

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

---

## Introduction

“We, of Western Union, are accustomed to thinking of ourselves as shapers of history,” company president Russell McFall declared in a 1971 address to the Newcomen Society. McFall surely knew that this statement – which he intended to refer to Western Union’s legacy of technological achievement – was as ironic as it was bold. In 1971, Western Union was not shaping history so much as fading into it.

Yet the description of Western Union as a shaper of history is appropriate. Almost a century earlier, Western Union had emerged as one of the largest, most powerful firms in an era so marked by the spectacular growth of corporations that historians often refer to it as a “Second Industrial Revolution.” Henry Adams observed in his celebrated memoir how in the late nineteenth century “Trusts and Corporations” had created “new power” in the United States. With their “vigorous and unscrupulous energy,” they had troubled “all the old conventions and values, as the screws of ocean steamers must trouble a school of herring.”<sup>1</sup> When Adams was a boy in the 1840s, most firms employed only a few workers, and except for textile mills and the fledgling railroads, few commanded substantial sums of capital. By the 1870s, industrial corporations had transformed the economic order of the United States. Backed by tens of millions of dollars of capital, employing thousands of workers, and reaching beyond state and regional boundaries, industrial corporations changed the way Americans worked, consumed, traveled, and, crucially, communicated. On the face of it, this was an economic and technological

<sup>1</sup> Henry Adams, *The Education of Henry Adams* (New York: The Modern Library, 1996), 500.

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

revolution. But as Adams observed, the disruptive force of the rising “Trusts and Corporations” went well beyond the marketplace. Firms such as Western Union represented not merely a new form of business organization, but also new loci of social and political power.

Western Union rode in the vanguard of this corporate revolution. Launched by a small group of Rochester entrepreneurs in 1851, Western Union gobbled up allies and rivals alike at a dizzying pace. By 1866 the company had seized control of the largest telegraph network in the world, becoming the first American private corporation to monopolize a national industry. A few railroad companies commanded greater sums of capital, but none controlled the rails entirely. With Western Union’s ascendancy, monopoly, which had long been the prerogative of sovereigns and states alone to grant, became a market phenomenon – albeit one tacitly supported by the state through patents and court enforcement of exclusive contracts for telegraph rights-of-way.

The American resistance to monopolies in all their forms ranked high among the “old conventions and values” most threatened by the rise of “Trusts and Corporations.” In antebellum America, antimonopolists railed against state-granted franchises in industries such as banking and transportation. Andrew Jackson had made antimonopolism a central plank of the Democratic Party and devoted much of his presidency to attacking the paper-money system and the Bank of the United States, monstrous symbols of “monopoly and exclusive privileges.”<sup>2</sup> In economic terms, monopoly grants stymied the salubrious effects of vigorous competition, choking off the spirit of free enterprise. In political terms, they reeked of corruption and encouraged the abuse of government power.

Western Union’s emergence as a monopoly in 1866 was thus surprising, disruptive, and contrary to both economic and political norms. Looking back from 1971, McFall celebrated his predecessors for founding Western Union “with 550 miles of wire, and a concept”: that the public would be better served by “a unified telegraph system.”<sup>3</sup> However, if Western Union’s founders had any far-reaching strategy, it was that telegraph *investors*, not customers, could be better served by a market free from competition. None of the telegraph entrepreneurs of the 1850s envisioned a private telegraph system managed by a single firm.

<sup>2</sup> Sean Wilentz, *The Rise of American Democracy: Jefferson to Lincoln* (New York: W. W. Norton, 2005), 454.

<sup>3</sup> Russell W. McFall, *Making History by Responding to Its Forces* (New York: Newcomen Society in North America, 1971).

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)*Introduction*

3

Though Western Union's share of the American telegraph market rarely rose above 90 percent, critics and partners alike regularly attached the pejorative term "monopoly" to the company after 1866. At the time and for many decades to follow, Americans routinely labeled private corporations with any hint of "bigness" as "monopolies." As historian Ellis Hawley noted in his account of the New Deal, for most Americans the term "monopoly" reflected concern "with the question of power, with the development, in particular, of private concentrations of economic power and with the implications of this development for a democratic society."<sup>4</sup> But Western Union was hardly just another big company with suspiciously antidemocratic tendencies. For most of two decades the company effectively *controlled* the national telegraph market – that Western Union's share fell short of 100 percent made the monopoly designation no less apt. Communication, particularly rapid communication, has always been associated with power, and in America, this power was Western Union's to grant or deny.

