

Internal Memorandum

Owen Young - Memo III

August 4, 1955

(visit July 28-29)

EC-#20

Mr. Young's own story of why and how he founded the Radio Corporation of America is pertinent to any knowledge of the man and any estimate of his value to the Federal Reserve Bank of New York. He told the story partly to show that he had been extremely busy about a great many other things than the Federal Reserve Bank itself, but as a matter of fact, the story starts in 1919, five years after World War I began. He had either talked with Woodrow Wilson or had a letter from Wilson discussing the future of the United States in the then post-war world. It was Mr. Wilson's opinion that if the United States was to take the leading position which seemed to be indicated for it after the war, it must recognize that dominance depended on three separate points: 1) Domination in international transportation by sea. In that field England was supreme, she had the shipyards and the skills, and there seemed very little likelihood that the United States could compete with her.

(He was a message delivered by adm. Ballard. EC. 6/75)

2) Dominance in international communications. There England dominated the cable which was the means by which nations communicated with each other. They owned the landing places where cables came up out of the sea, and there was no possibility that they could be dislodged from these points. 3) Domination in petroleum. There the United States had the unquestioned leadership, and in Mr. Wilson's opinion, would remain in that position.

Given these three points of domination, and granted that at that time the United States held only one of them, Mr. Wilson said that the problem was to see whether the radio could be made the successful competitor of the cable. If so, then the United States would have ~~two out of the three necessary points of dominance.~~ ^{a position at least of equality.}

(EC)

His word to Mr. Young was, "You will know whether this is possible or not, and I'd like to be informed whether or not it could be done."

In telling this story, Mr. Young, who was ^{then vice} ~~first~~ president and ^{later} ~~then~~ chairman of the General Electric, said that the G.E. had developed the Alexanderson Alternator,

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see Tarbell bing.

and Marconi wanted it. (It was Marconi who was the then radio genius.) During World War I the American government had taken over the Marconi stations in the western hemisphere. The one in New Brunswick ^{N.J.} was the best of these. The General Electric got this New Brunswick station to try out the Alexanderson Alternator. As material for their first broadcasts they sent Mr. Wilson's 14 points all over Europe, and reports began coming back hailing this extraordinary political and scientific coup. This was the first time that general broadcasts had been sent; ~~and~~ they were important not only for their scientific value, but also because foreign governments had not announced to their population the 14 points. In forming the Radio Corporation of America in reply to Mr. Wilson's request, Mr. Young, having the General Electric in hand, then went to the American Telephone and Telegraph Company. He also went to the United Fruit Company which had done a wonderful radio job in South America in the process of shortening the time for fruit handling and selling on the pier.

He also went to Westinghouse which was a manufacturer and supplier of radio parts. For his fifth ^{potentially} interested group, he went to the Navy which had been working with radio during the war. Josephus Daniels, then Secretary of the Navy, was very dubious about the combination which Mr. Young was proposing on the ground that he was afraid it would conflict with the anti-trust laws. He was so sure of this that he acted as a barrier for the whole scheme. Mr. Young then went to Mr. Roosevelt, who was Assistant Secretary of the Navy, and a much more lively and progressive person than Mr. Daniels. He told Mr. Roosevelt of Mr. Daniels' opposition and of Mr. Wilson's desires, and said, "Either you sort this out or I will go direct to Mr. Wilson and tell him that the Navy is obstructing the entire scheme." Mr. Roosevelt persuaded Mr. Daniels to withdraw his opposition.

(Mr. Young's comment at the end of this story was, "Now that I see the great corporations fighting, I realize that Mr. Daniels had a point.")

In 1922 the Radio Corporation of America put the Harding election on radio, the first time that this had been done in the world. By that time the new radio

combine was far enough along so that Mr. Young could go on the New York Federal Reserve Board and have time for it. In 1924 he went to the Dawes Plan. Later he got the foreign radio companies together, persuading them that competition was so expensive and the cost of construction so enormous that they would all go bankrupt unless they worked together. It was at this point that he made his remark about Mr. Daniels being right.

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ELC's revision (1975)

and the Marconi companies (British dominated) badly wanted it. In effect, Wilson was asking General Electric as manufacturer not to sell to its most likely customer, but to set up a new company under American control to compete with it. Other companies, notably AT&T, Westinghouse, and United Fruit, also had valuable patents and radio devices which were especially useful for reception. Thus when the Navy took over all the major radio stations for the duration of the war, it also established a patent pool in the interest of maximum efficiency.

The best of the Marconi transmitting stations was in New Brunswick, New Jersey, and there at the Navy's request the General Electric installed the Alexanderson Alternator. From there they transmitted Mr. Wilson's Fourteen Points all over Europe, and reports began coming back hailing this extraordinary political and scientific coup. While it was only telegraphic signals not words that were thus broadcast, they did bring the Fourteen Points to the notice of press and people as well as governments. Thus the Navy set great store on keeping the Alexanderson Alternator in American hands, and indeed Secretary Daniels hoped for authorization to retain ^a government ^{successfully} control of radio after the war. Mr. Young agreed on the need for a monopoly in radio communications if the United States were to compete on equal terms with existing foreign monopolies; he did not believe that Congress would authorize a government take-over, however, and the event proved that he was right.

Nevertheless, while arranging to purchase British Marconi's shares in its American subsidiary, and then take over American Marconi through an exchange of stock, Young sought to develop a contract with the United States Navy which would protect the Navy's special interests

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and concerns; this interested the Assistant Secretary, F.D.R., but in the lung-run his chief opposed it. It was then, after further prodding from the Admirals, that Young brought AT&T, and subsequently the United Fruit and Westinghouse into the picture. His arrangement involved an exchange of patents, and the stipulation that each of the new participants follow General Electric's lead by making a substantial investment in RCA. Thus adequate capital for the new company was assured, and the patent pool established by the Navy during the war was in effect revived. All of this, it should be noted, had to do with point-to-point communication, designed to make the United States the center for radio, as Britain had been for cables. Broadcasting had no part in the original plans even though it was to develop shortly thereafter with almost explosive force.

(Mr. Young's comment at the end of this story was, "Now that I see the great corporations fighting, I realize that Mr. Daniels had a point.")

In 1920 the Harding election had been locally broadcast - notably by Westinghouse - and Coolidge's induction in 1923 had been given virtually national coverage. By that time the new radio combine was far enough along so that Mr. Young could go on the New York Federal Reserve Board and have time for it. In 1924 he went abroad for the Dawes Plan. Three years earlier he had gotten the foreign radio companies together, persuading them that competition, e.g., in South America, was so expensive and the cost of construction so enormous that they would all go bankrupt unless they worked together. It was at this point that he made his remark about Daniels being right.