

THE PHILOSOPHY OF OUR BUSINESS

by
A. W. Page

There are two general contracts which the public makes with business groups that serve them. That has been true for hundreds of years. One of them is a competitive contract. The other is a regulatory contract. In the competitive contract, the public says to a group of people, we will let you provide us with this, that or the other service, and the contract that we make with you is that you shall get as much money out of it as you can as long as there are other fellows in the same business. The regulatory contract is that we will let you do it, but as there is nobody else in the field to compete with you, we will specify the rates. The public's object in both cases is to get a reasonable service for a reasonable price.

Back in history, there were periods when the regulatory contract was more favored, and other periods, such as the time this company came into being, when the tendency was to favor the competitive contract. American background is strong in the belief that competition is the backbone of business, and that it is the way to do business for the public. The state regulatory theory is of the last thirty or forty years. It hasn't yet gotten the confidence of the public to the degree that competition has. I am now speaking from the public point of view.

Let's take the comparison of two industries which have recently developed very rapidly, the light and power and the automobile industries. One of them has been regulated and the other has been in competition. I think if you would measure the service which the public got from the light and power industry against the service which it received from the automobile industry you would find that the public had fared about as well from the light and power people as from the automobile people.

When you come to the telephone industry, there have been no excess profits beyond the costs of doing the business. The Bell System has never made a great fortune for anybody. There have been no excessive or speculative profits. The public has paid what you might call the cost of doing the business and that is all. And I think, by and large, the telephone company has been as efficient as

those businesses which have been encouraged by the large fortunes under regulation or under competition.

Moreover, it appears to me that it is very much pleasanter to work in an industry that is devoted to the public service as its main object, than it is to work in a place, for instance, where one of the main objects is to make some more money for particular individuals. There is a single objective, and a higher social objective in our position than there is in a place where you work partially to serve the public and partially to see if you can't increase the income of some particular person or group of persons.

We are, therefore, in a little bit different situation, for the emphasis we place is not upon giving the last possible cent to the stockholder as soon as we can get it to him. We work on a long perspective. We pay our stockholders reasonable dividends—a fair return on their contribution to the System—and this leads them to continue to furnish us with money. But we do not pay more than that. A lawyer once phrased it that in the Bell System the public was the residuary legatee of all benefits, whereas in most businesses the stockholder was the residuary legatee of all benefits. That is an accurate description of our motives. The more I think about it though, the less inclined I am to believe that we actually pay our stockholders in the long run very much less than other industries do. I think what happens is that in other industries some people lose money and other make fortunes; that in certain times those industries make a lot of money and other times no money. What happens with us is that nobody makes any great speculative profit at any time, and it is a fact that nobody has ever lost a cent in the Bell System. Accordingly, we run on a rather even keel, paying a fair return which encourages people to continue to invest with us without waste and without speculation.

This picture of our financial aspect is one answer to the usual indictments against monopoly which the public holds. The public is apt to think of monopoly as being greedy. Our answer is the policy announced at Dallas, that we are even less greedy than the law allows. We voluntarily have restricted the amount of money that we want to

turn over to our stockholders and, as I say, the public is the residuary legatee of our efforts.

But there is another indictment to monopolies that is common in the public mind and that is that monopolies are slothful, because, having no direct competition, they are not under any necessity to hurry and push and struggle. That they rather take their time and are not particularly attentive to their progress. Now I think we have an answer to that too. The best answer to the public in that connection is a constant and unremitting sales policy. If you are trying to sell the public everything you have, exactly as a man who must do that in order to live, the public will recognize that you are interested in them. They will instinctively know that you can't serve a man unless you have sold him a telephone and they will judge your desire to serve him in considerable extent by your desire to sell to him.

I suppose that is true all over the world, but I am certain in the United States, which is a selling country, that an institution that doesn't try to sell will be differentiated from the ordinary business and marked as slothful.

Accordingly, from a public relations point of view, we should be interested in a selling campaign for its own sake. Such a campaign is an indication of a state of mind which we must have in order for the public not to think we are slothful.

If the whole personnel is endeavoring to sell, you will find it makes a difference in their state of mind.

Of course, we do have, in spite of the monopoly in one sense of the word, about as severe competition, if not more so, than most people. I don't think we always recognize how severe the commercial competition is. You can get it clearly if you think of what the plumbing people did during the time the telephone has been in business. I don't know the dates but the real bathroom era came along about the same time as the telephone era. Plumbers have convinced people that they need a lot of bathrooms. They have the public thoroughly convinced. People do not talk about saving a few dollars or about small economies when they start putting plumbing in their houses. Everybody goes out on a generous scale, and certainly a scale of amazing generosity as compared with thirty or forty years ago.

Those fellows were getting money that we might have had if we could have had people think-

ing they had to have five or six telephones. The vacuum cleaner and similar conveniences are in competition with us. We are in competition with all the conveniences and comforts of life. Then, of course, we have the competition that is inside the business which I believe to be unparalleled.

I remember years ago when people were first getting up institutes and various schemes for combination within the law. The idea then was to exchange information so that people could compete on an intelligent basis. That was looked upon as a great step forward in intelligent competition. However there is no group that ever gets together that exchanges information with the detail and pressure that the Bell System does. I never heard of one, at least.

Competition arising from the comparison of what is done, here, there and everywhere in the System, plus the competition of the field's efforts to originate new and improved methods and ideas, practices and appliances, and the fact that you have a large staff whose only function is to find out some better way of doing what is going on, makes a three-fold and detailed competition which I think gives efficiency, probably better organized than any other industry. That is the answer to the other general indictment of monopolies that they are not efficient.

The three indictments are, that monopolies are greedy, slothful and inefficient. I think we are actually set up to meet all three of these, and demonstrate that what we have is more efficient, less slothful and less greedy than any other arrangement that the public could set up for operating the telephone business in this country.

One thing in the paper of Mr. Kilpatrick at the General Managers Conference impressed me very much—the seeming paradox of increasing salary and wages and at the same time a decreasing labor cost. Of course the Bell System has constantly become more technical and complicated. It takes a better personnel than it used to, and in the future will continue to take a better personnel all the time. Ultimately, the large proportion of the people in the Bell System will be handling either high grade technical problems, or very high grade people, or the public, or probably all three. To my mind this means an aristocracy of management, a profession as interesting as any in the country and full of opportunities, and a profession devoted to the public service on a higher plane than any other I can think of.

DISCUSSION

Following Mr. Page's paper, Mr. Gherardi discussed the relation between the license contract payments of the Associated Companies and the costs to the American Company of rendering the various services to the Companies.

Mr. Stoll outlined the activities of the Electric Research Products Corporation and described the

sales situation in the talking moving picture field at the present time. He also mentioned the proportion of the Western Electric Company yearly production which is devoted to the manufacture of talking movie equipment. Mr. Gherardi developed the various advantages to the Bell System of being the leader in this work and of keeping abreast of all angles of the communication art.