Western Union's domination of the industry persisted despite the popular belief that the telegraph had a special civic purpose – perhaps even a providential design. Some contemporaries who lauded inventor Samuel F. B. Morse believed he had been divinely inspired and his invention would usher in an era of peace and universal communication.<sup>5</sup> In 1873 an early telegraph historian declared that this technology, "more than any other agency," had bound "the nations of the earth in a brotherhood" and seemed "like the herald of a millennial era."<sup>6</sup> Later generations of historians have been no less admiring, often citing the invention of the electromagnetic telegraph as a pivotal achievement in a nineteenth-century "communication revolution."<sup>7</sup> In his recent survey of U.S. history from

<sup>4</sup> Ellis Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton, N.J.: Princeton University Press, 1966), 4.

<sup>5</sup> Richard R. John, "Private Enterprise, Public Good? Communications Deregulation as a National Political Issue, 1839–1851," in *Beyond the Founders: New Approaches to the Political History of the Early American Republic*, ed. Jeffrey L. Pasley, Andrew W. Robertson, and David Waldstreicher (Chapel Hill, N.C.: The University of North Carolina Press, 2004), 340.

<sup>6</sup> Benjamin J. Lossing, "Professor Morse and the Telegraph," in *Lightning Flashes and Electric Dashes: A Volume of Choice Telegraphic Literature, Humor, Fun, Wit & Wisdom*, ed. W. J. Johnston (New York: W. J. Johnston, 1877), 26. The article was first published in *Scribner's Monthly* in March 1873.

<sup>7</sup> Robert Albion coined this expression in 1932 with the intent of separating the changes brought by steam, rails, and telegraphy from the Industrial Revolution. Robert G. Albion, "The 'Communication Revolution'," *American Historical Review* 37, no. 4 (1932).

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

1815 to 1848, Daniel Walker Howe employed Morse's invention and his immortal first message, "What hath God wrought," as a central metaphor for "the transformation of America."<sup>8</sup>

Samuel Morse embraced grandiose claims for the telegraph, but he also shared some of his contemporaries' misgivings about control of the wires. Morse shared the faith first articulated by James Madison in *The Federalist* in the power of technology to bind the nation together through improved communication.<sup>9</sup> He saw an obvious connection between the telegraph and the post office, an institution so important to the health of the republic that the Constitution mandated its creation and ordained it a government entity. The telegraph, Morse explained to Congress, had the same "principal object" as the mail: "the rapid and regular transmission of intelligence."<sup>10</sup> Yet Morse also expressed a common anxiety toward the antidemocratic nature of concentrated power. In his 1838 appeal to Congress for funds to build an experimental telegraph line, Morse argued that such an "instrument of immense power, to be wielded for good or evil," should belong first to the government. But fearing that a government monopoly "might become a means of working vast mischief to the republic," Morse proposed a dual system in which the government would operate the telegraph as part of the postal system but also license the technology to promote private competition. The "enterprising character" of Americans would soon see the whole surface of the country "channeled" with telegraph wires, "those *nerves* which are to diffuse, with the speed of thought, a knowledge of all that is occurring throughout the land; making, in fact, a *neighborhood* of the whole country."<sup>11</sup>

The symbolic importance of the telegraph to the unity of the republic can scarcely be exaggerated. The inaugural messages sent over the newly completed transcontinental telegraph line announced that California and Utah would remain with the Union in the Civil War. In John Gast's iconic 1872 painting *American Progress*, the angelic, allegorical figure of America unspools a telegraph wire behind her as she soars into the frontier. In 1884, Colorado Senator Nathaniel Hill insisted the American

<sup>8</sup> Daniel Walker Howe, *What Hath God Wrought: The Transformation of America, 1815–1848* (New York: Oxford University Press, 2007).

<sup>9</sup> John F. Kasson, *Civilizing the Machine: Technology and Republican Values in America, 1776–1900* (New York: Hill and Wang, 1976), 35.

