The gas "war" then in progress was compromised, and within a week influential members of the Telegraph Telephone and Cable Company, including Widener, withdrew from the telephone enterprise, with the published statement that their obligations to Whitney in New York affairs made that action necessary.

12. After the withdrawal of certain of the Telegraph Telephone and Cable Company's financial backers, it fell into financial difficulties. Its most valuable subsidiary was the Erie Telephone Telegraph and Cable Company which then received financial aid, in January 1901, through an advance of $7,500,000 on one-year notes by T. Jefferson Coolidge's Old Colony Trust Company, an affiliation of the Baker-Morgan group. Just prior to the maturity of these notes, President Fish of the Bell Company was asked to aid the Erie company in repayment of its obligations to the Old Colony Trust Company. Fish at first objected, but subsequently the Bell company purchased stock in the reorganized Erie Company which then repaid its obligations to the Coolidge bank, including the $7,500,000. which Fish originally refused to aid in paying. Within sixty days George F. Baker, through John I. Waterbury, had completed plans to purchase $7,675,000. of the Bell company's treasury stock, while Waterbury, Baker and Vail were elected to the Bell company's board of directors on the day the plans were

completed. Within a week after this sale of 50,000 shares of treasury stock to the Baker-Morgan group, Fish refused Lee Higginson's request for a block of stock, on the ground that the supply was "limited." At that time the Bell company had 323,206 shares of treasury stock, of which it had sold 50,000 shares to the Baker-Morgan group, leaving 273,206 shares available at the time Fish refused Higginson's request.

13. Coolidge and Waterbury then approached John W. Mackay of the Postal Telegraph system with a plan to combine that system with the Bell telephone system. Mackay agreed and The Mackay Companies was organized under a trusteeship including Waterbury, Coolidge, Cook (of the Postal system) and Clarence W. Mackay, son of John W. Mackay, who had died in July, 1902.

14. Lee Higginson and Company, with Edgar Speyer and Company, continued to compete for the opportunity of financing the Bell company, but in 1905, the Bell company arranged to sell $150,000,000 of bonds, convertible into stock, to the Baker-Morgan group, without offering the financing for open competition to the highest bidder, as had been the previous practice. This action was taken in the face of advice of the Bell company's legal staff, concerning the issuance of such a large issue of bonds convertible into stock, that:

> If a bankers syndicate should be formed, under the proposed plan, who should pool their bonds or place them in trust, the trust so formed, by exercising the option given for the conversion of bonds, would have the power to acquire so near an absolute controlling interest in this company as practically to control the whole assets of the company, which they could use for any schemes of financing that they saw fit. This is equivalent to a surrender of the powers of management by the present officers and stockholders to a body of bankers who may work to the disadvantage of the present stockholders in the promotion of other schemes of consolidation.

15. Despite vociferous objections from stockholders, Fish, immediately following his return from Europe in the fall of 1905, arranged for the necessary authority to issue convertible bonds; the management of the company voted over 270,000 shares of treasury stock in favor of the plan, which was authorized and put into effect.

16. The Mackay Companies had refused an earlier plan to underwrite one-fourth of a $150,000,000 issue of the Bell company's securities, fearing that the

securities might not immediately be distributed, and that inability to take up the securities promptly would result in financial ruin and loss of control of the Postal System to others. Subsequently Waterbury and Coolidge resigned as trustees from The Mackay Companies, and the Postal System was deserted by the Baker-Morgan group in its plans for control of the electrical communications field.

17. Subsequent to the execution of a contract for sale of $150,000,000 of convertible bonds to the Baker-Morgan group, President Fish of the Bell company did not agree completely with reorganization plans advanced by a reorganization committee suggested by Waterbury and including Waterbury, Baker and Vail. Fish had been re-elected to the Presidency on March 26, 1907, for the ensuing year and, with Alexander Cochrane and C. W. Amory, was re-elected to the company's Executive Committee. A month later, at the Director's meeting immediately following presentation of the report of the reorganization committee, Cochrane and Howe resigned from the Executive Committee and were replaced by Vail and Waterbury. At the next Director's meeting, held the day before the date on which $20,000,000 became due on notes previously sold to the Higginson and Speyer firms, Fish resigned from the Presidency, the Executive Committee and the Board of Directors, being replaced by Vail. The Baker-Morgan group thus came into control of the management of the Bell company, as had been predicted by the company's legal counsel. This management is in control of the company at the present time, having maintained continuous control through selection of its own successors.

18. Pressure was brought to bear, by the Baker-Morgan group, upon those individuals or banks which were aiding in the financing of independent telephone companies engaged in competition with the Bell company. The latter eventually regained its former monopoly position in the telephone field, with its monopoly prices no longer subject to reduction through competition from any opposed source of investment capital of sufficient strength to compete effectively with the Baker-Morgan group.

CHAPTER I

ELIMINATION OF COMPETITION THROUGH FINANCIAL CONTROL

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Investment Capital in the Telephone Industry.

The growth of the Bell System into one of the world's largest corporate enterprises, with assets exceeding five billion dollars,[1] and increasing at an average rate of over half a million dollars a day,[2] necessarily presents an investment study of outstanding significance. The original and continuing source of this concentrated aggregation of investment capital cannot be indicated adequately from a study of the company's own records, for its source was external to the company. For that reason, some consideration must be given to those external sources from which this amount of investment capital has been obtained, and to the conditions under which it has been made available for the development of a national telephone communications system.

In addition, the history of the company, beginning in 1877, covers a span of over half a century of American history during which there were major changes in the nation's economic, financial and political framework within which the company operates, and out of which it has been able to aggregate a larger portion of investment capital than has any other corporate enterprise operating within that same framework. Some brief consideration, therefore, must be given to those external historical events which were related to the growth of the nation's largest aggregation of investment capital under the control of a single corporate entity.

During the period 1875 to 1905, as will be shown later in this report, large sources of investment capital engaged in intense competition for the investment opportunities in development of the natural resources, such as oil, iron, coal and copper, and in the transportation system. In the communications field, the postal service was government-operated, but the telegraph was a private monopoly for which Jay Gould and William H. Vanderbilt waged a savage fight for control, from 1875

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1. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360A, Vol. I, p. 52.
2. Idem. Total assets increased $3,979,233,848 in the twenty-year period, 1915 to 1935, or an average of $545,100 a day for 7,300 consecutive days.

to 1880. The telephone came into existence during the climax of this Gould-Vanderbilt struggle for control of the telegraph, and, through a highly interesting series of events, obtained a contract from one of the warring factions which effectively excluded competition from the field of telephone communications until after the expiration of its basic patent protection in 1894.[3]

During the fifteen-year period, 1880 to 1894, following this "Western Union Contract of 1879," the American Bell was able to set monopoly prices for telephone service sufficiently high to limit the expansion of telephone service to a rate which could be financed out of its own earnings.[4] This policy of restriction of the national telephone development to such an extent that the funds required for expansion were less than the profits from its monopoly prices, served to make the Bell System independent of outside capital resources.[5]

The expiration of the basic patents, and with it the nullification of the protective Western Union Contract of 1879, opened the field of telephone communications to competition. As will be shown later,[6] competition for control of the Bell System ensued, between opposed representatives of investment capital, culminating, in 1907, in the success of one of the several groups. The successful aspirants subsequently exercised considerable influence, if not practical control, over the re-organized management of the Bell System. The alliance of the Bell System with a strong source of new investment capital and the institution, by that new source of capital, of financial pressure upon competing telephone companies, was followed by a gradual return of the Bell System to its former monopoly position. In this status the Bell company once again offered favorable returns on large blocks of investment capital, which was relieved of the hazard of competition by opposed sources of

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3. These events, culminating in the "Western Union Contract of 1879," are treated more in detail in Chapter II of this report.
4. Covered more fully in the section entitled, "Independence of Bell System from Outside Investment Capital Source, Prior to 1894," in Chapter III of this report.
5. For a statement of the average annual earnings over the period 1878 to 1899, see footnote 137.
6. See Chapters IV, V and VI of this report.

investment funds.

Impact of Economic Events upon Development of the Telephone Industry.

Once in 1879, and several times during the period 1895 to 1909, strong sources of investment capital engaged in competition for control of the telephone communications industry. The ultimate success of one group of investment bankers, in the period 1902 to 1909, accompanied and followed by evidence of a considerable degree of influence of that group upon the management of the American Telephone and Telegraph Company, placed the parent company,[7] and the Bell Associated Companies,[8] as well as the so-called Independent telephone manufacturing and operating companies,[9] well within the influence of this group of investment bankers. Because this apparent exchange of investment capital for an influence in company management affected the subsequent conduct of the nation's entire communications system, the details of the competition for control, as well as the identity of the principals, especially of the successful aspirant, become a matter of public concern.

This vital stage in the life of the telephone industry occurred in the last few years of an era of rapid industrial and railroad expansion following the Civil War,[10] an era in which German and English sources of capital made heavy American investments,[11] and which saw the rise of an American source of capital based

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7. Special Investigation Docket No. 1, Report on "Control of Telephone Communications," Vol. I, "Control of American Telephone and Telegraph Company."
8. Special Investigation Docket No. 1, Report on "Control of Telephone Communications," Vol. II, "Administrative Control of the Associated Bell Telephone Companies."
9. Special Investigation Docket No. 1, Report on "Control of Telephone Communications," Vol. III, "Control of Independent Telephone Companies."
10. Cf. Alexander Dana Noyes, "Forty Years of American Finance," 2d ed., Chapter I, especially pp. 1 to 3. Noyes divides the period from the close of the Civil War to the Panic of 1907 into three periods; 1865 to specie resumption in 1879; 1879 to just beyond the Panic of 1893; and the last, and most significant, from the "striking economic phenomena of the last few years of the nineteenth century" to 1907. (Ibid., p. 1). The telephone patents expired in 1893 and 1894, exposing the telephone industry to the full impact of this third and climactic era.
11. Cf. Ibid., pp. 3, 15, 217 and 218. See also, John Moody, "Masters of Capital," Vol. 36, p. 22. An abridged edition was published in 1919, as Vol. 41 of "The Chronicles of America." A more detailed edition appeared serially in "McClure's Magazine" during 1910 and 1911, to which this and subsequent volume and page references on this work pertain.

upon the discovery and commercial exploitation of the nation's magnificent petroleum resources.[12] The constant pressure of capital seeking the most profitable opportunities for investment[13] necessarily resulted in an early period of intense competition between various groups to pre-empt the several fields which were subject to profitable exploitation during this period of expansion. In the railroad field, particularly, the competition became so severe that at one time the passenger fare between New York and Chicago was one dollar.[14] Under such conditions, for the roads thus affected, the general result was to reduce the return on railroad investment capital by nearly one-third[15] and the principal itself was impaired in many instances, or exchanged for junior securities.[16]

In other fields, the same general conditions held, though to a less damaging extent. In self-defense, the suppliers of capital were forced to resort to any expedient which would mitigate the .oss of invested capital resulting from such severe competition.[17] The inevitable result was a trend towards industrial combinations and mergers, "gentlemen's agreements," "pools," and other methods of establishing a community of interest between the competing industrial units so that destructive

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12. Cf. Moody, op. cit., Vol. 36, pp. 564 to 577.
13. For discussion of Standard Oil profits seeking reinvestment, see John A. Hobson, "The Evolution of Modern Capitalism; A Study of Machine Production," new and revised edition (1910), p. 258 ff; also, Moody, op. cit., Vol. 36, pp. 576 and 577. For a more general discussion, see Journal of Political Economy: A. Youngman, "The Tendency of Modern Combination," Vol. 15, pp. 193 to 208 and pp. 284 to 298; also, The International Quarterly: Charles A. Conant, "The Concentration of Financial Power," Vol. 12, October, 1905, pp. 34 to 45, especially p. 39. Conant was Treasurer of the Morton Trust Company of New York, from 1901 to 1906. (Cf. Hearings before the Committee on Banking and Currency, United States Senate, Sixty-third Congress, First Session, on H. R. 7837 (S. 2639), Senate Document No. 232, testimony of Charles A. Conant, Vol. II, p. 1378).
14. Cf. Moody, op. cit., Vol. 36, p. 17. For an early and forthright denunciation of this type of competition, see Charles Francis Adams, "Address at the Dinner of the Commercial Club of Boston, December 15, 1888, on The Interstate Commerce Act: Its Operation and Its Results." (Published by Rand Avery Supply Company, Boston).
15. Cf. Stuart Daggett, "Railroad Reorganization," pp. 357 to 369, especially pp. 362 and 363.
16. Ibid., pp. 367 to 369.
17. For a brief account of the famous 1888 meeting, called by Morgan, of the presidents and bankers of competing railroads, at which the bankers agreed to help stop financing of parallel or competing lines provided the roads would abandon rate wars and submit to a central executive committee, see Carl Hovey, "The Life Story

rate wars and "price competition" could be avoided.[18]

The early stages of this developing trend were characterized by combination of local, parallel or connecting units, especially in railroads.[19] As the crystallizing combinations grew in size, they began to touch upon each other's domains, and clashes occurred between larger aggregations of capital,[20] these conflicts eventually resolving themselves into major competition between more or less closely affiliated enterprises representing the three essential sources of capital -- English, German and American.[21] By 1901, the nation was treated to the spectacle of a brief but sharp Wall Street "panic" resulting from the struggle of two of these sources to obtain control of the Northern Pacific Railroad through open market purchases of its floating stock.[22]

About the time the representatives of investment capital were gradually coalescing into two major affiliated groups, the Bell System had arrived at that point in its evolution in which it had either to share its control of the telephone field, or accept a new and stronger source of investment capital to finance the rapid expansion forced upon it in order to pre-empt the undeveloped areas of demand

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of J. Pierpont Morgan, a Biography," pp. 137 to 144. For a summary of the results or objects of Morgan's efforts at industrial combination, see Lewis Corey, "The House of Morgan; A Social Biography of the Masters of Money," p. 285.

18. Cf. Arthur Robert Burns, "The Decline of Competition; A Study of the Evolution of American Industry," pp. 1 ff., 40 to 42, 455 and 522. See also, Moody, op. cit., Vol. 36, p. 135.
19. Cf. William Z. Ripley, "Railroads, Finance and Organization," Chapters 14 and 15, pp. 456 to 533, especially pp. 456 to 462.
20. Idem.
21. On the three generic sources of capital, see Moody, op. cit., Vol. 36, pp. 339 to 341 and 577. See also, Ripley, "Railroads, Finance and Organization," Chapters 14 and 15. For the increasing concentration of railroads into a few systems, see Noyes, op. cit., p. 333, and Ripley, "Railroads, Rates and Regulation," p. 487 ff.
22. The literature on this dramatic episode is abundant. For a terse contemporary report, see Commercial and Financial Chronicle, Vol. 72, p. 936. For a concise description, see "A History of the Northern Securities Case," in Bulletin of the University of Wisconsin, No. 142, July 1906, pp. 225 to 241, reproduced in Ripley's "Railway Problems" (1st ed.) Chapter 21, pp. 517 to 530. For an account with emphasis upon the personalities concerned, see Moody, op. cit., Vol. 36, pp. 343 to 346.

for telephone service,[23] and to buy or otherwise eliminate the independent telephone companies which had already entered its field after expiration of the basic telephone patents.[24]

W A brief history will be given[25] of the general groups of investment capital which were concerned in the competition for control of the investment opportunities in the telephone industry. This consideration is not intended to be exhaustive, and devotes most attention to those sources and personalities which figured more prominently in the struggle for control of a single industry -- telephone communications.

During this evolution of affiliated groups of investment capital representatives, having as a concomitant result the suppression of destructive competition and protection of the return on invested capital, a popular revolt arose against the elimination of competition.[26] The "Granger" movement, the "Populist Revolt," and Bryan's "Free Silver" campaign of 1896, all were evidences of the ground swell of popular discontent[27] culminating in the "trust busting" era of Theordore Roosevelt, beginning in 1902.[28] The gradually increasing severity of limitations placed by legislation upon attempts to limit competition[29] began with the Interstate Commerce Act of 1887, continued with the Sherman Anti-Trust law of 1890, and culminated in the period following 1902, when the Northern Securities Company was attacked and dissolved by the Federal Court,[30] and the Standard Oil was forced to dissolve.[31]

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23. For a further discussion of the Bell System's need for capital, see section entitled, "Importance of Strong Investment Capital Source, after 1894, to Bell System's Ability to Maintain Position in the Industry," p. 34 of this report.
24. For greater detail on elimination of competition, see Chapter VII of this report.
25. See Chapter III of this report, pp. 32 to 57.
26. Cf. Noyes, op. cit., pp. 340 and 341. See also, Charles A. Beard and Mary R. Beard, "The Rise of American Civilization," Vol. II, pp. 565 to 573.
27. Cf. Noyes, op. cit., pp. 340 and 341. See also, Ripley, "Railroads, Rates and Regulation," p. 487 ff., and Beard, op. cit., Vol. II, pp. 565 to 573.
28. Cf. Henry F. Pringle, "Theodore Roosevelt; A Biography," p. 252 ff.
29. Cf. Ripley, "Railroads, Rates and Regulation," Chapters 13 to 16.
30. Northern Securities Company v. United States, 193 U.S. 197 (decided March 14, 1904). Cf. Ripley, "Railroads, Finance and Organization," p. 555 ff.
31. Standard Oil Co. v. United States, 221 U.S. 1 (decided May 15, 1911).

The impact of Federal authority upon attempts to eliminate competition affected equally each of the affiliated groups of investment capital representatives, and resulted in deflecting their immediate efforts from competition with one another, toward methods of defending themselves against a common antagonism -- the legislative evidences of popular discontent.[32] Thus, a new trend developed -- the tendency towards amicable relations and a more or less formal community of interest between the major representatives of investment capital.[33] The sequel of the Northern Pacific Panic of 1901 offers an illustrative example, in the formation of the Northern Securities Company. Following its dissolution by the Federal Government, in 1904, and the exposure of the Life Insurance scandals in 1905,[34] the two formerly opposing groups of investment bankers drew closer together.[35] This era, in the period ending just prior to the World War, was epitomized best by the report of the so-called "Pujo Committee" on the Congressional investigation of "the concentration of control of money and credit."[36]

The period of industrial combinations and mergers affected the telephone

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32. For extensive Federal inquiry into the combinations of banks to establish community of interest and eliminate competition, see the Pujo "Report" (as identified in footnote 36), especially "Processes of Concentration" and "Agents of Concentration," p. 56 ff. For a more general description of the community of interest between banks, see Moody, op. cit., Vol. 37, pp. 418 to 428.
33. Idem.
34. Cf. Report of the Armstrong Committee appointed to investigate Life Insurance Companies, identified as "State of New York; Assembly Document No. 41; Report of the Joint Committee of the Senate and Assembly Appointed to Investigate the Affairs of Life Insurance Companies" (transmitted to the Legislature on February 22, 1906). For a brief discussion, see Noyes, op. cit., pp. 336 to 341.
35. Cf. Ripley, "Railroads, Finance and Organization," p. 513.
36. The "Pujo" Investigation or "Money Trust Investigation" as it is sometimes termed is more accurately identified as follows: 62d Congress, 3d Session, House of Representatives Report No. 1593 of the "Committee Appointed Pursuant to House Resolutions 429 and 504 to Investigate the Concentration of Control of Money and Credit," submitted by Mr. Pujo on February 28, 1913. The "Report" of the Committee was issued in one volume of 258 pages. The "Testimony" upon which this "Report" was based was taken before a Sub-committee on Banking and Currency, printed and issued in 1912 in 29 parts, but numbered consecutively from 1 to 2226. In this and subsequent footnotes, these two printed records will be referred to as Pujo, op. cit., "Report," and Pujo, op. cit., "Testimony."

industry along with all others. During the period 1898 to 1904, when the several sources of available investment capital had not yet been driven towards a common cause during the period of increasing severity of Federal regulation, the two telegraph companies, Western Union and Postal, were both considered, by opposing groups, as possible subjects for combination with Bell, the major telephone company.[37] Before these plans had reached the stage of actual accomplishment, the political events of 1903 to 1908, beginning with the Northern Securities dissolution in 1903, had forced the contenders into a closer relationship,[38] and was followed by a major shift in the original telephone-telegraph merger plans.[39]

Despite the mounting agitation against combinations, the second merger plan was actually carried into effect in 1909,[40] only to be voluntarily dissolved, in 1913,[41] in the face of almost certain evidence that it would be thoroughly investigated by the Interstate Commerce Commission and the U. S. Attorney General,[42] as had the Northern Securities in 1903, and the Standard Oil in 1911.

It is only by constant reference to this stream of economic and political events and the alignment of groups of investment bankers, external to the American Telephone and Telegraph Company, that proper significance and intelligent interpretation can be given to certain of the Company's internal phenomena. This is particularly true of the internal stress and reorganization of the American Telephone and Telegraph Company[43] which occurred during the period when expiration of basic patents forced it to accept a new and more powerful external source of investment capital in order to retain its monopoly position in the telephone industry. But in addition to the factors which forced the Bell to accept the conditions laid down by a new and stronger external source of investment capital, there were other influences

37. See Chapter V of this report, p. 76
38. See footnote 32.
39. See Chapters V and VI of this report, especially pp. 84 and 130 .
40. Idem.
41. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360A, Vol. I, p. 255 ff.
42. Idem.
43. See Chapter VI of this report, pp. 159 to 168

which impelled several competing sources of external capital to desire a degree of influence over the Bell System, for the Company offered a strong entering wedge for control of the national electrical communications field. A brief treatment of the general tendency of investment capital to seek non-competitive control over the field of investment is given in the next section of this chapter. The events which made the Bell System independent of external sources of capital, prior to 1895, are treated in Chapter III.[44] The change in conditions which made the Bell System vulnerable to the demands of an external source of capital is outlined in that Chapter,[45] while subsequent chapters show that one of these sources of external capital eventually was successful in obtaining control of the telephone field.[46]

Importance, to Investment Capital, of Non-Competitive Control over the Field of Investment.

At the same time that the Bell companies were rapidly losing ground to the Independents and were experiencing difficulties in financing their own efforts in the nation-wide competition,[47] the tide of profits arising from rapid industrial development of the country was seeking new fields of investment in which the prospects seemed reasonably favorable to a continuing return on large blocks of capital.[48] Under these conditions, it was entirely logical that the telephone industry, declaring average dividends of 15 per cent over a period of fifteen years on an investment of some twenty million dollars,[49] should attract powerful sources of investment capital, in which the logical objective would appear to be: to pre-empt the telephone field, re-establish the non-competitive conditions existing during the period 1880 to 1895, and thus assure a continuously satisfactory return on a large volume of investment capital, not

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44. See p. 32.
45. See p. 34.
46. See Chapters IV, V and VI of this report.
47. For financing difficulties, see Chapter III of this report, pp.34-36 For the more rapid expansion of Independents as compared with Bell, see footnote 144.
48. Cf. Hobson, op. cit., pp. 257 and 259 ff. See also, references in footnote 13.
49. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360B, Vol. II, p. 360.

constantly faced with the hazard of profit-destroying competition.

Those identified with railroad financing in this period viewed competition as injurious, and expressed the view (in 1900) that the time was fast approaching when "railroads would fall into a limited number of groups, controlled by non-competitive ownership."[50] The "Community of Interest Plan," for elimination of railroad competition, was a definitely stated policy as early as 1892.[51] The bankers' argument (in 1894) for elimination of competition between the Great Northern and the Northern Pacific was that "it would increase the net earnings of both companies, but especially of the Northern Pacific, many hundred thousands of dollars."[52] In 1897, the proposed acquisition of a competing line by J. P. Morgan and Company and Kuhn, Loeb & Company, and its sale to its competitors, was predicated upon the objective, among others:[53]

> (2) The election of a management which shall be pledged to the maintenance of rates....

The original cause of the battle for control of the Chicago, Burlington and Quincy Railroad was the desire on the part of two strong banking groups to make their own territories immune to competition to this road, which was contiguous to both territories. As Jacob Schiff, banker for one of the contestants (Harriman's Union Pacific Railroad), expressed it to J. P. Morgan, banker for the other contestant (Hill's Northern Pacific):[54]

> To begin at the beginning, it is proper I should state that, during the spring and summer of 1900, Union Pacific interests became convinced that it would be difficult to assure full and permanent prosperity to the Union Pacific Railroad Co. without bringing about in some manner a thorough understanding and co-operation in the management of their own property and that of the Chicago, Burlington & Quincy Railroad.

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50. This statement was made by Jacob Schiff, senior partner of Kuhn, Loeb and Company, and one of the most influential railroad financiers of his time. Cf. Cyrus Adler, "Jacob H. Schiff; His Life and Letters," Vol. I, p. 42 ff.
51. Ibid., p. 73 ff. (This characterization was by Samuel Rea, Vice President, later President, of the Pennsylvania Railroad Company).
52. Ibid., pp. 85 and 86.
53. Ibid., p. 89.
54. Ibid., p. 102.

Following the clash between these two banking groups for control of the Northern Pacific Railroad, the Northern Securities Company was formed to hold the stock of the competing railroads,[55] the stock of the Securities Company to be distributed to the contestants. Of this arrangement, Hobson, the English economist, had the following to say:[56]

> The most notorious example of a holding trust is that known as the Northern Securities Company, formed for the purpose of placing in common hands a controlling share of the stock of four great railroads in order to restrain competition and to operate them as a single system.

The tendency towards elimination of competition within an industry, as a protection to the return on capital invested in the industry, was not confined to railroads. This was illustrated, in 1900, by Jacob Schiff (of Kuhn, Loeb & Company) in a letter written to a European banker, in which he stated, in part:[57]

> We must now both direct every attention to Anaconda, because I have no doubt we shall soon have an opportunity to buy the entire holdings of Haggin and his associates....Under a proper administration, which it has hardly had heretofore, and with sufficient working capital, Anaconda should show brilliant results, unless all the available reports are misleading. Especially is this true if a combination of all copper producers can be effected - and in the long run that is inevitable.

The Report of the United States Industrial Commission, in 1901, on the "Causes of Combination" in industry, stated, in part:[58]

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55. Cf. Geo. Keenan, "E. H. Harriman; A Biography," Vol. I, p. 324 ff. See also references cited in footnote 22.
56. Hobson, op. cit., p. 187.
57. Adler, op. cit., Vol. I, p. 157.
58. United States Industrial Commission Report, 1901, Vol. 13, p. v. This source is identified as Document No. 182, 57th Congress, 1st Session, House of Representatives; Report of the Industrial Commission on Trusts and Industrial Combinations; (Second Volume) Including Testimony Taken since March 1, 1900, Together with Review and Digest Thereof, and Special Reports on Prices and on the Stocks of Industrial Corporations; Volume XIII of the Commission's Reports. Submitted December 4, 1901. This report will be identified in subsequent references as "United States Industrial Commission Report."

> It is clearly the opinion of most of those associated with industrial combinations that the chief cause of their formation has been excessive competition. Naturally all business men desire to make profits, and they find their profits falling off first through the pressure of lowering prices of their competitors. The desire to lessen too vigorous competition naturally brings them together.

Thus, for the period in which the telephone industry was passing through its critical stage (1895 to 1910), it is evident that the logical objective of the capital invested in an industry was to control the entire industry, in order to mitigate the effects of competition. It is the purpose of this report to record the events relevant to competition for financial control of the telephone industry, and to indicate the methods by which the financial control of the industry was used for the purpose of eliminating profit destroying competition.

* * *

The history of competition for control of the telephone industry begins in the period 1877 to 1879, when the first evidences of that competition appeared. The events of this first clash indicate why the telephone field was closed so effectively to successful competition during the subsequent period of patent protection (1879 to 1894). This early competition for control of the industry is covered in the next chapter.

CHAPTER II

EARLY COMPETITION FOR FINANCIAL CONTROL OF THE TELEPHONE INDUSTRY (1879)

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First evidence of competition of investment capital for the profit opportunities in the telephone industry occurred in 1879, and was curiously related to a major battle of two outstanding capitalists of that era, Jay Gould and William H. Vanderbilt. The Western Union, formed in 1855, as a consolidation of many competing telegraph companies,[59] had, by 1875, come to be a powerful and highly profitable telegraph monopoly. The Vanderbilts, William H. and Cornelius, were the largest stockholders in the company,[60] and were prominent in railroad managements, notably the New York Central. Gould had attained prominence and a powerful financial position through various enterprises, including manipulation of many large railroads, notably the Erie and Union Pacific.

The Contract of November 10, 1879.

Much has been written to explain the surprising capitulation of the powerful Western Union to the diminutive Bell Company in their legal battle over the most valuable single patent ever granted,[61] and there is much to explain. The previously ruthless forty-million-dollar telegraph monopoly not only did not carry its suit to conclusion in higher courts, but capitulated even before a decision was reached in the lower courts.[62] Moreover, it went even further by making a legally binding statement that precluded any further action on its own part in later claiming any degree

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59. Cf. Alvin F. Harlow, "Old Wires and New Waves," p. 255 ff.
60. The Vanderbilt holdings as of January 15, 1878 were: W. H. Vanderbilt, 14,000 shares (indicated as "No dividend, belongs to W.U. Co."); W. H. Vanderbilt, 21,000 shares; Wm. K. Vanderbilt, 2,000 shares; Cornelius Vanderbilt, 7,100 shares; total 30,100 shares. (Western Union Telegraph Company, Treasurer's Office, Dividend Book No. 4, Dividend No. 42, payable January 15, 1878, p. 63). Total outstanding shares on that date were 410,670 (Ibid., p. 67). As of January 1879, the Vanderbilt holdings totalled 49,100 shares (Ibid., Dividend No. 50, payable January 15, 1880, p. 305) out of a total of 410,604 shares (Ibid., p. 308).
61. Special Investigation Docket No. 1, Report on "Patent Structure of the Bell System, Its History and Policies and Practices Relative Thereto," Exhibit No. 1989, p.1
62. Cf. Frederick Leland Rhodes, "Beginnings of Telephony," pp. 52 and 207.

of priority in telephone inventions for its own inventors, Thomas A. Edison and Elisha Gray.[63]

This seemingly queer haste to concede Bell's contentions, and even to strengthen Bell's claims against itself, is in strange contrast to other legal battles over inventions of value, in which the legal steps stretch out over many years and run into heavy expenditures, so that as time goes on the contestant with the more powerful financial resources gradually attains an advantage through mere ability to continue financing the cost of the struggle.

An unusual paradox in the Western Union-Bell incident of 1879 is offered on this same score. After an almost unseemly haste to recognize and even strengthen Bell's telephone claims over those of their own inventors, Elisha Gray and Thomas A. Edison, in the contract of November 10, 1879, Western Union subsequently instituted an action on one specific phrase in that contract, and the legal battle dragged over a period of more than a quarter of a century, at a considerable cost and with eventual success.[64]

What is the explanation of this sudden change in attitude on the part of Western Union, between 1879 and 1882? A significant factor in this change is the fact that in the interim between the early precipitate effort to concede everything to Bell, and the later costly long-drawn-out contention on a single phrase of the previous agreement, Jay Gould had forcibly taken control of the Western Union from the Vanderbilts. As will appear later, it was the besieged Vanderbilt management which conceded the field to Bell and the victorious Gould management which contested the terms of the Vanderbilt agreement with Bell. Moreover, during the rapid negotiations between Bell and the beleaguered Vanderbilt management in 1879, the Gould

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63. Ibid., p. 52 (and its footnote 17) and p. 243 (Note 79), Affidavit of George Gifford.
64. This suit (Western Union Telegraph Company vs. American Bell Telephone Company, 187 Fed.425) was instituted by Western Union in 1883 (Cf. Commercial and Financial Chronicle, Vol. 77, p. 953) and settled in 1913 by a Bell payment to Western Union of $2,579,914 in cash, plus 20,087 shares of stock of Bell subsidiary companies (Ibid., Vol. 97, p. 1435 and Vol. 98, p. 614).

faction was striking Western Union from every available competitive angle. Most significant of all — just prior to the conclusion of the 1879 contract, the Gould forces had begun buying telephone exchanges from the Bell group, thus threatening to throw the Gould millions behind the telephone's competitive threat to the telegraph monopoly. Promptly after this came the contract of 1879, by which the Bell telephone patents were reinforced against all competitors — and precluded from competing with the Western Union Telegraph. This desperate move was of no avail to the Vanderbilt management, for it lost control of the telegraph monopoly to Jay Gould in little more than a year after the contract of November 10, 1879.

