The Rise and Fall of Government Telegraphy in Britain

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With the 1870 take-over of the inland telegraphs, the British government embarked on the first case of nationalization in that country's history. Unlike other industries which were potential candidates for government take-over, such as coal, and unlike other "network industries," such as railways, the telegraphs remained until the purchase of the telephone industry in 1912 the only example of a nation-wide industry once under private control which came to be managed by the state [Perkin, 1977, p. 116; Foreman-Peck and Millward, 1994, p. 1]. Yet until very recently the history of the telegraphs has not been sufficiently integrated into the larger story of the growth of public ownership in Britain. In part this unsatisfactory situation is the result of a tendency on the part of some historians to associate nationalization with a particular political ideology, with the history of a particular political party and with a particular moment in what was actually a longer and more complex process. For example, Kenneth Morgan has asserted "The real history – as opposed to the pre-history – of public ownership began in 1931" [Morgan, 1987, p. 279]. Victorians, as this paper demonstrates, regarded the situation quite differently. For many of them the telegraphs presented a test case to gauge both how far fears of government growth had diminished and how efficient a government industry might be.

The Early History of Telegraph Development

The expansion of the British telegraph system from the late 1830s literally paralleled the development of the railways. The relationship between the two industries was a natural one; the telegraph was useful for signaling and other safety measures, while railways offered telegraph companies opportunities for extension along their way leaves. Hence, when Mark Huish, engineer to the London and North Western, pronounced in 1854 that the telegraph had expanded the capacity of his railway "in an incalculable degree," he could have as easily argued that the telegraph companies had also benefited from the reciprocal relationship [Kieve, 1973, p. 51]. As Table 1 indicates, by the late 1860s the industry consisted of five telegraph companies plus a system run by railways primarily for their own use, but which was also open to the public.

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Table 1: *The Structure of the Telegraph Industry on the Eve on Nationalization*

Telegraph Companies	Miles of Line	Miles of Wire	Total Messages Inland and Abroad
The Electric (the dominant firm in England and Scotland)	10,007	50,065	3.7 million
The Magnetic (the dominant firm in Ireland)	4,696	19,235	1.7 million
United Kingdom T.C. (organized to challenge the Electric and the Magnetic)	1,692	10,001	.8 million
The District Company (a London firm)	345	345	.2 million
The Universal Private T.C. (used machines which did not require knowledge of a particular code; hence they were suitable for private use.)	139	400	.03 million
Railway Companies	4,871	11,022	.36 million
Totals	21,750	91,068	6.8 million

Source: British Parliamentary Papers, 1867-8, vol. 41, Return of the Names of All Railway Companies; Kieve, 1973, pp. 73 ff.

Two aspects of the early history of British telegraphy which set it apart from the experience of some other countries need to be noted, because they helped to shape the development of the industry and to influence the debate over nationalization. First, there was never as close a connection made in Britain between the telegraph and military and security purposes as was the case in some continental countries. To be sure, the use of the telegraph in 1845 to capture the criminal John Tawell sparked public interest in the system, and three years later the government used its statutory right to take temporary possession of the system to obstruct Chartists from easily communicating. But these were exceptional circumstances, and the role of the state in promoting the telegraph for its own purposes as opposed to the public's which was seen in, for example, France, Sweden, and the Austro-Hungarian Empire did not emerge during the first three decades of the industry in Britain. Secondly, Britain differed in the competitive strategy of its firms from the pattern of development in the United States. In America Western Union became the dominating firm by absorbing its rivals [Foreman-Peck and Millward, 1994, p. 48]. In Britain the management of the Electric, the industry leader, followed a different approach of seeking profits through accommodation with rival firms as they entered the field. Between 1855 and 1865 the Electric's market share dropped steadily from 70% to 47%. (Thereafter it rose to 57% by 1868.) In effect, a cartel with the aim of fixed prices emerged, cemented by an 1865 agreement to withdraw what had been a uniform tariff of 1s. for 20 words between certain major cities and to substitute a more expensive fee schedule.

