Partners in Crime: The Telegraph Industry, Finance Capitalism, and Organized Gambling, 1870-1920

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One day in August 1887 President Abner Wright of the Chicago Board of Trade forcibly removed the instruments of the Postal Telegraph Company and the Baltimore and Ohio Telegraph Company from the floor of the exchange, literally throwing their equipment out of the building. A few months later, on the night of December 15, Wright discovered some mysterious electrical cables leading out of the basement of the exchange building. Thinking that they were telegraph lines, he cut them with an axe.[1] Wright was neither deranged nor a Luddite. Instead, his forceful actions were dramatic examples of the troublesome technological, cultural, and economic relationship between the telegraph industry, finance capitalism, and organized gambling in the United States during the Gilded Age and Progressive Era.

Wright's actions occurred in the context of a 25-year struggle between the Chicago Board of Trade and hundreds of bucket shops. Bucket shops, depending on whom one believed, were either gambling dens or small brokerage houses. Brokers and directors of the large exchanges claimed that bucket shops were nothing more than betting parlors in which patrons wagered on the price movements of stocks and commodities. Defenders of the bucket shops denied that they were gambling dens and asserted instead that they were independent brokers attempting to compete with the plutocrats and monopolists who controlled the New York and Chicago exchanges. In either case, bucket shops flourished between about 1880 and 1910. They purchased ticker service from the telegraph companies and depended upon the market quotations from the major exchanges to conduct their trades. They charged lower commissions, required minimal margins, and traded in smaller lot sizes than brokers on the major exchanges. In this sense they democratized speculation: anyone with a few dollars could become part of the action on the Chicago and New York exchanges. However, customers' trades were fictitious; bucket shops could not deliver actual stock certificates or grain to their patrons.[2]

Bucket shops were able to take root and to flourish in the late 19th and early 20th centuries for two major reasons, one technological and the other cultural. During the 1870s, two important innovations revolutionized the American telegraph industry. In the late 1860s Edward Calahan [check name and date] invented the ticker, a low-cost and low-maintenance printing telegraph which allowed brokers to monitor transactions on exchange floors. Several inventors working for Western Union, including Thomas Edison, brought the ticker to a state of technical perfection by the mid-1870s. During the same period, Edison invented the quadruplex, a system which allowed four messages to travel simultaneously over one telegraph wire. The quadruplex gave Western Union a great deal of flexibility in handling its traffic. On major trunk routes, it effectively quadrupled its circuit capacity without requiring the costly installation of more lines. More significantly from the standpoint of financial markets, the quadruplex allowed Western Union to lease excess circuit capacity to financiers and bucket shops.

Taken together, the ticker and the quadruplex allowed Western Union to exploit the growing demand for real-time financial information. After about 1880 Western Union aggressively marketed its ticker service and private wire leases. Within a few years, both brokers and bucket shops were leasing thousands of tickers and circuit miles to obtain real-time market quotations. Ticker service and wire leases soon became Western Union's most lucrative activities. The company was reluctant to abandon this highly profitable market, and it did so halfheartedly around 1910 only under pressure from the major exchanges, courts of law, and anti-gambling reformers.

At the same time that Western Union earnestly began to exploit the demand for its ticker service, there existed widespread confusion about the difference between legitimate and economically useful speculation and illegitimate and harmful gambling. Farmers who blamed the Chicago Board of Trade for their economic woes, judges who protected the right of bucket shops to receive ticker service, economists who sought to explain how financial markets worked, and even brokers themselves all equated speculation with gambling. Many Americans saw little difference between the transactions on exchange floors and in bucket shops.