This tangle of conflicting events, in the competition of powerful capitalists for a commanding position in early electrical communications, furnished an understandable background for the statement of Elisha Gray, one of those whose claims were subordinated to the Bell claims, as a result of the contract of 1879. This comment in Gray's own handwriting, which came to light only after his death, read in part:[65]

> The history of the telephone will never be fully written. It is partly hidden away in twenty or thirty thousand words of testimony and partly lying on the hearts and consciences of a few whose lips are sealed, some in death and others by a golden clasp, whose grip is even tighter. 66

First Attack by Jay Gould Upon Vanderbilt Control of the Telegraph Industry.

By 1870, William H. Vanderbilt had obtained a commanding position in railroads, with a consolidation of his New York Central with the Hudson River and the Lake Shore and Michigan, affording a connection between New York and Chicago, in competition with the Pennsylvania and Erie.[67] He had also become prominent in various

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65. Special Investigation Docket No. 1, Report on "Patent Structure of the Bell System, Its History and Policies and Practices Relative Thereto," Exhibit No. 1989, p. 2.
66. Gray was said to have received $100,000 for renouncing his claims in favor of those of Bell, and in later years recanted this renouncement, asking that the case be reopened (Cf. Harlow, op. cit., pp. 383,394 and 395).
67. Cf. "Poor's Manual of the Railroads of the United States for 1870-71 (Third Series)," pp. 145, 354, 385 to 389 and 460.

other enterprises, including the Western Union Telegraph Company,[68] then virtually a national telegraph monopoly.[69] Its rich profits naturally attracted efforts at competition, of which the most effective was that furnished by Jay Gould's two companies, the Atlantic and Pacific Telegraph Company, and the American Union Telegraph Company. The Atlantic and Pacific had been organized in 1865,[70] and by the early 70's had a transcontinental line pieced together between New York and San Francisco, using the Union Pacific Railroad right-of-way over a considerable part of its course. It was prepared to capitalize its nuisance value by selling out to Western Union, but the panic of 1873 temporarily hampered the latter, and it refused the offer.[71] The Atlantic and Pacific thereupon fell under the influence of the Union Pacific and its master -- Jay Gould.[72] In 1874, the latter induced General T. T. Eckert to leave Western Union and build up the Atlantic and Pacific into a real competitor to Western Union.[73] Eckert took over the Atlantic and Pacific presidency in January, 1875, and by January, 1877, had built it up into a system with over 35,000 miles of wires. Associated with Eckert in this effort, among others, was Homer Bates,[74] from whom more will be heard later.

Early in this year (1877), Western Union, recognizing the growing power of its strong competitor, began an offensive to squeeze it out of the field.[75] The outcome of this early struggle for control of the telegraph field, between the Vanderbilts' Western Union and Gould's Atlantic and Pacific, was a "treaty of peace," late in 1877, in which Western Union capitulated and purchased 72,502 shares of the Atlantic and Pacific, at $25.00, mostly from Gould,[76] paying $912,550 in cash and a block of shares of Western Union stock.[77] The earliest evidence of Gould ownership of

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68. See footnote Nos. 79, 113 and 124.
69. Cf. Harlow, op. cit., p. 330.
70. Ibid., p. 324 ff.
71. Idem.
72. Idem.
73. Idem.
74. Idem.
75. Ibid., p. 408.
76. Idem.
77. Idem.

Western Union stock occurs, on the "Dividend Records" of that company, on October 15, 1877, when 35,350 shares appeared in Gould's name,[78] as compared with 44,100 shares in the name of the Vanderbilts.[79] Gould apparently cashed in upon this sale immediately, for the next dividend date (January 15, 1878) showed the Gould holding reduced to 800 shares,[80] which disappeared entirely by April 15, 1878.[81]

Vanderbilt Attack Upon Bell Control of the Telephone Industry.

In the fall of 1876, the Bell had offered its invention to Western Union for $100,000, but the latter had refused the offer.[82] In 1878, shortly after it had concluded its first skirmish with Gould, Western Union decided to appropriate the telephone industry for itself,[83] particularly since the new telephone device threatened loss to the short-haul telegraph business.[84] In December, 1877, it organized the American Speaking Telephone Company, which immediately acquired the telephone patents of Elisha Gray,[85] and, in May, 1878, those of Thomas A. Edison.[86] The latter included a new type of telephone transmitter which was much superior to the existing Bell transmitter,[87] with the result that the Western Union subsidiary almost immediately acquired a tremendous advantage[88] and began attracting Bell's customers away from it.[89] The Bell's Chicago company, intimidated by this powerful competitor, folded up and quit, and Bell finances were on the verge of bankruptcy.[90]

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78. Western Union Telegraph Company, Treasurer's Office, Dividend Book No. 4, Dividend No. 41, payable October 15, 1877, p. 12.
79. Ibid., p. 29. These holdings were: W. H. Vanderbilt, 14,000 shares (marked "No dividend, property of W.U.Co."); W. H. Vanderbilt, 21,100 shares; Wm. K. Vanderbilt, 2,000 shares; Cornelius Vanderbilt, 7,000 shares.
80. Ibid., Dividend No. 42, payable January 15, 1878, p. 45.
81. Ibid., Dividend No. 43, payable April 15, 1878, pp. 79 and 80.
82. Cf. Rhodes, op. cit., p. 51.
83. Cf. James M. Herring and Gerald C. Gross, "Telecommunications; Economics and Regulation," p. 46.
84. Idem.
85. Idem.
86. Idem.
87. Special Investigation Docket No. 1, Report on "Patent Structure of the Bell System, Its History and Policies and Practices Relative Thereto," Exhibit No. 1989, p. 5. See also, Harlow, op. cit., p. 378.
88. Cf. Harlow, op. cit., pp. 378 and 379.
89. Idem.
90. Ibid., p. 380. See also, Herbert N. Casson, "The History of the Telephone," pp. 73 to 75.

The superior position of the Western Union, with its far flung wire plant, financial resources, and the Edison transmitter, are indicated in telephone histories in these terms:

> A telephone talk of that day often suggested a Fourth of July celebration rather than an interchange of human speech. The transmitter, too, was still primitive - more calculated to "develop the American voice and lungs," as Watson himself wrote later, than to promote conversation. When Edison developed for the Western Union a brand-new one, superior in every way to that in use by Bell, ruin stalked through the (Bell) offices in Reade Street.91
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> Edison, who was at that time fairly started in his career of wizardry, had made an instrument of marvelous alertness. It was beyond all argument superior to the telephones then in use and the lessees of Bell Telephones clamored with one voice for "a transmitter as good as Edison's." This, of course, could not be had in a moment, and the five months that followed were the darkest days in the childhood of the telephone. How to compete with the Western Union, which had this superior transmitter, a host of agents, a network of wires, forty millions of capital, and a first claim upon all newspapers, hotels, railroads, and rights of way - that was the immediate problem that confronted the new general manager.92

The tremendous advantage held over the early Bell company by Western Union, was referred to by President Thayer of the American Telephone and Telegraph Company in an address he gave in 1925 on the history of the telephone, in which he said, in part:[93]

> ....the infant industry found itself in competition with one of the most powerful corporations of that time....The company was poverty-stricken and the resources of the Western Union Telegraph Company were concentrated against it.

The discouraged Bell interests were greatly aided late in 1878, by the offer of an improved transmitter design, from Francis Blake, which once more placed them in a position to offer their customers an instrument approximately equal to the Edison transmitter which the powerful Western Union was installing for its customers.

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91. Albert Bigelow Paine, "Theodore N. Vail; A Biography," p. 129.
92. Casson, op. cit., p. 69.
93. From an address by President Thayer of the American Telephone and Telegraph Company before the Vermont Historical Society, June 24, 1925, reproduced in "Bell Telephone Quarterly; A medium of Suggestion and A Record of Progress," Vol. IV, No. 3, (July, 1925), pp. 182 and 183.

Thus fortified, the Bell organization brought suit against Western Union, late in 1878, claiming infringement on their patents.[94] The suit did not immediately come to trial, and when it did, it dragged on through the spring and summer of 1879.[95]

Thus immediately after Western Union had bought up the Gould competitor in its own field, late in 1877, it immediately turned to the problem of obtaining control of the telephone field, and within a year had assumed the dominant position. At this juncture the battle settled down into what promised to be a long-drawn-out legal battle over patents, with the powerful Western Union arrayed against the struggling Bell Company.

Second Gould Attack Upon Vanderbilt Control of the Telegraph Industry.

The Western Union had taken up its attack on the telephone field in the fall of 1877, just after having bought off Gould's Atlantic and Pacific Telegraph Company, and thus probably felt secure from further competition within the telegraph field. This deduction reckoned without full recognition of Gould's resourcefulness and determined desire to take control of the Western Union away from the Vanderbilts.

On May 15, 1879, eight months after Bell brought suit against Western Union on telephone patents, Gould launched another powerful attack upon Western Union in its own field, by the organization of the American Union Telegraph Company.[96] Again Bates was associated with Gould,[97] having left the Atlantic and Pacific which was then controlled by Western Union, to become President of the American Union.[98] The prompt alliance of Bates with the American Union is of importance, for later correspondence indicated he was Gould's advisor and expert on telephone matters, being given carte blanche in such matters by Gould in later years, as was indicated by Vail, in a letter to James J. Storrow, the Bell attorney, in which he stated, in part:[99]

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94. Cf. Rhodes, op. cit., p. 52.
95. Harlow, op. cit., p. 381.
96. Ibid., p. 409.
97. For previous connection of Bates with Gould, in the Atlantic and Pacific Telegraph Company, see p. 16, footnote 74.
98. Harlow, op. cit., p. 381.
99. American Telephone and Telegraph Company, President's Letter File No. 2898, letter, Theo. N. Vail to Jas. J. Storrow, dated January 24, 1889.

> I went to Philadelphia yesterday with Mr. Bates, who was with Gould in the American Union Telegraph Co., and at the time of the consolidation came over to the Western Union as General Eckert's assistant.
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> * * * * * * * * *
>
> After the consolidation with the Western Union, the Nov. 10th contract was placed in his hands, and he was given carte blanche in regard to telephone matters, to familiarize himself with them perfectly, and to report from time to time.

The scope of this new threat to Western Union's dominance in its own field is described by one historian, in part, as follows:[100]

> The American Union, under Gould's magic touch, quickly reached a dominant position. The Dominion Telegraph Company of Canada was leased, and its officials permitted to buy into the new corporation. President Garrett of the B. & O. Railroad did the same and became a Director; whereupon Gould's small, white hand began feeling for the keys of the B. & O. telegraph system. An alliance for foreign business was made with the French Cable Company. Rates were cut, small lines were bought, and more than 5,000 men under Dennis Doren, noted Civil War construction chief, were at work in all directions, paralleling the lines of the Western Union.
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> * * * * * * * * *
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> "Impossible!" exclaimed Dr. Green, when it was suggested that the young upstart might yet lick his company. "It would bankrupt Gould and all his connections to parallel our lines, and to talk of harmony between him and us is the wildest kind of speculation." But by that time, the Doctor himself was whistling to keep up his courage. The Western Union was undeniably in trouble. Before the end of 1880 its receipts had been cut by an average of $5,000 a day. Its stock fell to the lowest figures known since the '50's.

With the aid of such able stock market manipulators as Jim Keene, Addison Cammack and Russell Sage, and through the columns of his "New York World," Gould attacked the credit of the Western Union and relentlessly drove its stock quotations down.[101] The savage Gould attack upon Vanderbilt's telegraph monopoly apparently availed itself of every conceivable weakness of the telegraph company's position, one of which was its pending suit with the Bell telephone. That the telephone, if placed in Gould's powerful hands, could aid considerably in his onslaught apparently was recognized by Gould himself, for Bates, the President of his American Union

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100. Harlow, op. cit., pp. 411 and 412.
101. Cf. Matthew Josephson, "The Robber Barons; The Great American Capitalists; 1861-1901," p. 205 ff.

Telegraph company, had begun to acquire telephone exchanges directly from Bell, as was evidenced by Vail in a letter speaking of Bates, in which he stated, in part:[102]

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> Before the sale of the American Union and the consolidation with the Western Union, he bought two of three of our exchanges, -- notably, Connecticut and Albany.

Vanderbilt Compromise of Telephone Attack (Contract of November 10, 1879).

The Bell suit had been entered on September 12, 1877. Gould's American Union was organized on May 15, 1879. Before the lapse of the next fifteen days, Vanderbilt's Western Union had approached Bell with a compromise in the form of a "consolidation." A meeting was held between a Bell committee and President Green of Western Union, and definite discussions were under way. This evidence of sudden alacrity on Western Union's part to protect itself from a possible Gould-financed telephone competition is shown in the first minutes of the Bell committee appointed to consider Western Union's proposal. The minutes, quoted below, establish a significant point, namely, that the primary discussion in the original bargaining for compromise was whether the Bell interests would agree not to use the telephone in competition with Western Union's telegraph. The significant portions of the document clearly indicated Western Union's fear of the telephone as a tool for further competition with its own telegraph business:[103] 1878

> Boston May 30 1879
>
> The Committee appointed at the directors meeting May 1879 to consider a proposition for consolidation from the American Speaking Telephone Co. & others report as follows:
>
> They first asked from Dr. White a definite statement of the restrictions which were intended to be placed upon the new Telephone Co.

102. American Telephone and Telegraph Company, President's Letter File No. 2898, letter, Theo. N. Vail to Jas. J. Storrow, dated January 24, 1889. (A facsimile of this complete document, as well as of all letters which are quoted in this report, is on file in the Federal Communications Commission, Engineering Binder No. 201.)

103. American Telephone and Telegraph Company, President's Letter File No. 5, entitled, "Organization of New Company, '79 & '80."

As his reply did not seem sufficiently clear and complete to act upon an interview was arranged in New York on the 24th inst. at which Dr. Green and Dr. White met the committee.

Dr. Green then informed your committee that that it is not proposed to restrict the Telephone Company from renting telephones to any individual or company whatever, nor to prevent said Telephone Co. from delivering messages to, or taking them from, telegraph companies competing with the Western Union Co. when called upon to do so by the sender of the message.

What is wanted is a business alliance between the Western Union Telegraph Co. the Gold & Stock Co. and the new Telephone Co. in which all the telegraph business controlled by the latter company shall be turned over to the Western Union Telegraph Company - this Company making arrangements for reciprocal Exchange of business with the district or exchange Companies of the Telephone Co. and with such other lines as said Company may build for this purpose.

The Telephone Co. to have the district & exchange telephone business exclusively and to have the right to build feeding or connecting lines from all points where the Western Union Co. has no stations.

The Telephone Co. to agree not to build telegraph lines nor to do a telegraph business in competition with the Western Union and not to build lines and compete with the Gold & Stock Company in furnishing commercial news, stock quotation, or to private parties - except so far as the district or exchange systems of the telephone Company may so compete with said Western Union & Gold & Stock Cos.

They recommend that a proposition be submitted to Drs. Green & White substantially as set forth in the enclosed memorandum accepting the plan as substantially proposed by them.

The "enclosed memorandum," which had been prepared by the Western Union representatives as an original proposition, contained the financial details of the proposed consolidation, but ended with a precise statement of Western Union's objectives, in a concluding paragraph stating:[104]

Sixth.

It must be understood and agreed as a condition precedent to the settlement proposed in this memorandum, that the new Company shall contract not to compete with the Western Union Telegraph Company in its telegraphic business, nor to connect with or give business to any rival Telegraph Company so competing; but shall be entitled to connect the Telegraph Stations of said Telegraph Company with adjacent or neighboring towns or villages having no Telegraph Station; and telegraph messages received or collected over the wires controlled by the Telephone Company shall be forwarded to destination over the lines

104. Idem., paper entitled "Memorandum."

of the Western Union Telegraph Company, and current tolls paid therefor. The new Consolidated Telephone Company shall also contract not to compete with the Gold and Stock Telegraph Company, in the Commercial news and private line business of the latter Company, except so far as its Telephone Exchanges may so compete; nor to connect with for the purpose of giving business to any Company so competing. But the new Consolidated Telephone Company shall supply the Gold and Stock Telegraph Company with such telephones as it may require for its private line business, on as favorable terms as such telephones may be supplied to the most favored parties.

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The Bell counter-proposal divided the stock 60-40 rather than 50-50 as had been proposed by Western Union, but acceded to the latter's desires on protection from competition, in a paragraph stating:[105]

Eighth. The business relations of the Western Union, Gold and Stock and Harmonic Telegraph Companies and the new Telephone Co. are to be as follows: The Telephone Co. is to agree not to compete with said Telegraph Companies in their telegraph business or in the distribution of commercial news, except so far as its District or Exch. System may so compete.

The New Co. shall forward all messages received by it for telegraphic transmission over the Western Union Wires, unless it is specially requested by the parties sending the same that they be forwarded by some other route and said other companies are to agree not to compete with the Telephone Co. in its telephone business which business is to be understood also to include all uses of the telephone not otherwise provided for in this agreement; but the Gold & Stock Co. is to be licensed to use telephones upon private lines and for distribution of commercial news so far as existing contracts allow such license to be granted. The Telephone Co. may connect the Telegraph Stations of the Western Union Teleg. Co. with any places having no Westn Union Stations and shall give to the Westn Union Co. all the telegraph business it can control, which is to be forwarded to destination over the lines of the Westn Union Co. current tolls being charged therefor, less a commission of_______________upon all business thus developed and brought to the Westn Union Teleg. Co.

These negotiations culminnated in the contract of November 10, 1879, which stipulated, among other things, that the Bell company ("party of the second part") would not permit its telephones to be used in competition with the Western Union, as contained in paragraph 13, stating, in part:[106]

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105. Idem, American Telephone and Telegraph Company, President's Letter File No. 5, envelope entitled, "Copy Memo sent Dr. White - Claims of N. B. T. Co. & Others - Within."

106. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360C, Vol.III, Appendix 7, Sheet 14.

But such connecting and other lines are not to be used for the transmission of general business messages, market quotations, or news for sale or publication in competition with the business of the Western Union Telegraph Company, or with that of the Gold and Stock Telegraph Company. And the party of the second part, so far as it lawfully and properly can prevent it, will not permit the transmission of such general business messages, market quotations, or news for sale or publication, over lines owned by it, or by corporations in which it owns a controlling interest, nor license the use of its telephones or patents for the transmission of such general business messages, market quotations, or news for sale or publication, in competition with such telegraph business of the Western Union Telegraph Company or that of the Gold and Stock Telegraph Company.

In addition, the Bell agreed to turn over to Western Union, exclusively, all telegraph business coming to it, as stipulated in Article 15 of the agreement, stating, in part:[107]

ARTICLE 15. (1) The second party will turn over and deliver to the Western Union Telegraph Company of the first part, or its agents, exclusively, all messages for transmission to other points by telegraph, collected by or coming on the wires or within the control of its telephonic exchanges or district systems or those of its licensees, wherever the first party has wires and is prepared to receive or transmit the same, so far as said second party can lawfully control the same, and unless otherwise specially directed by its customer; but will not solicit such special direction nor receive and pay tolls for transmission over other lines, unless compellable by law so to do.

Among other considerations, Bell agreed to give Western Union 20 per cent of its rental receipts from the telephone, for the period the patents remained in force but its most important and far-sighted remuneration was Western Union's public renouncement of all claims of the priority of its inventors in favor of Bell.

The importance of this contract in precluding competition was indicated by the Western Union in its next Annual Report, in which was stated, in part:[108]

Relations to the Telephone

During the year a contract has been entered into harmonizing and consolidating the Gray, Edison, Phelps, Dolbear and other telephone patents controlled by the Gold and Stock Telegraph Company, with the Bell, Blake and other inventions owned by the National Bell Telephone Company.

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107. Ibid., Sheet 16
108. Western Union Telegraph Company, "Annual Report of the President of the Western Union Telegraph Company to the Stockholders, Made at Their Meeting, October 13, 1880," p. 10.

The Western Union, not having any direct interest in the telephone (except as half owner of the Gold and Stock Company), was, however, a party to the agreement, and in consideration of turning over at cost some telephone exchanges it had established, secured stipulations in the contract protecting this Company against competition in telegraph business by the licensees of the telephone, and giving to this Company an exclusive license to use the telephone for telegraph purposes. The Gold and Stock Telegraph Company and American Speaking Telephone Company surrendered the manufacture and leasing of telephones, and obtained royalties on the gross rentals, amounting to an average of about one dollar per annum on every telephone in use. The effect of the settlement was the termination of expensive and hazardous litigation, securing to this Company protection from competition and a valuable franchise, and establishing the value of assets held by the Gold and Stock Telegraph Company at least one and one half millions greater than they were before the settlement was made.

The importance of this part of the contract to Western Union was set forth by the legal staff of a Bell Associated Company (The Delaware and Atlantic Telegraph and Telephone Company)[109] in a subsequent court action between the Bell company and the Postal Telegraph Company, in which the Bell Associate company's counsel made some rather surprising admissions of the relative positions of the Western Union and the Bell company at the time of the contract of November 10, 1879, stating, in part:[110]

> On November 10, 1879, an agreement was executed between the Western Union Telegraph Company for itself and three other companies - The Gold and Stock Telegraph Company, the American Speaking Telephone Company, and the Harmonic Telegraph Company - which it represented, of the first, and the National Bell Telephone Company, of the second part, to run seventeen years after November 1, 1879 (Record, pp. 62,63). Each of the parties before this time had established an extensive telephone business, reaching to most of the large towns and cities of the United States and extensive as were the operations of the Bell Company, the Western Union and its associates had by far the larger organization of the two. And not only was the amount of business done by the Bell Company smaller, but its service was the less efficient (Record, pp.60,61,65,66). The Bell Company was, however, sole owner of the telephone patents of Alexander Graham Bell, dated March 7, 1876, and January 30, 1877, and upon them it sought to establish a monopoly in telephony by bringing suit against the Western Union for infringement. This was known as the Dowd suit, and although not brought directly against the Western Union, it was so in effect, Dowd being an agent or licensee of the company....

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109. For a complete history of this company, see Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Security Investments," Exhibit No. 1362B, Vol. II, p. 483 ff.
110. United States Circuit Court, District of Delaware, June term, 1890: The Postal Telegraph-Cable Company vs. The Delaware and Atlantic Telegraph and Telephone Company. The above quotation is cited from the "Argument of Charles L. Buckingham and Edward G. Bradford for the defendant at Wilmington, Delaware, April 24 and 25, 1890," in their Petition for Mandamus, pp. 1 to 8.

At this time the Western Union and its associates had secured most of the leading improvements following Bell's invention in telephony, and among others the patents and inventions of Thomas A. Edison, Elisha Gray and George M. Phelps. In fact, after the Bell inventions were made, the telephone was not materially improved in behalf of the Bell Company up to the date of the contract of November 10, 1879; and as the original patents were its stock in trade, the Bell Company was unprepared to furnish telephones either equally or approximately as good as those of the Western Union without infringing the rights of the latter (Record, p. 61).

Not so; Berliner + Blake inventions

* * * * * * * * *

The power of each party to the compromise to practically exclude the other from the telephone business forced them together under the agreement of November 10th, 1879; but this necessity was not the only inducement (Record, pp.62,63)....

....In payment for these large concessions it was agreed that the Western Union should be given among other things, twenty per cent. of all telephone rentals to be collected by the Bell Company from its various licensees (Article 1, Section 1). This percentage of itself, however, would have been inadequate if the Western Union had obtained no other advantage. If its remuneration had been confined to rentals or royalties it should have received at least forty, and perhaps fifty per cent. instead of only twenty; but recognizing that it could utilize the telephone in every city and town as an important adjunct to feed the telegraph, it was satisfied to accept a share of rentals which otherwise should have been little more than nominal....

* * * * * * * * *

....An idea of the relative importance of the competing companies at the time of consolidation may be had by referring to some of the larger cities. In New York City it was impracticable to bring the competing interests under the general provisions of the 1879 contract, and it was not until a year later than an adjustment was effected. In arriving at a final result, however, the property of the Western Union exchange was appraised at about $480,000, and that of the Bell at only $360,000. In Chicago the consolidation was still more in favor of the Western Union organization, the property of the Western Union licensee having been valued at fully three times that of the Bell Company. These instances show that the Western Union was not a minor factor in the telephone business at the time it withdrew in favor of the Bell Company (Record, pp.65,66).

In terms of total teleph development Bell did v well indeed. It is impor to note how that in N.Y. Chicago, WU had outst pd Bell

It may be assumed that the Western Union intended to secure a right commensurate with the price paid to the Bell Company, and that it never intended to relinquish its inventions, nor to withdraw from the telephone business, or to give the Bell Company access to its lines, buildings, rights of way and franchises throughout the United States for a bare right which might equally be claimed by other telegraph companies. It was attempting to pay enough to secure an exclusive right - a right that it need not share with other companies. To avoid dividing with others was an immunity that it intended to buy, and in fact there was little else for it to buy, for, if the right were one which must be given to all telegraph companies alike, upon the payment of certain small royalties or commissions specified in the 1879 contract, it was practically free to all, and had to be purchased by none....

* * * * * * * * *

Both companies were then in the field at all important points, and in the competition that must have followed, it was obvious that the Bell Company would ally itself with whatever telegraph company could be enlisted against the Western Union; and hence that the telephone would be utilized

> to destroy its telegraph business; and thus it was that the Western Union gave up its position in the telephone field to make secure the greater interest which it had in the future of the telegraph (Record, p. 64).

Frank recognition is given to the greater power and competitive position of the Western Union, and the threat of the Bell Company to ally itself with "whatever telegraph company could be enlisted against the Western Union."

The statement that the Western Union could have demanded 40 per cent or 50 per cent of the royalties, instead of 20 per cent, is borne out by the proposition, in May and June, 1879 of Western Union to accept a 50 per cent proportion of the stock of the consolidated telephone company, and Bell's counter offer to give a 40% proportion to Western Union.[111]

This is not accurate rendering of Bell propos

Vanderbilt Telegraph Control Usurped By Gould.

The desperate position of the Vanderbilt management of Western Union, in its attempt to keep control of its telegraph monopoly from falling into the hands of Jay Gould, is indicated by the fact that within little more than a year from the time the November 10, 1879 compromise contract was concluded with the Bell Company, the Vanderbilts were completely beaten, and lost all control over the telegraph industry. According to one account of the result of Gould's frontal attack upon Vanderbilt's control of Western Union:[112]

> ....to Vanderbilt's complete surprise and extreme mortification, the unfathomable Gould turned up in 1881 with control not only of Western Union, but also of the American Union Telegraph Company, which he had sold to Vanderbilt a short time previously.

In any event, the records of the Western Union Telegraph Company show the sudden change in ownership of a large block of the company's stock. As of July 15, 1880, the Vanderbilt holdings totalled 55,600 shares,[113] while none was held in the

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111. See p.23 (Proposals set forth in documents identified in footnotes 103 and 104)
112. Josephson, op. cit., p. 206.
113. The holdings were as follows: Wm. H. Vanderbilt, 48,600 shares; Cornelius Vanderbilt, 5,000 shares; Wm. K. Vanderbilt, 2,000 shares. (Western Union Telegraph Company, Treasurer's Office, Dividend Book No. 4, Dividend No. 52, payable June 15, 1880, p. 365.)

name of Gould.[114] As of October 15, 1880, Gould appeared as the holder of 22,600 shares,[115] apparently during the height of the fight for control.[116] On Sunday, January 9, 1881, Gould received a note from Vanderbilt, which read:[117]

Dear Sir;

I would like to see you a few moments, at 9 o'clock, if convenient to you, at my house.

Yours very truly,

W. H. Vanderbilt

The nature of their Sunday evening conversation is not known, but its results were evident and decisive. Two days after this conference, Western Union stock, which had been forced down during Gould's attack, jumped from 78 to 103, and on the following day to 114½.[118] Western Union's Dividend Record for January 15th, the following Saturday, showed the Vanderbilt holding reduced from 55,600 shares to 5,300 shares, of which 5,200 were in William H.'s name, and 100 shares in Cornelius' name.[119] Although Jay Gould appeared as the holder of but 800 shares,[120] the fact that he had taken complete control of the company from the Vanderbilts was indicated by subsequent events. Since no dividend was paid the next quarter (April 15, 1881) no record of stockholdings is avilable, as the company's early stockholders' records were destroyed in a warehouse fire. However, at the next dividend date (July 15, 1881)Gould showed up with 164,587 shares,[121] and none appeared under the name of Vanderbilt.[122] By January 15, 1882, this had increased to 200,623.[123] The total

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114. Ibid., pp. 347 and 348.
115. Ibid., p. 380.
116. Ibid. Gould later explained to a Senate Committee that when Western Union fell to such a low figure during the "War", he bought large quantities of it just as he would buy any commodity because it was cheap. (Cf. Harlow, op. cit., p.413.)
117. Harlow, op. cit., p. 412.
118. Harlow, op. cit., p. 413.
119. Western Union Telegraph Company, Treasurer's Office, Dividend Book No. 4, Dividend No. 54, payable January 15, 1881, p. 443.
120. Ibid., p. 416.
121. Ibid., Dividend Book No. 5, Dividend No. "55 & 56", payable July 15, 1881, p.15.
122. Ibid., pp. 36 and 37.
123. Ibid., Dividend No. 58, payable January 15, 1882, p. 120.

outstanding shares to which dividends were disbursed, during the period 1878 to 1881, were approximately 410,000 shares.[124]

Q Of the twenty-nine directors on Western Union's board in 1880, eighteen disappeared by 1882, and the new names included Jay Gould, Thomas T. Eckert, Russell Sage, George J. Gould (Jay's son) and George F. Baker.[125] It is of interest to note in passing that J. Pierpont Morgan had gone on the board previously, in 1877,[126] at the time of Gould's preliminary victory, using the Atlantic and Pacific Telegraph Company as the entering wedge. Thus, Morgan and Baker, who were later prominently identified with the control of the telephone industry,[127] found themselves on the Board of Directors selected for the telegraph company, at the time Jay Gould had seized control of the industry.

Western Union's Annual Report for the year 1881, following the seizure of control by Gould,[128] recorded the event, stating, in part:

> It is known to the stockholders that during the latter half of the fiscal year the Company absorbed by a general contract the lines and properties of the American Union Telegraph and of the Atlantic and Pacific Telegraph Company. For this purpose, the capital stock was increased to $80,000,000, paying therefrom, for the stock and bonds of the former Company, $15,000,000, and for that of the latter company, $8,400,000.

Strength of Bell Control of Industry Resulting from the Contract of November 10, 1879.

This early competition for control of the telephone industry may be summarized briefly. The telegraph industry, under Vanderbilt control, was attacked by

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124. Total shares as of January 15, 1878, were 410,670 (ibid., Dividend Book No. 4, Dividend No. 42, payable January 15, 1878, p. 67); as of January 15, 1879, the total shares were 410,672 (ibid., Dividend No. 46, payable January 15, 1879, p. 198); as of January 15, 1880, the total shares were 410,604 (ibid., Dividend No. 50, payable January 15, 1880, p. 308); as of January 15, 1881, the total shares were 410,633 (ibid., Dividend No. 54, payable January 15, 1881, p. 443).
125. See "Annual Report of the President of the Western Union Telegraph Company to the Stockholders, Made at their Meeting, October 13, 1880"; "Annual Report of the President of the Western Union Telegraph Company, to the Stockholders, Made at their Meeting, October 12, 1881"; "Annual Report of the President of the Western Union Telegraph Company to the Stockholders, Made at their Meeting October 11, 1882".
126. Ibid., 1876 and 1877.
127. Covered in greater detail in Chapters V and VI of this report.
128. See "Annual Report of the President of the Western Union Telegraph Company, to the Stockholders, Made at their Meeting, October 12, 1881", p. 5.

Jay Gould through his Atlantic and Pacific Telegraph Company. Western Union capitulated and bought up Gould's competing company late in 1877. Thereafter, it immediately turned its attention to the telephone industry, and began expanding its telephone business without regard to the Bell Company, which was poorly financed and apparently not able to offer it effective competition. It was rapidly attaining a dominating position, when Gould suddenly descended upon its telegraph business, in another competitive onslaught, this time with the idea of taking complete control of the industry. The telephone constituted an additional potential weapon in Gould's attack, which included a public attack in his controlled press, a bear raid on its stock, the building of competing lines to take away its customers, and rate slashing to reduce its revenue. The Gould forces actually purchased several Bell exchanges before the Vanderbilt management felt constrained to settle its controversy with the Bell Company, extracting therefor a written agreement perpetually to exclude the telephone as a competitor to Western Union's telegraph business. The Western Union withdrew from the telephone business, and publicly agreed that Bell patents had priority, thus strengthening the position of that group of telephone patents which it had effectively excluded from telegraphic competition. The desperate efforts of the Vanderbilt management were without avail, for it lost control of the telegraph industry to Jay Gould a year after the 1879 contract with Bell.