The Campaign for Nationalization

This pricing decision marked a turning point in the rise of government telegraphy in Britain. Before 1865 a number of voices had been raised in support of nationalization, including those of Thomas Allan, inventor and electrical engineer for the UKTC, F.E. Baines, Post Office clerk and former Electric employee, and J.L. Ricardo, a free trader, MP for Stoke and brother of the more famous economist [Perry, 1992, pp. 88-91]. Yet these proposals had not borne fruit. Now the situation radically altered. It was now clear to some that the patchwork of legislation, such as the 1855 act which imposed a 10% dividend limit, which had been established to regulate the industry was inadequate and had not served the public interest.

But, of course, the history of the rise and fall of government telegraphy in Britain was shaped by who defined the "public interest." Here the roles of two interest groups, first the Chambers of Commerce and later the press, were crucial. These were groups usually wedded to the ideal of *laissez faire*. Yet in this instance each group had grounds for complaint. A report of a committee of the Edinburgh Chamber of Commerce, for example, criticized private management for a rate structure so complex as to inhibit usage, frequent delays and inaccuracies in the delivery of messages, and the relatively small number of offices. (The private companies connected approximately 1,000 cities and towns as opposed to the much more extensive Post Office mail and financial service network.) The attitude of the press was equally critical. As *The Economist* put it, "There is, probably, no interest which is so cordially disliked by the press [as are the telegraph companies]..." [Perry, 1992, p.104]. Not only did newspapers experience the same problems noted by the Edinburgh Chamber of Commerce, but the provincial press was particularly frustrated by the contractual arrangement with the companies which employed the companies to gather news. The arrangement had not worked well, and in November 1865 John Edward Taylor of the *Guardian* spearheaded the formation of a cooperative news agency, the Press Association [Ayerst, 1971, p.144]. However, the telegraph companies refused to release the newspapers from the contracts, and a stalemate emerged.

It is open to question how far these complaints would have moved the industry toward nationalization if there had not been a suitable example of a government department which had successfully managed tasks of a comparable nature. This was the Post Office. By the 1860s St. Martin's le Grand had emerged as the pre-eminent example of an efficient bureaucracy which served public needs well and still contributed an annual surplus in the range of £1.4 million to the Exchequer. Economists such as W.S. Jevons and politicians such as W.E. Gladstone found the Post Office to be a model enterprise [Jevons, 1883, p.279]. Indeed Gladstone went so far as to assert "I am far from thinking very highly of our rank as a nation of administrators, but if we could be judged by the post office alone, we might claim the very first rank..." [Morley, 1903, v.2, p. 182].

In part the reputation of the Post Office was the result of the Utilitarian campaigns of Rowland Hill, who had advocated a Penny Post system which in 1840 established a standard prepayment system for letters conveyed between principal towns, regardless of the specific distance involved. Still it would be a mistake to attribute the all of the strengths of St. Martin's le Grand to Hill, who had major weaknesses as an administrator. After all, his projections for the financial results of Penny Post had proven inaccurate in that he had overestimated the elasticity of demand for mail services and underestimated the staff size required to operate the system [Daunton, 1985, pp. 22 ff.]. As a result of these errors his prediction that gross departmental revenue would return to its pre-Penny Post level was not fulfilled until 1851, and it was not until 1873 that the department was able to maintain consistently the £1.6 million figure for net revenue earned before the implementation of Hill's reforms.

