

MR. PAGE'S ADDRESS TO THE BELL TELEPHONE LABORATORIES

June 15, 1929

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The civilization that we live in is an arrangement whereby different groups are called upon by the whole to provide particular services. One group will do one service and one another. These services are done in three general ways. One way is by the public directly through its agent the government such as the collection of taxes, the work of the Post Office, etc. Another part of the services is done by voluntary groups of people, such as charities and churches, and a great deal of the educational work and a considerable amount of scientific work is started by voluntary non-profit making groups. The last of the activities are those that we generally consider business, which are carried on under groups having two kinds of contracts with the public. Of course they are not written contracts, but they amount to the same thing.

One of these contracts is, in general, the competitive contract in which the whole of us, that is, the public, say to a certain group, "We will let you do this and that and the other service that is necessary and we will let you make out of it what you can so long as there are enough other people competing with you." The public believes competition will result in our getting a reasonable service at a reasonable price.

The contract the Bell System works under is the other type, the regulatory contract. In that case the public says, "We will let you have more or less a monopoly in this field but we will fix the price and some of the conditions." The object of this kind of arrangement also is a reasonable service at a reasonable price. These two kinds of business contracts have been in vogue for a good many hundred years. When this country was started the competitive idea was stronger in people's minds, and still is in the minds of American people, than the regulatory one. In spite of the fact that we have had the Interstate Commerce Commission and State Commissions for many years the general public still thinks that it gets better service at a more reasonable rate from competition than from regulation. We in the telephone business have to take into consideration this public feeling in presenting our services and ambitions to the public.

The Bell System recognizes that it has a national responsibility. It is true that we do not own or operate all of the telephones, but we do own and operate so large a proportion of the national system and the strategic long lines that we have a national responsibility. It is our ambition to operate the nation's telephones to the public's satisfaction. It is really our ambition to do it more to the public's satisfaction than regulatory bodies could tell us how to. This ought to be possible for we know more about the business than either the public or the regulatory bodies. We know more about what the cost of good service is, and it ought to be possible for us to do a better job and continue to improve our service beyond any standard the regulatory bodies should be able to suggest.

The best possible service at the least cost consistent with financial safety was the keynote of the speech Mr. Gifford made at Dallas. That speech will repay rereading from time to time. It was carefully written. It is very full of meaning. One of the main public relations jobs of the Bell System is to get the meaning of that speech into the public consciousness. When we have done that we shall remove the natural disposition on the part of the public to presume that we have a reason against doing what we said we were going to do. That presumption is based on the fact that they believe that our financial interest lies contrary to the best service at the least cost.

Now, of course, the crux of that Dallas statement was the answer to that public suspicion. In that statement Mr. Gifford said that we would pay to our stockholders a reasonable regular dividend and give them an opportunity to invest in the business from time to time. What does that mean? It means that we do not ask to make the most money out of this business that we can. It means practically that we ask the public to pay enough money to insure us having funds to continue the business and increase it, and that we will pay for that money a reasonable amount, - certainly enough to be sure that we get it. Beyond that, what we get goes back into the service. The residuary legatee in our case is the public. That means that we really have offered the public a more satisfactory and generous contract than the regulatory bodies or the law has asked us to do. I think that is one of the most important steps that has been taken in any recent time in the very great problem of adjustment of the big business of democracy, and that is one of the great problems we have before us.



We can all see that we have acquired a very significant control of the material aspects of our civilization. One of the questions is whether our human adjustments can be made equal to the strain that our material advances bring. The Bell System Policy is part of our answer to that problem.

In that connection I would like to read part of the speech made by Mr. Hoover when he was Secretary of Commerce:

"The advancement of science and our increasing population require constantly new standards of conduct and breed an increasing multitude of new rules and regulations. The basic principles laid down in the Ten Commandments and the Sermon on the Mount are as applicable to-day as when they were declared, but they require a host of subsidiary clauses. The ten ways to evil in the time of Moses have increased to ten-thousand now.

"A whole host of rules and regulations are necessary to maintain human rights with this amazing transformation into an industrial era. Ten people in a whole county, with a plow a piece, did not elbow each other very much. But when we put seven million people in a county with the tools of electricity, steam, 30-floor buildings, telephones, miscellaneous noises, street cars, railways, motors, stock exchanges, and what not, then we do jostle each other in a multitude of directions. Thereupon our law makers supply the demand by the ceaseless piling up of statutes in attempts to keep the traffic open; to assure fair dealing in the economic world; to eliminate its wastes; to prevent some kind of abuse or some kind of domination. Moreover, with increasing education our senses become more offended and our moral discriminations increase; for all of which we discover new things to remedy. In one of our States over 1,000 laws and ordinances have been added in the last eight months. It is also true that a large part of them will sleep peacefully in the statute book.