✓ By 187 Bell was effectiv compet

The Bell, on the other hand, was strongly entrenched after this contract, and controlled the telephone industry until these basic patents expired, in 1894. The Bell officials recognized this, as indicated in the "President's Report to Stockholders,"[129] dated March 29, 1880, which stated, in part:

> With a thorough occupation of the principal cities and towns by our licensees, the ownership of the broad patents covering the use of the speaking telephone - and the control of nearly all of the inventions for apparatus necessary to the telephone business which have yet been made, the danger of competition with our business from new comers seems small.

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129. American Telephone and Telegraph Company, President's Letter File No. 8. This draft was written on stationery carrying the embossed designation, "Congress", and therefore was probably prepared by Senator Gardner T. Hubbard.

The over-zealous effort of the besieged Vanderbilt management to protect itself from competition through the telephone resulted in placing the telephone in an impregnable position. The only organization with existing franchises and rights of way for a nation-wide communications service had been excluded from possible competition. Moreover, the field of telephonic patents had been scraped bare by the two contestants, Bell and Western Union, so that when these two groups of patents were consolidated under Bell, there remained very few claims upon which to base successfully any subsequent attack upon Bell's patent position. With its one really powerful competitor eliminated, with no other nation-wide system of routes and franchises available to a competitor, and with all the important telephone patents held under an airtight legal arrangement with Western Union, the Bell organization, as will appear in the next chapter, was in a position to charge non-competitive prices, and thus finance its expansion out of earnings. This last factor served to render the Bell control of the telephone industry not only independent of competition, but also independent of outside sources of investment capital.

The conclusion is inescapable that the Bell Company owed a large measure of its early attainment of a monopoly control of the telephone industry to pure chance. Had it been thrown into competition with the powerful Western Union at any other time than the climax of a titanic struggle for financial control of the telegraph industry between Vanderbilt and Gould, it undoubtedly would not have escaped from its precarious position with such good fortune.

This independent condition lasted until the expiration of its basic patents, in 1894, and with them, the expiration of its protection from competition under the contract of November 10, 1879. The Western Union was relieved of its limitations, and independent telephone companies were no longer excluded by the strong patent position Bell had attained under the 1879 contract. Thereupon a new competition for control of the telephone industry arose, in which the Gould management of Western Union, as well as other and more powerful sources of investment funds, were to be implicated. The subsequent chapters cover competition for control of the industry after 1894.

CHAPTER III

ECONOMIC BACKGROUND OF LATER COMPETITION FOR FINANCIAL CONTROL OF THE TELEPHONE INDUSTRY (1894-1902)

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With telephone competition effectively excluded by its basic patents, reinforced by the Western Union Contract of 1879, the Bell system was placed in the position of a strong legal monopoly. In this status it could freely choose the rate at which it desired to expand the national telephone service, through its control over the level at which it placed the monopoly price for service. The price actually set proved to be sufficient to produce total earnings considerably in excess of the requirements for new capital for expansion of facilities.

Independence of Bell System from Outside Investment Capital Source, Prior to 1894.

As of December 31, 1894, the American Bell owners' equity, in round figures, consisted of $18,000,000 of accumulated surplus and $20,000,000 common stock, totaling approximately $38,000,000.[130] Of the $20,000,000 common stock, $5,000,000 represented original stock[131] (for which some $500,000 in cash had been paid)[132] and the other $15,000,000 represented subsequent issues of stock taken by the stockholders.[133] But during this same period, stockholders had received some $25,000,000 in dividends,[134] or $10,000,000 more than the amount paid back into the company for the purchase of new stock. Thus, of the total owners' capital of $38,000,000, $18,000,000 came from reinvested earnings, $5,000,000 was original stock representing $500,000 in cash, and $15,000,000 represented new stock taken and paid for by stockholders during a period in which they received $25,000,000 in dividends. In addition to this owners' capital of $38,000,000, there was but $2,000,000 of borrowed capital, from a bond

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130. Cf. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360B, Vol. II, Schedule 1, Sheet 2.
131. Ibid., Vol. I, p. 301.
132. Ibid., Vol. II, p. 377; Vol. I, pp. 18, 22 and 302.
133. Ibid., Vol. I, p. 304. This includes approximately one million issued to retire convertible bonds which were offered pro rata to stockholders in 1880 and 1882 (Ibid., Vol. I, pp. 338 and 339).
134. Ibid., Vol. II, p. 360.

issue in 1888,[135] which was issued because some difficulty was experienced under the laws of Massachusetts in increasing the authorized capital stock.[136]

This policy of restricting national telephone development by monopoly prices set so high that half the new capital requirements were obtained from reinvested earnings, and the other half chiefly supplied from sales of $15,000,000 of stock to stockholders who received $25,000,000 in dividends, served to make the Bell System independent of outside capital resources -- a tight monopoly highly profitable to its New England stockholders.[137]

It is significant that during this period of monopoly control of the telephone industry, the declared dividends averaged over 15 per cent per year,[138] while the actual investment return was nearer 46 per cent.[139] Regarding the industry from a purely investment point of view, so long as the entire industry was controlled by one source of investment capital (the American Bell Company) the investment return had been all that could be desired. But when patent protection expired, there arose a period of competitive maneuvering and jockeying for advantageous position by several opposing sources of investment capital, each seeking to gain a dominant position

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135. Ibid., Vol. I, p. 323; Vol. II, Schedule 28.
136. Ibid., Vol. I, p. 33. See also, J. Warren Stehman, "The Financial History of the American Telephone and Telegraph Company," pp. 33, 34, 41, 42 and 59 ff.
137. President Hudson stated, in 1894, that 85 per cent of the stockholders resided in New England. (Cf. Commercial and Financial Chronicle, Vol. 59, p. 878). As late as 1909, Vail stated that 65% of the stock was held by New Englanders. (Cf. American Telephone and Telegraph Company President's Private Letter Book No. 9, letter, T. N. Vail to Wm. H. Rochs, dated December 16, 1909). The average earnings, for the period 1878 to 1899, inclusive, on the average <u>cash</u> investment were approximately 46 per cent per year. See Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360B: Total earnings, including cash and stock dividends and direct additions to surplus, totaled $107,759,775. (Vol. II, pp. 365 to 368). Average annual cash investment, 1878 to 1899, was $10,568,986.55. (Vol. II, p. 377, and Schedule 26A). Average annual return was thus 46.34 per cent over the entire period of twenty-two years.
138. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360B, Vol. II, Table 65, p. 360.
139. See footnote 137.

in the industry.[140] The ultimate objective of this competition of investment capital may have been to secure, again, a monopoly control of the industry, so that the investment capital returns might be regulated without the destructive effects of competition from opposing sources of investment capital. In any event, the actual result of the policies of the successful competitor was the re-establishment of a monopoly control in the industry.[141]

Importance of Strong Investment Capital Source to Ability of Bell System to Maintain Position in the Industry After 1894.

Because the company, under patent protection from competition, was able to limit the growth of telephone service to the ability of its stockholders to supply new funds out of the profits and dividends of the company,[142] the period in which external sources of capital became important did not begin until 1894, when the basic Bell patents expired.[143] Rising competition forced this issue upon the company about the turn of the century, and at that point the possibility of obtaining, or accepting the conditions of, a strong source of external capital became one of the paramount considerations in determining the ability of the company to regain the monopoly position to which it had attained by reason of its previous patent law protection. Indeed, the rapidity with which the number of independent telephones was growing up to 1907, suggested that some drastic action was needed even to prevent the Bell System from sinking to the level of a minority influence in the industry.[144]

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140. Developed at length in Chapters IV, V and VI of this report.
141. See Chapters VI and VII of this report.
142. See preceding section, entitled "Independence of Bell System from Outside Investment Capital Source, Prior to 1894."
143. The two basic Bell patents (Nos. 174,465 and 186,787) were granted, respectively, on March 7, 1876 and January 30, 1877, thus expiring March 7, 1893 and January 30, 1894. (Cf. Special Investigation Docket No. 1, Report on "Patent Structure of the Bell System, Its History and Policies and Practices Relative Thereto," Exhibit No. 1989, pp. 1 and 3).
144. The rate at which Independent telephone companies were out-distancing the Bell is indicated in the increase in number of telephones of Bell and Non-Bell companies: From 1902 to 1907, Bell telephones increased 138%, while Non-Bell telephones increased 183%. By 1907, the field was almost evenly divided, 51% Bell and 49% Non-Bell, with Non-Bell increasing 34% more rapidly than Bell. (Cf. U. S. Department of Commerce and Labor, Bureau of the Census; Special Reports; Telephones: 1907, pp. 19 to 23, especially Table 8 and the tabular statement on p. 23).

Theodore N. Vail, who became president of the American Company at the time of its reorganization in 1907, recognized this importance of a large investment capital source in the Company's struggle to maintain or to reacquire its monopoly position, and, in a letter to William Murray Crane, a member of the Company's Executive Committee, stated his views, in part, as follows:[145]

> The worst of the opposition has come from the lack of facilities afforded by our companies, -- that is, either no service, or poor service. For this, circumstances beyond control are to a great extent responsible, as it was in the early days, very difficult to provide money.
>
> To meet these increasing demands, increasing amounts of money will be needed each year. A low estimate for the next five years would be $200,000,000 - every probability points to a larger sum.
>
> These demands necessitate a broad financial policy covering a period of no less than five years.
>
> * * * * * * * * *
>
> The Company, having a tendency toward and desire for a monopoly, should be abundantly prepared to assume the obligations, and discharge the responsibilities of its position.
>
> * * * * * * * * *
>
> Doubtless, all this would temporarily strengthen the opposition but the disadvantage would be more than offset by the future advantages derived from even an indirect control of all opposition, or at the least, by the absolute block to any extensive concerted action on the part of the opposition.

The magnitude of this proposal, coming from one who was not then even a Director of the Company,[146] may be seen by comparing the total outstanding capital stock of the Company at that time (less than $73,000,000)[147] with the suggested capital requirements for the next five years (from $200,000,000 up).

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145. American Telephone and Telegraph Company, President's Letter File No. 18348, letter T. N. Vail to William Murray Crane, the date was indicated, in longhand, as being "about the time Mr. Fish was made President." (Fish was elected President as of July 1, 1901).
146. Vail had been connected with the Company early in its career, but had left because, among other reasons stated in his resignation, "My present position in the Company is not such as I had hoped to attain and is also in some ways embarrassing and unpleasant." Vail had remained for a considerable time in the position of general manager, the same title he had when he joined the company originally. (See footnote 306.)
147. Cf. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360B, Vol. II, Schedule 27A.

Vail later became President of the Company, when a group of investment bankers advanced $150,000,000 for its operations.[148]

President Fish indicated an appreciation of the difficulty of financing the competition being forced upon the Company by the rapidly expanding Independents, in a letter to a stockholder,[149] stating, in part:

> I am very glad to hear from you and wish that I might have the opportunity of talking with you as to the matters to which you refer. You will appreciate that it is quite impossible for me to write as freely as I might talk. What I shall say in this letter I shall of course expect you to treat as confidential.
>
> * * * * * * * * *
>
> A more important consideration is the real position of the Company and its prospects. As to this I can only say that while I had confidence in its future when I first came into the business two years ago last summer, I have more confidence today. We have had, and are going to have, as you say, severe competition. I believe that our ability to meet that competition and to prosper in the face of it is far clearer today than was the case two years ago.
>
> When the competition was new - that is to say, during the years just prior to 1900 - it undoubtedly affected our position disadvantageously; particularly as we were not used to competition and had not learned how to deal with it.
>
> * * * * * * * * *
>
> It is hard even for me to appreciate the enormous demand for telephones throughout the United States. Our effort to meet this demand will require continued investment of substantial sums of money on which we should get a proper return. It seems to me that there is no occasion for anxiety as to the future of the Company, unless the time comes when we fail to do our duty for the community in the way of giving good service and supplying the telephonic needs of those who wish to become our patrons. If we are able, as I think we shall be, to meet the public demands in these respects, I have every confidence in the stability and success of our business.
>
> No one can foresee what will be the earnings of any corporation doing a large business. I do not think that it would be wise to speculate on this subject. There is no occasion yet, in view of our earnings, for us to contemplate the reductions of dividends. At the time the practice of paying dividends at the rate of seven and one half per cent was adopted,* it was the view of some that the rate should be established at six per cent, and all the arguments that might have induced the Directors to start on a six per cent basis exist to day in full force. It may be that at some time in the

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148. Covered in detail in Chapter VI of this report.
149. American Telephone and Telegraph Company, President's Private Letter Book No. III, letter F. P. Fish to Sebastian B. Schlesinger, dated December 18, 1903.

future the Directors will revise their views as to what the dividend should be, irrespective of the question of earnings, although the matter has never been discussed and is not likely to be discussed at any particular time as far as I can foresee. There seems to be no prospect that the earnings of the Company will, anywhere in the immediate future, so fall off as to force a reduction of the dividend. On this point, of course, the Directors cannot be expected to commit themselves in the slightest degree, for it is their duty to determine each quarter what dividend to pay.

*When Bell stock was split two for one in 1900, the dividend rate also was split from 15% to 7½%. Thus the 7½% dividend after 1900 was, in fact, a continuance of the 15% dividend on all shares held before the split in 1900, and the present 9% rate is a continuance of 18% dividend on all capital invested in the company prior to 1900.

It is apparent that the Company, as well as those identified with the banking group which eventually brought to the Bell System a strong source of new investment capital, clearly recognized the necessity of a new and much stronger source of investment funds, if the Bell System were to regain its previous monopoly position in the industry, and avoid a reduction in the previous high level of earnings.

Since a new and stronger source of investment capital was essential at this critical stage of Bell's development, the alternative capital sources then available will be described in the following sections. The tendency of these sources to compete for exclusive possession of the field of investment has been pointed out in Chapter I. Chapters IV, V and VI will recount their actual competition for control of the telephone industry.

The Stillman-Rockefeller Group of Investment Capitalists.

One of the two most important groups of investment capitalists, in 1895, was that congregated around the Standard Oil Company and the National City Bank of New York.[150] This group gyrated about the late John D. Rockefeller, who had derived his investment capital originally from the American petroleum resources.[151] His close

150. Cf. Moody, op. cit., Vol. 36, p. 564 ff. See also, references cited in footnote 153.

151. For a contemporary history of that enterprise, see Ida Tarbell, "The History of the Standard Oil Company," Volumes I and II. For a more recent history, see John T. Flynn, "God's Gold."

associates, besides his brother, William Rockefeller,[152] included many identified with the oil industry, as well as outstanding individuals in the industries into which Standard Oil profits later came to be invested.

James Stillman of the National City Bank of New York was the Rockefeller associate in the financial community.[153] In municipal utilities were the so-called Whitney-Elkins-Widener alliances, which will be considered more in detail later.[154] The railroads and the telegraph industry are of more immediate relevance to the telephone industry, since railroad history has been more accurately documented, and its episodes afford the best available indication of the groupings and alliances of that period. For this reason, more than passing mention will be made of Edward H. Harriman, the Stillman-Rockefeller associate most directly concerned with railroads. The importance of the telegraph industry is evident, and is the reason for following the activities and alliances of the Goulds to the exclusion of others of the Stillman-Rockefeller group who were of equal or greater contemporary importance, but not so directly relevant to a study of the telephone industry.

George J. Gould was the son of Jay Gould, who seized control of the Western Union Telegraph Company from William H. Vanderbilt, in 1879.[155] Jay Gould died in 1892 and the management of his large interests fell largely to his son, George.[156] Following the events treated in this report, George J. Gould's management of the Gould estate was attacked by the other heirs, in 1917[157] and thereafter, the Gould properties ceased to be of importance as a single unit.

Edward H. Harriman came into power in railroad management, first in the

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152. Notably Henry H. Rogers, Oliver H. Payne, Henry M. Flagler, John Huntington and Samuel Andrews. Cf. Flynn, op. cit., p. 344 ff. See also, Moody, op. cit., Vol. 36, pp. 567 and 576.
153. Cf. Flynn, op. cit., pp. 290 ff. and 344 ff. See also, Moody, op. cit., Vol. 36, p. 564 ff. and Vol. 37, p. 77 ff., and Tarbell, op. cit., Vol. II, p. 268.
154. See Moody, op. cit., (abridged edition of 1919; see footnote 11), pp. 68 and 69. See also, Chapter IV of this report, especially pp.
155. See Chapter II of this report.
156. Cf. New York Times, May 17, 1923, p. 6, column 1.
157. Ibid., column 2.

Illinois Central, and eventually (in 1901) became the dominant figure in the railroads of the Southwest, including the Southern Pacific and the Union Pacific.[158] It is in this area that outstanding evidences of the alliances of that era were indicated. Harriman, backed by Jacob Schiff of Kuhn, Loeb and Company, had acquired control of the Union Pacific Railroad (in the Southwest), and came into conflict with James J. Hill of the Great Northern and Northern Pacific (in the Northwest) when they each tried to obtain control of the Chicago, Burlington and Quincy road, lying between the Union Pacific and the Northern Pacific.[159]

The Union Pacific had been financed by Harriman and Kuhn, Loeb & Company, through the National City Bank, which since 1891 had been known as the Standard Oil bank.[160] The Standard Oil's fixed policy of accumulating large cash reserves had made it independent of outside sources of capital, and eventually resulted in acquisition of interests in railroads and banks, including the National City Bank.[161] At the time of reorganization of the Union Pacific by Harriman and Schiff, the Standard Oil group had received several memberships on the new board of directors.[162]

Failing to obtain the desired status in the Chicago, Burlington and Quincy road, which was controlled by Hill's Northern Pacific Railroad, Harriman boldly attempted to gain control of the Northern Pacific Railroad itself by the purchase of a majority of its $150,000,000 preferred and common stock in the open market.[163] In the ensuing contest, characterized by an order cabled by J. P. Morgan from Europe to buy 150,000 shares at the market price, the market was swept clean of Northern Pacific stock, and those who had sold "short" began unloading huge blocks of other stocks in order to buy the rapidly advancing Northern Pacific stock.[164] The result was the "Northern Pacific Panic" of May 9, 1901, described by the Commercial and Financial

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158. For a detailed and well annotated biography of Harriman, see George Kennan, "E. H. Harriman; A Biography," Volumes I and II.
159. See footnote 22.
160. Corey, op. cit., p. 205.
161. Idem. See also, Hobson, op. cit., p. 259 ff.
162. Corey, op. cit., p. 205.
163. Ibid., p. 297 ff. See also, references cited in footnote 22.
164. Idem. See also, Hovey, op. cit., p. 248 ff.

Chronicle, in part, as follows:[165]

> The chief parties to the contest were the Harriman Kuhn, Loeb & Co. syndicate acting on behalf of the Union Pacific interests on the one hand and J. J. Hill and J. P. Morgan & Co. representing the present management of the Northern Pacific on the other. The market was swept bare of floating stock, and the efforts to cover by speculators who had sold short, resulted in sending the price of the common shares up to 1000, the tension being relieved only by the agreement on the part of the leading houses not to insist on the usual deliveries of stock and to settle each with its own "shorts" on the basis of $150 per share in cash. Both parties claim to hold control of the property. The outcome of the contest will therefore not be known until it is ascertained how much of the stock bought by each will be delivered.

The outcome was a "compromise" agreement by which control of the Northern Pacific remained with Morgan and Hill,[166] but with management representation accorded to Harriman.[167]

The important aspect of this contest is its indication of the alignment of strong sources of investment capital during the period in which competition also developed for control of the telephone industry. During the period before the issue was so sharply drawn, in 1901, between the two opposing groups, the identities of members of the Stillman-Rockefeller alliance were clearly revealed. The preliminary conferences, held in the Kuhn Loeb offices, to determine the method of taking control of the Chicago, Burlington and Quincy road from the Baker-Morgan group, were attended by Edward H. Harriman, Jacob Schiff, James Stillman and George J. Gould.[168] Schiff's biographer, who had access to the private correspondence of the Kuhn Loeb firm and of Jacob Schiff, made particular note of the service that Stillman's National City Bank had rendered during this conflict,[169] when large sums, totaling some $79,000,000, were required for open market purchases of the Northern Pacific stock.[170]

A rift occurred subsequently in the relations of Gould and Harriman, which

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165. Commercial and Financial Chronicle, Vol. 72, p. 936.
166. Ibid., Vol. 73, p. 104. See also Hovey, op. cit., p. 248 ff.
167. Keenan, op. cit., Vol. I, pp. 329 and 330.
168. Cf. Adler, op. cit., Vol. I, p. 99. See also, Keenan, op. cit., Vol. I, p. 290.
169. Adler, op. cit., Vol. I, p. 180.
170. Keenan, op. cit., Vol. I, p. 305.

served to alienate Gould from the same degree of alliance with the group, over the period 1901 to 1909. Because of Gould's close connection with the telegraph and telephone field, this quasi-break with his strong allies became significant, as will later appear.[171] In 1900, the Goulds represented the chief interests of the Denver and Rio Grande Railroad,[172] which was located in the Southwest, along with Harriman's Union Pacific. The success and growing power of the latter gave increasing concern to the Goulds, and a competitive fight resulted, in which Kuhn, Loeb and Company attempted to restore peace. Jacob Schiff, of the latter firm, wrote George J. Gould on February 26, 1902, offering his influence, as stated in that letter:[173]

> ....to bring about the harmonious relations between the Union Pacific and the Rio Grande systems which, for the mutual interests of both, appear so essential.

At about the same time (1901), dissension arose also between Gould and Schiff, in other directions, particularly in connection with Gould's Western Maryland road, resulting in a sharp conflict and a severance of relations between the two.[174] The younger Gould apparently was fully as aggressive as his father, Jay Gould, but not so successful. His ambitious plans for a transcontinental railroad clashed with Harriman's even more grandiose plans of a trans-American and trans-Siberian rail system.[175] Gould's troubles accumulated rapidly after the panic of 1907, and during 1908 he had begun to lose hope of establishing a nation-wide system, as was indicated by Jacob Schiff in a letter to his friend Cassel, the London banker, in which he stated, in part:[176]

> Gould's ambitious plans of a direct line to the Atlantic Ocean have now come to an end, because the Wheeling & Lake Erie, whose control he now surrenders, was the integral connecting link between the Western Maryland - his eastern line - and the Wabash.

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171. See Chapter VI of this report.
172. Cf. Adler, op. cit., Vol. I, p. 71.
173. Idem.
174. Ibid., p. 124.
175. Keenan, op. cit., Vol. II, Chapter 18, pp. 1 to 29.
176. Adler, op. cit., Vol. I, p. 125.

By July 10, 1909, Gould's affairs had reached a crisis, and his Missouri Pacific was on the verge of bankruptcy. This situation was set forth by Schiff in a letter to Otto Kahn, on that date, in which he said, in part:[177]

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> I have little doubt that the Missouri Pacific, if properly managed, can even now be made a lucrative property. If, however, the mismanagement and the inefficiency which characterize all Gould properties continue, the question will only be: How long will the new bonds last before the company goes bankrupt?....
>
> What we must insist upon, before we lend our name to the Bonds, is that a standing committee of experts be appointed, with the approval of the trustee, and that without the approval of this committee, no expenditures shall be made from the proceeds of these new Bonds. Such a committee might consist of the general manager of the Missouri Pacific company, of Loree, and Cornelius Vanderbilt; but in any case the majority of its members would have to be people whom we, or rather the trustee, would approve. Another matter that must be settled is the assurance of the control of the Denver & Rio Grande Road....
>
> I can hardly believe that Gould will close his eyes to the situation which I have set forth above, or refuse to follow our wishes. But if we cannot get him to do so, there is nothing for us to do, in my opinion, except to withdraw, and to let anyone else who is willing to do so be sponsor for the new financing. On that point my mind is fully made up, and no considerations of profit or momentary success of the bond issue ought to sway us from this position.

Gould capitulated that summer, and the funds were supplied to the road that fall.[178] At the same time that Gould came to terms with his former allies (in 1909), he arranged to sell his control of Western Union to the Bell System, then being financed by the Baker-Morgan group which, by that time, had moved into a closer relation to the Stillman-Rockefeller group, following the public furor against large industrial combinations. This coincidence of Gould's fall, and immediate major changes in the telephone-telegraph merger plans of the Bell, will be treated more at length later.

<u>The Baker-Morgan Group of Investment Capitalists</u>.

In addition to the Stillman-Rockefeller group there was only one other group of approximately equivalent financial power and competitive strength - the so-called "Baker-Morgan" group.

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177. Ibid., pp. 126 and 127.
178. Ibid., p. 127.

Origin of the Group. About the time the powerful investment banking house of Jay Cooke went bankrupt (1873)[179] the new firm of Drexel Morgan and Company came into prominence in the underwriting of the United States Government's Civil War refunding issues.[180] J. P. Morgan, later the senior partner of J. P. Morgan and Company of New York, was the son of Junius Morgan,[181] London banker and associate of the English firm, Baring Brothers.[182] Close association of the Morgan firm with English investors in the refunding of the Civil War issues[183] continued in the following two decades, in the Morgan firm's interest in American railroad finances,[184] in which there were heavy bond holdings by English investors.[185] The experience of the Morgan firm, in attempting the refinancing and reorganization of American railroads to relieve investment capital returns from the destructive effects of intense competition, is pointed out by some historians as the basis for the Morgan firm's later activities in combining railroads, industrials and banks into the huge mergers typified by the United States Steel Corporation, Southern Railways, International Harvester Company and the Northern Securities Company.[186]

In any event, it is apparent that the majority of the railroads, though financed by bondholders, had been managed largely by those not having a major investment in the road's underlying securities.[187] Severe competition resulted, in many instances in the building of directly parallel roads as a recognized method of competition,[188] with a consequent loss of return to investors and the destruction of portions of the principal of the capital invested in the roads.[189]

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179. Cf. Henrietta M. Larson, "Jay Cooke; Private Banker," p. 404 ff.
180. Ibid., p. 217.
181. Idem.
182. Ibid., p. 394.
183. Ibid., p. 394 ff.
184. Hovey, op. cit., pp. 96, 118, 204 and 224 ff. See also, Corey, op. cit., p. 247.
185. See references cited in footnote Nos. 11, 21 and 191.
186. Corey, op. cit., pp. 246, 262 ff. and 285; also, Hovey, op. cit., pp. 125 ff., 194 ff. and 224 ff.
187. Idem. See also, Moody, op. cit., Vol. 36, pp. 6, 14 and 22.
188. Cf. Adams, op. cit., p. 2.
189. See footnote Nos. 14, 15 and 16.

The efforts of the Morgan firm were directed largely towards a reduction in the competition which threatened the safety of the railroad bondholders' capital,[190] of which English investors held large blocks.[191] Inability to secure permanence in the financial rehabilitation following reorganizations of bankrupt roads was followed by the application of various methods of controlling the railroad managements after their reorganization had been effected.[192] By 1902, this process of railroad reorganization and combination had proceeded so far that in large sections of the country the railroad lines had developed a so-called "community of interest," through the influence upon managements of common fiscal agents, or investment bankers.[193]

This trend in railroad combination, and elimination of destructive local competition, did not occur without major conflicts between the several roads having opposing sources of investment capital. In the early period, the clashes were more local in scope,[194] sometimes characterized by recourse to physical combat, or numerous injunction suits, as in the case of Jay Gould's attempt to obtain the Albany and Susquehanna railroad as a link for his Erie to reach New England.[195] In this instance Morgan arranged for the Albany road to be leased to the Hudson River railroad (of which his cousin, E. D. Morgan, was the dominating figure) before Gould could circumvent his plan with an injunction suit.[196]

The possible influence of investment capital sources upon competition was indicated by the "1888 meeting" of investment bankers and railroad presidents at J. P. Morgan's invitation, when Morgan agreed to help stop the financing of parallel or extension lines if the railroads would agree to stop rate wars and submit to an Executive Committee on which the bankers would be represented.[197] This early attempt to avoid

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190. Corey, op. cit., pp. 157 ff. and 285.
191. Cf. Hovey, op. cit., p. 204. See also, Moody, op. cit., Vol. 36, pp. 6, 14 and 22.
192. Corey, op. cit., p. 157.
193. Cf. Moody, op. cit., Vol. 36, p. 334 ff., especially p. 347.
194. Cf. Moody, op. cit., Vol. 36, p. 3 ff., especially p. 14.
195. Cf. Hovey, op. cit., pp. 40 and 55 ff.
196. Idem.
197. Hovey, op. cit., p. 138 ff. See also, footnote 17.

railroad competition destructive to the invested capital apparently was not made fully effective.[198] The process of reorganization, refinancing and assumption of management control continued, and was greatly accelerated by the panic of 1893, when a third of the country's railroads became bankrupt, and were subsequently reorganized.[199]

By the turn of the century, the Morgan firm was accredited either with a control or a dominating influence in the mangement of the railroads of the South, the Northwest (with James J. Hill) and of the North, through association with Vanderbilt of the New York Central and Cassatt of the Pennsylvania.[200] This established a workable community of interests in the Eastern half of the country, and also the Northwest, but did not account for the Southwest, in which Harriman had become the dominant figure.[201]

As indicated in the preceding section, Morgan's clash with the Harriman group in the Southwest occurred in 1901, about the same time that Gould was breaking away from Harriman's group.

During the period 1902 to 1909, when the two major groups began to operate more in harmony with each other (starting with the Northern Securities Company compromise of the Northern Pacific clash,[202] and accelerated by the public exposure of life insurance scandals, in 1905, by Charles E. Hughes),[203] Gould was more or less isolated, until his practical elimination as a major influence came, in the summer of 1909.[204]

The activities of the Baker-Morgan group naturally were extensive, and for the purpose of the present report attention must be concentrated to that part of their activities relevant to the telephone and telegraph industries, and those individuals

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198. Ibid., p. 143.
199. Moody, op. cit., Vol. 37, p. 79.
200. Cf. Ibid., Vol. 36, p. 134 ff. and Vol. 37, pp. 134 ff. and 418 ff.
201. Ibid., Vol. 36, p. 80 ff. and Vol. 37, p. 73 ff. See also, Corey, op. cit., p. 204 ff.
202. See footnote 22.
203. Cf. Assembly Document No. 41 of the State of New York; Report of the Joint Committee of the Senate and Assembly of the State of New York appointed to investigate the affairs of Life Insurance Companies; Transmitted to the Legislature February 22, 1906. See also, Keenan, op. cit., Vol. I, pp. 405 to 419.
204. Described more in detail in the preceding section, p. 38.

directly concerned. Among the latter were two who loomed large in the subsequent history of the telephone industry -- T. Jefferson Coolidge, Jr., and John I. Waterbury. The former was President of the Old Colony Trust Company of Boston; the latter was President of the Manhattan Trust Company of New York. A brief description of these two institutions will be given before summarizing the alignment of these groups which were concerned in the competition for control of the telephone field.

<u>The Old Colony Trust Company of Boston</u>. At this time (1902) the Old Colony Trust Company was a comparatively new organization, having been formed twelve years before by T. Jefferson Coolidge and T. Jefferson Coolidge, Jr. The autobiography of the elder Coolidge referred to its formation, and affiliations, in these terms:[205]

> His son, bearing his name, also recognized a possible need in the East of another banking institution on the trust principle, and cooperated with his father in establishing the Old Colony Trust Company, soon to become one of the most influential trust corporation in Massachusetts, with close affiliations with certain of the great organizations of New York.