Bucket shops came to the notice of exchange officials in the late 1870s. The leadership of the Chicago Board of Trade first recognized their growing threat in the summer of 1880, and they asked telegraph companies transmitting the Board's market quotations to cease supplying ticker service to them. By 1890, anti-gambling reformers estimated that 5000 bucket shops existed throughout the country, including some 200 in New York, over 100 in Chicago, and at least one in each town with a population of 10,000. One reformer claimed in 1887 that bucket shops had so penetrated rural areas that they accounted for 90% of commodity trading in the countryside, and that they had depressed the price of agricultural commodities by a total of some $2.5 billion since 1880. Stock brokers as well as commodity traders felt serious competition from bucket shops. One prominent broker on the New York Stock Exchange complained in 1889 that the "indiscriminate distribution of stock quotations to every liquor-saloon and other places has done much to interfere with business. Any person could step in a saloon and see the quotations." Indeed, by 1889 competition from bucket shops had depressed the value of a seat on the New York Stock Exchange by nearly half, from $34,000 to $18,000, and a seat on the Chicago Board of Trade by over two-thirds, from $2500 to $800. [3]

When they first opened for business in the late 1870s and early 1880s, bucket shops were small, independent store-front operations, typically located in the vice districts of large towns and cities. Like the rest of the American economy in this period, bucket shops soon exhibited a trend toward consolidation and monopoly. As early as 1890 the *New York Times* reported that a syndicate popularly known as the "Big Four" controlled all the bucket shops in Manhattan, had offices in “every city of consequence in the Union,” and possessed capital amounting to “millions of dollars.” By the turn of the century the major bucket shops had relocated to the heart of the financial districts of America’s cities, had outfitted their offices to appear similar to brokers’ offices, and had come to control dozens of branch offices throughout the country. For example, the Haight and Freese Company, specializing in New York stocks, operated some 70 branches in the northeastern US, from Richmond, VA to Pittsburgh and Buffalo. The Coe Commission Company of Minneapolis, specializing in grain quotations, operated 100 offices across the country, from Boston to Spokane. The M.J. Sage Company of New York, specializing in cotton quotations, controlled 200 branches in the south. The larger offices of these chains made annual profits of $100,000 to $500,000. Merrill A. Teague, a muckraking journalist who wrote a four-part expose on the bucket shops in 1904, charged that bucket-shop customers lost a total of $100 million a year and that bucket-shop owners made an annual profit of about $35 million. The remaining $65 million was “tribute to the obstensibly respectable accomplices of the thieves,” including the telegraph and telephone companies who “lend eager aid, collecting in exchange for their assistance great slices of the loot of thievery.”[4]

As Teague’s remarks suggest, telegraph service was essential to the operations of the bucket shops and telegraph companies profited enormously from this service. The largest bucket shop chains spent tens of thousands of dollars annually to lease private telegraph networks. The Philadelphia office of Haight and Freese, for example, paid both Western Union and Postal at least $10,000 each per year to lease private telegraph circuits. A large bucket shop in St. Louis was Western Union’s biggest account in that city, making up about half of the company’s total telegraph tolls.[5] It is difficult to determine exactly how much money Western Union made by supplying bucket shops with quotations, because the company’s accounts did not distinguish between legitimate brokers and bucket shops. However, in 1890 Western Union’s president Norvin Green testified to Congress that just under half of his company’s message traffic was “purely speculative,” including “stock-jobbing, wheat deals in futures, cotton deals in futures,” and horse racing odds.[6] It is also suggestive to note that Western Union’s income from a kindred service–providing racing results to gamblers–generated $2 million in income and $216,000 in profit in 1904.[7]

In addition to Western Union’s ticker service, widespread public confusion about the differences between speculation and gambling allowed the bucket shops to flourish. Farmers who blamed Eastern financiers for their economic woes saw little difference between speculation in futures contracts and outright gambling. Referring to grain speculators, one farmers’ newspaper in 1883 charged, “Their business is gambling, too, and they operate upon the same telegraphy reports that the bucket shops do….The principle of gambling is the same in both places and demands the same condemnation and the same treatment by authorities.” A few years later, the *New York Times* reported on an imminent police crackdown to arrest bucket shop proprietors on the charge of “just plain ordinary gambling.” But, the reporter asked, “suppose some zealous citizen should come along and want to press the same sort of charge against the Stock Exchange?" Speculators themselves admitted that there existed little difference between their activities and just plain ordinary gambling. In 1888 Benjamin Hutchinson, one of the senior traders on the floor of the Chicago Board of Trade, publicly denied that speculators served a useful economic function; instead, he claimed, "we're gamblers." Even economists who studied the nation's financial markets were ambivalent about the social utility of speculation. In 1896 Henry Crosby Emery, an economics professor at Columbia University, admitted in his standard treatise on stock and commodity exchanges that "the gaming instinct" was integral to speculation. However, he continued, "Speculation is not mere gambling. Whether it is better or worse than gambling is a question on which opinions will long differ." Legislators, too, found little difference between speculation and gambling. In 1909 New York Governor Charles Evans Hughes of New York appointed a committee to investigate abuses in organized speculation, and the committee found that speculation exhibited "most of the pecuniary and immoral effects of gambling on a large scale." Indeed, the committee concluded, "only a small part of the transactions upon the Exchange is of an investment character; a substantial part may be characterized as virtually gambling." A year later, during Congressional hearings on a bill to ban the interstate transmission of gambling information, one representative argued that futures quotations should be banned from the wires along with horse race odds.[8]