In any effort to appreciate the Post Office's reputation in the context of the history of nationalization, it would be wiser to consider the career of one of Hill's greatest rivals and greatest enemies within the departmental bureaucracy, Frank Ives Scudamore. Scudamore had entered the Post Office in 1840 and had emerged as a civil servant of drive and ability, especially in regard to his mastery of departmental financial matters. But of greater importance in promoting his department, and at the same time establishing his own reputation as, in the *Spectator's* judgment, "perhaps the very ablest (administrator) in the service of the crown," was Scudamore's expansive view of the role of the state [Perry, 1992, p. 95]. Scudamore was an ardent advocate of what he termed the "cooperative society." By this he meant a network of public institutions planned and directed by technocrats such as himself so well that social harmony and economic prosperity would inevitably result [Perry, 1992, p. 135]. One side benefit of such a situation would be that profits in state-run industries would allow a reduction and perhaps even the abolition of the individual tax burden. While it should be made clear that Scudamore continued to believe in a capitalist economy, far more than Hill he called for sweeping state involvement in a wide array of economic enterprises. The first fruit of such activity was the Post Office Savings Banks, which Scudamore had helped to promote and establish in 1861 and which attracted greater deposits than their rival trustee banks despite paying a lower rate of interest until 1886 [Perry, 1992, pp. 70-1]. The second instance of Scudamore's policy-making energy and vision, the sale of life insurance and annuities through the Post Office, which received Parliamentary approval in 1864, was much less successful as the department was never able to compete with friendly societies and private insurance companies. But in 1865 when Scudamore was commissioned by the Postmaster General to undertake a study of the possible benefits of a nationalized telegraph system, the dismal results of the life insurance program were not yet understood [Perry, 1992, pp. 80-84; Daunton, 1985, pp. 108-111]. The department had seemingly gone from success to success as bureaucratic expansion gained momentum.

With his July 1866 report on the condition of the telegraphs and the question of nationalization, Scudamore established himself as the leading expert on the industry and the most effective voice calling for purchase [British

Parliamentary Papers, 1867-8, v. 41, A Report to the Postmaster General Upon Certain Proposals...]. His approach was straightforward. On the one hand, he criticized the current state of service provided by the private British companies as charging excessive tariffs and providing inadequate service. For example, he conducted a survey of 475 towns in England and Wales with a population of over 2,000 and concluded that 40% were indifferently served, 12% poorly served, and 18% had no service whatsoever. On the other hand, he contrasted this situation with that of state-run systems in other countries, such as Belgium. According to Scudamore, the system there had flourished under public management, as tariffs had been reduced twice to the point that the charge for ordinary inland telegrams was approximately 5 pence for 20 words. Still the government had been able to earn a 16% profit on its gross receipts.

What were Scudamore's conclusions? Little improvement in the British situation was likely as long as, to employ his phrasing, "wasteful competition" between the firms continued and as long as the directors thought "of the interest of their stockholders rather than of the interests of the whole community" [British Parliamentary Papers, 1867-8, v. 41, A Report..., p. 18]. The solution was nationalization under the Post Office, which could provide service at a much larger number of offices, charge a lower tariff of 1 shilling per 20 words, and still return a profit.

It must be stressed that Scudamore's role in the process of nationalization involved much more than presenting a report for Treasury consideration. Far from simply acting as a disinterested civil servant, Scudamore in the following months developed, to use G.J. Goschen's word, a "passion" for the nationalization of the telegraphs [Goschen, 1885, p.69]. The same month he submitted his report he wrote Gladstone to remind him of their earlier association on the Savings Banks question and to lobby him concerning the telegraphs [Perry, 1992, p. 100]. He also forged an alliance with the Utilitarian reformer Edwin Chadwick, who had for years been critical of what he saw as waste and inefficiency in certain large industries and who, like Scudamore, saw state intervention as the proper remedy [Finer, 1952, p. 476]. Some of their activities were carried out in public, such as their joint address before the Society of Arts in early 1867 [*Journal of the Society of Arts*, v.15, pp. 222-26]. Some of their activities were carried out away from public scrutiny, such as the circulation of petitions favorable to nationalization which would be signed by friends and supporters in provincial towns, sent to the government in London, and then cited as evidence of the nation's outlook on the question [Chadwick Papers, Scudamore to Chadwick, 14 May 1868]. In the end the efforts of Scudamore and Chadwick to mobilize public opinion and to tap into pre-existing dissatisfaction with the service offered by the private companies contributed to the growing belief among politicians of Conservative and Liberal persuasion that this was a case where any standing dicta about a minimalist state and the superiority of private initiative to government management should be set aside. The principle of nationalization received Parliamentary approval in July 1868, and the following year a money bill was passed to implement the purchase.