The identities of the "close affiliations with certain of the great organizations of New York" are indicated by the Old Colony's New York banking correspondents. In July, 1902, they were the Chase National Bank[206] and the National Bank of Commerce.[207] Of the seven Directors on the board of the former, George F. Baker, John I. Waterbury, James J. Hill (Morgan associate in the Northern Pacific),[208] and Grant B. Schley (George F. Baker's brother-in-law),[209] constituted a majority.[210] Of the latter

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205. T. Jefferson Coolidge, "The Autobiography of T. Jefferson Coolidge," p. 276. (Citation from the autobiography's "Postscript").
206. The Chase National Bank was formed in 1877 by John C. Thomson, who had organized the First National Bank (of New York) in 1863, with George F. Baker as Cashier. Baker became First National's President when Thomson organized and became President of the Chase National. (Cf. Larson, op. cit., pp. 419 to 420). The First National controlled Chase through holding a majority of its stock -- 28,632 out of 50,000 shares. (Cf. Pujo, op. cit., testimony of Francis L. Hine, of the First National Bank, "Report," p. 68.
207. The Rand-McNally Bankers' Directory and List of Attorneys, July, 1902, edition, 53d Edition Published, p. 212. (Also lists directors, including Nathaniel Thayer)
208. Cf. Hover, op. cit., p. 246 ff; Corey, op. cit., p. 295 ff. See also, footnote 42.
209. Pujo, "Testimony," op. cit., p. 68.
210. The Rand-McNally Bankers' Directory and List of Attorneys, July, 1902, edition, 53d Edition Published, p. 711.

correspondent, J. P. Morgan was Vice President and Director, along with Charles Lanier and F. P. Olcott.[211] Lanier had been one of three trustees (along with George F. Baker and J. P. Morgan) controlling all the voting stock of the Southern Railway Company, which the Morgan firm had re-organized.[212] Olcott had been, along with J. P. Morgan and one other (selected by Olcott and Morgan), the trustees of the voting stock of the Reading road, another road re-organized by the Morgan firm.[213]

The Old Colony Trust Company, therefore, is identified as affiliated with the Baker-Morgan group.

<u>The Manhattan Trust Company of New York</u>. This bank, located at 20 Wall Street, New York, indicated its principal correspondents, in 1902, to be the Old Colony Trust Company of Boston and the Illinois Trust and Savings Bank of Chicago.[214] Its President was John I. Waterbury, previously shown to be co-director, with George F. Baker, of the Chase National Bank.[215] Its Directors included George F. Baker, Grant B. Schley and James J. Hill.[216] Schley has been indicated as the brother-in-law of Baker,[217] and Hill was the chief ally of Morgan in their clash with the Stillman-Rockefeller group for control of the Northern Pacific Railroad, climaxed by the "Northern Pacific Panic" of May 9, 1901.[218] Subsequent to the events in which the Manhattan Trust was concerned in competition for control of the telephone industry, the bank was merged with the Bankers Trust Company, in conformity with objectives set up in 1903.[219] Concerning the

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211. Ibid., pp. 335 and 714. Corey says: "J. P. Morgan and Company acquired direct control of the National Bank of Commerce in New York City, of which Morgan himself was vice-president and director." Corey, op. cit., pp. 255 and 256.
212. Commercial and Financial Chronicle, Vol. 59, p. 836.
213. Cf. "Bradstreet's: A Journal of Trade, Finance and Public Economy," Vol. 23, pp. 437 and 805; "Poor's Manual of the Railroads of the United States; Twenty Ninth Annual Number, 1896," pp. 805 and 806; Commercial and Financial Chronicle, Vol. 63, p. 560.
214. The Rand-McNally Bankers' Directory and List of Attorneys, July, 1902, edition, 53d Edition Published, p. 338.
215. See footnotes 206 and 210.
216. The Rand-McNally Bankers' Directory and List of Attorneys, July, 1902, edition, 53d Edition Published, p. 713.
217. See footnote 209.
218. See footnote 22.
219. Pujo, op. cit., "Report," pp. 57 to 59.

connection of the latter Company with the firm of J. P. Morgan and Company, the Pujo Congressional Committee, charged with investigation of the "Concentration of Control of Money and Credit", reported, in part:[220]

J.P.Morgan & Co.

Affiliations with Bankers Trust Co. - The Bankers Trust Co. was organized in 1903. As part of the plan of organization the entire capital stock, except qualifying shares held by directors, was vested for five years by an agreement dated March 18th, 1903, in three trustees, George W. Perkins, then a member of Morgan and Co., Henry P. Davidson, then Vice President of the First National Bank of New York and since January 1, 1909, a member of Morgan and Co., and Daniel G. Reid then Vice President of the Liberty National Bank and a director in the United States Steel Corporation and of other affiliated corporations, who were authorized to vote the same for all corporate purposes and especially for the election of directors and in favor of the acquisition of other trust companies....On March 18th, 1908, the agreement was renewed for a further period of five years. Before the expiration of that extension a new agreement was made, dated March 9, 1912, substituting George B. Case, of counsel for the Company, as voting trustee in place of George W. Perkins, who had retired from the firm of Morgan and Company. Apparently Mr. Case was proposed by Mr. Davison, whose personal counsel he is.

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Through the above-mentioned voting trust Morgan and Co. have the selection of the entire board of directors of the Bankers Trust Co. The firm and the individual members own $946,400 par value of its stock, and Mr. Davison, Thomas W. Lamont, and William H. Porter, members of the firm are directors of the trust company.

* * * * * * * * *

In March, 1912, it absorbed the Manhattan Trust Co.

Summary of Grouping of Investment Capitalists (1894-1902).

No grouping of investment capitalists can be given accurately in more than general terms, for there are continuous cross-currents of purposes and interests even within groups which may be fairly homogeneous and closely related when compared with other general groups. Furthermore, the time is an important element, since sudden schisms or new alliances may occur which cause important changes in previously existing alliances or competitions. Lastly, general groupings of investment capitalists may be accurate for most activities of the respective groups but not accurate for specific enterprises in which peculiar conditions may cause individuals from normally

220. Idem.

opposed groups to find themselves with common purposes which demand a degree of cautious action in common.

However, for the period of importance in this study, 1894 to 1902, there were two groups of sufficient distinction to warrant acceptance of the group definitions generally indicated by contemporary and later historians. The events in the history of competition for financial control in the telephone industry tend strongly to verify the groupings suggested by students of events outside the telephone industry.

The two most distinct groups of investment capitalists, during the period 1894 to 1902, were the Baker-Morgan group and the Stillman-Rockefeller group, constituting what have been termed as the representatives, respectively, of English and American sources of investment capital.[221] George F. Baker, J. Pierpont Morgan, T. Jefferson Coolidge, Jr., and John I. Waterbury were identified with the Baker-Morgan group. The Stillman-Rockefeller group included Edward H. Harriman, John D. and William Rockefeller, James Stillman, P. A. B. Widener and William C. Whitney. A third group, sometimes termed the representatives of German sources of investment capital, was not so cohesive as a group, and exhibited more varied tendencies in their alliances.

The leading house was Kuhn Loeb and Company, of which Jacob Schiff was the dominant figure.[222] Schiff, with Harriman and Stillman, had taken up the reorganization of the Union Pacific Railroad after Morgan had refused to attempt it, and the eventual result was Schiff's alignment with the Stillman-Rockefeller group in the 1901 Northern Securities fight. Apparently Schiff desired to remain on friendly

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221. Cf. Moody, op. cit., Vol. 37, pp. 80 ff. and 87 ff.
222. "In the year 1885, Solomon Loeb, the surviving member of the original partnership, virtually retired, leaving Schiff, at thirty-eight the undisputed head of the firm" (Adler, op. cit., Vol. I, p. 14).

terms with the Baker-Morgan group, for he was a considerable factor in the eventual compromise of the Northern Securities episode between the two major groups, and was later associated rather more closely with the Baker-Morgan group.[223]

Another of this third group was Speyer and Company, a very old and strong firm which was relatively independent in its activities.[224] The relative position of the Speyer firm, as well as Kuhn Loeb, to the Stillman-Rockefeller (National City Bank) and the Baker-Morgan (First National Bank) groups was indicated by Schiff in his testimony before the Pujo Committee, in 1912. This was after the Northern Securities episode, when Kuhn Loeb had come into closer relationship with the Baker-Morgan group. Schiff's testimony, in part, was as follows:[225]

> By request, the stenographer repeated the question as follows:
>
> Can you, within your wide range of experience, name any case in which one of the big banking houses has made an issue of securities of a company that was known to be distinctly affiliated with any of the other banking houses, except with the assent of the last-named house?

Mr. Schiff.	Yes; I can.
Mr. Untermyer.	What instance?
Mr. Schiff.	Speyer & Co. have often made an issue of securities which came within our range, and we have made issues of securities which came into their range. More frequently --
Mr. Untermyer.	They have invaded your field more frequently than you have invaded theirs?
Mr. Schiff.	Not very frequently, but it has been done. There is a sort of rivalry.
Mr. Untermyer.	Between you and Speyer & Co.?
Mr. Schiff.	Between us and Speyer, and certain other houses.
Mr. Untermyer.	What other houses?
Mr. Schiff.	White, Weld & Co.
Mr. Untermyer.	White, Weld & Co. are what you would call jobbers, are they not?
Mr. Schiff.	When the amount is not very large, they become wholesalers.
Mr. Untermyer.	But they are ordinarily jobbers who buy and deal with Morgan and with yourself, who buy bonds from you?
Mr. Schiff.	Not with ourselves. I think that has only been done in one case.

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223. For an account of Schiff's unwillingness to continue buying Northern Pacific Railroad stock, during the 1901 struggle, see Keenan, op. cit., Vol. I. See also footnote 22, and Moody, op. cit., Vol. 36, pp. 21, 339 and 340.
224. Idem. See also Pujo Committee testimony, cited in the next footnote. See also Moody, op. cit., Vol. 37, p. 80.
225. Pujo, op. cit., "Testimony", pp. 1668.

Mr. Untermyer.	But with Morgan's they handle a large part of the bonds put out by Morgan & Co.?
Mr. Schiff.	That I do not know. You must ask J. P. Morgan & Co.
Mr. Untermyer.	Do you not know anything about that?
Mr. Schiff.	No, sir; I know nothing about it.
Mr. Untermyer.	Have you any instances in mind in which, in the last five years, you have invaded the field of Messrs. Morgan & Co., or they have invaded yours?
Mr. Schiff.	I have not.
Mr. Untermyer.	Or have you in mind any instance in which you have invaded the field of the National City Bank or the First National Bank or in which they have invaded yours?
Mr. Schiff.	As to the First National Bank, I know we have not. As to the National City Bank, I can not say for certain. I think they would do business to a certain extent even where we are considered the agents, and we would do certain business where they are considered the agents; not to a large extent.

As later events will indicate, the Speyer firm was associated with Lee Higginson and Company of Boston, and distinctly opposed by Morgan.

George J. Gould, son of Jay Gould, was identified with the Stillman-Rockefeller group until about 1901. At that time, differences arose between Gould and Harriman that resulted in Gould's virtual abandonment of close cooperation with his group, while engaged in a more or less independent attempt to establish a coast-to-coast rail system. The panic of 1907 ruined Gould's plan, practically eliminating him as a strong independent operator, and by late 1909 he appears to have again subordinated himself to the wishes of his former group, which by that time was less easily distinguished from its formerly opposed Baker-Morgan group. By 1913 most of the decisive characteristics of the opposed groups had been mellowed by their common efforts to defend themselves against the political furor ushered in by Theodore Roosevelt in 1901, so that the sources of investment capital, as actively competitive "groups," had largely dissolved into a more or less homogeneous single group.

Status of Electrical Communications Companies (1894-1902).

In the field of telephone communications in 1894, were the American Bell Company and its licensees, representing the established business, largely financed in New England. The emerging independent companies, mostly financed locally, were, until about 1897, largely independent of each other, and interested in competition with the

Bell System only in their individual territories.[226] Also concerned in the field of electrical communications were the two outstanding telegraph companies. The Western Union, first in the field, was the larger in extent of land line telegraph, but secondary to its competitor, the Commercial Cable Company in its trans-Atlantic cable facilities.[227] Both the Commercial Cable Company and the Postal Telegraph-Cable Company, constituting what may be termed the "Postal System," were controlled by their founder, John W. Mackay.[228]

Thus, there were in existence, at the opening of the skirmish, two well-integrated telegraph companies (Western Union and the Postal), one well-integrated telephone company (Bell), and numerous rapidly growing independent telephone companies. Some conception of the financial backing identified with each of these four elements is necessary to an understanding of their activities and movements during the ensuing period, for the competition between groups representing units of affiliated investment capital was largely evidenced superficially by the competitive moves of the companies in which their respective investments were made.

The Western Union Telegraph Company. Control of the Western Union, originally held by the Vanderbilts, was seized by Jay Gould about 1880, as was explained in detail in Chapter II. Following Gould's death, in November, 1892 bear raids on all the Gould stocks, including Western Union, forced the stock to decline precipitously, and by December of that year, according to the report of the United States Industrial Commission, "certain large banking interests were seeking control of its stock."[229]

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226. Stehman, op. cit., pp. 52 to 56.
227. American Telephone and Telegraph Company, President's Personal File, letter, Theo. N. Vail to F. P. Fish, dated April 14, 1906. This letter, containing Vail's excellent analysis of the competitive position of the two telegraph companies, is quoted on p. 85 (footnote 327).
228. "History of Postal Telegraph Landline System," transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, by letter dated March 31, 1937 to C. L. Terrel, Engineer of the Federal Communications Commission, and filed in the Federal Communications Commission, Engineering Binder No. 201.
229. United States Industrial Commission Report, Vol. 13, p. 936.

The stock advanced again in October and November 1893, due to pool activities,[230] but declined in November and December 1895, partly due to a United States Supreme Court decision which held that the Union Pacific Railroad (Harriman's road) could not make a contract granting Western Union a telegraph monopoly along its railroad right-of-way.[231] Control of Jay Gould's 210,028 shares of Western Union stock[232] remained in his estate, which was managed by his son, George J. Gould.[233] In May 1897, there was a sudden rise in open market quotations of the stock, due to a contest between George J. Gould and Russell Sage for control of the company.[234] During this period Gould was affiliated with Edward H. Harriman, the dominant figure in the Union Pacific, James Stillman, president of the National City Bank of New York and Jacob Schiff of the firm of Kuhn, Loeb and Company.[235] During the remainder of the period under review, in 1899 and 1900, the Gould control of 210,028 shares continued[236] and there were no unusual fluctuations in its open market quotations.[237]

The Western Union element may, therefore, be viewed as under the control of George J. Gould, allied at the outset with the Stillman-Rockefeller group.

The Postal Telegraph System. This system was organized in the middle 80's to compete with the Western Union telegraph monopoly. Its organizer, operator and financial backer was John W. Mackay. The latter, in prospecting for gold in the Western states, made the almost fabulous "Big Bonanza" strike at Virginia City, an ore body which subsequently yielded more than $119,000,000 in gold and silver.[238] With these well-fortified financial resources, and by an aggressive attack upon the

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230. Idem.
231. Idem.
232. See footnotes 121, 123 and 124.
233. Cf. New York Times, May 17, 1923, p. 6, column 1.
234. United States Industrial Commission Report, Vol. 13, p. 936.
235. Corey, op. cit., p. 295; see also, Adler, op. cit., Vol. I, pp. 135 and 136.
236. New York Times, May 17, 1923, p. 6, column 2.
237. United States Industrial Commission Report, Vol. 13, p. 936.
238. "History of Postal Telegraph Landline System," transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, by letter dated March 31, 1937, to C. L. Terrel, Engineer of the Federal Communications Commission, filed in Federal Communications Commission, Engineering Binder No. 201.

the business of the larger but more quiescent Western Union, the Postal system had attained, by 1898, a strong position in the telegraph and cable business. It was apparently independently financed, through the resources of its founder, John W. Mackay.[239]

The American Bell Telephone Company. The Bell System, grown somewhat disdainful of public opinion during its long period of patent protection,[240] was largely known as a New England investment, where by far the largest part of its stock was held.[241] Almost from its inception the company had financed itself through sales of stock to its stockholders, but the dividends received by the stockholders were greater, in total, than the new investment required from stockholders.[242]

Under these conditions the company acted as its own banker, until 1907, when the competition which came in after the expiration of the basic Bell patents in 1894, had forced telephone service to be expanded more rapidly than could be financed from the company's previous capital sources. Until 1898, however, with the exception of a small bond issue in 1888, the company had been able to finance itself entirely through sale of stock to its stockholders, and did not need to rely upon financial or investment houses to make available other sources of capital.

During this period, up to 1898, the company's chief financial contact was the old Boston firm of Lee, Higginson and Company. Henry Lee Higginson, the senior member of the firm, had been identified with the telephone from its inception. He, along with Forbes, Cochrane and Vail, had invested both time and money in the

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239. See footnote 228.
240. Cf. Paine, op. cit., pp. 222 and 223.
241. In 1894, President Hudson of the American Company stated that 85 per cent of the stockholders were residents of Massachusetts. (Commercial and Financial Chronicle, Vol. 59, p. 878). The concentration of stock in New England is also stated and discussed in company correspondence. See American Telephone and Telegraph Company, President's Letter File No. 17614, letters from Lee, Higginson and Company to President F. P. Fish, dated April 8, 1904 and February 15, 1905. See also, Special Investigation Docket No. 1, Report on "Ownership of American Telephone and Telegraph Company," Exhibit No. 230, Table 15, p. 45.
242. See Chapter III of this report, section entitled "Independence of Bell System from Outside Investment Capital, Prior to 1894."

telephone before it had demonstrated its commercial possibilities.[243] James J. Storrow, a member of the firm,[244] had served as chief counsel to the Bell companies during their early legal struggles in 1878 and 1879 to maintain an existence against the superior power of Western Union.[245]

In summary, the Bell Company, up to 1898, had financed itself out of profits, was largely identified with New England stockholders as the source of its investment capital, and was closest to the financial house of Lee, Higginson and Company.

Independent Telephone Companies. In 1898, the independent telephone movement was the key to combination in the electrical communications industry. Western Union and Postal Telegraph were both in strong financial hands, and together they occupied the landline telegraph and cable business almost completely. In the telephone field, Bell was nationally organized and conservatively financed by its New England stockholders. However, its weakness lay in the great extent of the latent and still unsatisfied national demand for telephone service. After the basic patents expired, independents could enter the field in competition for this undeveloped market, just as far and as fast as they could produce the necessary funds for construction purposes. General knowledge of the Bell profits[246] made it comparatively easy for promoters to induce local capital to undertake local telephone organization and construction.[247] Bell, with its long distance network connecting its Licensees, could offer long distance as well as local telephone service, and apparently felt itself able to meet the independent challenge,[248] satisfying itself with a change in its previous policy of limited expansion by undertaking rapid construction in territories it had ignored, in order to prevent the independents from occupying the

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243. Bliss Perry, "Life and Letters of Henry Lee Higginson," pp. 447 to 448.
244. Pujo, op. cit., "Testimony," p. 2003.
245. Perry, op. cit., p. 287; also, Casson, op. cit., pp. 101 to 103. See also, Chapter II of this report.
246. Stehman, op. cit., p. 72.
247. Paine, op. cit., pp. 223 and 224.
248. Stehman, op. cit., p. 65.

field in advance. The hidden weakness of the Bell System was its lack of a strong financial connection which could make investment capital available upon favorable terms in the degree necessary to finance this forced expansion of its facilities. The exposure of this weakness depended upon the nature and strength of the capital invested in the competing independent companies.

As stated before, local capital for local independent telephone companies was comparatively easy to obtain, and local companies flourished in considerable numbers as early as 1895.[249] Up to this point in the competitive struggle, the Bell System was embarrassed chiefly by the necessity of financing the increasing rate of introduction of new telephones made necessary to pre-empt the latent telephone demand in advance of local independent companies, meanwhile relying upon its long distance service and larger financial resources for continuing its advantage over the individual Independent companies. This unstable equilibrium of forces could be upset as quickly as some influence caused the independents to consolidate and connect their systems through an independent long distance service, and as soon as any fairly large source of capital might elect to supply the funds and organizing ability thus required.

The Independents recognized this state of affairs as early as 1897, when they met in Fort Wayne, Indiana, to form a mutual organization with these stipulated objectives, among others:[250]

> 1. A national association of the independent telephone exchanges of the United States for mutual protection and development.
> 2. Long distance toll lines by connection of the independent exchanges.
> 3. An independent long distance service, connecting the great commercial centres in a field now occupied exclusively by the Bell Co.

Since the existence of local independent companies alone forced the Bell to

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249. Department of Commerce and Labor, Bureau of the Census; Bulletin 17; Telephones and Telegraphs; 1902, p. 26.
250. Commercial and Financial Chronicle, Vol. 64, p. 1040.

expend large sums in local competing construction, the introduction of powerful financial backers into the proposed national independent organization might well be the deciding factor in causing the telephone industry, unhampered by controlling patents, to outgrow the Bell System's ability to continue its profitable monopolistic position.

The fairly strong source of capital (Mackay) back of the Postal Telegraph system, and the much stronger resources of the Western Union, backed by the Goulds and originally allied with the Stillman-Rockefeller group, furnished two possible avenues for entrance into the electrical communications field. The combination of either one of these telegraph companies with Bell would afford a strong basis upon which to build a telephone-telegraph combination. The Bell company was thus placed in a strategic position. At the same time, however, this strategic position could be undermined if any strong capital source and organizing ability became interested in the Independent telephone companies, for Bell, under competition, could no longer finance the necessary rapid competitive telephone construction out of monopoly profits.

In summary, if strong investment sources could be kept out of the Independent telephone field, the Bell company, properly financed and combined with one of the telegraph companies, again could occupy the monopoly position it had enjoyed over the period of 1879 to 1894, when its earnings had been so satisfactory.

CHAPTER IV

EFFORTS OF THE TELEPHONE, TELEGRAPH AND CABLE COMPANY TO SECURE CONTROL OF THE TELEPHONE INDUSTRY

Independent telephone companies came into existence rapidly after 1894, but were local and isolated until 1897, when they formed a national association to connect themselves into a national system to compete with Bell.[251] These companies were relatively of small capitalization until 1899, when a $30,000,000 company came into existence with ambitious plans for combination of the telephone and telegraph fields.

Organization of Company.

In 1899, the Commercial and Financial Chronicle, in a series of articles on the prospects of the Bell System, stated, in part:[252]

> Since we began this series of articles, plans long crystalling have taken definite shape for the entrance into the telephone field of important interests independent of the Bell Company. Local companies of this kind have become quite numerous within the past three or four years, but for the most part they have been confined to pretty well-defined districts, being chiefly small concerns located in places not served, or at least poorly served, by the Bell Company. Except in two or three States few of these local organizations have had their exchanges united with one another by long-distance lines. Several large companies, however, have now been organized for the avowed object of operating long-distance as well as local lines in opposition to the Bell System. The exact effect of this turn of affairs, not only upon the companies most closely concerned but upon the welfare of the public, is a matter of considerable interest.

The outstanding unit of this group was the Telephone, Telegraph and Cable Company, concerning which the Chronicle stated, in the same article:[231]

> The names published in connection with the enterprise support the belief that the men who are identified with the management of the New York and Philadelphia street railways are also interested in the new project, and that therein may be found a partial explanation for the construction of subways by the Metropolitan Street Railway Company of this city along the

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251. For greater detail on the organization of the Independent telephone companies, see Special Investigation Docket No. 1, Report on "Control of Telephone Communications," Vol. III: "Control of Independent Telephone Companies." See also, pp. 55 to 57 of this report.
252. Commercial and Financial Chronicle, Vol. 69, p.1223.
253. Idem.

route of its underground trolley roads. The People's Company has only within two or three weeks received permission to lay cables in this city, but unless plans miscarry it seems likely that the tearing up of streets for the accommodation of the new telephone system will begin in earnest before very long.

The Telephone, Telegraph and Cable Company was organized in Trenton, New Jersey, under the laws of that state on November 9, 1899,[254] with an authorized capital stock of $30,000,000,[255] consisting of 600,000 shares of $50 par value.[256] The incorporators were Wm. J. Latta and Martin Maloney, of Philadelphia, and James E. Hayes, of Camden.[257] Ten per cent of the capital stock ($3,000,000) was reported paid in at the time of its organization.[258] At the time of announcement of its organization, President Latta disclosed the objectives of the organization and indicated its financial backers, in a published statement in which he said in part:[259]

> The main object of this company will be the extension and perfection of the long distance telephone service throughout the country and in a secondary way the lessening of the rates.... No stock will be put on the market for public subscription. It is all fully subscribed for, about fifty men of whom the board of directors are a representative number holding it all. Our plans are all completed and we shall begin operations at once.

At the same time, the proposed directors were indicated to be the following:[260]

John Jacob Astor
Peter A. B. Widener
Michael Maloney
Charles R. Flint
Francis M. Jenks
Thomas Dolan
W. I. Elkins
Frank Tilford
Emerson McMillin
W. H. Gelshenen
Charles E. Adams
Oakes Ames
J. T. Holbrook
David R. Francis
W. J. Latta
W. H. Crocker

254. Commercial and Financial Chronicle, Vol. 69, p. 1016.
255. Idem.
256. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Security Investments," Exhibit No. 1362A, Vol. 1, p. 59.
257. Commercial and Financial Chronicle, Vol. 69, p. 1016.
258. Idem.
259. Idem.
260. Idem.

John Jacob Astor was a director of George J. Gould's Western Union Telegraph Company, and the more detailed affiliations of certain of the other individuals will appear subsequently, but a general indication may be obtained from the comment of the "Boston News Bureau",[261] which stated, in part:

> How the ($30,000,000) capital of the Telephone Telegraph & Cable Co. will be invested in the future remains to be seen. It may be in conjunction with either the Bell Telephone or the Western Union Telegraph Co., or both, and it is too early to assert that it will be inimical to either. The new names on the board look like Western Union interests, but the Bell Telephone people presumably know where they stand.

The inferences were so clear that President Latta apparently felt called upon to allay suspicion in that respect, and issued a public announcement in which he stated, in part:[262]

> We shall undoubtedly absorb a number of smaller companies and create new ones, but we shall neither absorb nor have any connection with the Western Union Telegraph Co., nor will Mr. George Gould be interested in the concern.

Further indication of the identities of others of the "fifty men of whom the board of directors are a representative number",[263] is obtained from the new names added to a company of which they immediately proceeded to purchase control (as will be detailed later). These new names were given by the Commercial and Financial Chronicle in an announcement stating, in part:[264]

> New Directors - The following have been added to the board of directors of the Erie Telegraph & Telephone Co., representing the new controlling interests:
>
> Chas. E. Adams, President, Mass. State Board of Trade, Lowell, Mass.
> John Jacob Astor, New York
> George Crocker, San Francisco, Cal.
> Frank A. Cutting, Boston, Mass.
> Frederick A. Farrar, banker, Boston, Mass.
> H. E. Gawtry, President Consolidated Gas Co., New York
> W. H. Gelshennen, President Garfield National Bank, New York
> William J. Latta, President Telephone Telegraph & Cable Co. of America, Phila.

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261. Commercial and Financial Chronicle, Vol. 70, p. 432
262. Ibid., Vol. 69, p. 1016
263. See footnote 257
264. Commercial and Financial Chronicle, Vol. 70, p. 432

Martin Meloney, New York
C. W. Morse, President American Ice Co., New York
Daniel O'Day, New York (Standard Oil Co.)
Frank Tilford, Park & Tilford, New York
H. R. Wilson, banker, New York

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On the Executive Committee of the Telephone, Telegraph & Cable Company were the following:[265]

Daniel O'Day
Oakes Ames
Elberton R. Chapman
Frank Tilford
Frank M. Riter
Charles W. Morse
William J. Latta

O'Day's connection with the Standard Oil Company and the late John D. Rockefeller is indicated in a history of the Standard Oil Company, in which is stated, in part:[266]

> There was still another figure. He was Daniel O'Day, a Clare County Irishman, who had been raised on a New York farm, had begun work as a freight handler and later was employed by Bostwick and Tilford as an oil buyer. This firm in reality belonged to the Standard and because of his Standard Oil connections, O'Day was almost mobbed during the 1872 oil war....
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> * * *　　　* * *　　　* * *
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> ....On April 29th, 1879, while the Producers' Association was in session, news came that the Grand Jury of Clarion County had indicted John D. Rockefeller for criminal conspiracy and along with him Jabez A. Bostwick, William Rockefeller, Daniel O'Day, William G. Warden, Charles Lockhart, Henry M. Flagler, Jacob J. Vandergrift, and George W. Girty, cashier of the Standard....

Gawtry, another director of the Telephone, Telegraph and Cable Company, was president of the Rockefeller controlled Consolidated Gas Company of New York City and Messrs. Widener, Dolan and Elkins, other directors were directly identified with the same Consolidated Gas, as will be shown subsequently.

The Telephone, Telegraph and Cable Company (hereinafter referred to as the "Cable" company) began to justify its expectations by an immediate and aggressive plan of expansion. Within a week of the announcement of its organization, it had acquired

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265. Ibid., Vol. 72, p. 444.
266. Flynn, op. cit., pp. 192 and 217

control of the Boston and New York Telephone and Telegraph Company,[267] a concern with an authorized capital of $10,000,000,[268] organized to set up independent telephone companies in Boston and New York.[269]

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With the aggressive entry of this new independent company into the telephone field, with strong financial backers identified with the Stillman-Rockefeller group and its then allied Gould-Western Union telegraph interests, the signal had been given for a competitive struggle between the two major groups, Baker-Morgan and Stillman-Rockefeller for control of the electrical communications field. Subsequent events indicate that the Baker-Morgan group was not slow to realize the significance of these events and quick decisions followed.

Abrupt Withdrawal of Financial Support from the Company.

On December 2, 1899, a sudden shift in the backing of the Telephone, Telegraph and Cable Company was announced in the Commercial and Financial Chronicle in a news dispatch, stating, in part:[270]

> Messrs. Widener, Elkins and Dolan of Philadelphia have withdrawn from this enterprise because of their association with certain other New York interests. This was thought to mean that the company was preparing to use the subways of the Metropolitan Street Railway Co., and that the relationship of the men named to the two corporations would be embarrassing. The "Philadelphia News Bureau" has the following:
>
> > A representative of the Philadelphia group of capitalists identified with the independent telephone combination movement says:....
>
> Messrs. Widener, Elkins and Dolan canceled their subscriptions to the stock and will have no connection with the company because it was found that Mr. Whitney, of New York, and party were under obligations to certain interests in New York that prevented Mr. Whitney and his friends from going into the proposed telephone combination, and the Philadelphians, because of their close association with the Whitney party in manifold interests, felt bound to back up the Whitney people.

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267. Commercial and Financial Chronicle, Vol. 69, p. 1066.
268. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Security Investments", Exhibit No. 1362A, Vol. I, Appendix 2, Sheet 9.
269. Commercial and Financial Chronicle, Vol. 69, p. 1150.
270. Ibid., p. 1151.

This interesting evidence of a clash, behind the scenes, between strong financial interests, becomes more intelligible as the inquiry turns to the fight then being waged in New York City between several groups for control of municipal utilities, including gas, electric, street railway, subway, and elevated companies. The Consolidated Gas Company was the concern directly implicated in the above shift. A brief description of its affiliations follows.

Consolidated Gas Company Episode. The identity of major interests in this company was indicated by the testimony of Jacob Schiff, of Kuhn, Loeb and Company, before the Pujo Committee, in which he testified, in part, as follows: [271]

Mr. Untermyer.	That is their business - the Consolidated Gas - is it not?
Mr. Schiff.	Not their business -
Mr. Untermyer (interposing).	That is, the City Bank.
Mr. Schiff	Yes, sir; I believe they are affiliated.
Mr. Untermyer	Do you not know that the City Bank are the bankers of the Consolidated Gas Co.?
Mr. Schiff	I think they are the bankers for the company.
Mr. Untermyer	And do you not know that the company is controlled and managed from the City Bank?
Mr. Schiff	I am quite sure it is not controlled by the City Bank.
Mr. Untermyer	It is managed from the City Bank, is it not?
Mr. Schiff	I think it is controlled by a large number of people. I believe that Mr. Stillman and Mr. Rockefeller and Mr. Brady - who is not at all connected with the City Bank -
Mr. Untermyer	Mr. Stillman and Mr. Rockefeller -
Mr. Schiff (interposing).	I do not think they have a controlling interest in it.
Mr. Untermyer	It does not take a controlling interest to control a corporation, does it?
Mr. Schiff	I want to say -
Mr. Untermyer (interposing).	Does it?
Mr. Schiff	Anthony Brady -
Mr. Untermyer	Will you not answer the question? Does it take a majority of the stock of a great corporation like Consolidated Gas in order to control the management of the corporation, or is that management, in the case of great corporations, frequently and almost universally held by a comparatively small proportion of the stock?
Mr. Schiff	I shall answer that in my own way, just as in the case of the Consolidated Gas, in which what I do know I know only by hearsay. I have absolutely no interest in Consolidated Gas. Consolidated Gas is, however, as far as I know, controlled by the so-called Stillman-Rockefeller interests.