Not surprisingly, bucket shop proprietors seized on these moral and economic ambiguities to claim that they democratized speculation. In 1899 Haight and Freese issued a *Guide to Investors* to solicit new business, and claimed that their facilities were "designed for the benefit of THE MILLION" who lacked the capital and experience to invest with high-priced brokers. Indeed, in 1905 the manager of Haight and Freese's Philadelphia office maintained in courtroom testimony that his firm was "a competitior of the New York Stock Exchange." In 1906 *Everybody's Magazine* gave C.C. Christie, the "Bucket Shop King," an opportunity to reply to Merrill Teague's four-part expose' of the bucket shop industry. Christie defended his operation as an "independent" broker by citing figures showing that only about 1% of trades on the Chicago Board of Trade resulted in delivery of actual grain. Traders concluded the other 99% of their transactions by settling on the basis of price differences, exactly as bucket shops settled accounts with their customers. Therefore, Christie charged, the Chicago exchange was "the biggest bucket shop on earth." He accused the major exchanges of being grasping monopolists seeking "to crush the independents. It is a case of Greed versus Freedom." Teague, in his brief rejoinder, reiterated that bucket shops were gambling dens. However, he admitted, "I'll have no quarrel with Christie about the Chicago Board of Trade."[9]

Between 1880 and 1910 the major exchanges sought to stamp out the bucket shops for two reasons. On the one hand, bucket shops competed directly with brokers who traded on the New York and Chicago exchanges. Many brokers keenly felt this competition and pressed the directors of exchanges to take decisive action. On the other hand, bucket shops cast doubt on the legitimacy of speculation on the grain and stock exchanges by revealing that the same acquisitive drive and addictive thrill lay behind both gambling and speculation.

The major exchanges, especially the Chicago Board of Trade, sought to eliminate the bucket shops by denying them access to market quotations. However, cutting off the flow of quotations was no easy matter. It required over twenty years of investigation, expensive litigation, a sustained public relations campaign, and protracted negotiations with the major telegraph companies. Indeed, Abner Wright's headstrong and controversial actions in 1887 demonstrated the frustration and futility many exchange officials felt in their attempts to cut off the bucket shops through legal and contractual means.

In attempting to cut off the flow of market quotations to the bucket shops the leaders of the Chicago Board of Trade confronted a ticklish dilemma. If they decided to strike at the bucket shops by restricting distribution of its quotations, the Board risked losing its pre-eminience among the legitimate exchanges. Many speculators and grain dealers would use the ticker of another exchange–perhaps the Board's rivals in New York or St. Louis–as the basis of their transactions. The Chicago Board of Trade would cease to set the national market for farm produce if it choked off its quotations. But if it continued to provide its market to all comers, the bucket shops would flourish.

The Board attempted to navigate between these two unpleasant options from 1882, when it first decided to eliminate the "bucket shop evil," to 1905, when the US Supreme Court ruled that the exchange had property rights over its quotations. In 1882 the Chicago Board of Trade renegotiated its contracts with the telegraph companies transmitting its quotations, and included a provision giving it the right to deny applications for its ticker quotations. In this way the Board could ensure that legitimate brokers continued to receive its market quotations while cutting off the bucket shops. While simple in conception, this method was quite difficult in practice. The telegraph companies, Western Union especially, were reluctant to withdraw from the lucrative bucket shop market. Furthermore, the bucket shops were quite successful at securing court injunctions prohibiting Western Union and the Board of Trade from removing their tickers. The net result, therefore, was a protracted and three-cornered contest between the Chicago Board of Trade, Western Union, and the bucket shops.