Scudamore's handling of the nationalization campaign was harshly criticized by some contemporaries, as well as by historians later, on questions both of detail and larger issues. It has been pointed out, for example, that his account of the Belgian state service overlooked the poor quality of the service of that system [Foreman-Peck and Millward, 1994, pp. 72-3]. More seriously, the Hill phalanx charged that his obsessive eagerness to nationalize the telegraphs led Scudamore to agree to a costly purchase price based on the formula of twenty years net profits instead of seeking arbitration [Hill, 1869, p.160]. Kieve echoed this charge when he wrote that "the whole inquiry was conducted with a haste not commensurate with the important interests and large sums of public money involved" [Kieve, 1973, p. 175]. There is no question that Scudamore was a driven man in his desire to purchase the private system, so driven that he was untroubled by his own escalating estimates of the cost of nationalization. (See Table 2.) Equally, there is no question that in the end Scudamore was able to project even a small profit only because he had lowered his final estimate of working expenses from an original estimate of £425,250 to £359,484 [Perry, 1992, p. 116].

Table 2: *Scudamore's Projections for a Nationalized Telegraph System*

Date	Estimated Purchase Price and Cost of Initial Extensions	Gross Receipts of a State System	Net Profit
July 1866	£2.5 million	£676,000	£138,750
Feb. 1868	3 million	676,000	77,750
July 1869	6.715 million	673,838	45,754

Source: Perry, 1992, pp. 99 ff.

But it should also be remembered that there was a widespread belief, inside the government and out, that the purchase price was fair given the exceptional circumstances, that the Post Office system would eventually yield a larger profit, and that in any case a state system was preferable to the old, privately managed one. After all, the question of nationalization had been subjected to Parliamentary scrutiny in two sessions under two different governments, and very few objections to take-over were voiced.[1] The predominant outlook was expressed by *The Times*. "We have not the slightest doubt that, even at the price paid, the country will find it has made a good bargain. No apprehensions need be entertained for the revenue, but pecuniary profit to the government is the least of the advantages to be expected" [Perry, 1992, p. 117].

[1] It has been argued that the best solution to the telegraphs problem would have been a "private (integrated) monopoly without statutory barriers to entry..." [Foreman-Peck and Millward, 1994, p. 81]. However, it must be stressed that many Victorians taking their cue from J.S. Mill preferred public monopolies on the grounds that the state was more accountable than private management [Mill, 1902, v. 2, pp. 582 ff.]. I owe this point to Martin Daunton. Interestingly, Scudamore, unlike his superiors Gladstone and Robert Lowe, did not favor a government monopoly. Scudamore was so confident in his and the Post Office's abilities that he had no fear of competition from private firms [Perry, 1992, pp. 111 ff.].

Successes and Failures under Government Management

To what extent was this optimistic vision fulfilled by the Post Office after acquisition of the system in February 1870? Scudamore never wavered in his belief that the nationalized system proved beyond a doubt that, as he phrased it, "...Government can beat private enterprise... In two years we have done more work than the Companies did in ten..."[Perry, 1992, p.121]. The basis for this assertion is illustrated by the following statistics. Under Post Office management the average cost of a telegram dropped to 1s. 1d. as opposed to 1s. 7d. under the old system. Usage rose by over 3 million telegrams to almost 10 million the first year, and in two years the number sent was twice as large as the 6.5 million sent in 1869, the last year of private operation [Kieve, 1973, p. 183] (see Table 3).[2] In part the expanded usage of the telegraphs was simply a function of the expansion of offices open to the public – 2,300 under the Post Office or 50% more than before. Similarly the number of provincial newspapers receiving news via the telegraph rose from 144 to 365.

