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(apparently written by a member of
the Committee of Seven in 1912)

1911
(see pp. 4 and 7)

At the beginning of 1895 there were approximately 400,000 telephones in operation in the United States, of which all except about 15,000 were owned and operated by the American Bell Telephone Company. The remainder of about 15,000 were installed and operated by so-called Independent Telephone interests.

From that date until the present time the use of the telephone has developed until there have been installed in the United States by the American Telephone and its successors, the American Telephone and Telegraph Company, hereafter, for convenience called the Bell System, approximately 4,000,000 telephone, and by the so-called Independent Telephone interests, hereafter called the Independents a like number; there being in service today in the United States approximately 8,000,000 telephones.

The telephones installed and operated by the so-called Independents were owned and operated or controlled by 28,000 Companies, Partnerships or Associations, composed in almost every instance of men living in the immediate community served.

A very large proportion of these telephones (about 4,000,000) are in so-called non-competitive territory, while the remainder are in opposition plants; that is, in territory which is partially served by each of the two interests.

Of the telephones installed by the Independents, substantially one-half, or 2,000,000, now have connection with the Bell system, leaving approximately 2,000,000 telephones operated by the Independents without connection with the Bell system.

The Independent Telephone development was, in its earlier stages, made by and remained in the hands of people who were familiar with the telephone business, and came into existence as a result either of real or imaginary needs of a greater telephone development than was afforded by the Bell system.

The opposition in many instances sold service at too low a price, due to several causes, principal among which were the following:

- (a) Lack of knowledge of the cost of operating and maintaining telephone systems.
- (b) Lack of knowledge of depreciation.
- (c) Belief that the rates charged by the Bell Company were exorbitant and yielded an unnecessarily large return on the investment.
- (d) A disposition to give to a particular community a more efficient and comprehensive telephone service than it had previously enjoyed without due regard for financial returns.
- (e) An enormous and extensive growth of telephone plants in a given community which was not, and could not be reasonably anticipated by the owners. This was due to a diversity of causes, the principal of which probably were:
 - (a) Agitation of the telephone question in the public press and otherwise due to the bitter and in many instances unreasonable and unfair methods of so called competition.
 - (b) The low price at which service was rendered in the first instance by the opposition and later by the lower rates established by the Bell System.
 - (c) Local ownership of the opposition plant and an appeal to local pride and homeinstitutions.

These things resulted in a condition which, in many instances was unprofitable to both systems confined to particular territory or territories. Service being sold by both interests at less than it costs to produce, having due regard to efficiency of service and plant preservation.

The Independent Companies may rightly be divided into three classes: Namely:

FIRST: Those which were honestly built, soundly financed and operated at fair rates and which are yielding satisfactory return on the investment, with a reasonable prospect of continuing to do so indefinitely.

SECOND: The properties on which so called watered securities were issued, and which due to fair rates, good management, local ownership and other fortuitous circumstances, have been able to earn and pay dividends on so called watered securities, thereby giving them a market value.

THIRD: Those which were recklessly built by promoters, who either through lack of knowledge or a wilfull desire to mislead, that they might induce the public to finance their undertakings, misrepresented the cost and exaggerated the profits of the undertaking.

We find today that the owners of the second and third classes of properties are anxious to sell or have sold in one way or another and gone out of the business. This in order that they might avoid further losses or take a profit which they believe relatively larger at this time than it will be in the future.

Class A: It is particularly from Class A that opposition to a sale or merger may naturally be expected. The owners of such properties are satisfied with the business and want to remain in it. They have the confidence of the people, are rendering satisfactory service and realizing a fair return.

Many of the independent properties are so called County systems. In many instances they cover a larger territory and in some do an interstate business directly, all by means of locally owned toll lines. These connections reach alike, the plant which is conservatively managed and on a sound basis, the owners of which are satisfied and want to remain in the business. They reach the dilapidated plant but which still serves its community and they reach the plant which shows a profit on its construction and whose owners want to sell and realize.

Almost every independent telephone system has one or more connections in one or more of the classes above enumerated. It is but natural that the investors in the independent telephone plant who are satisfied with their investment and want to continue in the business, are opposed, especially to the sale or merger of Independent properties, in the group with which his property is most clearly identified. Especially when such sale is made to an interest which, from the beginning has been hostile,

fearing that with the acquisition of such other properties, the Bell Company will sever toll connections entirely or permit the service to deteriorate so that the patrons of the satisfied owner will be deprived, to a greater or less extent of any connection outside of the immediate territory, which connection his patron had previously enjoyed.

Another source from which opposition may be expected, is the manufacturer of apparatus and supplies and dealers therein whose sole market has been and is with the independent interests. Those feel that whatever property passes under the control of the Bell System will be closed to the independent manufacturer or dealer, even though the property so acquired should be maintained by the purchaser. This feeling is not unwarranted perhaps; due, first to natural law, and second; on account of the provision embodied in many of the so-called sub-licensee contracts, which, stripped of verbiage mean in substance, that the sub company will purchase its apparatus and supplies from the Western Electric Company and will not connect or interchange business, with any other system, which does not use Western Electric Equipment.

A third source of opposition, is the inherent hostility of the average man to unrestricted monopoly and while this sentiment is susceptible to change it is still a strong factor and it would seem wise to give this factor full consideration.