<sup>10</sup> "Electro-Magnetic Telegraphs," Report No. 753, House of Representatives, 25th Congress, 2nd Session, 7.

<sup>11</sup> "Electro-Magnetic Telegraphs," Report No. 753, House of Representatives, 25th Congress, 2nd Session, 8–9.

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

## Introduction

5

people were “entitled” to the telegraph as an “enlightened public service” because of its “benefits of stimulating trade, diffusing intelligence, and strengthening social and family ties.”<sup>12</sup> Nor should the real importance of telegraph communications be denied. European governments established state telegraph networks as a public service and strategic necessity. Only England eschewed a government system for competitive private telegraphy, and that proved temporary: in 1868 Parliament nationalized the telegraph companies.

In the United States, Congress ignored Morse’s exhortations and declined to purchase his patent. By the 1850s the private American telegraph industry consisted of a patchwork of rival networks operating under competing patents. In 1857 the six strongest regional companies united in an anticompetitive cartel that lasted only until Western Union absorbed its partners and took charge of the industry in 1866. The unified telegraph that McFall touted a century later as Western Union’s great achievement was subordinate to the company’s primary goal: the elimination of competition.

Historians have more readily accepted Western Union managers’ arguments that the public interest demanded telegraph consolidation than many of the managers’ contemporaries did. Historian Alfred D. Chandler, Jr. echoed McFall in *The Visible Hand*, his seminal account of the second industrial revolution. To manage valuable intercity “through traffic,” Chandler suggested that the telegraph industry marched unavoidably through stages of “competition, cooperation, and consolidation” even faster than the railroads. The technical requirements of the telegraph necessarily gave birth to Western Union, “the first nationwide multi-unit modern business enterprise in the United States.”<sup>13</sup> Robert Luther Thompson, a twentieth-century historian who wrote an exhaustive, pioneering monograph of the early telegraph industry similarly concluded that Western Union’s march to monopoly had been inevitable.<sup>14</sup> Even Morse, who had seen his hopes for a government telegraph dashed, noted that although Western Union was “doubtless a *monopoly*,” a unified private telegraph was a “public advantage” if properly managed.<sup>15</sup>

<sup>12</sup> Nathaniel Peter Hill, *Speeches and Papers on the Silver, Postal Telegraph, and Other Economic Questions* (Colorado Springs: The Gazette Printing Company, 1890), 232.

<sup>13</sup> Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: Belknap Press of Harvard University Press, 1977), 197.

<sup>14</sup> Robert Luther Thompson, *Wiring a Continent: The History of the Telegraph Industry in the United States, 1832–1866* (Princeton, N.J.: Princeton University Press, 1947).

<sup>15</sup> Samuel Morse to Amos Kendall, 19 March 1866, Morse Papers. Emphasis in the original.

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

Nonetheless, the telegraph was not what political economists later called a “natural monopoly” – an industry in which costs persistently decline as volume increases so that a single firm serves the whole market more efficiently than competing firms.<sup>16</sup> Railroads, for example, had large capital requirements, high fixed costs, and substantial debt obligations, all of which became proportionately less onerous as the volume of traffic increased. But unlike railroads, telegraph lines were inexpensive to build, and, for the first several decades, most operating costs increased in proportion to message volume. Until the advent of multiplex and automatic telegraph in the late 1870s, every message required a dedicated wire, two operators, keys, batteries, and stationery. Labor, a variable cost, accounted for more than half the cost per message. Through cooperative ventures with railroads, hotels, and other points requiring a wire, telegraph companies kept fixed costs down, often paying little or no rent for their offices and in some cases not even paying for line construction. For most of the first forty years of telegraphy, doubling the number of messages nearly doubled expenses. The telegraph was subject to powerful network effects – the value of the network increased with additional nodes at a greater than linear rate. However, this did not preclude efficient competition between large firms or between cooperative networks of small firms.