Table 3: *The Expansion of Telegraph Usage*

Year	Number of Telegrams (including foreign and press telegrams)	Number Per Capita
1868-9	6.5 million	.21
1870-1	9.9 million	.32
1880-1	29.4 million	.84
1890-1	66.4 million	1.76
1900-1	89.6 million	2.14
1910-11	86.7 million	1.90

Source: Annual Reports of the Postmaster General

However, behind these numbers lay a matrix of problems which ultimately undermined the record of Post Office telegraphs. One source of these difficulties lay in Scudamore's management skills and style. Although Scudamore had emerged as the government expert on the industry, his knowledge of the technical aspects of telegraphy was limited. He also brought to direction of the system a paternalistic approach which, on the one hand, was concerned to serve the broad public good, but which, on the other hand, would countenance no opposition and would overlook constitutional and legal niceties in order to achieve his goals. A Treasury official captured some of this when he quipped that "Scudamore...likes to drynurse the British nation and would like to manage [a] large Department (with the guarantee of the Consolidated Fund) to feed and manage us all" [Perry, 1992, pp. 134-5]. This

[2] These figures, while impressive, do not compare with the ultimate increase in the number of letters sent in the period after Penny Post. It has been estimated that in 1839, the last year before Hill's scheme went into effect, the number of letters per capita in England and Wales was 4. By 1860 it was 22, and by 1911, 73 [Perry, 1992, p. 205]. The increases in Scotland and Ireland were even more dramatic.

outlook was reflected in Scudamore's handling of the 1871 telegraphists' strike. when in his desire to crush the opposition he delayed delivery of reports of the strike to newspapers in order to allow loyal reserves to reach their stations and, without approval from the Postmaster General, he granted salary increases to those employees who had not struck [Clinton, 1984, pp. 120-1; Perry, 1992, pp. 122-4]. Equally illustrative of Scudamore's administrative outlook, but of a more serious nature, was the fact that after the initial Parliamentary grants for £8 million for purchase and extensions had been expended, he spent a further £812,000 without obtaining authority to do so from either the Postmaster General or the Treasury. When news of this overspending emerged in 1873, it constituted the greatest administrative scandal since the Crimean War. The Postmaster General was forced to leave office, thus cementing the concept of ministerial responsibility [Parris, 1969, pp. 103-5]. Scudamore, frustrated by new restrictions placed on his administrative freedom, resigned in a bitter pique in 1875 and ultimately migrated to Turkey to take up management of the telegraphs there.

There were at least two consequences of this drama for the subsequent history of the telegraphs. One was a lingering distrust of the Post Office at the Treasury. Almost twenty years after the scandal broke, Scudamore's name continued to be cited in Treasury memoranda as regrettable evidence of departmental and personal over-zealousness [Perry, 1992, p. 162]. Hence, when proposals came forward from the Post Office to nationalize the telephone industry, there was none of the warm receptivity in Whitehall which had been the case with the telegraphs. Secondly, after Scudamore's resignation it was easy to blame him for the fact that, as one Chancellor of the Exchequer put it, the "promises made when we took over the business have long since proved to be delusive" [Perry, 1992, p. 121]. As a result, there was a certain tendency within government to focus on Scudamore as a scapegoat and to avoid addressing the endemic problems in the nationalized system.