271. Pujo, "Testimony", op. cit., p. 1674.

The Baker-Morgan group was also competing for control of New York's gas distributing industry through the New Amsterdam Gas Company, as was indicated by a Commercial and Financial Chronicle news item, early in 1899, which stated, in part:[272]

> The New Amsterdam Co. is reported to have been entering the domain of the older companies. Moreover until within a few months the Standard Gas Co. worked in harmony with the Consolidated and the Mutual, there being an agreement that neither should invade the other's territory, but this agreement has been disregarded. Russell Sage is one of the largest owners of stock in the Standard Gas Light Co.; J. P. Morgan became interested in the New Amsterdam Company some time ago, while the Rockefellers are heavy holders of stock in the Consolidated Company.

Rockefeller's Consolidated Gas Co., of which Harrison E. Gawtry (a director in the Erie Telephone and Telegraph Company, representing the Telephone, Telegraph and Cable Company)[273] was President,[274] was working in harmony with the New York Mutual Gas Company[275] and the Standard Gas Light Company, until Morgan's New Amsterdam Company[276] precipitated a gas "war", by reducing the price of gas, on May 1, 1899, to \$.50 per thousand feet,[277] while Consolidated Gas and its two satellites reduced the rate from \$1.10 to \$.65.[278]

Leaving these two major groups "at war"[279] with each other, we may pick up the entrance of Whitney and Widener into this scene. The way in which these two were injected into the scene is best reviewed by the New York Times account of Widener's career, from his early life in Philadelphia, which stated, in part:[280]

> Mr. Widener....met William L. Elkins, who was then a prosperous oil dealer. Mr. Widener persuaded Mr. Elkins to join him in the development of the street car system of Philadelphia.... The Traction Kings, for such they

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272. Commercial and Financial Chronicle, Vol. 68, p. 871.
273. See p. 60.
274. Idem
275. Consolidated Gas owned 30 per cent of Mutual's stock. (Commercial and Financial Chronicle, Vol. 67, p. 1263).
276. Organized in March, 1898, under plans approved by J. P. Morgan & Company. (Commercial and Financial Chronicle, Vol. 66, pp. 133 and 520).
277. Commercial and Financial Chronicle, Vol. 69, p. 387.
278. Idem
279. Ibid., p. 495
280. New York Times, November 7, 1915, p. 5, column 2.

> had become, now extended their operations beyond their native city, and in 1885 they became factors in the transit situation in Chicago. They became interested in the transportation problems of New York in 1886, where, with William C. Whitney and Thomas F. Ryan, they appeared in the old Metropolitan Traction Company, later known as the Metropolitan Street Railway Company, which by 1893 had taken to itself a network of the nondescript and unrelated lines of the city....

The further events of this eventful year (1899) were epitomized by Moody in his history of the trusts of that period, in a paragraph stating:[281]

> During the year prior to the general gas consolidation, a new company, called the New York Gas & Electric Light, Heat & Power Company, was formed by what were known as the Whitney-Brady interests (who already dominated the street railways of New York and Brooklyn). This new company immediately absorbed the Edison Company and all its competitors. In the meanwhile, and before the culmination of the gas war, which was then in full swing, the Standard Oil Group (representing the gas interests) and the Whitney-Brady group, after a bitter Wall Street "squeeze", came together and as a result the New York Gas & Electric Light, Heat & Power Company and all its allied interests were absorbed by the Consolidated Gas Company, thus giving the latter control of the entire gas and electric lighting interests of the Island of Manhattan.

Thus, at the time of the Morgan-Rockefeller gas war, we find Whitney, with Widener, already largely interested in the city's street railways, Metropolitan, and, with Brady, competing also for a place in the gas field through their New York Gas and Electric Light, Heat and Power Company.

In this three-cornered battle, Whitney was squeezed by one of the other contestants. The one who conducted the raid on Whitney and the one who aided him at the time is suggested by comment contained in a description of the career of Widener in the New York Times, at the time of his death, in 1915, which was, in part:[282]

> One of his best friends in the financial world was the late J. Pierpont Morgan, who years ago when the bears were making a determined onslaught on Metropolitan, went to the aid of Mr. Widener at a critical time.

A "Wall Street squeeze" as Moody termed it, occurred at the time a temporary armistice

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281. John Moody, "The Truth About the Trusts", p. 423.
282. New York Times, November 7, 1915, p. 5, column 2.

was achieved in the gas "war" on November 25, 1899, when Morgan's New Amsterdam Company restored the rate to normal.[283]

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What arrangements, if any, were concluded between the Morgan forces and the Widener-Whitney-Elkins forces, in return for Morgan's support of the latter when attacked by the Rockefeller group, is not known, but the fact remains that within a week of the cessation of that rate war, there occurred the public announcement concerning withdrawals from the newly organized independent telephone company, previously quoted, which stated, in part:[284]

> Messrs. Widener, Elkins and Dolan canceled their subscriptions to the stock and will have no connection with the company because it was found that Mr. Whitney, of New York, and party were under obligations to certain interests in New York that prevented Mr. Whitney and his friends from going into the proposed telephone combination, and the Philadelphians, because of their close association with the Whitney party in manifold interests, felt bound to back up the Whitney people.

To conclude the gas war episode, it appears that a complete compromise was reached between the two groups, on the gas utility business, for shortly thereafter (January 6, 1900) it was announced that Consolidated Gas had purchased the entire capital stock of the New York Gas and Electric Light, Heat and Power Company.[285] A month later, the Commercial and Financial Chronicle announced:[286]

> The impression is that events are shaping themselves quite rapidly for a settlement of the gas difficulties on the basis of a common, or at least a friendly control, if not a full consolidation.

Three months later (May, 1900), the stock of Morgan's New Amsterdam Gas Company was exchanged for Consolidated Gas Company bonds,[287] and in the following month all the gas companies raised their rates to the legal limit.[288]

The change in the affairs of the Telephone, Telegraph and Cable Company, at

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283. Commercial and Financial Chronicle, Vol. 69, p. 1106
284. Ibid., p. 1151
285. Ibid., Vol. 70, pp. 40 and 178
286. Ibid., p. 283
287. Ibid., p. 1052.
288. Ibid., p. 1252.

the climax of the "war" in December, 1899, appears to have been permanent, and fatal to its success. Within a year a new issue of stock was not taken by its stockholders, and the company found itself in serious financial difficulties.

There is some evidence that after the failure of the original source of capital, the promoters of the company approached the Morgan group for backing, and even appealed to the remaining source of capital interested in electrical communications, John W. Mackay. This indication is given in a letter by President Cutter of the New York (Bell) Telephone Company to his superior, President Fish, giving an account of his knowledge of the Company's search for capital to back the enterprise, in a letter dated April 18, 1902, stating, in part:[289]

> It is reported to me that in the suit which John M. Mack of Philadelphia brought against the Telephone Telegraph & Cable Company of America, William J. Latta and Martin Maloney, for the recovery of the $100,000 which he had paid in on his stock subscription, it is alleged that when he was induced to make this subscription to the stock, Maloney and Latta represented to him that a consolidation had substantially been arranged which should include the Western Union Telegraph Co., Postal Telegraph-Cable Company, Telephone, Telegraph & Cable Co. of America, American Bell Telephone Company, and certain other Independent Telephone Companies throughout the country....
>
> When this report came to me I recalled the fact that in the early days of the T. T. & C. Co. enterprise, some one had brought to me a prospectus of such a scheme of consolidation as above referred to. I have found this prospectus and send you herewith a copy of it thinking you might be interested to see how they had figured it out.
>
> At the time I received this document it was stated that it had been exhibited to Mr. Mackey of the Postal Company, and that he had indicated a favorable consideration of it. I learned afterwards that Mr. Mackey had not in any way committed himself to it. It had also been stated that the plan had been presented to J. Pierpont Morgan & Co., and that they were much interested in it.

However, in the meantime, the company had proceeded with its plans to purchase a majority of the stock and then secure control of the Erie Telephone & Telegraph Company. This company was a holding company, having a controlling interest in various operating telephone companies licensed under Bell patents, in which the Bell had failed

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289. American Telephone and Telegraph Company, President's File No. 12406, letter, Chas. F. Cutler to F. P. Fish, dated April 18, 1902.

to secure a controlling interest. In the subsequent financial difficulties of both the Cable company and the Erie company, the Old Colony Trust Company and T. Jefferson Coolidge, Jr. figured prominently, as will appear in the following sections.

The Erie Telephone & Telegraph Company.

Subsequent to the withdrawal from Telephone, Telegraph and Cable Company of certain individuals affiliated with the Western Union - Stillman-Rockefeller group, there occurred a series of transactions by which the major assets of the company came into the hands of individuals who later were directly concerned with the processes by which the opposing Baker-Morgan group acquired a dominating position in the Bell System. The Erie Telephone and Telegraph Company was the prize obtained by the new interests which came into the affairs of the Telephone, Telegraph and Cable Company, and later, into the American Telephone and Telegraph Company. The position of the Erie company prior to these events is succinctly stated as follows:[290]

> In reviewing the extent of control over Bell operating companies possessed by the American Telephone and Telegraph Company immediately after its formation in 1899, we noted that there was one large group outside the fold. It was composed of the Cleveland Telephone Company, the Northwestern Telephone Exchange Company, the Southwestern Telegraph and Telephone Company, the Michigan Telephone Company, and the Wisconsin Telephone Company. These five companies were operating under patents issued by the American Bell Telephone Company, and they comprised more than fifteen per cent of the total lines in the Bell System. But the controlling interest in their stock was held by the Erie Telegraph and Telephone Company, which had no financial connection with the American Bell. For one of the large companies, formed in 1899, to secure control of this group, would be a decisive step toward realizing its ambition to become a national competitor of the Bell.

The Telephone, Telegraph and Cable Company accomplished this "decisive step" in March, 1900.[291] President Glidden of the Erie Company outlined the ambitious plans in a public statement in which he stated:[292]

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290. Stehman, op. cit., p. 97.
291. Commercial and Financial Chronicle, Vol. 70, p. 432.
292. Idem

The Telephone Telegraph & Cable Co. has purchased 50,001 shares, par value $5,000,000, out of a total issue of 100,000 shares, par value $10,000,000 of the capital stock of the Erie Telegraph & Telephone Co. The purchasing company is one of the strongest combinations in the country and will probably be the largest owners of electrical properties in the United States when its plans are fully developed.

President Latta of the Telephone, Telegraph and Cable Company showed the peculiar advantage to a Bell competitor of buying a majority interest in a Bell licensee in which the Bell had not obtained a controlling interest, in a public statement in which he said, in part:[293]

As far as we know the Bell people do not own a single share of stock in the Erie Company; but their arrangements with the subsidiary companies, whereby the latter are entitled to use the patents of the Bell Company in perpetuity, are such that the Bell Company has a small percentage of control in each and is represented on the board of each by one director. In accordance with the terms of the contract, the Bell Company agrees never to enter the territory of the contracting companies; and thus, by acquiring control of the Erie Company, we have shut out any competition from the Bell Company in that particular field.

In a circular calling upon its stockholders for additional payments, the company stated:[294]

The company has recently acquired a controlling interest in the Erie Telegraph & Telephone Co., which possesses practically all of the telephone business of seven States - North and South Dakota, Minnesota, Wisconsin, Texas, Arkansas and Michigan - as well as the city of Cleveland, Ohio. This is a most important acquisition, constituting the foundation upon which can be built an extensive system of long distance lines, and insuring the linking together of cities, now and hereafter to be occupied, into one comprehensive whole. Your company at the present time is controlling the operation of over 115,000 telephones, with profitable results.

<u>Early Evidence of Old Colony Trust Company Influence</u>. Although plans for a nation-wide independent telephone system appeared to be well crystallized, the expected strong financial support for the movement was not forthcoming from the Widener-Whitney and Stillman-Rockefeller backers,[295] and within a year the company was unable to dis-

293. Idem.
294. Ibid., p. 539
295. See above, pp. 59, 60 and 62 ff.

pose of a proposed issue of stock.[296] A new source of financial backing appeared at this juncture, from sources which were to become highly significant in the later establishment of a telephone monopoly, and later, a telephone-telegraph merger under the auspices of the Baker-Morgan group. This latter group, as has been pointed out previously,[297] was at this precise time (1901) engaged in a last dramatic clash with the Stillman-Rockefeller group, climaxed by the "Northern Pacific Panic" of May 9, 1901. The introduction of the new source of capital was indicated in a circular issued to its stockholders by the Erie company, stating:[298]

> The company has expended through its subsidiary companies very large sums during the past year in extensions and improvements which it is confidently expected will materially increase earnings. On account of these expenditures it has been necessary to incur debts amounting to about $6,000,000, represented by notes. It is proposed eventually to provide for this indebtedness either by the issue of additional stock or by bonds, or both. At the present time, however, the company has an opportunity to make a very satisfactory agreement with the Old Colony Trust Co. and its associates, whereby there will be raised a sufficient sum to take care of the company's notes and to provide not exceeding $1,000,000 for further needed extensions and improvements during the coming year. Plans have also been arranged whereby the management will have the advantage of able assistance, both in practical and in financial matters through the active co-operation of strong Boston financial interests. The proposed plan contemplates the mortgaging of the company's property and franchises, and the raising of 20 per cent of the above named sum of money on Jan. 10, 1901.

← O.C.

The affiliations and identity of "the Old Colony Trust Co. and its associates" have previously been described,[299] and become even clearer as the later events transpire.

The method by which a strong financial hold was obtained by the Old Colony Trust and its associates upon the Erie company and the Telephone, Telegraph and Cable Company, was reported as follows:[300]

> The capital stock of the Erie Company is a little over $10,000,000. Another $5,000,000 of stock was offered to shareholders which was not taken to any great extent, and the Telephone, Telegraph & Cable people were certainly

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296. Commercial and Financial Chronicle, Vol. 71, p. 1271; also, Stehman, op. cit., pp. 100 and 101.
297. See pp. 5, 39 and 40, and footnote 22.
298. Commercial and Financial Chronicle, Vol. 72, p. 45.
299. See p. 46
300. Commercial and Financial Chronicle, Vol. 72, p. 90.

unable to take their half. Therefore, except for a small amount taken by stockholders at par, the new issue is still unplaced. When the Erie people found themselves burdened with a debt of $7,500,000, and the Philadelphia people unable to finance it, arrangements were made to return the company to Boston, and to the care of the Old Colony Trust Co., the chairman of whose board of directors is a director of the American Bell Telephone Co., and one of whose Vice-Presidents is upon the Erie board.

Two syndicates were formed. One syndicate loaned the Erie Co. $7,500,000 upon $10,000,000 of stocks, in the sub companies as collateral, at a net rate of about 6¼ per cent.

A second synidcate purchased 29,000 shares of Erie stock from the Telephone, Telegraph & Cable Co. of America at $100 per share, and these 29,000 shares, together with 21,000 shares held by the Cable Co., were deposited in trust to secure the control of the company in accordance with the wishes of the syndicate advancing the money. It is understood that the Old Colony Trust Co. people will furnish a strong representative board for the Erie Telephone Co., and that dividends will continue, probably at the present rate of 5 per cent, for the company is earning more than this amount of money.

The voting trust above referred to, we understand, is to continue for a period of two years from Jan. 1, 1901, to the end that the bankers' syndicate may control the management and policy of the company. The voting trustees are T. Jefferson Coolidge Jr., Chas. E. Cotting and Geo. P. Gardner.

The $7,500,000 of 5 per cent one-year notes were authorized by the stockholders on Wednesday; they are to be secured by the stocks and notes of the subsidiary companies owned by the Erie company.

Concerning the sale of 29,000 shares of stock to the second syndicate, the Telephone, Telegraph and Cable Company made the following cryptic statement:[301]

Our company has sold to a Boston syndicate $2,900,000 Erie Telegraph & Telephone Co. stock at a price approximating 103. The sale was not made because of our inability to meet any obligations due, but for other good and sufficient reasons. (Underscoring added)

Although T. Jefferson Coolidge, Jr., Chairman of the Old Colony Trust Company, had become a director of the American Telephone and Telegraph Company some eight months before this announcement,[302] President Fish of the latter company did not appear to be wholly in accord with Coolidge's plans when the time arrived for the Old Colony Trust Company and its associates to be reimbursed by the Erie Company

301. Ibid., p. 187.
302. T. Jefferson Coolidge, Jr., was elected to the Board on May 9, 1900. (Cf. American Telephone and Telegraph Company, Office of the Secretary, list of Directors, dated November 1, 1934.

for the $7,500,000 advanced on one year notes, due January 10, 1902. Before January, 1902 arrived, when President Fish showed some reticence about accepting Coolidge's plans concerning this $7,500,000, several interesting events occurred.

In March, 1901, there occurred an enigmatic correspondence in the President's File of the American Telephone and Telegraph Company which suggests that overtures were made to that company to add new names to its Directorate, coupled with a suggestion as to the probable influence which might be brought to bear upon the Gould-Western Union interests, affiliated with the Stillman-Rockefeller group, which had previously threatened the Bell domination. The letter, dated March 22, 1901, was addressed by the President of the Bell Company to W. M. Crane, and stated, in full:[303]

> I wish to acknowledge your favor of the 20th instant and to thank you for the information about Mr. Morgan's holdings in the W. U.
>
> As we are not all of one mind here at present about this particular matter we have decided to allow it to stand over, and the directors will probably be the present board.

W. M. Crane later did become a director of the company (on March 18, 1903) but not until after the Baker-Morgan group had acquired a substantial stockholding in the American Company, as will subsequently appear.

F. P. Fish had assumed the presidency of the American Company in 1901, following the death of former President Hudson.[304] An envelope in the President's files, containing a letter, had the following inscription:[305]

> T. N. Vail
> Copy of his views on the general policy which should govern the Company etc., etc., as written to Gov. Crane about the time Mr. Fish became President.

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303. American Telephone and Telegraph Company, President's Private Letter Book No. 1, letter, Alexander Cochrane to W. Murray Crane, dated March 22, 1901.
304. Alexander Cochrane served as President for the nine-month interval between Hudson's death and Fish's election. (Cf. American Telephone and Telegraph Company, President's Letter Book No. 14, letter, John E. Hudson to Gus G. Coulter, dated September 17, 1900, and No. 15, letter, F. P. Fish to Hans Liebreich, dated July 2, 1901).
305. American Telephone and Telegraph Company, President's File No. 18348, letter, T. N. Vail to W. M. Crane "about" July 1, 1901.

T. N. Vail had been identified with the company early in its career, but had resigned in 1885 because, as he stated in his letter of resignation:[306]

> My present position in the company is not such as I had hoped to attain and is also in some ways embarrassing and unpleasant.

The letter enclosed with Mr. Vail's letter to Crane broached the proposition that the American Company needed new and larger financial backing:

> These views on the general policy which should govern the company, I recognize are, for the most part, plans which have been discussed and recognized by all who have devoted thought and attention to the business,-- all that is new arises from the new conditions.
>
> * * *   * * *   * * *
>
> The financial policy of the Company has been recognized as deficient from the time when the financial requirements of the company first covered extensive subscriptions to the stocks of the licensed companies, and the construction of extensive systems of lines.
>
> The existing hand-to-mouth policy results wholly from a dread that the managers of the company had of acknowledging either to themselves or to the Public the full requirements of the business, and the responsibilities of the company for these requirements. The results have been unfavourable to the business. There has also followed a lot of surprises in the raising of new money which have affected the prices of our shares, sometimes favourably and sometimes unfavourably....
>
> The knowledge that $250,000,000 would be required in the natural development of our business in the next five years, coupled with the fact that it would be used in the necessary and legitimate extension of the business, and that it would all be revenue producing would not affect the shares of the company half so unfavourably as an unexpected issue of $10,000,000. each year.
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> * * *   * * *   * * *
>
> * * *   <u>INCREASE OF BUSINESS & FINANCIAL POLICIES.</u>   * * *
>
> * * *
>
> The worst of the opposition has come from the lack of facilities afforded by our companies,-- that is, either no service, or poor service. For this, circumstances beyond control are to a great extent responsible, as it was, in the early days, very difficult to provide money.
>
> To meet these increasing demands, increasing amounts of money will be needed each year. A low estimate for the next five years would be $200,000,000 -- every probability points to a larger sum.
>
> These demands necessitate a broad financial policy covering a period of no less than five years....
>
> * * *   * * *   * * *

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306. American Telephone and Telegraph Company, President's File No. 2304, letter, Theo. N. Vail to President Wm. H. Forbes, dated May 29, 1885.

The Company, having a tendency toward and desire for a monopoly, should be abundantly prepared to assume the obligations, and discharge the responsibilities of its position.

* * * * * * * * *

ORGANIZATION OF OPPOSITION.

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With the growth of opposition, will come, in fact, has come, to a certain extent, connection, cooperation, consolidation or absorption with or by each other. Steps should be taken at once to anticipate and prevent any further work in that direction. Doubtless, different methods will be necessary in different sections, but generally, steps should be taken to control absolutely important central positions, to consolidate in the interests of our own company, sections which naturally gravitate to each other, either by an independent organization, representing toll or connecting lines wholly in our interests; or one with natural affiliations, working in harmony with our company, either with or without an understanding. In all these cases, care should be taken that a maximum of control be obtained by a minimum of concession.

Following these indications of at least strong suggestions to President Fish on the course he should pursue, the maturity date approached for the one year notes given by the Erie company for the $7,500,000 advanced in January, 1901, by the Old Colony Trust Company "and its associates". On December 26, 1901, President Fish wrote to T. Jefferson Coolidge, Jr., Chairman of the Board of the Old Colony Trust Company, in which he stated, in part:[307]

Coolidge recommend.

The suggestion that you and Mr. Winsor* have made, as to the terms under which the American Telephone and Telegraph Company is asked to put up $7,500,000. of the $9,000,000. due January 10, does not commend itself to us. We are under no obligation to intervene in the matter of meeting the notes, and cannot be expected to come into that situation except to an extent and in a way that is quite reasonable. Having made our arrangement with Mr. Winsor, we are, of course, committed to the reorganization on the proposed basis, and intend to co-operate as far as we may safely do so to bring about the desired result. The difference between you and Mr. Winsor on the one hand, and ourselves on the other, is, that what apparently seems to you a reasonable burden for us to assume, appears to us to be unreasonable.

(*Of Kidder, Peabody & Company)

Following this objection by Fish to the proposal that his company advance $7,500,000. to repay the notes on which Old Colony and its associates had advanced

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307. American Telephone and Telegraph Company, President's Private Letter Book No.1, letter, F. P. Fish to T. Jefferson Coolidge, Jr., dated December 26, 1901.

funds to the Erie company, there must have been an arrangement made which was satisfactory to Fish, for the notes were taken up promptly [308] under plans approved by the Bell company.[309]

The precise reasons why President Fish of the American Company may have withdrawn his objection to advancing the $7,500,000 are not indicated by the available records, but within sixty days plans had been completed whereby the American Company received $7,675,000 from the sale of 50,000 shares of its treasury stock to George F. Baker and his associates, who included J. P. Morgan and Company and T. Jefferson Coolidge of the Old Colony Trust Company, to whom the above quoted letter was addressed.

Before continuing with this episode, in Chapter VI, a description will be given of the efforts of Messrs. Coolidge and Waterbury, through the Postal Telegraph system, to obtain control of the telephone and telegraph communications industry, in the following chapter.

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308. Commercial and Financial Chronicle, Vol. 74, p. 98.
309. Ibid., Vol. 73, p. 1359.

CHAPTER V

EFFORTS TO SECURE CONTROL OF THE TELEPHONE INDUSTRY THROUGH THE POSTAL TELEGRAPH SYSTEM (1902-1905)

The activities of T. Jefferson Coolidge, Jr. and John I. Waterbury in connection with the subsequent efforts of the Baker-Morgan group to secure control of the telephone industry will be given in detail in the next chapter, while this chapter will recount their original plans and activities leading toward that same general objective, but working through the Postal Telegraph System.

Early Coolidge and Waterbury Interest in the Postal System.

The first efforts of Coolidge and Waterbury to bring Postal into a merger with Bell were indicated in a letter from Clarence H. Mackay (son of John W. Mackay, the founder of the Postal System)[310] to T. Jefferson Coolidge, Jr., outlining the early plans,[311] in which it was stated:

> In order that I may refresh your memory, let me begin by stating the different events that have occurred. Mr. Waterbury, at his own solicitation, when my father was alive, had several interviews with him with a view of bringing together the Commercial Cable Company and the American Telephone and Telegraph Company. That was before I knew anything that was going on and before you entered the situation. After my father's death, and on my return to New York, I met Mr. Waterbury through Mr. Ward, and the matter was again broached. He suggested that he would like you to join, and discuss the general situation. I told him I would be very pleased to meet you any time, and one day, you may remember, Mr. Waterbury, yourself and Mr. Ward lunched with me downtown , in the Postal Telegraph Building. The question of bringing these properties together was discussed in an informal way. Both you and Mr. Waterbury were very strongly of the opinion that this should take place and that some plan should be devised. At the very outset both Mr. Ward and I stated that it would be almost impossible to outline a general form of contract between the two companies, and the most feasible way of attaining the end was by obtaining control of the American Telephone & Telegraph Company. You may remember my obtaining for you and Mr. Waterbury a mass of figures showing how savings could be made. Both of you concurred, after seeing these statements, as to the desirability of bringing both these properties together; and while no definite plan could then be formulated as to how and

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310. See pp. 53 and 54.
311. Personal correspondence file of Clarence H. Mackay, letter, Clarence H. Mackay to T. Jefferson Coolidge. Jr., dated April 3, 1905 (facsimile transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, to C. L. Terrel, Engineer of the Federal Communications Commission, by letter dated April 16, 1937, filed in Federal Communications Commission, Engineering Binder No. 201).

> when the control of the American Telephone and Telegraph Company could be obtained. The idea was firmly fixed in all our minds that the control of that company was the essential feature of the success of our plans. Permit me to state that the fundamental basis of The Mackay Companies, with its broad powers, was for bringing your and Mr. Waterbury's influence to bear on the American Telephone & Telegraph Company situation; otherwise, I would never have considered its inception for one moment. I could very easily and with very little trouble have placed my companies in trustees' hands, composed entirely of my own people. You and Mr. Waterbury were practically strangers to me at that time and it was you who came to me.

This establishes that Waterbury took the initiative in this proposal to John W. Mackay, before his death in July, 1902, and that Waterbury introduced Coolidge into the negotiations with Mackay. As will be shown in the next chapter, this injection of Waterbury's plans (for a Postal-Bell merger) into the affairs of the Postal Company occurred simultaneously with Waterbury's activities in the Bell Company as the representative, along with Coolidge, of the Baker-Morgan group.

The formal organization of "The Mackay Companies," to which Mackay referred in the above letter, was accomplished under an "Agreement and Declaration of Trust of The Mackay Companies" dated December 19, 1903,[312] placing the affairs and stock of the several Mackay enterprises under the trustees established by this agreement,[313] who were as follows:

T. Jefferson Coolidge, Jr.
John I. Waterbury
Clarence H. Mackay
William W. Cook

These trustees in their collective capacity were designated "The Mackay Companies."[314] Cook was general counsel of the Postal Companies (as well as for Richard Olney, former Secretary of State under President Cleveland),[315] was associated with Bell in its legal battle, still in progress, against Western Union on the contract of 1879.[316]

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312. "History of The Mackay Companies," transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, by letter dated March 31, 1937, to C. L. Terrel, Engineer of the Federal Communications Commission, and filed in Federal Communications Commission, Engineering Binder No. 201.
313. Idem.
314. Idem.
315. Idem.
316. American Telephone and Telegraph Company, President's Letter Book No. 29, letter, F. P. Fish to Richard Olney, Dated June 2, 1903; No. 41, letters, F. P. Fish

and later (1912) was a director of the American Telephone and Telegraph Company.[317] These trustees were given full power to manage and control the property.[318]

The essential purpose in organization of The Mackay Companies has been stated by Mackay in the above letter. The more formal statement of its purpose, as incorporated in the Trust Agreement,[319] was stated in the following words:

> WHEREAS, for the purpose of consolidating the holdings of stockholders interested in the submarine cable system known as "Commercial Cables," and the telegraph system known as the "Postal Telegraph", and for the purpose of acquiring interests in any telegraph, cable and telephone companies, and for the purpose of unifying stockholdership in all said systems and companies and providing means therefor, and for extending the lines, business, and connections thereof, and promoting closer relations between them, and for the purpose of securing the efficient conduct of the business of said systems and companies through satisfactory management and continuity of control, and for other purposes, hereinafter referred to directly or indirectly, the subscribers have concluded that it is wise, and will be beneficial to all parties concerned that this agreement be entered into;

The actual method of taking over control of the Postal Companies, and early attempts to obtain control of Bell, were explained by William J. Deegan, Vice President of the Postal Telegraph and Cable Corporation,[320] as follows:

> The Agreement and Declaration of Trust stated that the Trustees proposed to issue shares in The Mackay Companies up to $50,000,000 in preferred, and $50,000,000 in common shares, of the par value of $100 each.
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> * * * * * * * * *
>
> Preferred and common shares of The Mackay Companies were exchanged for the entire outstanding capital stock of The Commercial Cable Company, and The Mackay Companies thereby became the owner of the entire capital stock of The Commercial Cable Company. Mackay preferred shares were also exchanged for the shares of other telegraph Companies which formed a part of the Postal Telegraph System so that eventually The Mackay Companies became the owner of all of the capital stock of The Commercial Cable Company and the companies making up the landline system, known as Postal Telegraph System, as well

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to Richard Olney, dated October 26, 1905; November 1, 1905; November 17, 1905 and November 24, 1905.

317. American Telephone and Telegraph Company, Office of the Secretary, list of Directors, dated November 1, 1934: Olney was elected March 26, 1912 and served as Director until April 8, 1917.
318. "History of The Mackay Companies," transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, by letter dated March 31, 1937, to C. L. Terrel, Engineer of the Federal Communications Commission, and filed in Federal Communications Commission, Engineering Binder No. 201.
319. Idem.
320. Idem.

as a substantial interest in the Commercial Pacific Cable Company.

α In March, 1905, The Mackay Companies commenced the acquirement of stock of the American Telephone & Telegraph Company. The procedure was the issue of Mackay Companies preferred and its sale, and the proceeds used to buy stock in the American Telephone & Telegraph Company, the principle being that the stock of the American Telephone & Telegraph Company received by The Mackay Companies should carry at least as much income as the shares of The Mackay Companies issued to purchase such American Telephone & Telegraph Company shares. All the Bell stock was secured by the sale of between one and one-half and two shares of Mackay Companies preferred for one share of American Telephone & Telegraph Company.

Up to January 1907, 70,434 shares had been acquired in the American Telephone & Telegraph Company, and the authorized preferred shares of The Mackay Companies having now all been issued, no more American Telephone & Telegraph shares were acquired in this manner.

The subsequent activities of The Mackay Companies were outlined by Mackay in a letter to Coolidge, dated March 27, 1905,[321] in which he stated:

Both Mr. Cook and myself have given a great deal of thought to the work which has been done and which should now be done, in connection with the Mackay Companies, and I think it will throw light upon the situation to state the facts as I understand them.

Originally, as you know, we started to get all the stock of the Commercial Cable Company, and for the time being we postponed our efforts towards obtaining control of the American Telephone and Telegraph Company. The task of acquiring the Commercial Cable Company stock naturally fell to Mr. Cook and myself. None of us believed that we would be able to gather in all of the Commercial Cable Company stock for a long time to come, but by indefatigable work we succeeded and the result speaks for itself. That part of the work of the organization that Mr. Cook and myself started to accomplish, has now been completed.