Western Union was thus an unnatural monopoly. The telegraph monopoly was not a technical inevitability but a deliberate, creative act, forged through years of aggressive maneuvering and maintained against fierce opposition. Telegraph companies pursued anticompetitive strategies as the way to generate profits despite poor construction, weak management, and, too often, fraudulent capitalization. Eliminating competition proved the easiest way to overcome these defects and earn a return for pioneer holders of telegraph stock – securities so risky that one major holder likened his stake to a bet in a faro game.

The self-serving Western Union argument that only a single company could afford to conduct the nation’s telegraph business had a profound and lasting effect on telecommunications policy. The emergence of a new communications technology brings with it a set of “constitutive choices” about the “general legal and normative rules” of operation, the “structure of networks,” and “organization of the industry.”<sup>17</sup> For the telegraph,

<sup>16</sup> Jonathan E. Nuechterlein and Philip J. Weiser, *Digital Crossroads: American Telecommunications Policy in the Internet Age* (Cambridge, Mass.: The MIT Press, 2005), 12.

<sup>17</sup> Paul Starr, *The Creation of the Media: Political Origins of Modern Communications* (New York: Basic Books, 2004), 5.

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

## Introduction

7

Western Union employed enough political and economic power to subjugate the public policy concerns to the interests of private capital – specifically to the self-perpetuation of Western Union and the interest of its shareholders. In this, Western Union was a leader in one of the most significant and peculiar elements of the new finance capitalism: the transition of capital from an enabler of productive business to an enabler of its own growth – from businesses making money to money making money.<sup>18</sup>

Critics claimed the unchecked telegraph monopoly offered unlimited potential for corruption. They accused the company of manipulating the news, tampering with elections, disclosing the contents of messages, and exploiting market information. Yet the evidence suggests that such venal corruption was exceedingly rare and usually attributable to dishonest individuals.<sup>19</sup> But Western Union engaged in a deeper *systematic* corruption, manipulating both the press and the political system, destroying competition and resisting efforts to democratize the telegraph through regulation or the creation of a public telegraph. The question of whether a private telegraph served the public interest could not be answered without prejudice so long as Western Union wielded an overwhelming influence over the discourse. An 1881 *Puck* cartoon depicting Jay Gould and William H. Vanderbilt torturing Uncle Sam on a rack fashioned out of a Western Union telegraph pole exaggerated the company's power, but only slightly. "They can stretch him to any extent they please," explained *Puck*.<sup>20</sup> Indeed, when it came to the question of control of the telegraph, capital was mostly free to determine what was best.

<sup>18</sup> Richard White explores similar themes in *Railroaded*, which he published while this manuscript was in revision. Telegraph companies, like railroads, often made a great deal of money for finance capitalists even as they delivered poor service or failed as concerns. Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York: W. W. Norton, 2011), xviii.

<sup>19</sup> Economic historian John Joseph Wallis divides corruption into "venal" and "systematic" corruption. Venal corruption "denotes the pursuit of private economic interests through the political process," while systematic corruption is the manipulation of the economy in a manner intended to keep a political group in power. I have modified these definitions slightly. Venal corruption in this case involves the use of the wires to steal or manipulate information for profit, while systematic corruption involves manipulation of the government and political system to protect the interests of private investors. In Wallis' view, venal corruption is perpetual and "small potatoes," while systematic corruption has far-reaching and more damaging effects. John Joseph Wallis, "The Concept of Systematic Corruption in American History," in *Corruption and Reform: Lessons from America's Economic History*, ed. Edward L. Glaeser and Claudia Goldin (Chicago: University of Chicago Press, 2006), 25, 52.

<sup>20</sup> "The Two Philanthropists," *Puck*, 23 February 1881, 414, 420.



Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

Western Union defined the “best” telegraph as one that provided a fast, premium service to primarily business customers. This made for a profoundly undemocratic communications revolution. Monopoly rates gave the advantage to large firms over small, concentrated information in urban centers, and encouraged monopolies in news and market information. Forty years after Samuel Morse opened the first telegraph line, Western Union managers claimed that only 2 percent of Americans used the telegraph each year and the lion’s share of messages concerned “stock-jobbing,” bucket shops (wherein customers gambled on stock prices without buying or selling shares), commodities futures, and race-tracks.<sup>21</sup> “The Telegraph is essentially an adjunct of commerce,” Western Union president Norvin Green told the Speaker of the House in 1883, “and most complaints are by people who never use it and never would at any price except in case of death. What farmer or mechanic ever wants to use the Telegraph in any other case?”<sup>22</sup>