Table 4: *The Financial Record of the Post Office Telegraphs*

Year	Total Revenue	Total Expenditure	Net Revenue	Interest on Stock created for purchase
1872	£754,634	£600,936	£153,708	£233,081
1876	1,287,623	1,106,912	180,711	294,906
1881	1,633,887	1,308,454	325,433	326,417
1886	1,787,264	1,832,401	-45,137	326,417
1891	2,456,764	2,388,581	68,183	299,215
1896	2,879,794	2,920,341	-40,547	299,888
1901	3,459,353	3,824,163	-364,810	294,860
1906	4,151,338	4,892,199	-740,861	271,691
1911	3,168,804	4,081,399	-912,595	271,691

Source: Annual Reports of the Postmaster General

Although the supposedly excessive purchase price was often held to be the cause of the financial woes of the telegraphs, the picture is rather more complicated. Before 1914 there were 26 years when telegraph revenue failed to equal expenditure, much less cover interest on the £10 million worth of stock created for purchase. Scudamore, it should be remembered, had made generous concessions to both railway companies and the press in his efforts to push the campaign for nationalization forward [Perry, 1992, p. 139]. In 1890 the Post Office sent almost 1.5 million messages for the railways while receiving no compensation. A similar pattern emerged with the press, which paid highly subsidized rates resulting in, for example, a £375,000 loss for the Post Office in 1900. But the most intractable problem stemmed from the fact that the state system's operating costs, particularly salaries, were much higher than had been the case under private management (see Table 5).

Table 5: *Wage Patterns in the Nationalized Telegraph System*

Year	Total Wages	Percentage of Wages to Total Revenue
1871	£313,591	39%
1881	719,289	44%
1891	1,506,219	61%
1901	2,343,769	68%
1911	2,701,490	85%

Source: Annual Reports of the Postmaster General.

Some care should be taken in noting exactly where the salary costs rose. For the most part, the increases did not come at the upper level of management. As an 1875 Treasury committee of inquiry noted, the private companies had paid £15,000 per year to their executives, while the Post Office paid £16,000 to administrators who oversaw a system which handled three times the number of telegrams. The great increase in wage costs came at the lower level, which only eight months after nationalization had twice as many employees as before. Moreover, these employees benefited from the fact that the overall financial health of the Post Office was sound, and, hence, even in a department experiencing losses, clerks enjoyed a series of salary increases. For example, a male telegraphist in the central London office earning 28s. 10d. a week in 1885 was paid 50s. 10d. by 1910 [Perry, 1992, p. 140]. In dealing with salary issues the Post Office also faced the reality that there was a belief on the part of many in the public and in the minds of some departmental managers that a government industry should not follow the same tactics when bargaining over salaries as were pursued in private firms. In 1909 Sydney Buxton the Liberal Postmaster General, for example, held that the "Post Office cannot fail to have an influence for good or bad on the labour market...and that influence ought to be for the good" [Perry, 1992, p. 44].

Such attitudes underscore the difficulty of comparing the performance of the nationalized system with that of private firms. Functioning in what has been called a "politically-determined environment," the Post Office had goals

different from those of the private firms, and its managers different outlooks [Batstone et al., 1984, p. 275]. A case in point was the reduction in tariffs approved by Parliament in 1883. Telegraph net revenue had increased from £119,913 in 1877 to £325,433 in 1881. Although the surplus still did not cover interest charges, a call arose for a reduction in the fee schedule. The reaction of Henry Fawcett, economist and Postmaster General, was revealing. Instead of resisting the demands for cheaper telegrams, he supported the agitation on the grounds that telegraph revenue should not be regarded so much as a healthy profit as a tax on the community [Perry, 1992, p. 141]. When the reduction went into effect in 1885, the average price of a telegram dropped from 1s. 1d. to 8d. Charges were raised in 1915 and again in 1920, but by that point long distance telephony had emerged to capture an increasing share of the market. The number of inland telegrams sent dropped from 69 million in 1914 to 35 million in 1935 [Kieve, 1973, p. 248]. The words "inexorable decline" almost inevitably come to mind.

In conclusion, like so many aspects of Victorian society, the legacy of the nationalized telegraph system was complex and mixed. It achieved the social promises of linking the nation together made by Scudamore, but at the same time failed on the fiscal side. As a result, the multiple meanings of its "rise and fall" will continue to be of fundamental importance in the larger history of public ownership in Britain.

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