"The question we need to consider is whether these rules and regulations are to be developed solely by Government or whether they can not be in some large part developed out of voluntary forces in the nation. In other words can the abuses which give rise to Government in business be eliminated by the systematic and voluntary action of commerce and industry itself? This is indeed the thought behind the whole gamut of recent slogans 'Less Government in Business,' 'Less Government Regulation,' 'A Square Deal,' 'The Elimination of Waste,' 'Better Business Ethics,' and a dozen others."

Of course I think our policy has a broader significance and is a more fundamental method of approaching this matter than merely making additional rules. What we did was to announce a principle of treating the public fairly and that principle is exemplified in the specific recommendations in the policy that Mr. Gifford announced. With that intention you ought not to need all the rules because the activity will follow the proper course without being hindered at every turn. Mr. Hoover goes on:

"National character can not be built by law. It is the sum of the moral fibre of its individuals. When abuses which rise from our growing system are cured by live individual conscience, by initiative in the creation of voluntary standards, then is the growth of moral perceptions fertilized in every individual character.

"No one disputes the necessity for constantly new standards of conduct in relation to all these tools and inventions. Even our latest great invention -- radio -- has brought a host of new questions. No one disputes that much of these subsidiary additions to the Ten Commandments must be made by legislation. Our public utilities are wasteful and costly unless we give them a privilege more or less monopolistic. At once when we have business affected with monopoly we must have regulation by law. Much of even this phase might have been unnecessary had there been a higher degree of responsibility to the public, higher standards of business practice among those who dominated these agencies in years gone by.

"There has been, however, a great extension of Government regulation and control beyond the field of public utilities into the fields of production and distribution of commodities and credit. When legislation penetrates the business world it is because there is abuse somewhere. A great deal of this legislation is due rather to the inability of business hitherto to so organize as to correct abuses than to any lack of desire to have it done. Sometimes the abuses are more apparent than real, but anything is a handle for demagoguery. In the main, however, the public acts only when it has lost confidence in the ability or willingness of business to correct its own abuses."

When he says that if the monopolist had had a greater vision the amount of regulation and legislation might have been less, he put his finger on the point the Bell System is working for; that is, our ambition is to do this job so well from the public's point of view that there will be a minimum of regulation, a minimum of legislation and a minimum of complaint from the public in regard to the job that we are doing.

He goes on:

"Legislative action is always clumsy--it is incapable of adjustment to shifting needs. It often enough produces new economic currents more abusive than those intended to be cured. Government too often becomes the persecutor instead of the regulator.

"The vast tide of these regulations that is sweeping onward can be stopped if it is possible to devise, out of the conscience and organization of business itself, those restraints which will cure abuse; that will eliminate waste; that will prevent unnecessary hardship in the working of our economic system; that will march without larger social understanding. Indeed it is vitally necessary that we stem this tide if we would preserve that initiative in men which builds up the character, intelligence, and progress in our people."



I think that is a pretty accurate picture of the condition, and the course that he lays out is a pretty accurate picture of the ambition of the Bell System. Now he spoke there not only of proper treatment of the public but of the elimination of waste. This financial policy of the Bell System also bears upon that. It is a very interesting thing that the telephone was invented and the industry organized in one of the great eras of exploitation. Many industries in that era made great fortunes for some people and great losses for other people. An individual made a great fortune and another lost his money. Those rapid rises and falls and great losses that have been common in other industries have not affected the Bell System. That means that from a capital point of view there has been practically no waste because of the character of the ownership of the Bell System, and that character has been achieved by conscious policy.

Because we set out to be publicly owned it is as much a part of our policy as the Dallas speech. We have as an owner, and practically a perpetual owner, a person of indefinite life and with all the money that he needs. That is because he is a composite owner. The 450,000 people that own the Bell System do not die at any one time, do not wish to retire at any one time, and no emergencies arise that make them put pressure on the business to do this, that or the other. That means that the system can look forward to doing all this work on a long distance program, eliminating waste so far as humanly possible. It also means that no one will interfere with the progressing system.

This practice and policy in regard to finance is the answer the Bell System makes to the natural suspicion of the public that all monopolies are greedy and wish to make too much money. We believe that we get the savings of monopoly without its greed.

In other words, on the general indictment that is held against us, we have set up an answer which is not only an answer in words but in actual performance, as for instance in recent times our succession of reduction in prices for long lines messages and the constant reduction in Western Electric prices. All these things going to the benefit of the public are indications of the actual practice of this financial policy. It is a policy which sooner or later will be understood by the general mass of the American public and then to a large extent we will be in the position which Mr. Hoover outlined. We shall

serve the public in the best manner we know with the least interference of regulation by Commission and the least interference by statute.