To come now to that part of the work which you and Mr. Waterbury undertook to accomplish, namely, the getting in of the Bell Telephone stock, the first thing to be considered was the formulation of a plan which would be fair to all parties and which would bring about the result. You and Mr. Waterbury did not suggest any plan that seemed workable, and finally Mr. Cook and I devised the plan of issuing 15 Mackay preferred shares for 8 Bell Telephone shares. That plan was submitted to all four of the trustees, and approved. I recommended, as you are aware, that exchange to my mother for her holdings of Bell Telephone stock, and I also accepted it in behalf of my holdings. She and I turned in, week before last, over $800,000 of Bell

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321. Personal correspondence file of Clarence H. Mackay, letter, Clarence H. Mackay to T. Jefferson Coolidge, Jr., dated March 27, 1905 (facsimile transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, to C. L. Terrel, Engineer of the Federal Communications Commission, by letter dated April 16, 1937, filed in Federal Communications Commission, Engineering Binder No. 201).

Telephone stock on that basis.

That immediately raises the question as to what you and your father and Mr. Waterbury are willing to do in regard to your holdings of Bell Telephone stock. It certainly seems to me that if you and he approved the plan and voted for it, and were quite willing that my mother and I should turn in our Bell Telephone shares on that basis, you should also turn in yours on the same basis, especially as the getting in of the Bell Telephone stock was yours and Mr. Waterbury's part of the purpose of the Mackay Companies. I accordingly would like to know how you stand in regard to the matter. Are you and your father and Mr. Waterbury willing to do the same as I and my mother did, namely, turn in your Bell Telephone stock for Mackay preferred on the same basis mentioned above?

After you and your father and Mr. Waterbury have turned in your holdings, we can then start in to persuade other Bell Telephone stockholders to do the same, and I think I can be of assistance in that direction.

I have within the past few days talked this matter over with Mr. Waterbury. Accordingly, I am also writing you on the same subject, as I feel very keenly in regard to the whole situation, and I am strongly of the opinion that, as the great body of Commercial Cable stockholders expected that something would be accomplished in the way of the Mackay Companies acquiring stock in the American Telegraph and Telephone Company, and as you know, many of them turned in their holdings on that expectation, we should proceed at once without further delay towards bending all our energies in bringing about the second part of the original scheme.

Coolidge-Waterbury Plans for The Mackay Companies.

As will be shown in the next chapter, in 1905 the Baker-Morgan group apparently had devised a plan to attain the desired influence over Bell through advancing funds on bonds concertible into stock, so that the expensive expedient of purchasing control in the open market, through The Mackay Companies, was not so essential. This turn of affairs in 1905, as well as another objective (for the Baker-Morgan group) in the organization of The Mackay Companies, was indicated by Coolidge in a letter to Mackay dated March 30, 1905,[322] in which he stated, in part:

Your letter of March 27th, I have read with great care, and note that your understanding of the situation seems to me, if you will pardon me for saying so, confused by the rapid progress of events, in which the original purpose of the creation of The Mackay Companies is overlooked.

The form of organization of the Companies was suggested by me to you, Mr. Cook, Mr. Waterbury, and I think, Mr. Ward, at one of our early meetings,

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322. Ibid., letter, T. Jefferson Coolidge, Jr., to Clarence H. Mackay, dated March 30, 1905 (facsimile filed in Engineering Binder No. 201).

and after careful consideration we decided to form The Mackay Companies, for the protection of your interests and the interests of the other stockholders of the Commercial Cable Company against possible loss of control by purchase of a bare majority by the Gould, or Rockefeller, or any adverse interest. This was repeatedly and clearly laid down by you and our friends at our meetings, and was the reason why the form of Massachusetts trust suggested by me was favorably received and adopted, after discussion as to its scope and bearings with the gentlemen named above, and by us with Mr. Olney.

A collateral consideration to the holding together of the control of The Commercial Cable Company was that it would permit, and probably facilitate, opportunities of entering into closer relationship with the American Telephone and Telegraph Company. What form this closer relationship might take was never decided, nor even seriously considered, but the theory upon which we progressed was that we should show the advantage of cooperation and the joint use of poles and offices to the Telephone Company, and by joint use demonstrate that large savings would be made to both companies, naturally resulting in increased value of The Commercial Cable shares, and the result of such working together along these lines would be a more intimate and correspondingly valuable relationship. It was suggested that the relationship might become so close that some form of amalgamation might eventually become possible, and in that case that you might become a factor of importance in the larger field.

Mr. Waterbury and I, in the full belief that it is desirable for The Commercial Cable Company and the Telephone Company to work more closely together, have discussed the matter many times, and, as you have been frequently advised, always with the favorable appreciation of the Telephone people, who, however, properly declined to take affirmative action, appreciating the inadvisability of antagonizing the Western Union interests. There has, however, been a substantial advance on the lines of relationship indicated, both in the West and South, through the joint use of pole lines and otherwise, to our advantage, and everything has been satisfactory.

No one appreciates more than I do the efforts on the part of yourself and Mr. Cook in acquiring the Commercial Cable Company stock within the time in which it was done.

I cannot quite agree with you that Mr. Waterbury and I did not present a plan with respect to acquiring an interest in the Telephone Company. Such a plan was presented by Mr. Waterbury, at considerable length in detail, and with the reasons why it was believed that the plan presented was the best that could be made and would afford the most satisfactory results in the speediest manner.

You will recall quite a long discussion upon it at Mr. Waterbury's house, and that Mr. Cook and yourself - he very emphatically - opposed the plan, which involved taking an interest in a syndicate which was to acquire stocks and bonds in financing the Telephone Company, and that I argued at considerable length the advantages which would follow should we act favorably upon the plan proposed, and the very slight risk, if any, that would be run by The Mackay Companies in authorizing us to proceed to carry it into effect. You and Mr. Cook opposed it, and the matter was dropped. The first step in financing has since been carried out successfully and without the Mackay Companies participating in it.

* * * * * * * * *

At the risk of repeating, perhaps, what I have already said above, I must say that as the plan presented to you and Mr. Cook by Mr. Waterbury and myself at Mr. Waterbury's house was not accepted, and we failed to acquire an interest in the Telephone Company under circumstances which would have made us a real factor in the general situation, I am decidedly of the opinion that we cannot now approach the subject and present it in a way which will be favorably received and which can succeed. In other words in view of existing conditions it seems to me that it is not now feasible to take any steps looking towards securing a substantial financial interest in the Telephone Company or looking towards closer financial relationship, but I think we should follow the original plans outlined, and try, through the business management of our company (The Commercial Cable Co.), to secure continually a closer and closer working arrangement.

The fear that the Gould or Rockefeller group might obtain control of the only remaining important telegraph company is clearly expressed. In addition, the origin of the Baker-Morgan plan for acquiring control of the Bell, through The Mackay Companies, is indicated in the phrase, "which involved taking an interest in a syndicate which was to acquire stocks and bonds in financing the Telephone Company." The plan was stated, in the above letter, to have been vigorously opposed by Mackay and Cook, especially the latter.

After Mackay's refusal to accede to the plan of Coolidge and Waterbury for The Mackay Companies to underwrite the purchase of Bell's stock and bonds, the dissention between the plan's sponsors and Mackay continued. The next letter from Mackay to Coolidge also indicated how this plan involved the 50,000 shares of Bell stock which the Baker-Morgan group had acquired for $7,675,000 several months after Fish was prevailed upon to aid in salvaging Erie, to which Coolidge's Old Colony Trust had loaned $7,500,000 in January, 1901, due in January, 1902. This letter, dated April 3, 1905,[323] stated, in part:

I note your statement that you and Mr. Waterbury presented a plan for the Mackay Companies becoming interested in the American Telephone and Telegraph Company. That plan, as Mr. Cook and I understand it, was that The Mackay Companies should underwrite $37,500,000. of the bonds and stock of the latter company, chiefly <u>bonds</u>. You and Mr. Waterbury were in favor of The Mackay Companies underwriting that amount, but no provision was made or suggested for taking up the bonds, if the underwriters had to respond. If the Mackay Companies had underwritten $37,500,000 of these American Telephone

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323. Ibid., letter, Clarence H. Mackay to T. Jefferson Coolidge, Jr., dated April 3, 1905 (facsimile filed in Engineering Binder No. 201).

and Telegraph Company bonds, and the bonds had <u>not</u> been sold by the bankers, and The Mackay Companies had been called upon to respond, it would have meant the ruin of The Mackay Companies, because we certainly could not have raised such an enormous amount of money. I do not think you could find any conservative shareholder in The Mackay Companies who would be in favor of
1 such an underwriting. Moreover the plan had no particular advantage to The Mackay Companies, because of the $150,000,000. of stock and bonds only about $25,000,000. was to be stock, and one-fourth of that would have been $6,250,000. which certainly would not go far towards giving us the control of the $155,000,000 of capital stock of the American Telephone and Telegraph Company, as such capital stock would then have been.

I think that I represent over five-sixths of the preferred and common shares of The Mackay Companies, and it seems to me that if those five-sixths are willing to take the chances on a reduction of the Bell dividend your people can afford to do so. Finally, the fact that several weeks ago, you agreed to obtain for me a list of the shareholders in the American Telephone and Telegraph Company holding 100 shares or more*, shows that we all have expected to acquire Bell stock; and in further proof, you will remember when we were all present, Mr. Waterbury told us that he had had a talk with Mr. Baker with a view to acquiring Mr. Baker's Bell stock.

I note your conclusion that inasmuch as your plan for The Mackay Companies underwriting $37,500,000. of bonds and stock was not accepted, you do not think we can now approach the subject and present it to the Bell shareholders in any way in which it can succeed. This certainly is true, if you and your father and Mr. Waterbury refuse to turn in your own stock. You cannot expect the other Bell stockholders to do what you refuse to do. Your suggestion that we confine our arrangements to securing a closer working arrangement with the American Telephone and Telegraph Company would accomplish nothing, judging from the experience of the past year; because, as stated above, we get nothing out of the Bell Company except what we pay for at a high price. In other words, your conclusion practically is that The Mackay Companies stop operations excepting the routine of receiving dividends on its holdings of stock in other companies and paying dividends on its shares. I cannot acquiesce in any such policy.

This brings us back to the original question as to whether you and your father and Mr. Waterbury are willing or decline to turn in your Bell shares on the same basis on which my mother and I turned in ours. If you decline to do so, it seems to me that, in view of the disinclination on the part of the Trustees to even make an effort to acquire Bell stock, the shareholders in The Mackay Companies should be asked to elect a new Board of Trustees.

* The American Company files showed this request to have been made by T. Jefferson Coolidge on February 24, 1905. (Cf. American Telephone and Telegraph Company, President's Letter File No. 15351, letter, T. Jefferson Coolidge, Jr., to F. P. Fish.)

The objection of Mackay and Cook to this Waterbury-Coolidge proposal was clear. If the Mackay Companies were to lend itself to underwriting $37,500,000 of a $150,000,000 issue of Bell securities, and the issue was not immediately distributed, The Mackay Companies would be financially unable to make good that large amount and would fail, and thus make its own control subject to the conditions which might be imposed upon it in a subsequent reorganization by representatives of a strong source of new capital.

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Break Between Mackay and the Waterbury-Coolidge Group.

This threatened break between Mackay and the representatives of the Baker-Morgan group became complete in that same year, as evidenced by Coolidge's letter to Mackay, dated April 11, 1905, in which he stated:[324]

> I have discussed Mackay affairs with Mr. Waterbury and in consideration of my poor health he has advised me to resign as a trustee.
>
> I agree with him and therefore am writing you that you may know of my intention to resign at an early date. With best wishes to you & to Mr. Cook and full confidence in the success of the Mackay Companies.

Coolidge apparently gave Fish some intimation of his action, for on May 23, 1905, Fish wrote Coolidge a letter, stating, in part:[325]

> Your two letters of May 19 came to hand while I was in the West.
>
> I note the change in the situation of the Mackay companies to which you refer.

Waterbury shortly followed suit, as indicated by his letter to Mackay, dated June 20, 1905, in which he stated, in part:[326]

> Now that the agreement of December 9th, 1903 has been satisfactorily modified, and the contract has passed to the stockholders of the Mackay Companies, I deem it proper for me to tender my resignation as Trustee, which I herewith enclose.

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324. Ibid., letter, T. Jefferson Coolidge, Jr., to Clarence H. Mackay, dated April 11, 1905 (facsimile filed in Engineering Binder No. 201).
325. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter F. P. Fish to T. Jefferson Coolidge, Jr., dated May 23, 1905. (These letters of May 19 could not be located in the Company's files).
326. Personal correspondence file of Clarence H. Mackay, letter, John I. Waterbury to Clarence H. Mackay, dated June 20, 1905 (facsimile transmitted by William J. Deegan, Vice President of Postal Telegraph and Cable Corporation, to C. L. Terrel, Engineer of the Federal Communications Commission, by letter dated April 16, 1937, filed in Federal Communications Commission, Engineering Binder No. 201).

> In so doing I beg to assure you that I am in no wise withdrawing the interest I feel, and shall always have, in the purposes and success of the Mackay Companies. I have no firmer conviction than of the sound basis on which it was formulated and no doubt as to its future under the conservative methods on which it was established and which under your management and the efficient officers of the Cable Company, I am sure will prevail.
>
> I may add that my decision has been reached after much deliberation and most careful consideration of such differences, regarding methods and not purposes, as have arisen, concerning which my knowledge and experience of affairs has led me to conclusions different from my associates. I therefore feel that I should not continue as Trustee when I might not be in full accord with the wishes of others.

Thus ended, in 1905, the cooperation between the Baker-Morgan group and the Postal System.

Mackay Attempt to Gain Representation Upon the Bell Directorate.

Subsequently the break became more definite when Mackay, after purchasing over 70,000 shares of American Telephone and Telegraph Company stock, demanded, and was refused, representation on the Bell board despite the fact that he was by far the largest single stockholder. During this controversy it developed that Theodore N. Vail had held part of the Mackay stock in his name, and was understood to represent those interests, when he was elected to the Bell board shortly before John W. Mackay's death in 1902.

The early date at which Vail became interested in a possible telegraph-telephone merger was indicated in a letter he wrote to President Fish, in which he stated, in part:[327]

> I think Mr. Cochrane will recall a remark made by me - when the Western Union agreement* was signed - to the effect, that, if we were in the position I hoped we would be at the termination of the contract, that we should ask the Western Union for half of its capital stock for the privilege of continuing in business as one of our subordinate companies. Since that time the "Postal" has come prominently into the field. There is however a marked difference in the position and the business of the two companies.
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> * [The contract of November 10, 1879.]

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327. American Telephone and Telegraph Company, President's Letter File, letter, Theo. N. Vail to F. P. Fish, dated April 14, 1906.

The purpose of the Western Union is a <u>domestic</u> telegraph business - with an international cable business incidental to it.

The purpose of the "Postal" is the collection and distribution of an international cable business - with a domestic telegraph business incidental to it.

Any fight over the domestic telegraph business would result in disaster to the net earnings of the "Western Union" while it is doubtful if it would be particularly noticeable in the make up of the balance sheet of the Mackey "Cos"

The best time and the best way for the Telephone Co. to enter into the telegraph field once determined - it would have its own way.

From the nature of the business - the Executive Administration of the telegraph business should be distinct from that of the telephone business, although the physical properties might be the same.

To build up an efficient administration takes time and costs money - At the same expense there are many reasons why it would be better policy to buy - particularly if you were getting something that could not be easily reached in any other way - I do not claim to be stating anything new - nor anything in any way differing from the views of many if not all of the principal telephone managers.

For the above reasons I have thought that when the time was decided upon to start in the telegraph field, and if conditions were the same, that it would be good policy to acquire the Postal system, if it could be got as I believed it could at a cost which was fully represented by useful property, utilizing the organization to carry on the telegraph business, and also use it to handle the opposition telephone business.

This done further steps to be determined very largely by the attitude taken by the W.U.

At the time of Vail's election to the Bell board of directors, on March 25, 1902, the Commercial and Financial Chronicle carried an announcement which read, in part:[328]

More significance is attached to the election of Messrs. Baker, Vail and Waterbury in the light of a prospective combination of the telephone and telegraph interests than the circumstances warrant. These gentlemen go on the board to represent principally the Mackay and Morgan interests in the company. It has been no secret that Mr. J. P. Morgan has been a heavy stockholder in the telephone company for years, as has Mr. Mackay of the Postal Co. Mr. Mackay's holdings have stood in the name of Mr. Vail, who was President of the American Bell Telephone Co. in the early days of its existence, and is considered a valuable acquisition to the board of directors. The time may come at some future period when the telephone and telegraph

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328. Commercial and Financial Chronicle, Vol. 74, p. 729.

companies may combine, in which case many economies could be introduced to the advantage of all the companies, but it is not believed that any such plan is at present under consideration.

Following the disagreement between Mackay and the Baker-Morgan representatives, Mackay sought to have his interests represented by some one other than Vail, as is indicated in the exchange of letters between himself and Fish, excerpts of which are given below. The discussion was opened by Mackay in a letter to Fish in which he said:[329]

> As you are aware, Mr. Vail for several years has represented our holdings of stock in the American Telephone & Telegraph Company, but owing to his absence, he has not been able to take much interest in the company, and I understand that he is quite willing to retire whenever desired. In view of the large amount of stock which I own and represent, I would suggest, if agreeable to you, that Mr. George M. Cumming, President of the United States Mortgage & Trust Company, who was formerly a Vice-President in your company, should be substituted for Mr. Vail at the coming annual meeting of your stockholders. I have been a director in the United States Mortgage & Trust Company for some time past, and have become well acquainted with Mr. Cumming. I have the highest opinion of his ability, as well as integrity, and I think that he not only would be a fit representative of my people's interests, but would also be an additional source of strength to the Telephone Company itself.

Fish demurred, in a letter to Mackay dated the following day, in which he replied:[330]

> Your letter of March 1 comes to hand today.
>
> There are some reasons why it is more difficult than you can imagine to comply with your request at the present time. I will, however, consider the matter and talk it over with my people. You will undoubtedly hear from me again on the subject.

Mackay was not to be put off so easily, as is shown in his reply to Fish dated the next day, in which he stated:[331]

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329. American Telephone and Telegraph Company, President's Letter File, letter, Clarence H. Mackay to F. P. Fish, dated March 1, 1906.
330. American Telephone and Telegraph Company, President's Letter Book No. 42, letter, F. P. Fish to Clarence H. Mackay, dated March 2, 1906.
331. American Telephone and Telegraph Company, President's Letter File, letter, Clarence H. Mackay to F. P. Fish, dated March 3, 1906.

I appreciate your favor of yesterday and your personal inclination to comply with my request that Mr. Cumming be substituted for Mr. Vail to represent us as a director in your Company. I think you will agree with me that this request is very reasonable, for the following reasons:

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This is not asking for a new Trustee, but is merely to substitute for Mr. Vail (who is no longer in position to actively represent us,) the President of a prominent New York Trust Company, whose personal and financial standing is the highest, and who was formerly Vice-President of your Company, and whose relations with you, I understand are cordial.

The Mackay Companies, which Mr. Cumming would represent, is among the very largest of your stockholders.

By the large acquisition of Telephone stock by The Mackay Companies during the past six months, the market value of the stock has been maintained at about 140. This aided in two ways: first, to sell your $100,000,000. of bonds at a fair price, and, second, to maintain the figure at which the bonds are convertible into your stock at 140, instead of a less figure, as it probably would have been if your stock had dropped to 130, as at one time it did. The value to your company of The Mackay Companies acquiring your stock was clearly recognized in recent statements issued in regard to your issue of bonds, prominence being given to the fact that The Mackay Companies, and I personally, and others, had recently purchased 25,000 shares of your stock.

It seems to me that such things as the above should be recognized, and that a request that Mr. Cumming be substituted in the place of Mr. Vail to represent us, is a reasonable one.

That Mackay's statement, to the effect that Cumming's relations with Bell were "cordial," is attested by the fact that he was suggested as a vice president of Bell by the Morgan Company, as is indicated in the recommendations of Cumming which were on file with the Bell Company. One of them, from a W. H. Baldwin to James J. Storrow, stated, in part:[332]

In '96 Mr. Coster, of Morgan & Company, selected Mr. Cumming to take the position of Vice President of the Erie Railroad.

* * * * * * * * *

In fact, he is a first class, all 'round man, and I am sure that Mr. Eben Thomas, Chairman of the Board, or J. P. Morgan & Company would say just what I have said to you. I do not hesitate to give him the highest recommendation.

Later, F. L. Stetson conferred with two partners of J. P. Morgan and Company

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332. American Telephone and Telegraph Company, President's Letter File No. 17749, letter, W. H. Baldwin to James J. Storrow, dated December 2, 1902.

(Steele and Bacon), and wrote Fish, stating, in part:[333]

Having had some talk with Mr. Steele and Mr. Bacon upon the subject of your recent conference with them, we all think it proper both to you and to Mr. Cumming that I should venture to express to you the very high opinion that I have of Mr. Cumming, and my belief that he is just the kind of assistant you need and would find satisfactory in the department for which he has been discussed.

The exchange between Fish and Mackay continued, with Fish sparring for time,[334] as indicated in his next letter to Mackay, in which he said, in part:[335]

As I wrote you, I shall have to give very careful consideration to your suggestion, and doubt if it is possible to act upon it at the annual meeting, much as we should like to meet your views wherever we can. The fact is that up to within the last six months none of our people had any idea that Mr. Vail represented your interests on our Board. He was selected by my associates on the Executive Committee, with my own hearty cooperation, on the assumption that he himself was a large stockholder in the Company, and because of his old and intimate relations with the affairs of the Bell organization.

Under these circumstances, it does not seem as if he ought to be dropped from the Board, at least until his return to the United States, when the matter can be taken up with him face to face.

I have not consulted with any of my people as yet, for I have been away and have had no opportunity to do so. I write you upon the subject, however, that if you have anything further to say in addition to your full and complete letter of March 3, you may write me in time to have the matter before me on Wednesday morning of this week.

Mackay replied, on March 6, 1906, as follows:[336]

Until I read your letter of yesterday, I was unaware that Mr. Vail was abroad.

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333. Ibid., letter, Francis Lynde Stetson to F. P. Fish, dated December 18, 1902.
334. Two days before this letter, and two days after Mackay's original request for representation on the board, there occurred an enigmatic note from Fish to Crane, a member of the Executive Committee, in which was said: "I thank you for your note. I think that the bankers are dealing intelligently with the matter to which you refer. When shall I have an opportunity to see you?" (American Telephone and Telegraph Company President's Private Letter Book No. V, letter, F. P. Fish to W. Murray Crane, dated March 3, 1906).
335. American Telephone and Telegraph Company, President's Private Letter Book No.V, letter, F. P. Fish to Clarence H. Mackay, dated March 5, 1906.
336. American Telephone and Telegraph Company, President's Letter File, letter, Clarence H. Mackay to F. P. Fish, dated March 6, 1906.

I, of course, expected to obtain from Mr. Vail his approval of the change in the directory, before any such change should be made, but I wished at first to obtain your approval. Mr. Vail, as you know, was made a director in your company about eight years ago, and that was long before you or I occupied our present respective positions. I am surprised that you should not have known that Mr. Vail represented our interests, because certainly, since my father's death in July, 1902, I have often heard it mentioned. Inasmuch as you prefer to take the matter up with him personally, it will be entirely satisfactory to me to await his return, especially as your board of directors have power to accept a resignation and substitute a new director to fill the vacancy. If Mr. Vail should not return for a considerable length of time, it might be well for either you or myself to communicate with him in regard to the subject.

Fish attempted to close the exchange on March 7, 1907, in his answer, stating:[337]

I thank you for your note of March 6, which comes to hand this morning, and am very glad that the matter can remain open for discussion after Mr. Vail's return.

You are in error in believing that Mr. Vail became a Director in our Company about eight years ago. He was first elected on March 25, 1902, and I was perfectly familiar with the conditions under which he was selected.

This significant reference to the "conditions under which he (Vail) was elected" will be referred to again in the next chapter. For the time being it is of interest to note that the discussion apparently continued verbally over the next several months, as indicated in Mackay's letter to Fish, dated July 5, 1906, stating:[338]

Regarding our conversation of last Friday, I find by referring to your letter of March 7th, that Mr. Vail was elected to your board on March 25th, 1902, which was prior to my father's death in the same year.

Mackay made one more attempt to gain representation on the Bell board of directors, his next effort being indicated in his letter to Fish dated December 24, 1906, in which he stated:[339]

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337. American Telephone and Telegraph Company, President's Private Letter Book No.V, letter, F. P. Fish to Clarence H. Mackay, dated March 7, 1906.
338. American Telephone and Telegraph Company, President's Letter File, letter, Clarence H. Mackay to F. P. Fish, dated July 5, 1906.
339. American Telephone and Telegraph Company, President's Letter File No. 16756, letter, Clarence H. Mackay to F. P. Fish, dated December 24, 1906.

We would like to have a list of the stockholders in your Company, with their addresses, in order to send to them a copy of the regular annual report of The Mackay Companies, which will be issued February 15th. Inasmuch as The Mackay Companies is by far the largest stockholder in your Company, we think it desirable that your stockholders should know who we are, and our condition, and we think it is to the advantage of both institutions that this should be done.

I trust there will be no objection to this, especially as we understand that you will necessarily prepare such a list next month. We are quite willing to pay any expense connected with the preparation of the same.

Fish replied on December 28, 1906, stating:[340]

I will see that you have a list of the stockholders of our Company, as requested in your letter of December 24.

Allow me to say that it seems to me unwise, under the present condition of public sentiment, to advertise the fact that one large corporation is interested to a substantial extent in the stock of another. I sincerely hope you will refrain from emphasizing the fact of your holdings in the stock of our Company, in the interest of both of our companies.

Do you not agree with me that this course is wise?

Finally, on February 1, 1907, Mackay put the matter very plainly up to Fish, in a letter, stating:[341]

The Trustees of The Mackay Companies have requested me to write you and call your attention to the fact that The Mackay Companies owns over 70,000 shares of stock in your company and is by far the largest stockholder, its holdings being over four times those of your next largest stockholder. In view of this great interest which The Mackay Companies now has in your company, the Trustees feel that we should have three representatives on your Board, and they have designated Mr. Dumont Clarke, Mr. Pliny Fisk and myself as their choice for such positions.

As you, of course, are aware, not one of your eighteen Directors, excepting Senator Crane, owns over 2,000 shares of your stock in his own right; at least that is what your books show, and we submit that it is proper that a stockholder who owns over 70,000 shares should be given representation on your Board. We would also call your attention to the fact that while your company controls the New York Telephone Company, yet the Western Union Telegraph Company, which only owns 20% of the stock of the New York Telephone Company has five out of the thirteen directors of that company. We submit that The Mackay Companies with its large holdings of stock in your company

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340. American Telephone and Telegraph Company, President's Letter Book No. 46, letter, F. P. Fish to Clarence H. Mackay, dated December 28, 1906.
341. American Telephone and Telegraph Company, President's Letter File, letter, Clarence H. Mackay to F. P. Fish, dated February 1, 1907.

should have representation. We consider that we are entitled to it and expect that it will be granted.

Fish lost no time in referring this request to Waterbury, as in indicated by identical letters sent by William S. Nixon, Bell employee, to Messrs. John I. Waterbury and George F. Baker, each of which stated:[342]

Mr. Fish telegraphs me from Denver, Colorado, to send you the enclosed copy of a letter received from Mr. Clarence H. Mackay. The letter came to hand after Mr. Fish's departure for the West and a copy was forwarded to him there.

Nixon then wrote Mackay, saying:[343]

In the absence of Mr. Fish I beg to acknowledge receipt of your letter to him of February 1, which came to hand after he had left Boston on a trip to the West. He is expected to return some time next week, when your letter will be brought to his attention.

That Coolidge also was consulted on this latest demand from Mackay was indicated in his letter to Fish, dated February 10, 1907, in which he stated:[344]

The Mackay Co's have nerve.

Their interests are opposed to ours and of course at this time cannot secure representation.

I see no reason for more than acknowledging receipt of letter at this time but later on it may be well to record the fact of divergence of interests & actual injury to the shareholders as a whole from any representation of Mackay Cos.

Further indication that private consultations were held following this Mackay demand was afforded in a telegram from Fish to Crane dated two days later (February 12, 1907), reading:[345]

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342. American Telephone and Telegraph Company, President's Letter Book No. 47, letter, William S. Nixon to John I. Waterbury, dated February 6, 1907, and President's Letter Book No. 46, letter, William S. Nixon to George F. Baker, dated February 6, 1907.
343. American Telephone and Telegraph Company, President's Letter Book No. 46, letter, William S. Nixon to Clarence H. Mackay, dated February 6, 1907.
344. American Telephone and Telegraph Company, President's Letter File, letter, T. Jefferson Coolidge, Jr., to F. P. Fish, dated February 10, 1907.
345. American Telephone and Telegraph Company, President's Letter Book No. 47, telegram

Shall be in New York Thursday and at Waterbury's house, Morristown, Sunday.

After these consultations with members of his Executive Committees and Directorate,[346] Fish replied in a rather casual manner to Mackay, saying:

I have just returned from the west and am only now able to answer your letter of February 1.

I have not consulted with any of my Executive Committees or my Directors on the subject of your letter, but take the liberty of expressing at once my own personal views on the subject therein referred to.

Speaking personally, I should be glad to consult with your Company or with any of our large stockholders on the subject of Directors. We have a clear common interest in desiring the best available men for the position, and we cannot get too much help in selecting them. I feel, however, that each and all of the Directors should represent each and all of the stockholders, and that it is unwise to have any stock interest specifically represented on the Board.

If you will allow me to go a little farther, it seems to me that at the present time it would be a very great mistake for one large corporation to have a definite and specific representation on the Board of another large corporation. This probably would be true under any conditions, but is, in my opinion, of special weight in a case like the one we are now considering, where the two companies are to some extent competitors, and where your Company is interested in such a large number of other companies, including some of our most aggressive competitors.

I shall bring the matter before our Executive Committee and shall of course be governed by their views.

I should personally be glad to consult with you with reference to the make-up of the Board, although, as I now look on it, not on the theory that your Company, as a stockholder, is entitled to specific representation.

Allow me to add that I should regard it as an honor to have the three gentlemen whom you name on our Board of Directors, in so far as their character, standing and personality are concerned.

I shall later write you again on the subject.

Fish then wrote Waterbury (the same day),[347] saying:

I enclose a copy of my reply to Mr. Mackay's letter.

F. P. Fish to W. Murray Crane, dated February 12, 1907.
346. Ibid., letter, F. P. Fish to Clarence H. Mackay, dated February 13, 1907.
347. Ibid., letter, F. P. Fish to John I. Waterbury, dated February 13, 1907.

That Fish's reasons did not appear valid to Mackay appears in the latter's reply, dated February 19, 1907, in which he said:[348]

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> I am surprised to receive your letter of the 13th instant, because it is a new theory to me that, inasmuch as a director should represent all stockholders, a large stockholder should not, by reason of his large holdings, be entitled to name one or more directors. I gather that such is your reasoning, but it seems to me that that would mean that it would be better if the directors owned no stock whatsoever, which, of course, is contrary to the theory on which corporations, as well as co-partnerships, are organized.
>
> In reply to your mention that we are interested in some of your most aggressive competitors, I would say that we own stock in six so-called independent telephone companies, our largest holding being in the Michigan State Telephone Company, (and even that company is considered your ally), and our holding in that company is worth less than thirty thousand dollars, while our holdings in your company are worth nearly ten millions of dollars.
>
> We repeat that we are entitled to representation on your board and shall not be content until we get it. We own more stock than all your directors combined.
>
> We have men on our staff who were experts on poles and wires before the telephone was invented. We conduct our affairs without extravagance or waste, and we know where our money is coming from before we spend it. We believe our influence in these respects would do your company no harm.
>
> There is another thing more important vastly than the above. We think you will agree with us that you will want several hundred millions of dollars fresh money during the next ten years in your business. How are you going to get it? There are various ways in which we can help you very substantially, and we have every reason for helping you, but how can we help you when you slam the door in our faces as you seem inclined to do?

Fish again indicated that his was not the controlling voice in these negotiations, by his immediate letter to Waterbury, saying:[349]

> I enclose a copy of a letter received this morning from The Mackay Companies.
>
> You may have a chance to show this to Mr. Coolidge.

Fish received Waterbury's reply the following day, stating, in part:[350]

> I have also received your letter enclosing copy of letter to you. The letter is an amusing screed, and the suggestion one which I think should be

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348. American Telephone and Telegraph Company, President's Letter File, letter, Clarence H. Mackay to F. P. Fish, dated February 19, 1907.
349. American Telephone and Telegraph Company, President's Letter Book No. 47, letter, F. P. Fish to John I. Waterbury, dated February 20, 1907.
350. American Telephone and Telegraph Company, President's Letter File, letter,

firmly dealt with in the interest of our own company.