This contest did not go well for the Chicago Board of Trade for about twenty years. In a series of rulings at the state and Federal levels between 1883 and 1903, the courts continually upheld the right of bucket shops to obtain market quotations. The judges in these cases uniformly ruled that scant moral and economic difference existed between trades on the exchange floor and transactions in the bucket shops, and that bucket shops had as much right to the quotations as brokers. For instance, in an important 1903 case in federal appellate court, a panel of three judges ruled that the vast majority of transactions on the Board of Trade were "in all essentials gambling transactions" and that the Board itself violated an Illinois statute banning bucket shops. The judges concluded that "the Board of Trade does not come with clean hands, nor for a lawful purpose, and for these reasons its prayer for aid must be denied."[10]

In May 1905 the protracted and inconclusive litigation between the Board of Trade, Western Union, and the bucket shops came to an end. The United States Supreme Court ruled that the Chicago Board of Trade owned its quotations and could provide or deny them to anyone it wished. The basis of the court's decision was that organized speculation on the legitimate exchanges did serve a useful public purpose, while bucket shop transactions were mere gambling wagers. Armed with this decision, the Chicago Board of Trade and other major exchanges spent the next several years tracking down and closing bucket shops. Within a few years the bucket shops had ceased to exist.

The twenty-five-year war between the exchanges and the bucket shops brought out the dangers as well as benefits of instant telegraphic communication. Court rulings regarding their property rights over quotations, negotiations with the telegraph companies, and widely-held assumptions about speculation and gambling all defined the boundaries within which the major exchanges sought mastery over their informational destiny. In their struggle exchange leaders came to realize that control over the legal, business, and cultural environments were absolutely necessary to solve the dilemma in which the telegraph and the ticker had placed them.

The reliance of exchanges upon telegraphy simultaneously consolidated and undermined both their economic dominance and cultural authority over national financial markets. In the final analysis, the exchanges' relationship with the telegraph had little to do with the imperatives of large technological systems or the inexorable laws of neoclassical economics. Rather, it was a vital piece in the exchanges' construction of an accepted and legitimate role for themselves within a modernizing society. For exchange leaders, to confront directly their dependence upon telegraphy was to question the morality and desirability of speculation on their trading floors. In the end, exchanges like the Chicago Board of Trade gained control over the flow of information only by redefining themselves and the nature of economic relations.

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[1] For an account of Wright's actions, see Charles Taylor, *History of the Board of Trade of the City of Chicago* (Chicago: Robert O. Law Company, 1917), pp. 744-747.

[2]Two excellent works outline the Board's fight against the bucket shops. Jonathan Lurie embeds the struggle in the Board's growing realization of its public responsibilities and attempts at self-regulation; Jonathan Lurie, *The Chicago Board of Trade, 1859-1905: The Dynamics of Self-Regulation*, Urbana, University of Illinois Press, 1979, especially chapters 4 and 6. Fabian, op. cit., explains how its fight against the bucket shops helped it to establish a legitimate place in the economic order as an arena for organized speculation by painting bucket shops as evil doubles.

[3] For these figures on bucket shops, see Taylor, pp. 533 and 586; "The Bucket Shop Evil," *New York World*, Dec. 16, 1886, from James Mitchell Scrapbooks, Vol. 5, Record Group 4.13, New York Stock Exchange Archives; Nichols, pp. 2-5 [find rest of cite for nichols]; "All Tickers Ordered Out," *New York Times*, June 1, 1889, Mitchell Scrapbooks, Vol.

7; “The War of the Exchanges,” *New York Evening Post*, June 1, 1889, Mitchell Scrapbooks, Vol. 7; and Taylor, p. 787.