Such claims that high rates reflected a lack of customer demand for cheaper service were disingenuous at best. Though it is reasonable to wonder why a “farmer or mechanic” required telegraph service in place of the inexpensive, reliable post office, technologies that are first deployed at high prices and embraced only by the business community are often used widely by the general public after prices are reduced. Long-distance telephone service, mobile phones, computers, and e-mail were all once mere “adjuncts of commerce” that all Americans came to use, often in unexpectedly productive and empowering ways. Western Union managers gradually realized that when rates went down, volume increased substantially, suggesting a deep unfulfilled demand for telegraphy. The English experience certainly bore this out: in the two years after Parliament nationalized the telegraph, the number of messages carried on the English network nearly *doubled* to ten million per year, about the same number sent in the United States, though the latter had twice the population.<sup>23</sup>

At a moment in American history when private property became more intensely concentrated than ever before and the question of whether and how to limit corporate power was thrust to the fore of the national debate, Western Union helped to define core elements of the market triumphalism that persists to the present: that governments are corrupt and

<sup>21</sup> Norvin Green, “Postal Telegraph Facilities,” 28 February 1890, WUC, 4.

<sup>22</sup> Norvin Green to J. G. Carlisle, 15 December 1883, WUC.

<sup>23</sup> “Postal Telegraph System in Europe,” House of Representatives Misc. Doc. No. 36, 41st Congress, 3rd Session, 3.



Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)*Introduction*

9

markets are pure; that public solutions cost more and provide less than private solutions; and that civic needs are best served by private interests. Large-scale telecommunications companies were perhaps preferable to small, disconnected firms, but Western Union distorted the need for unity into a justification for monopoly, and then developed a political constituency and an ideology to explain and perpetuate itself. The telegraph giant became interlinked with other large-scale businesses, compounding the advantages of large-scale firms and the power of concentrated capital in other industries.

Russell McFall was right – probably more so than he realized – when he described Western Union as a shaper of history. Critics of the old trope of the “robber barons” argue that the so-called barons were merely rational, visionary actors behaving within the limits of the system. But the story of Western Union shows how industrial and finance capitalists *created* the system, justified it, and reinforced it. The reshaping of the American political economy by corporations untethered from traditional obligations to the public welfare was not a technical inevitability but a deliberate and historically contingent process.

Cambridge University Press

978-1-107-01228-8 - Western Union and the Creation of the American Corporate Order, 1845–1893

Joshua D. Wolff

Excerpt

[More information](#)

---

## I

### The Meanest Property in the World

On a breezy afternoon in June 1871, ten thousand of New York's leading citizens gathered near the elm-lined mall on the east side of Central Park. At the front of the crowd a statue obscured by draped American flags stood on a seven-foot granite pedestal. The governor of New York addressed the throng, the band struck up "The Star-Spangled Banner," and the flags fell away to reveal a heroic bronze effigy of Samuel F. B. Morse, the Father of the Telegraph. The tribute to Professor Morse continued that night in a celebration at the Academy of Music, the city's finest hall. Leading figures in government and business, several Civil War generals, and public luminaries such as Henry Ward Beecher and Horace Greeley sat on the crowded stage before a sold-out audience. Finally, Morse himself, eighty years old and frail, entered to cheers and waving handkerchiefs and took his place upon the stage.

Speaker after speaker hailed Morse as the peacemaker of the age, an American genius equal to Franklin, Fulton, and Watt, the inventor "of the greatest instrument of power over earth which the ages of human history have revealed." After an hour of paeans, young telegraph operator Sadie Cornwell walked to a table at the center of the stage and took her station at a key purportedly connected to all the wires in America. "Greetings and thanks to the telegraph fraternity throughout the world," she tapped. "Glory to God in the highest, on Earth peace, goodwill to men." Then Morse took his place at the key, and in a house suddenly hushed, he "signed" the message in the code that bore his name. The audience erupted in cheers, and when at last they had subsided, William Orton, the chairman of the evening's ceremony and president of the Western