On the same day Crane gave Fish instructions, in a letter stating:[351]

> Your letter of the 20th instant is received enclosing copy of one which you received from President Mackay. If you have not already replied to the same I wonder if it would not be better to simply write Mr. Mackay that you would refer the matter to the directors and that you would advise him definitely later on. This course might serve to prevent an unpleasant and disagreeable correspondence.

Fish followed instructions obediently, writing to Mackay, stating:[352]

> Your letters of February 1 and February 19 have been submitted to members of our Board of Directors for consideration, and they will give the matter careful thought and authorize me to communicate with you in a few days.

Fish then reported his action to Waterbury, in a letter which stated:[353]

> I enclose a copy of a letter which I have today written Mr. Mackay.

Fish also apparently wrote Crane an unrecorded letter on the same day, as was indicated by Crane's reply, dated February 27, 1907, in which he said:[354]

> I am very glad to receive your letter of the 25th instant with enclosures stated and I regret that I cannot be in New York to talk with you about it. Under the circumstances I ought not to leave here until after the fourth of March. I cannot but feel that the matter will be handled in the way you suggest and it will be perfectly proper for you directly or indirectly to consult with the Attorney General about it if you see fit to do so.

There is the possibility that Fish explored the advisability of invoking the aid of the Attorney General, either directly or indirectly, to prevent or discourage Mackay from carrying out his determination to obtain representation on the board of the telephone company, for his telegraph companies. Further indication of this

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John I. Waterbury to F. P. Fish, dated February 21, 1907.

351. American Telephone and Telegraph Company, President's Letter File, letter, W.M. Crane to F. P. Fish, dated February 21, 1907.

352. American Telephone and Telegraph Company, President's Letter Book No. 47, letter, F. P. Fish to Clarence H. Mackay, dated February 25, 1907.

353. Ibid., letter, F. P. Fish to John I. Waterbury, dated February 25, 1907.

354. American Telephone and Telegraph Company, President's Letter File No. 16942, letter, W. M. Crane to F. P. Fish, dated February 27, 1907.

intention will appear in Fish's concluding letter to Mackay, to be quoted later.

At the same time, Waterbury apparently was concerned in the election of directors, as was indicated in Fish's letter to Waterbury dated March 6, 1907, stating, in part:[355]

OK

> At its meeting this morning, the Executive Committee resolved informally to ask Mr. Nathaniel Thayer, yourself and myself to consider the question of Directors. Mr. Thayer will be glad to help in the matter and plans to call on you at eleven-thirty Friday morning.
>
> * * * * * * * * *
>
> The general feeling of the Executive Committee was that it would be better not to have bankers selected but first class commercial men of high standing, if we can get them; also that preference should be given to those who are active in New York rather than in Boston.

Mackay's argument for representation apparently carried such weight that it could not be ignored entirely. The letter indicating this result also contained a peculiar paragraph suggesting that the Directors of the Bell Company were in a position to dictate their own re-election, rather than to submit themselves to the vote of the stockholders of the company. This letter, from Fish to Crane, stated, in part:[356]

> All the Directors who are accessible met at my office this afternoon and considered the question of the vacancies on our Board. Mr. Thayer and myself reported that Mr. Schoonmaker and Mr. McLean had been named as desirable men and that it seemed, on the whole, wise to offer a position on the Board to one of the gentlemen suggested by Mr. Mackay in his letters, which you have seen. It was the general opinion of those present that of the men suggested by Mr.Mackay, Mr. Dumont Clarke was the best qualified, all things considered.
>
> Your suggestion that Mr. Cutler should go on the Board was cordially received by all of us.
>
> The Directors present finally united in suggesting that you, Mr. Thayer, Mr. Waterbury and myself take the responsibility of selecting the gentlemen who shall be asked to become Directors.

Apparently by accident, those in control of the Bell Directorate escaped the embarrassment of a direct and complete refusal to Mackay's demands, since Clarke

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355. American Telephone and Telegraph Company, President's Private Letter Book No.V, letter, F. P. Fish to John I. Waterbury, dated March 6, 1907.
356. American Telephone and Telegraph Company, President's Private Letter Book No.VI, letter, F. P. Fish to W. Murray Crane, dated March 11, 1907.

declined the invitation, as was indicated by Fish in his concluding reply to Mackay, on March 22, 1907, in which he stated:[357]

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> It is the opinion of those whom I am obliged to consult that it is not wise to elect upon our board too large a representation of another and to some extent a competing corporation. In this view I am obliged to agree. It seems particularly inexpedient to elect the President of that Company one of our Directors, much as we should regard it as an honor to have him on our board if the conditions of public sentiment were different.
>
> We very much regret that Mr. Dumont Clarke was not inclined to accept our invitation to allow us to elect him as one of our Directors.

Three days later the annual meeting was held, and Fish was re-elected as President and member of the Executive Committee. However, within a month, Fish, to his surprise, found himself removed from the Presidency and from the Executive Committee, being replaced by Vail, who was associated with Waterbury and Coolidge, of the Baker-Morgan group. The series of events leading up to this climax will be described in the next chapter.

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357. American Telephone and Telegraph Company, President's Letter Book No. 47, letter, F. P. Fish to Clarence H. Mackay, dated March 22, 1907.

CHAPTER VI

ACQUISITION OF CONTROL OVER BELL SYSTEM MANAGEMENT BY BAKER-MORGAN GROUP (1902-1909)

Review of Competitive Status as of 1902.

As has been shown previously, the Stillman-Rockefeller group included George J. Gould among its affiliations until 1901, when Gould's ambitions to establish a transcontinental rail system came into conflict with Harriman's similar desires.[358] As a result Gould detached himself from his former close alliance with the group, and by 1907 had under construction the remaining gaps in his competing ocean to ocean rail system. The panic of 1907 badly crippled the Gould system, eventually forcing several of the roads into receivership and making it necessary for him to appeal to Kuhn, Loeb and Company for financial aid. By the summer of 1909, Gould had abandoned all hopes for a rail empire, and was almost completely eliminated as an influential factor. During this period, however, Gould had retained his approximately 210,000 shares of Western Union Telegraph Company stock. This chapter will review the competitive status as of 1902 and relate the later efforts of Coolidge and Waterbury, of the Baker-Morgan group, to obtain control of electrical communications during the period after Gould was isolated from the Stillman-Rockefeller group.

By 1900 the telegraph field was divided between the two companies, Postal and Western Union,[359] while the telephone field contained the dominant Bell system, and a large number of scattered but rapidly growing independents.[360] As indicated previously,[361] Bell's concealed weakness was its inability to continue financing the rapid rate of expansion forced upon it by the aggressive independent telephone companies. This weakness threatened to become clearly exposed when and if strong financial backers and organizing ability were applied. In 1899 such a force appeared to have been brought to bear upon the Telephone, Telegraph and Cable Company, apparently identified with the

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358. For a more detailed account of George Gould's life, to which references are made in this review, and for reference to the activities of Coolidge, Waterbury and Mackay in the Postal Telegraph system, see the New York Times, May 17, 1926, p. 6.
359. See pp. 52 to 54.
360. See pp. 55 ff.
361. Idem.

Stillman-Rockefeller financial group, and the Elkins-Widener-Whitney-Dolan organizers of municipal utilities.

This move of the Stillman-Rockefeller group towards a position of dominance in the telephone industry presaged a merger of the telephone and telegraph industries, as the Western Union was controlled by Gould, and at that time Gould was still closely affiliated with the group. This move occurred at a time when the Baker-Morgan and the Stillman-Rockefeller groups were engaged in a "war" for control of the municipal utilities of New York City, especially among the gas companies. The Elkins-Widener-Whitney-Dolan group had launched a company in opposition to those controlled by the two major groups. At the climax of the "war" the Elkins-Whitney-Widener-Dolan group was reported to have been embarrassed by a "squeeze" in the stock market, and Morgan was reported later to have come to Widener's aid during such an attack. At this precise juncture (within a week after the price war in the New York gas utilities field was ended) the Elkins-Whitney-Widener-Dolan group withdrew their support from the new telephone company, with the announcement that Whitney's party was "under obligations to certain interests in New York" that prevented Whitney and his friends, Elkins, Widener, and Dolan, from going into the proposed telephone combination.[362] Shortly thereafter all three contending groups in New York came into agreement by selling out to Rockefeller's Consolidated Gas and the competition in that quarter appeared compromised.

By the end of 1900 the deserted Telephone, Telegraph and Cable Company was in financial difficulties when its stockholders refused to continue its financing. In the ensuing maneuvers, T. Jefferson Coolidge, Jr. became interested in salvaging its only valuable subsidiary, the Erie Telephone and Telegraph Company, through an advance of $7,500,000 on one year notes, dated in January 1901, due in January 1902. Indications were that Coolidge called upon President Fish of the Bell Company to aid in taking up these notes in January 1902, and was at first met with refusal.[363] In the

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362. See p. 62.
363. See p. 74.

subsequent arrangements, however, it was reported that Bell was to take over control of the Erie Company and provide for its outstanding obligations.[364] The Bell Company subsequently purchased stock of the reorganized company thus furnishing funds for the repayment of its obligations,[365] including the $7,500,000 due January 10, 1902, on which Fish had previously demurred. Within sixty days arrangements had been made for the Baker-Morgan group to buy $7,675,000 of Bell stock.

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There is some indication, therefore, that the Bell company was not acting entirely under its own volition in buying out the remnants of the Telephone, Telegraph and Cable Company, but that its $7,500,000 notes due to Coolidge's Old Colony Trust in January 1902 may have been financed, indirectly, by the Baker-Morgan group through its purchase of $7,675,000 of Bell's stock in March 1902, and Bell's purchase in turn of Erie stock.

John W. Mackay's death occurred in July of this year (1902) thereby establishing that the date on which T. Jefferson Coolidge, Jr. and John I. Waterbury first approached the Postal System with suggestions that Postal and Bell merge was prior to July 1902, as was shown in Chapter V. In this connection it should be recalled that the Baker-Morgan group had compromised their competition for control of New York's gas industry and during the year just prior (1901) had climaxed their struggle for control of the Northern Pacific, which also resulted in a compromise arrangement (the Northern Securities Company). Also, in 1901, Gould had crossed Harriman and was no longer affiliated with the Stillman-Rockefeller group, which may be significant in connection with the first efforts by Coolidge and Waterbury (in the spring of 1902) to get Postal interested in a telephone-telegraph merger, at the same time that the Baker-Morgan group, through Coolidge and Waterbury, were obtaining a large stock interest in Bell, approximately equal to the amount which Coolidge's Old Colony Trust had advanced to the ill-fated Erie relic of the Telephone, Telegraph and Cable on one year notes due in January 1902. This Baker-Morgan purchase of Bell stock is the point at which the

postal / phone merger

364. Commercial and Financial Chronicle, Vol. 73, p. 1267.
365. Cf. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Security Investments," Exhibit No. 1362A, Vol. I, pp. 67 to 77.

story is resumed in this chapter.

Purchase of 50,000 Shares of Bell Stock by Baker-Morgan Group.

On March 7, 1902, Fish wrote Francis L. Hine, Vice President of Baker's First National Bank of New York in which he stated in part:[366]

> I am now in a position to assent definitely to the proposition which I discussed the other day with Mr. Baker and yourself. We will sell to Mr. Baker and his associates 15,000 shares of the stock of the American Telephone and Telegraph Company, at 153 1/2, with the understanding that Mr. Baker is to have the option to take 25,000 additional shares of the stock within a few days after his return from the south, and at the same price, if he desires to do so. If he concludes that he would like to have 35,000 additional shares, rather than 25,000 I have no doubt that we shall be able to meet his views on that point.
>
> It is our expectation to elect Mr. Baker and Mr. Waterbury to the Board of Directors of the American Telephone and Telegraph Company at the annual meeting, which will be held on March 25th, 1902.

Hine again indicated that Baker was not acting alone, but had "associates" in the purchase, as was shown in his reply the following day, which stated:[367]

> Replying to your favor of the 7th instant, I beg to hereby confirm the agreement entered into by you with Geo. F. Baker, Esq., namely, that he and his associates shall accept upon presentation by you at the First National Bank of New York, 15,000. shares of the stock of the American Telephone and Telegraph Company at 153½, and that they shall have the privilege of accepting 25,000 @ 35,000 shares additional at the same price within a few days after Mr. Baker's return from the South. Also that Mr. Baker and Mr. Waterbury shall be elected as members of the Board of Directors of the American Telephone and Telegraph Company at their meeting to be held on March 25, 1902.
>
> As indicated over the telephone, we should be glad to have a certificate of:
>
> 100 shs in name of Geo. F. Baker,
> 100 " " " " John I. Waterbury,
> 14800 " " " " W. J. Nevius.
>
> (300 shares of the latter to be in six certificates of 50 shares each).

On the same day Fish identified one of these "associates" while writing Hine a letter

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366. American Telephone and Telegraph Company, President's Private Letter Book No. I, letter, F. P. Fish to Francis L. Hine, dated March 7, 1902.
367. American Telephone and Telegraph Company, President's Letter File No. 12373, letter, Francis L. Hine to F. P. Fish, dated March 8, 1902.

of introduction for his Treasurer, in which he stated in part:[368]

> This will introduce to you Mr. William R. Driver, the Treasurer of the American Telephone and Telegraph Company who will complete with you the arrangements made with reference to the sale of stock of the American Telephone and Telegraph Company to Mr. Baker, Mr. Waterbury and their friends.

Also, on the same day Baker wrote Fish, confirming the completion of the purchase of 50,000 shares, for $7,675,000, in a letter, stating:[369]

> Referring to your letter of March 7th, I hereby accept for myself and associates the option to purchase 35,000, shares of your stock at 153½, the same to take effect this date. The arrangement for the delivery of the certificates and payment of dividends as arranged by you with Mr. Waterbury will be entirely satisfactory.

On March 25th, Fish wrote his Treasurer, Driver, giving the name of the person to whom the last 35,000 shares were to be transferred:[370]

> The New York people will take the 35,000 shares of stock. They are very anxious to get it immediately....
>
> * * *　　　　* * *　　　　* * *
>
> Mr. Waterbury tells me that the new certificates might just as well be made out in the same name as the bulk of the other certificates, which I think was W. J. Nevius, although I do not remember the initials.

Regardless of any other objective of this large purchase of stock, the interested bankers did not lose the opportunity to demand that the Company leave the purchase-money in their hands, by opening new banking accounts at Mr. Baker's First National Bank and Mr. Waterbury's Manhattan Trust Company. It became apparent that these banks previously had not been close enough to the telephone company to have it as a depositor. The request for deposits was followed by discussion within the Company as to the expediency of yielding to these requests. Fish wrote to Cochrane (a Director and member of the Executive Committee of the American Telephone and Telegraph

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368. American Telephone and Telegraph Company, President's Private Letter Book No. I, letter, F. P. Fish to Francis L. Hine, dated March 8, 1902.
369. American Telephone and Telegraph Company, President's Letter File No. 12373, letter, George F. Baker to F. P. Fish, dated March 25, 1902.
370. American Telephone and Telegraph Company, President's Letter Book No. 19, letter, F. P. Fish to Wm. R. Driver, dated March 25, 1902.

Company) on March 25, 1902, stating:[371]

> Mr. Waterbury wants to make the payment by giving us credit in the Manhattan Trust Company, where he wants us to open an account. Of course I have no authority to authorize the opening of an account at the Manhattan Trust Company, but it seems to me that we must do it under the circumstances of this case.

The following day Fish again indicated the important influence which Waterbury exercised in these negotiations, in a letter to Cochrane, saying:[372]

> As I have already telegraphed you, there is no committal to an account with the Manhattan Trust Company. At the same time, I think it very desirable that we should leave an account there for a time at least. Mr. Waterbury has a great deal to do with the New York deal and seems to think that his Trust Company should be recognized to some extent. It would be perfectly proper for Mr. Driver to tell him that we cannot agree to keep the account there permanently, as we are not sure that we ought to have it in New York, but that we will open an account there for a time at any rate....
>
> Mr. Waterbury is very much interested in our affairs and I am sure that it is wise for us to keep him in as healthy a frame of mind as possible.

Subsequently, two of the members of the Executive Committee whom Fish had consulted, Alexander Cochrane and Henry S. Howe, acquiesced in the bankers' request, in a telegram signed by both men, in which they stated:[373]

> Both your communications received and considered. We have decided to open an account at the Manhattan Trust Company, as you wish - adding the suggestion which you incorporated in your second communication. What we were opposed to was not the opening of an account in the Manhattan Trust Company, but opening one there and also one at the First National Bank, as we did not consider that the gentlemen were entitled to ask for two accounts. We, however, yield to your wishes, and have instructed Colonel Driver accordingly.

Fish's reference to the transfer of these 50,000 shares to "Mr. Baker, Mr. Waterbury and their friends,"[374] and the fact that the two gentlemen named had only 100 shares each transferred to their own names, draws attention to the 49,800 shares which were not taken directly by the Baker group but were originally transferred to the name

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371. Ibid., letter, F. P. Fish to Alexander Cochrane, dated March 25, 1902.
372. Ibid., letter, F. P. Fish to Alexander Cochrane, dated March 26, 1902.
373. Ibid., telegram, Alexander Cochrane and Henry S. Howe to F. P. Fish, dated March 26, 1902.
374. See pp. 101 and 102, also footnotes 367, 368 and 369.

of "W. J. Nevius." The occupation of "W. J. Nevius," and the individuals to whom he eventually transferred this stock, throw additional light on the remaining identities represented by the phrase "Mr. Baker, Mr. Waterbury and their friends."

The House Committee on Banking and Currency of the 62nd Congress, in investigating the concentration of capital among certain New York institutions, obtained testimony from Mr. George F. Baker on January 10, 1913, describing the mechanics of making collateral loans in the First National Bank of New York, of which Mr. Baker was Chairman of the Board. Mr. Baker's testimony was, in part, as follows:[375]

Mr. Untermyer: Who is there in the loan department of the bank that checks and passes the collateral on that class of loans?

Mr. Baker: I do not know.

Mr. Untermyer: You do not know his name?

Mr. Baker: I am not very familiar with the details of the bank for the last five years.

Mr. Untermyer: The system has not changed in the last five years, has it?

Mr. Baker: No; a man by the name of Nevius did it for 20 or 30 years, when I had charge there. I do not know who does it now.

The shares transferred to the name of W. J. Nevius were partly transferred in 100 share lots over a period of some months to scattered individuals, or to brokerage houses, apparently for distribution; but large transfers, as will be shown, were made to individuals connected with the following four banking houses:

J. P. Morgan and Co.
First National Bank of New York
Old Colony Trust Company of Boston
Manhattan Trust Co. of New York

The individuals to whom the 50,000 shares went, on their first transfer from the name of "W. J. Nevius," grouped according to their indicated affiliations, are shown in the following tabulation:[376]

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375. Pujo, "Testimony," op. cit., p. 1502.
376. This includes the 100 shares transferred directly to George F. Baker, and the 100 shares transferred directly to John I. Waterbury.

Distribution of 50,000 Shares of American
Telephone and Telegraph Stock Sold to
George F. Baker in March, 1902*

Affiliated Bank and Individual	Address, or Connection With the Bank or Firm	No. of Shares	Total Shares By Groups
J. P. Morgan and Company			
Wm. A. Merrick	"% J. P. Morgan & Co., 23 Wall St."	4,450	
Wm. A. Merrick	"23 Wall St."	160	
J. W. Nichols	"% J. P. Morgan & Co., 23 Wall St."	2,300	
Robert Bacon	"% J. P. Morgan & Co., 23 Wall St." (Bacon was a partner in the firm)	500	
			7,410
First National Bank of New York			
Allan W. Gernert	"% First Nat. Bank"	900	
D. T. Waters	"% First Nat. Bank"	2,300	
R. M. Smith	"% First Nat. Bank"	3,000	
G. C. Warren	"% First Nat. Bank"	3,000	
G. F. Baker***	President	100	
			9,300
Old Colony Trust Company (Boston)			
T. Jefferson Coolidge, Jr.	Chairman of the Board	2,675	
			2,675
Manhattan Trust Company of New York			
John I. Waterbury***	President	1,000	
Frank Waitz	"% Manhattan Trust Co."	1,000	
Frank Waitz	"20 Wall St."**	625	
Amos Tuck French	Vice President	300	
Wm. North Duane	Vice President	50	
Rudolph Ellis	Director	500	
			3,475

* American Telephone and Telegraph Company, Treasurer's Department, "Stock Ledger, 1, N. Y. Office, A. T. & T. Co.," for March 11, 12, 27, 31 in 1902, January 22, 1903 and October 15, 1904; Ibid., "Transfers, 1 - 2000, N. Y. Office, A. T. & T. Co.," Transfer Nos. "Journal" (3-12-02), 77, "Journal" (3-31-02), 83, 96 to 98, 102, 103, 106, 108, 110, 111, 116, 125, 127, 148, 151, 153, 157, 164, 165, 167 to 169, 171 to 174, 177, 178, 182, 186, 188, 189, 192, 194 to 196, 200, 204, 207, 209, 212 to 214, 217, 218, 223, 224, 227, 230, 231, 239, 245, 247, 249, 253, 256, 267, 272, 273, 279, 282, 283, 286, 288, 289, 291, 294, 296, 299, 300, 306, 310, 311 to 316, 319, 322, 325, 327, 334, 337, 345, 350, 351, 360, 362, 370, 372 to 374, 382, 394, 400, 405, 409, 413, 420, 429, 430, 437, 478, 488, 508, 686, 692, 698 to 701 and 1185.

** The Manhattan Trust Company was located at No. 20 Wall Street.

*** Includes the 100 shares which were transferred directly from the Bell company rather than through Nevius.

In addition to the above transfers, and those made to brokers' names, the only instances of transfers exceeding 100 shares each were the following:

Individuals and Bank with no immediately apparent affiliation

Marsden J. Perry, Providence, R.I. (377)	2500
Clement A. Griscom, 305 Walnut Street, Philadelphia, Pa. (378)	1000
J.J. Mitchell, Chicago, Illinois (379)	1000
E.S. Steinman, 27-29 Pine Street, New York	1000
P.A.B. Widener, Philadelphia, Pa. (380)	1000
G. Elliotte Little c/o Wm. Salomon & Co. 25 Broad Street, New York	700
R. Fulton Cutting, 32 Nassau Street, New York	500
A.M. Miller, 25 Broad Street, New York	300
N.W. Jordan, Boston, Mass.	200

Such a close association of Mr. George F. Baker and his First National Bank with the Morgan firm would be entirely in keeping with the situation described by Morgan in his testimony before the Pujo Committee, as contained in the Committee's report to Congress,[381] in which it was stated in part:

> Sec. 11.- Interrelations of Members of the Group
>
> Morgan & Co. and First National Bank.- Mr. Morgan, head of the firm of Morgan & Co., of New York, and Drexel & Co., of Philadelphia, and Mr. Baker, head officer and dominant power in the First National Bank since shortly

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377. Later, Perry (President of the Union Trust Company of Providence, R.I.) acted for the Bell company as intermediary in the hiring of Messrs. Harvey and McMeen, for some purpose for which they received payment from Perry, and Perry received reimbursement from the Bell company. (American Telephone and Telegraph Company, President's Letter File No. 15605, letter, Marsden J. Perry to F. P. Fish, dated May 22, 1905, and President's Letter File No. 15612, letter, R. J. Morgan to F. P. Fish, dated May 24, 1905; also, President's Letter Book No. 38, pp. 108, 196, 338, 426 and 446 and No. 39, pp. 236, 237 and 449.)
378. Clement A. Griscom was an original director of the United States Steel Corporation, which the Morgan firm had organized early in 1901. (See Commercial and Financial Chronicle, Vol. 72, pp. 258, 441, 679 and 725).
379. President of Illinois Trust and Savings Bank. Later, he became a director in Baker's First National, while James J. Hill (Morgan's ally in the Northern Pacific clash) was director in both Mitchell's Illinois Trust and Baker's First National. (Pujo, "Report," op. cit., p. 69).
380. Widener was shown, in Chapter IV, to have been concerned in the New York City gas "war" between the two major groups (Baker-Morgan and Stillman-Rockefeller) and was the one whose Metropolitan stock was reported to have been saved by the intercession of J. P. Morgan during a stock market raid. (See footnote 280). There is thus additional evidence that some compromise had been arrived at between the two groups, on their respective fields of interest.
381. Pujo, "Report," op. cit., p. 80 ff.

after its organization, have been close friends and business associates from almost the time they began business. Mr. Morgan, testifying as to their relations, said (p. 1034):

Q. You and Mr. Baker have been old and close friends and associetes for many years, have you not?

A. For a great many years; yes.

Q. Almost since you began business?

A. Well, since 1873, at least.

Q. During that time your house has been of great aid to the First National Bank in building up their great prosperity and they have been of great aid to you?

A. I hope so.

Q. That is a fact, is it not?

A. That is the fact, I think.

Q. During that period you have made many purchases of securities jointly and many joint issues of securities, have you not?

A. Yes, sir.

Before becoming partners in Morgan & Co., Mr. Davison and Mr. Lamont, two of the most active members of the firm, were vice presidents of the First National Bank, and still remain directors.

Next to Mr. Baker, Morgan & Co. is the largest stockholder of the First National, owning 14,500 shares, making the combined holdings of Mr. Baker and his son and Morgan & Co. about 40,000 shares out of 100,000 outstanding -- a joint investment, based on the market value, of $41,000,000 in this one institution.

Bell Refusal to Sell Stock to Lee Higginson.

A few days after this sale of 50,000 shares to the Baker-Morgan group, it appears that President Fish exhibited some reluctance about selling stock to Henry L. Higginson of Lee, Higginson & Co., as indicated by an almost inexplicable request by Higginson, and Fish's reply. On April 3, 1902, Higginson wrote Fish as follows:[382]

Our friends ask if we shall have a reply today or when? Their investors wish stock & are hard to hold & the stock has been to 182 - which may dislodge some of the stock lately sold by you - I've urged patience, but if

382. American Telephone and Telegraph Company, President's Letter File No. 12374, letter, H. L. Higginson to F. P. Fish, dated April 3, 1902.

I hold our people back & others come in & buy, - I am a fool - why not? I know this note is importunate -

If you find your committee agreeable, please get as large a block at your command as possible & then I'll do my best to use it -

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Fish replied to this request the same day, saying:[383]

In view of your note, I have brough together my Executive Committee to consider your suggestion.

As I intimated to you this morning might be the case, we have concluded that it is not wise to sell more of that limited amount of the Company's stock which it is in the power of the American Telephone and Telegraph Company to sell.

It would, as you know, nave given me great pleasure to have done exactly as you would like to have me do in the matter, but under the circumstances I find it to be impossible.

Despite Fish's statement in this reply, that the remaining stock was "limited" in supply, the company held 323,206 shares of Treasury stock, out of which it had just sold 50,000 shares to the Baker-Morgan group, leaving 273,206 shares which were not sold until 1908 and 1909.[384] The details of this request and refusal apparently were covered in the verbal discussion that morning between Fish and Higginson. The affiliation of the Higginson firm appears to have been adverse to the Baker-Morgan group, as is indicated by the fact that the Higginson firm associated itself with Speyer and Company of New York in offering bids for the company's bonds.[385] The

383. American Telephone and Telegraph Company, President's Letter Book No. 20, letter, F. P. Fish to Henry L. Higginson, dated April 3, 1902.

384. Cf. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Corporate and Financial History," Exhibit No. 1360A, Vol. I, p. 319. The subsequent purchasers of these 273,200 shares were: J. P. Morgan and Company, 22,322 shares; Kidder, Peabody and Company, 50,000 shares; and "Diamond State Company," 200,844 shares. The latter was a Bell System security company whose books and records could not be located by the American Company, resulting in the American Company's inability to show the ultimate disposition of over twenty-two million dollars of its funds. (Cf. Special Investigation Docket No. 1, Report on "American Telephone and Telegraph Company, Security Investments," Exhibit No. 1362E, Vol. V, pp. 1284 to 1297, especially p. 1291).

385. American Telephone and Telegraph Company, President's Letter File No. 14621, letter, Speyer & Co. to Frederick P. Fish, dated April 13, 1904; No. 17614, letter, H. L. Higginson to Frederick P. Fish, dated April 8, 1904; and No. 15307, letter, Lee Higginson & Co. to F. P. Fish, dated February 2, 1905.

personal aversion of Morgan to Speyer was shown clearly, later, when Speyer suggested that a proposed new issue of company securities be underwritten by "two important banking groups,"[386] in a telegram to Fish, reading:

> Understand your company intends making fresh bond issue stop referring to our London conversation think your company should not let this opportunity pass without trying arranging combination two important banking groups view creating good international market which am satisfied will be found to be in best interests your company
>
> Edgar Speyer

The tentative acceptance of this plan to combine two banking groups was indicated by Crane[387] in a letter to Fish, dated January 17, 1906, reading in part:

> Mr. Winsor called on me last Saturday and informed me that all the large financial interests would enter into a syndicate to take the bonds.

But after this tentative agreement, Morgan personally objected to the inclusion of Speyer, as indicated in a letter from Crane to Fish, speaking of Mr. Storrow (of Lee, Higginson & Co.),[388] in which was stated, in part:

> Mr. Storrow called on me at the hotel last evening. From what he said I judged that he and his friends would be quite well satisfied with a two-thirds interest in the proposed syndicate providing Mr. Morgan would withdraw his objections to Mr. Speyer. I presume that he will make this known to you when he sees you. That being the case, Mr. Winsor ought to be able to induce Mr. Morgan to withdraw his objections....

In any event, it is clear that there must have been strong reasons impelling Fish to refuse Henry Lee Higginson's eager desire to purchase a large block of the company's stock, on April 3, 1902, with the excuse that there was a limited supply

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386. American Telephone and Telegraph Company, President's Letter File No. 15922, cablegram, Edgar Speyer to F. P. Fish, dated December 8, 1905.
387. American Telephone and Telegraph Company, President's Letter File No. 17615, letter, W. M. Crane to F. P. Fish, dated January 17, 1906.
388. Idem. The antagonism between the Speyers and the Morgan firm dates back to 1893, when the former took an issue of the Reading R. R., after it had been refused by the Morgan firm because McLeod, Reading's President, was interfering with other Morgan railroad reorganizations. Cf. Corey, op. cit., p. 203; also, Daggett, op. cit., pp. 118 to 145; New York "Tribune," February 9, 1893, p. 2, column 6; Hovey, op. cit., p. 240.

available, and in the face of the fact that within a week he had sold the Baker-Morgan group 50,000 shares, and had 273,206 shares of the same stock still available.

Election of Baker-Morgan Representatives to Bell Directorate.

On March 25, 1902, the day on which arrangements were completed for the transfer of the 50,000 shares to "Mr. Baker, Mr. Waterbury and their friends," three new Directors were elected to the Board of the American Telephone and Telegraph Company, and the first indication of the identity of another of the Baker-Morgan associates was afforded.[389] The three new directors elected that day were:

George F. Baker
John I. Waterbury
Theodore N. Vail

The position of Theodore N. Vail is of interest in this connection, though there is no direct indication that the 500 shares of American Telephone and Telegraph Company stock transferred to his name on April 22, 1902,[390] came from the block of 50,000 shares purchased by George F. Baker, John I. Waterbury and their friends a month before (March 25, 1902).

As has been shown, Waterbury and Coolidge were associated with Baker and the Morgan firm in the purchase of the 50,000 shares, and, in addition, Waterbury and Coolidge were at the same time intimately associated with John W. and Clarence H. Mackay in the plan to merge Postal with the Bell. Vail's correspondence, previously quoted,[391] indicated that he likewise was interested in the selection of Postal for the merger, rather than Western Union.