[4] “Tottering Bucket Shops, *New York Times*, April 27, 1890, Mitchell Scrapbooks, Vol. 7; John J. Hill, Jr., *Gold Bricks of Speculation* (Chicago: Lincoln Book Concern, 1904), pp. 29-30 and 66; and Merrill A. Teague, “Bucket Shop Sharks,” *Everybody’s Magazine* 14, June 1906, pp. 734-735.

[5] Teague, part 2, pp. 36-37 and 43. Western Union contracts with bucket shops for ticker service ranged from $6 to $40 a week depending on class of service, and the contracts were subject to one day’s notice for cancellation of service, an indication of the precarious and illicit nature of the bucket shop business.

[6] For ticker service contracts, see Executive Committee Minutes, Vols. F & G, Western Union Telegraph Company collection, National Museum of American History Archives Center, Smithsonian Institution; for Green’s testimony, see House Committee on Post Offices and Post Roads, 1890, p. 41.

[7] “Record Book of Louisville Office, 1877-1940;” and C.S.H. Small to Frank B. Rae, June 21, 1888, Misc. Correspondence from Superintendent’s Office, 1877-1910; both in Western Union Collection. See also Vidkunn Ulriksson, *The Telegraphers: Their Craft and Their Unions* (Washington: Public Affairs Press, 1953), pp. 200-201; “Interstate Race Gambling by Telegraph,” Senate Judiciary Committee hearings on bill S. 509, Jan. 21, 1909, p. 8; and Western Union Telegraph Company’s annual report for 1905, p. 7.

Western Union’s reformation was short-lived, however. The company did stop providing racing results directly to pool rooms, but allowed gambling syndicates, such as that controlled by Moe Annenberg in the 1930s, to lease thousands of circuit miles to transmit the results. As late as 1950, in Congressional hearings on organized crime, the chairman of the Federal Communications Commission castigated Western Union for receiving over $1 million annually for wire leases used for race gambling. On postwar handling of gambling information, see statement of Wayne Coy, FCC chairman, in “Investigation of Organized Crime in Interstate Commerce,” Special Subcommittee to Investigate Organized Crime in Interstate Commerce, Senate, 81st Congress, 2nd Session, June-August 1950, p. 5.

[8] Nichols, p. 4; *Western Rural*, Feb. 7, 1883 [get original from ILL], as quoted in Lurie, p. 87; “Wall-Street Talk,” *New York Times*, Aug. 30, 1887, Mitchell Scrapbooks, Vol. 7; Hutchinson’s remarks are quoted in Lurie, p. 91; Hill, p. 355.

Henry Crosby Emery, *Speculation on the Stock and Produce Exchanges of the United States* (New York: Columbia University Faculty of Political Science, 1896), p. 98; James E. Boyle, *Speculation and the Chicago Board of Trade* (New York: The MacMillan Company, 1921), p. 91.

On legislators see “Report of Governor’s Committee on Speculation in Securities and Commodities,” State of New York, 1919, pp. 4 and 7; and the remarks of Rep. Bartlett during hearings “To Prohibit Interstate Transportation of Pictures and Descriptions of Prize

Fights and To Prevent the Nullification of State Anti-Gambling Laws by International or Interstate Transmission of Race-Gambling Bets or of Racing Odds," House Committee on Interstate and Foreign Commerce, May 17, 1910, p. 4.

[9] *Haight & Freese's Guide to Investors* (Philadelphia: Haight & Freese, 1899), pp. 25 and 58, copy from New York Stock Exchange Archives; C.C. Christie, "Bucket Shop vs. Board of Trade," *Everybody's Magazine*, find rest of cite, pp. 708-709 and 713.

[10] Public Grain and Stock Exchange vs. Western Union, Circuit Court of Cook County, May 1883; Board of Trade of City of Chicago vs. L.A. Kinsey Co., Circuit Court, District of Indiana, July 14, 1903, Federal Reporter Vol. 125, p. xxx; Christie Grain and Stock Co. vs. Board of Trade of City of Chicago, Circuit Court of Appeals, 8th Circuit, Oct. 8, 1903, 125 Fed. xxx.