The public has a notion that a monopoly in itself breeds inefficiency, slothfulness and arrogance. One of the answers to the suspicion of slothfulness is our desire to sell our product to the American people who are used to the competitive business and who are used to judging the activity and energy of a business by the degree to which that business endeavors to sell its product. It is hard to convince the public that you are really energetic unless you have constantly tried to reach every person in the country and to sell him the benefits he ought to have from your service. The sales discussion which has been going through the Bell System recently has arisen not only because we would like to do more business but because we cannot give the public the impression that we are as energetic as we ought to be unless we are doing this. I suspect that we will not be as energetic unless we are trying to give that service to every person that we can possibly reach.

There is a third suspicion that the public has of monopolies and that is inefficiency. I think our record and our reputation with the business in this regard is probably better than the other two. I think they probably understand more nearly what the Bell System stands for as far as efficiency is concerned than they do in regard to either its finance or its sales, and I think that is considerably due to the Laboratories. A succession of new inventions and new advances in science, which are dramatic, register on the public's mind and give the public the idea that if anything is to be done in the field of communication the Bell System is pretty apt to be doing it. That reputation has a tremendous value to the System. It removes from the Bell System one of the usual attributes of monopoly -- inefficiency. Of course, this efficiency is achieved also by definite policy.

Most businesses improve their technique and their practices by the inventions and ideas of the operating men in the field, and the Bell System has as much of that initiative in the field as other businesses. The Bell System has besides this the organization of the Laboratories and the staff departments at 195 Broadway with a large number of people whose only business it is to improve the practices, methods, material and inventions of the System. In other words, the setting up of an organization which if it does anything must improve the business is, in itself, bound to produce a constant improvement.



It is also a fact that although the Bell System is in the usual sense of the word a monopoly it has probably as much competition as there is in any other business. In your own practices there is not only competition from other research laboratories but there is a much more general and surrounding competition from the scientific world in general, because as a matter of fact what you are trying to do is to keep ahead of all the ideas that might be useful in communication, and you are in competition with the brains of the entire world.

The telephone also competes for the consumer's dollar with everything from bathroom fixtures to automobiles. Beyond that the Bell System has a particular kind of competition within itself. The operating companies, as you know, have detailed comparative statistics of practically everything they do. That competition between companies is more detailed than the competition that affects people in similar lines of business outside. Ordinarily one business man competes with another, and if his total operation makes a profit he can stay on in business. But in the Bell System it is much more detailed than that. Every item along the line is compared and it is not enough for a company merely to keep a profit at the bottom of the ledger but all its efforts all the way down the line are compared. Consequently there is the competitive pressure to do every part of the job well. The result is that, if you take our whole picture, you have competition in the field, competition between us and all other businesses serving the public, and the extra competition, if you wish to think of it as that, insured by having a large number of people who have no other object than to improve the Bell System. There is probably a higher degree of competitive pressure in the Bell System than in any other kind of business.

If we can get all these things which I have talked about - assurance to the public that we are offering our service on a more reasonable basis than they could expect under the laws and regulation and that it is our ambition to give them the very best service at the least cost; the fact that our philosophy embodies a selling activity that means we will try to reach the maximum number of people in the United States; and that our policies insure the maximum progress and efficiency, - if we can get all these things working to their satisfaction and can convey these things both by words and deeds to the public, we ought to be able to reach somewhere near the almost millennium of which Mr. Hoover spoke, that is doing this job with the least possible interference by the public and regulatory bodies.

I do not mean that I am arguing against regulation or against legislation in the usual way that it is done. I am not criticizing our law makers or our regulatory bodies. The burden of proof is on us. We have to demonstrate that in the telephone business the public will receive the maximum service without effort on the part of law makers and commissions. I think we have made more steps in the direction of Mr. Hoover's thought than almost any other industry and I think we have a clear cut philosophy which ought to lead us to continue in that path. As we go into that path it seems to me that we are all engaged to serve the public continuously and well. Neither the law, medicine, teaching nor any other profession has any higher standards, or is any more to the public advantage. It is also a happy circumstance that the materials of our business allow us to improve constantly so that as time goes on the people in the Bell System will continue to be of a higher and higher type exactly as they have grown that way in the past. Everybody in the Bell System will be dealing with complicated machinery, with a high type of personnel or with the public. We can look forward to being held in high esteem by the public and to working with as highly developed a group of people as any in the country. This it seems to me is one of the most interesting pictures that any people in business might have.