Another element in the situation is the so-called committee of seven appointed in December, 1911, at the Blackstone Conference. This Committee is made up from members of the opposition interests and was appointed for the purpose of conferring with representatives of J. P. Morgan & Co. and the American Telephone and Telegraph Company with a view of ascertaining whether or not there was a common ground on which all interests might lawfully stand in furtherance of the general welfare.

At the convention of the National Independent Telephone Association held in Chicago in February, 1911, bitter opposition to any negotiations of this character was developed and it was

only by careful handling of the situation that a split and considerable friction was averted.

After discussion of the general situation by those favoring the elimination of cut throat competition, it was deemed wise for a member of this Committee of Seven to make a statement to the Convention, which was done. This statement was to the effect that the Committee had positive assurance from Mr. Vail, President of the A. T. & T. Co. and from Mr. Davison of J. P. Morgan & Co. and some of their associates, to the effect in substance that the negotiations then pending between certain independent companies and the Bell interests were only for the purpose of ascertaining if a common ground could be found; a basis or method of treatment which might be applied to all independent interests, should they so desire whenever and so long as it could properly and lawfully be done provided they would fairly co-operate to that end. It being the further understanding and so stated that when such properties as had then been or might thereafter be designated for treatment (not exceeding twenty-five) had been treated and before any deal was closed with any of them, that the Committee should report back to the conference which had created it, the results of such negotiations, and after such report should have been made the various individual members of the conference or properties under consideration and all other properties should be at liberty to take such individual action as they might see fit.

That is to say; that all obligation not to negotiate or deal, which obligation was (with the exceptions of those properties then or previously under negotiation and which good faith required should be continued) a part of the Blackstone understanding should be terminated, and all parties should be released therefrom and at liberty to do whatever, in the judgment of each, was best.

It was further stated, that it was the purpose of the Committee if possible, to arrive at a basis which might be fair to all who might see fit to avail themselves of it, and not to give advantage or preference to any particular individual or parties.

The Convention was urged to remain passive, and the individual members and others in attendance were urged to await the final report of the Committee, which it was then believed and promised would probably be made to the Conference within sixty days from that date.

It was further stated that if there was any substantial variation or departure from the understanding reached and stated, that notice thereof would be given to the Independent telephone interests generally. In other words, the Independent interests would be advised of conditions and progress or lack of progress as the case might be in order that they might take such action as in their judgment, seemed best.

As a result of this statement and promise, no hostile action was taken. This Committee has not yet completed its work, much more time being required than was then expected by any one on either side, and a feeling of restlessness and doubt has arisen.

I am of the opinion that the conditions above suggested could be substantially overcome or obviated if the following plan were pursued:

First: A declaration of the President of the S. E. & T. Company that it would open its telephone lines under practicable and equitable operating conditions to all telephone properties in the United States, for what is commonly known as toll line or long distance business, as rapidly as arrangements could be perfected. I believe this could safely be done, as the construction of toll lines by independent interests, has practically ceased; and it would seem that no serious difficulty could arise, and I believe that such an arrangement would relieve the apprehension of the independents who want to remain in the business and who fear that their property would be adversely affected by the severance of connections.

Second: A further declaration by the Bell Company that it is willing to and would sell its local exchange properties to the local company for a fair and equitable consideration, where the local company is successful, has the confidence of the

public, is rendering reasonably adequate and efficient service, and is on a sound financial footing.

It is, of course, impossible to fix a hard and fast rule which might apply, but it would seem that such a declaration might (with some exceptions, caused by strategic or other conditions) apply to all so-called county systems.

If such a declaration is made, it should, of course, in my judgment, be coupled with the further statement that the Bell lines should be placed on the Boards of the surviving company, and adequate and efficient facilities for handling business over them should be provided and maintained. It should further be stated that all existing connections should be efficiently maintained and operated.

I believe the general public will support this position when coupled with a further proposition for the regulation of rates by public utility commissions State and National, and in my opinion active efforts should be made to obtain such legislation where it does not exist, and to strengthen and clarify existing statutes where needed.

In addition to the foregoing it should be plainly stated that the surviving company should be free to purchase its apparatus, materials and supplies from whomsoever it saw fit.

I am inclined to think that these propositions should be made to the Committee of Seven, to enable it to report to the Conference, and in turn, to the general telephone public at the earliest practicable time, and certainly prior to the next annual Convention of the National Independent Telephone Association, which is to be held in Chicago in the early part of February, 1912.

In my opinion, if the Committee can make such a report it will fairly and adequately meet all objections which those financially interested in telephone properties can make.

Having made the statement for the Committee to the Convention I may be unduly solicitous that the Committee should be in a position to perform its pledges so made; but in any event, I believe it the part of wisdom, that it be done.

It is highly probable that an investigation of telephone and telegraph conditions will be made, either by the Department of Justice, or a Congressional Committee at an early date, and it would seem that these declarations especially if previously made (having tended to allay the opposition of those financially interested in the business) would also materially strengthen the position of those who believe that there is a vast waste in the business as at present conducted both to the investor and the public; and who are endeavoring to provide a remedy.

I believe the contention that an effort is being made to create a monopoly in the business would be materially weakened by this course.

This is a hurried and unexpected statement of my views on this matter and is necessarily lacking in detail and completeness, but I believe it to be a reasonably fair and accurate statement of the attitude of independent investors, and of the patrons of telephone properties and the general public.