Vail's connection with the Mackays did not become evident until the dissension between them a few years later, when Mackay wished to replace Vail on the Bell directorate with some other person to represent the Mackay interests, as was described

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389. American Telephone and Telegraph Company, Office of the Secretary, list of Directors, dated November 1, 1934.
390. American Telephone and Telegraph Company, Stockholders' Ledger, Transfer No. 1/36, 500 shares to T. N. Vail, April 22, 1902.
391. See pp. 85 and 86.

previously.[392] Five hundred shares of American Telephone and Telegraph Company stock were transferred to Vail on April 22, 1902, less than a month following the sale of 50,000 shares to Mr. Baker. These 500 shares were in addition to the 3858 shares which Vail had held since before 1900.[393] In the 1906 controversy between Fish and the Mackays, when the latter asked that Vail be removed as his representative, Vail wrote Fish a letter in which he stated in part:[394]

> I am in receipt of some copies of letters which have passed between yourself and Mr. Mackay. He thinks I do not represent his interests and wants <u>another</u> person in my place on the Board. I have always considered myself as a representative of all the shareholders. I do not understand that Mr. Mackay has any interests in the policy of the company -- not common to all shareholders. If he has then certainly I do not represent them. As to my absence, had I considered for one moment that usefulness to the Company, little as it may be, was only attendance at the Board meetings, I should have retired long ago. <u>As to the individual interest in certain of the shares standing in my name, that is a personal matter between Mr. Mackay and myself or the Mackay estate which I will not go into.</u> Of one thing however you may feel quite sure and that is that I am the absolute owner of a very respectable number of shares, quite enough to qualify me as Director--and far greater than the average holding in the Company. [last underscoring added]

Vail had not purchased any more stock following the transfer of 500 shares to his name on April 22, 1902, so he apparently was referring to some arrangement between the elder John W. Mackay and himself regarding the shares standing in his name as of March 25, 1902. Thus the Bell stock which Vail held in his name at the time of his election as a Director in 1902 was held either for, or under some arrangement with, the elder John W. Mackay.

All three additions to the Bell directorate on March 25, 1902, were therefore closely related to, if not the direct result of, the original Baker-Morgan plan, through Coolidge and Waterbury, to obtain control of the Bell system and to merge it

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392. See p. 85 ff.
393. American Telephone and Telegraph Company, Boston Office Stockholders' records, Stock Certificate Nos. 70404 to 70413, 70431, 70979, 71993, 72296 to 72302, 74260, 74968 to 74984, 79388 and 81520, covering transfers of stock to the name of Theodore N. Vail, over the period April 27, 1896, to October 1, 1897.
394. American Telephone and Telegraph Company, President's File, letter, Theo. N. Vail (in London, England) to F. P. Fish, dated April 14, 1906.

with the Postal Telegraph system into an electrical communications merger which would exclude Gould's Western Union.

a. Summary of Competition for Control of Telephone Industry to 1903.

The acquisition, by the Baker-Morgan group early in 1902 of approximately seven and one half million dollars worth of Bell stock was the end of the first episode, which began with the entrance of the Stillman-Rockefeller group into the telephone field through the acquisition of the Telephone, Telegraph and Cable Company and the Erie Telephone and Telegraph Company in 1899. There followed in rapid sequence a clash and compromise between these two major groups in New York City municipal utility ventures and the withdrawal of financial support from the new independent telephone enterprise. Subsequently, in January 1901, Coolidge's Old Colony Trust salvaged the Erie Company from financial difficulties by a seven and one half million dollar loan on one year notes. During the spring of that year the two major groups clashed and compromised, in their competitive struggle for control of a strategic rail system, the Northern Pacific. By the end of the year the Bell company was being asked to aid the Erie company to meet its notes, due January 10, 1902, to Coolidge's Old Colony Trust. President Fish of the Bell company at first refused, but later the Bell company purchased stock of the reorganized Erie Company from the proceeds of which sale the Old Colony Trust notes were repaid. Within sixty days the Baker-Morgan group, including Waterbury and Coolidge, purchased approximately seven and one-half million dollars worth of Bell stock. Thus ended the first phase of the competition, which included the elimination, or compromise with, a strong source of capital which entered the independent telephone field in opposition to the Baker-Morgan group.

The next move was a series of steps designed to amalgamate the Bell telephone and the Postal telegraph systems into an electrical communications combination, which would thus include the then existing forms of electrical communication (telephone, telegraph and cable). In this plan Waterbury and Coolidge prevailed upon the Mackays to form The Mackay Companies, in order to prevent a possible loss of control of the telegraph and cable properties "by purchase of a bare majority by the Gould, Rockefeller, or any adverse interest." The next step, as described by Coolidge in a letter to Mackay, involved the Mackay companies "taking an interest in a syndicate which was to acquire stocks and bonds in financing the Telephone Company." Mackay objected to the assumption of this financial hazard, stating to Coolidge, in part:[395]

> I note your conclusion that inasmuch as your plan for the Mackay companies underwriting $37,500,000 of bonds and stock was not accepted, you do not think we can now approach the subject and present it to the Bell stockholders with any degree of success.

Competition for Opportunity to Finance the Bell System in 1904.

The details of this next step constitute an interesting commentary on the competition to loan to Bell its badly needed funds, resulting in a forced reorganization of the Bell company's management when the loans came due, as will be shown later.

The Speyer-Higginson Offer. After the Baker-Morgan purchase of seven and one half million dollars of Bell stock in 1902, it appears that at least Speyer and Company and Lee Higginson and Company had not given up hope of continuing as the recognized financial representative of the Bell company. This interest, as well as the difficult position of the Bell company, was shown in a letter to Fish from Lee Higginson and Company dated March 9, 1904, which stated:[396]

> As you know, we have been looking carefully into Telephone matters this Winter, and two or three weeks ago we laid before Governor Crane a plan intended to relieve the company somewhat in the future. I enclose a copy of my letter to him herewith.
>
> At your convenience, I would like to have you look over this plan and let me know what you think of it.

The attached letter read, in part:[397]

> We have been considering Telephone matters with some care.

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395. See footnote 323.
396. American Telephone and Telegraph Company, President's Letter File No. 17614, letter, Lee, Higginson & Company to F. P. Fish, dated March 9, 1904.
397. Idem.

The company has issued about $130,000,000 of stock and has authorized $250,000,000. It has issued $38,000,000 bonds - four percents. ($28,000,000 American Telephone & Telegraph Co. and $10,000,000 American Bell Telephone Co.) It has issued in the years 1901, 1902, and 1903-1904 $64,000,000 of stock, which has been assimilated, but which seems a little too much for the New England purse. That is the only trouble with the stock market at the present time, so far as Telephone is concerned.

Assuming that the company will want $20,000,000 a year for the next five years, it would seem worth while to make a plan for financing the company which would be good for five years. Of course, the stock is heavy and is being attacked, and everybody has enough of it. Our customers are pretty full of it but hold it firmly but ask what is the matter with it; and I spend hours in writing to them that there is nothing the matter with it and that the company has done better this year than ever; that the management - financially and physically - is the best ever known; that the integrity and ability of the company and of the direction have always been above comment or suspicion; and in short, that it is an ideal investment.

People like something new, and they have enough of the existing securities. How would this plan do?

Issue $20,000,000 5% bonds, payable after ten years and convertible into stock after two or three years at 125; the same kind of collateral to be put under these 5s as has been put under the 4s so that they would be equally secure. Make the same issue every year for five years, if the company wished or at any time it could stop this issue. But the plan once made should answer for four or five years.

By this process the company would save as over a stock issue $500,000 yearly, or 2½% on $20,000,000. This would be

	$500,000	the first year
	1,000,000	the second year
	1,500,000	the third year
	2,000,000	the fourth year
	2,500,000	the fifth year
This adds up	$7,500,000	

Thereafter, until the bonds were paid off, the savings would be $2,500,000 per year.

This is if the bonds are not converted into stock. If they are converted into stock at 125, say, after two years, the money will then cost the company 6% instead of 5%, but the saving will be $300,000 a year; and the savings for the five years will be $6,300,000 and $1,500,000 per year thereafter until the bonds are paid off.

I should expect to see these 5% bonds stand in ordinary times well above par; I should expect to see them hold the stock a steady 125, and probably the stock would stand higher. For each $1,000,000 bonds issued the company would get $1,000,000 cash. For each million dollars of 4s issued the company could not get more than $880,000 or $900,000 cash, which is a considerable item in all these years. It might be that, after a year or so, the company could issue 4% convertible bonds and attain the same object. In any case, the company would make a very handsome saving and probably would be relieved from worry about financing.

* * * * * * * * *

May I ask you to keep this letter entirely to yourself and see me when you are in town. On Mr. Fish's return I shall put it before him.

* * * * * * * * *

One word about the stock market. Certain brokers and some of their clients try to make money either on a bull or a bear market. They cannot push Telephone or anything else up, and so they push it down. It is they who have been working this market since the rights came out last summer. It is they who depressed the stock six or eight weeks ago by circulating a story in the Stock Exchange that the dividend was to be reduced. On hearing it, I went into the stock exchange, laughed at this story, bought some stock, and it rose several dollars at once; but it is these bears who are affecting the price now. If the Telephone stockholders would go to sleep, the price would recover; but they will not.

Several interesting points are indicated in this letter. First, the occurrence of attacks upon the Bell company's credit in the stock exchange. Second, that the Speyer-Higginson group was suggesting a \$100,000,000 bond issue, \$20,000,000 a year. Third, that they wanted these bonds convertible into stock. This latter provision would, of course, be a strong opening wedge in securing stock control of the company, as the total stock issue then was only \$130,000,000.

<u>The Baker-Morgan Group's Efforts</u>. Shortly after this advice from the Speyer-Higginson firms (dated March 9, 1904, at Boston) Fish was confronted with the information that other people also had plans for the Bell company, as was indicated by a letter to Fish from Vail, dated March 4, 1904, at London, England, in which he said in part:[398]

And so soon as I have arranged some little details of the reorganization shall come home, with no necessity that I can see of any prolonged absence in the future.

I see the question is being discussed of the new money for our Company at home. I hope something will be done that will extend well into the future. I have some ideas that if you would care for them would like to give them to you for consideration and improvements, especially the later. I think with a good basis a very considerable amount of the financing could be done here in London, - that is if there was any necessity which I doubt

398. American Telephone and Telegraph Company, President's Letter File No. 17614, letter, T. N. Vail to F. P. Fish, dated March 4, 1904.

> as I believe with the very strong elements so closely associated with our Company that there would be none left over.

Vail showed that his interests abroad were about to be settled more or less permanently, so that, by inference, he would be available to help "our" company. He also suggested that the "strong elements so closely associated with our company" could be backed up, if need be, by English capital connections.

Fish apparently was in a dilemma. By April 1st, two weeks after the Higginson letter, Fish was arranging conferences with Baker, Waterbury, Crane and Abbott (Gordon Abbott was President of Coolidge's Old Colony Trust). On that date, Fish wrote Baker, saying:[399]

> Confirming our telephone conversation of this afternoon, I shall take the liberty of calling at your house in New York at one o'clock on Sunday.

The same day, he wrote Crane, saying:[400]

> Something has come up today which makes me think it very desirable that I should not go to New York tonight. I shall be there Sunday and shall meet Mr. Baker at one o'clock Sunday. If you care to call me on the telephone tomorrow morning, I will give you an intimation of what has come up.

Also on that day he indicated he had planned private conferences with Abbott and Waterbury, in a letter to Waterbury, stating:[401]

> I find that it is impossible for me to go to New York tonight and I shall therefore not trouble you at Mr. Abbott's house this evening.
>
> Could you give me a chance to talk with you tomorrow for a few minutes?

What caused Fish to delay seeing Baker at his home on Sunday, as well as Abbott, Waterbury and Crane, is not evident, but the Tuesday appointment with Baker (on April 5, 1904) was followed, on the next Friday, by another letter from Higginson

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399. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to George F. Baker, dated April 1, 1904.
400. Ibid., F. P. Fish to W. Murray Crane, dated April 1, 1904.
401. Ibid., F. P. Fish to John I. Waterbury, dated April 1, 1904.

indicating that he also had been in New York on that Thursday. The Higginson letter showed that at least one of the arguments with which Fish had been prepared, in his talk with Higginson, was that the company needed a "new market" for its bonds. (The "old market," of course, was Lee Higginson and the New England stockholders). This argument, for an enlargement of the company's market for securities, sounds quite similar to that of Vail in his suggestion, from London, that English capital could reinforce the "strong connections" close to the Bell company. Higginson argued that Speyer and Company (which had German correspondents in Lazard Speyer-Ellissen, at Frankfort-on-Main, Germany) would afford the new market needed by the Bell company. Higginson's letter to Fish, dated that Friday (April 8, 1904) stated, in part:[402]

> I was with Jim Storrow in New York yesterday and came back last night, in case there should be anything for me to do here about this bond business.
>
> Of course, we agree with your views entirely that you need a new market, and we think this can be accomplished by dealing with Speyer. We know as well as anybody can that the Telephone securities are as good as can be, but they have not interested the public yet, outside of New England, very much, and the company has not got the standing which it deserves and which it will have by and by. The New Yorkers are always shy of new things from this part of the country. We think Speyer can help to distribute the securities elsewhere.
>
> * * * * * * * * *
>
> It seems to me, if I were on your board, that I should vote to take money, if it were offered, in quantities enough to make the company easy and pay the price needed. It is, after all, a very small matter on short securities. Most of these railroad notes are two years, and that seems to be a good length of note; and perhaps they can be made a little longer. If the time could be left to the bankers, it would be not less than two years; it would be made longer, if it could be managed, and might give good results.
>
> If you want me today, or if I can offer any advice of value, I am at your service.
>
> I am speaking to you with perfect frankness, just as I have for the last thirty years to the directors of the Chicago, Bulington & Quincy Railroad Co., with whom I have had intimate relations. They are very apt to ask about the times and about what I thought with regard to this or t'other point, whether I bought a loan or not; and I always found that by treating them with entire openness and considering their problems, I got on much better. I think they recognized that fact, and I think it did them good. At any rate, it was much easier for me to proceed in that way, and I can fairly

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402. American Telephone and Telegraph Company, President's Letter File No. 17614, letter, Lee, Higginson & Company to F. P. Fish, dated April 8, 1904.

say that we have dealt with no railroad in the country, in which dealings we have made less money than with the Chicago, Burlington & Quincy. We always paid them every penny we could afford for loans and not infrequently paid them too much.

That there was additional competition for the privilege of financing Bell, which included Pliny Fisk, one of those Mackay proposed as his representative on the Bell directorate,[403] was evident in a letter to Fish from F. W. Kendrick of Vermilye and Company, dated the following Tuesday, April 11th, in which was stated:[404]

Referring to the bid made you today by Messrs. Vermilye & Co. and Messrs. Parkinson & Burr, and the writer's conversation with you, I beg to advise you that I may be out of town this afternoon, but Mr. Pliny Fisk, of Messrs. Harvey Fisk & Sons is associated with us in the bid, and will represent us.

Another company, Blake Brothers, asked for an opportunity to bid, in a letter to F. P. Fish, saying:[405]

Thinking your Company may have occasion during the year to raise some money by short time notes, rather than issue bonds or stock, we ask in such a case to be given an opportunity to make an offer for such notes. We feel that we have the ability to handle them to advantage.

We beg to call to your attention the fact that the Blake family are stockholders now to the extent of 5700 shares and always have been large stockholders.

The bonds apparently were awarded some time between the hour Kendrick had talked with Fish, on Monday, April 11th, and the following day, Tuesday, when the award to the Speyer-Higginson people was announced, as will appear. Coolidge, however, apparently had kept in close touch with Speyer, and as soon as he learned that Speyer had been awarded the financing, asked that his Old Colony Trust be named Trustee of the issue, in a letter to Fish dated Tuesday, April 12, 1904, stating:[406]

Coolidge still in picture ←

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403. See p. 91 and footnote No. 341.
404. American Telephone and Telegraph Company, President's Letter File No. 14626, letter, F. W. Kendrick, of Vermilye & Company, to F. P. Fish, dated April 11, 1904.
405. American Telephone and Telegraph Company, President's Letter File No. 14625, letter, Blake Brothers & Co. to F. P. Fish, dated April 5, 1904.
406. American Telephone and Telegraph Company, President's Letter File No. 14628, letter, Gordon Abbott, of Old Colony Trust Company, to F. P. Fish, dated April 12, 1904.

I congratulate you on the sale of notes to Speyer & Co. and Lee, Higginson & Co., the announcement of which came out to-day.

Speyer & Co. have informed us that they have suggested to your company that the Old Colony Trust Co. would be very agreeable to them as trustee of the indenture respecting the new notes, and I desire to add that I hope that this suggestion may be an agreeable one to you and your directors, for we should be very glad to have the business.

I tried to get you on the telephone to-day, but was told you were out of town.

The notes as issued were for $20,000,000, 5% Three Year notes, due May 1, 1907,[407] secured by pledge of $25,000,000 of the Company's Collateral Trust 4% Bonds due in 1929, issued under an indenture of July 1, 1899.[408] $28,000,000 of these Collateral Trust bonds were then outstanding, in addition to $10,000,000 of the old American Bell Telephone Company's 4% bonds due in 1908.[409] Thus, the Bell company was beginning to go rapidly into debt, increasing its outstanding bonds from $38,000,000 (of which only $10,000,000 or one fourth was due within four years, the rest in twenty-five years), to $58,000,000, of which $30,000,000, or one-half, was due within four years.[410]

The Baker-Morgan group thus came off second-best in the 1904 financing, but subsequent events showed they were able to do better in the next year's financing.

Bell System's 1905 Financing Plans.

The first indication in the Company's records of discussion of the 1905 financing plans occurred on Wednesday, January 4, 1905, when Fish wrote Waterbury, saying:[411]

I shall be in New York tomorrow (Thursday) and should like very much to call on you for a few minutes, if you are to be at liberty.

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407. Cf. American Telephone and Telegraph Company, President's Letter File No. 14622, letter, Speyer & Co. to F. P. Fish, dated April 13, 1904; American Telephone and Telegraph Company, President's Letter Book No. 33, letter, F. P. Fish to Messrs. Speyer & Co. and Lee, Higginson & Co., dated April 20, 1904.
408. Idem.
409. Idem.
410. Idem.
411. American Telephone and Telegraph Company, President's Letter Book No. 37, letter, F. P. Fish to John I. Waterbury, dated January 4, 1905.

The following Tuesday Fish telegraphed Crane, saying:[412]

> Shall arrive in New York Thursday morning and shall be glad to see you as early as convenient Thursday evening or Friday morning. Will keep any appointment you make.

On Saturday, the day after this appointment with Crane, Fish wrote Waterbury, saying:[413]

> I think it is quite important that the matter which we discussed yesterday at luncheon should be carried out to a conclusion one way or the other as promptly as possible.
>
> If anything of the sort suggested is to be done, there will of course be no occasion for the adoption of the other methods of financing the Company, which are now open to us and of which we should take advantage unless something is the result on the lines we talked.

After these preliminary discussions, Fish made a trip through the western states starting January 18th,[414] and returning to Boston January 30th.[415] On that day, he again wrote Waterbury, saying:[416]

> I returned from the west this morning.
>
> When will you be ready to talk with me on the matter that we discussed when I last saw you? I think it is desirable to take it up at an early date.

While Fish was discussing plans with Crane and Waterbury, Lee Higginson and Company suddenly exhibited an interest in the Bell financing for 1905, as is indicated in their letter to Fish (dated three days after Fish's letter, cited above, to Waterbury) in which was stated:[417]

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412. Ibid., telegram, F.P. Fish to W. Murray Crane, United States Senate, Washington, D. C., dated January 10, 1905.
413. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to John I. Waterbury, dated January 14, 1905.
414. American Telephone and Telegraph Company, President's Letter Book No. 37, letter, F. P. Fish to James E. Caldwell, dated January 18, 1905.
415. Ibid., letter, F. P. Fish to Milo G. Kellogg, dated January 30, 1905.
416. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to John I. Waterbury, dated January 30, 1905.
417. American Telephone and Telegraph Company, President's Letter File No. 15307, letter, Lee, Higginson & Co. to F. P. Fish, dated February 2, 1905.

Appreciating the fact that the company is likely, before long, to be again considering the question of capital requirements, we beg to say that Messrs. Speyer & Co. and Lee, Higginson & Co. would like very much to have an opportunity to bid for such new securities as the company may consider issuing.

Fish apparently was shuttling back and forth between advisors, for four days later, on Monday, he wrote Waterbury again, saying:[418]

Will you be ready to see me Friday, and if so, at what hour?

At this point in the discussion, there appears to have been a difference of opinion developing, as between Crane's and Waterbury's advice to Fish. On Wednesday, before Fish's conference with Waterbury the following Friday, Crane wrote Fish, saying:[419]

The more I consider the question of how to finance the Company for the next few years, the more convinced I am that the best way to proceed will be to sell $100,000,000 or more of our 4% bonds, allowing the different parties who have recently communicated with you to make proposals for them, and, in view of the present demand, I believe that a good price can be realized.

I have but little faith in the proposal that will be made to you the latter part of the week, but shall be glad to hear from you in regard to it.

We certainly ought to act on this question as soon as possible, as the financial conditions may change at any time.

Thus, it becomes clear that the Bell company was receiving offers of financing from several parties, including the Baker-Morgan representative, Waterbury. Furthermore, the fact that it could consider offering to sell, to the highest bidder, some of its Collateral 4%'s not due until 1929, indicates it felt itself in a better bargaining position than in the previous year, when it got $20,000,000 for only three years, secured by $25,000,000 of these Collateral 4's.[420]

Lee Higginson and the Speyers were not letting their case go without able

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418. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to John I. Waterbury, dated February 6, 1905.
419. American Telephone and Telegraph Company, President's Letter File No. 17614, letter, W. M. Crane to F. P. Fish, dated February 8, 1905.
420. See p. 119 and footnote No. 407.

presentation. This group made a strong argument, the following Wednesday, in a letter to Fish in which they outlined with considerable clarity the position the Bell company was in, and their willingness to ask no favors in financing its requirements. This letter, which implied that Higginson and Speyer had learned that Fish was dealing with Waterbury of the Baker-Morgan group, stated, in part:[421]

As we think we have made it apparent to your Company ever since our firm and Messrs. Speyer & Co. provided for the last capital requirements, we are anxious to be afforded an opportunity to show on what terms we can provide the fresh capital desired by the Company for the coming year. We do not ask or suggest that we should be given the slightest preference over any other banking firms. The Company is in sound financial condition, and we submit that there is no reason, based on the condition of the Company in the present market situation, why the company should not provide for its wants on the best terms available, and we think it a fair statement to say that the Company cannot determine what these are if it permits a single firm only to lay before it a plan to provide for its financial requirements.

The New England market has been of inestimable benefit to the Company in steadily absorbing the larger portion of its securities. In the main, the New England investor is not a speculator or purchaser of securities on a scale which leads to substantial liquidation in times of stock market stress, and if the confidence of the New England investor is retained by a continuation of conservative methods of finance and management it should not be overlooked that in abosrbing and holding power he will continue for many years to be the most valuable client which the Company possesses.

At the same time we think all well wishers of the Company realize that if it can also interest a substantial number of investors in its securities in New York in England in Holland and Germany, its position will be greatly strengthened, and we and our friends, Messrs. Speyer & Co., have given this matter much consideration. Holland, for example, seems to us to be a place where a very valuable and tenacious clientele can be built up for the Company, but we are inclined to think that in view of the lack of knowledge in Holland of the Company and its resources, it is not very probable that the Dutch will be disposed to purchase the present outstanding securities of the Company on a substantial scale. The bonds, at present prices, now yield only slightly above 4%, and the danger is that the Dutch investor may be more attracted by the bonds of other large corporations better known to him, and yielding the same rate of interest, such, for example, as last week's sale of $75,000,000 Southern Pacific 4s (sold at 97) a large number of which we have reason to know were sold in Holland.

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It seems to us, however, that a convertible bond, as we have taken occasion to say several times during the last year could be made to attract foreign investors, and so gradually interest them in the Company. Such a bond could be made convertible say on the basis of par for the bonds and 150 for the stock. We are aware that under the New York Statutes bonds issued

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421. American Telephone and Telegraph Company, President's Letter File No. 17614, letter, Lee, Higginson & Co. to F. P. Fish, dated February 15, 1905.

under the present mortgage could only be made convertible for the next six years, but if it seemed desirable to extend this period, we have consulted counsel and believe we could suggest a method by which the two to twelve year period provided for by the statute could be secured.

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We also think a 4½% preference stock made exchangeable into common stock on the basis of 150 for the common stock could be sold at a price which would be very satisfactory indeed to the Company. Under the conditions obtaining in foreign markets at the present moment this latter plan, in our judgment, is probably the wisest course for the Company to pursue.... It is also true that this increase of capital without any increase in the interest bearing obligations of the Company, will be a great assurance for the future of the Company, for its indebtedness will be far below that of any other correspondingly large corporation in the country. If there should happen to be a shake up in the market in connection with the next presidential election when there will be the uncertainty of a new Republican candidate and the democratic party very likely led by its radical elements, the position of the Company will be absolutely impregnable.

In this connection, we may add that we should be glad to provide not only for the requirements for the year 1905, but to go further if desired, and take care of the $20,000,000 five per cent. Notes coming due May 1907.

May we say for ourselves, that as a New Wngland firm, we have always taken a great pride in the Company. We have dealt extensively in its securities for many years; we have, with our friends Messrs. Speyer & Co., provided for its last financial requirements, and inasmuch as there has been no day since the issue of the last securities when we have not made it clear that we were ready and anxious to be considered by the Company when taking up its future capital requirements, we should feel it keenly if we should be kept in our present position of being told that an offer of capital from us could not be considered, and the opportunity should be reserved exclusively for another.

We think we can rightly say that the record of this last year and preceding years shows that Messrs. Speyer & Co. and ourselves are as well fitted as any firm to serve the Company by purchasing and thoroughly distributing a large block of new securities.

The last two paragraphs of this letter are highly significant, suggesting that Fish had been prevailed upon to tell the Speyer-Higginson firms that their offer of funds could not be considered. Especially is this significant when they specifically state they do not wish any preferential terms over other bankers, and agree to take care of Bell's needs not only for 1905, but up to and including the crucial $20,000,000 coming due on May 1, 1907.

Crane had already shown reluctance to accept the plan suggested by Waterbury the previous Friday, and on the same day (Wednesday) that Higginson wrote Fish the above letter, Crane also wrote Fish, saying:[422]

> I am beginning to think that we ought to raise the necessary money by the sale of four per cent collateral bonds without the conversion clause. We surely can find some one who will buy them at a reasonable price. The other proposition is intricate and uncertain, and might lead to a great deal of trouble. I write you about it now, thinking that you might want to intimate to the people in New York that some of your people do not look with favor on their plan, but of course do as you think best about this.
>
> If you wish to talk with me on the telephone you can call me up at the Senate any time after 11 o'clock tomorrow or Friday, and at the Arlington Hotel previous to that or in the evening.

Original Refusal of Baker-Morgan Convertible Bond Plan. Under date of February 16, 1904, the following day, the Bell Company's counsel gave its opinion of the "Proposed Plan of Financing," thus revealing the details of the plan which had been proposed to Fish by Waterbury, for the Baker-Morgan group, and showing the basis for Crane's objections to the plan. The opinion, in part, stated:[423]

> In order that there may be no question as to the exact points which are discussed in this letter we will briefly summarize the plan under consideration.
>
> A syndicate to buy --
>
> (a) $15,000,000 of our bonds expiring in ten years instead of 1929.
>
> (b) $35,000,000 four per cent bonds analogous to our present bonds convertible into stock at $130 at any time, say, after three years and before eight years, and to run, say, twenty to twenty-five years.
>
> (c) $50,000,000 of the same type of convertible bonds, if we have the power to offer them, with an option on the part of the syndicate to take $50,000,000 more of the same kind.
>
> The $100,000,000 which the syndicate are bound to take are to be paid in installments on fixed dates, the series of installments of the first $50,000,000 being completed in August 1906 and of the installments of the second $50,000,000 in December 1907, with the right to anticipate at any time payment of any part or all of the first $50,000,000 and at any time after

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422. American Telephone and Telegraph Company, President's Letter File No. 17614, letter, W. M. Crane to F. P. Fish, dated February 15, 1905.
423. Ibid., "Report of Messrs. Leverett, Sherwin & Driver, Proposed Plan of Financing," dated February 16, 1905.

August 1906, payment of any part or all of the second $50,000,000. If payments are anticipated, the syndicate, at our request, will hold the money until we want it and allow 3% interest.

Omitting the price to be paid for the bonds, this is the whole of the plan.

The distinctive and controlling feature of this plan is the issue of convertible bonds....

* * * * * * * * *

BUSINESS CONSIDERATIONS.

There is one serious business objection to the adoption of the convertible bond feature of this plan. The bonds, when placed upon the market, being of a greater value, would to a large extent lessen the demand for our collateral trust bonds, as the market would undoubtedly give preference to the convertible bonds. This would be an important fact for those of our present bondholders who may wish to dispose of their bonds.

Undoubtedly we need not, in our policy of financing, limit ourselves to our own serious detriment in order to protect those who have heretofore purchased our previous issues of bonds, but we should bear in mind, in deciding upon a policy, that we must ourselves necessarily be in the market to sell further issues of our collateral trust bonds; because in May 1907 $25,000,000 of these bonds will be released by the payment of the $20,000,000 of notes for which they are now held as collateral. In July 1908 the bonds of The American Bell Telephone Company will be payable, thereby making the collateral theretofore held for such bonds available for the issue of $10,000,000 of our collateral trust bonds. As stated above, this collateral having once been deposited with the trustee under the indenture cannot be withdrawn; and consequently this company will have $35,000,000 of bonds which it must sell in order to avail itself of the assets deposited under that indenture.

It would, therefore, seem to be highly desirable, as a business proposition, not to issue convertible bonds if it can be avoided, as these $35,000,000 bonds would be available in any scheme which did not require the issue of convertible bonds.

It is to be noted in this connection that the company has cash in hand sufficient to pay all its obligations until the current Summer; that for the two years succeeding, including the payment of the $20,000,000 of notes maturing in May 1907, the probable requirements of the company will not be much, if any in excess, of $70,000,000; and that upon the payment of the above notes $25,000,000 in bonds will be in hand for the future financing of the company.

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Conclusions

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To our minds there is another risk in the proposed plan which should be had in mind. If a bankers syndicate should be formed, under the proposed plan, who should pool their bonds or place them in trust, the trust so formed, by exercising the option given for the conversion of bonds, would have the power to acquire so near an absolute controlling interest in this company as practically to control the whole assets of the company, which they could use for any schemes of financing that they saw fit. In short, having nearly one-half of the entire issued capital stock of the company, they could consolidate this company with other companies, or make any other arrangement in regard to its future financing that they saw fit. This is a great and extremely valuable option and is equivalent, until the bonds are distributed or sold to the public, to a surrender of the powers of management by the present officers and stockholders to a body of bankers who may work to the disadvantage of the present stockholders in the promotion of other schemes of consolidation.

We cannot see in the present condition of the company any urgency which calls for a method of financing so drastic as this plan.

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All of the other objections to the plan as stated in the foregoing opinion still subsist. In addition, if say, One Hundred Millions were to be offered to our stockholders at one time the question of the good faith of the offer would be at once raised, inasmuch as it couldnot be fairly expected that our stockholders would be in a position to take so large a block at once. [underscoring supplied]

The forthright criticism of the Baker-Morgan plan brings the essential issue sharply into focus: **The proposed plan amounted to "a surrender of the powers of management by the present officers and stockholders to a body of bankers who may work to the disadvantage of the present stockholders in the promotion of other schemes of consolidation."**

The audacity of this proposal, in the opinion of Bell's legal counsel, was sufficient to warrant its prompt refusal, but it appears that Fish had considered it for a time, meanwhile refusing to receive offers of financing aid from the Higginson and Speyer group.

Under these conditions, with Higginson and Speyer offering a strong case against exclusive arrangements with the Baker-Morgan representative (Waterbury) and with an Executive Committee member (Crane) advising against the Waterbury plan, Fish apparently decided to play for more time, for that day he wrote to J. P. Morgan and Company,[424] saying:

We find so many practical and technical difficulties in the scheme suggested in our conference last Friday, that it will be some time before we shall be in a position to take the matter up on its merits. Absolutely no time will be lost in making such investigations as are necessary to a proper consideration of the plan.

I shall hope to call on Mr. Steele some time Friday, to talk with him a few minutes about some of the legal difficulties.

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424. American Telephone and Telegraph Company, President's Private Letter Book No. IV, letter, F. P. Fish to J. P. Morgan & Co., dated February 15, 1905.