"Where the Common People Could Speculate": The Ticker, Bucket Shops, and the Origins of Popular Participation in Financial Markets, 1880–1920

David Hochfelder

On the morning of August 29, 1887, Abner Wright, president of the Chicago Board of Trade, forcibly removed the instruments of the Postal Telegraph and the Baltimore and Ohio Telegraph companies 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 ordered them cut with an axe. Instead, they were cables connecting the building to the police and fire departments.[1] His desire to sever the Board of Trade's telegraph connections might seem surprising, since the telegraph network was indispensable to the operations of the major stock and commodity exchanges.

Wright's forceful actions were part of a long struggle over control of financial information and of a broader effort to remove the taint of gambling from the nation's financial markets. That struggle, which pitted the nation's stock and commodity exchanges against thousands of bucket shops, began with the widespread adoption of the ticker, a low-cost and low-maintenance printing telegraph, in the late 1870s and lasted until about 1915. Bucket shops were places where customers wagered small sums on the price movements of stocks and commodities. The term "bucket shop" apparently originated in early nineteenth-century England. Poor youths drained beer kegs thrown out by pubs and sold the collected dregs in abandoned shops. In the late 1870s the term was applied to shops where customers could wager on the price movements of stocks and commodities.[2] Bucket shops leased tickers from telegraph companies on the same terms as brokers did and used real-time quotations from exchange floors as the basis for customers' wagers. However, bucket shops did not place customers' transactions on any of the stock and commodity exchanges, nor did bucket shop transactions affect the actual prices of stock shares or agricultural products. Such transactions were fictitious and did not result in delivery of stock certificates or commodities to their patrons. Indeed, by the 1880s nearly every state had outlawed bucket shops as gambling dens. Unlike brokers, who acted as customers' agents

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[1] Charles H. Taylor, ed., *History of the Board of Trade of the City of Chicago* (3 vols., Chicago, 1917), 744–47; *New York Times*, Aug. 30, 1887, p. 2; *ibid.*, Dec. 17, 1887, p. 1.

[2] Cedric B. Cowing, *Populists, Plungers, and Progressives: A Social History of Stock and Commodity Speculation, 1890–1936* (Princeton, 1965), 28–29.

in placing their trades, bucket shops were customers' adversaries; a customer's winnings were a bucket shop's losses. Despite the fictitious nature of bucket shop transactions, the shops functioned as a shadow market by providing a cheap and accessible way for people of limited means to speculate, however vicariously, in stocks and commodities.[3]

The history of the bucket shops and of the exchanges' efforts to stamp them out reframes our understanding of the development of modern finance capitalism by showing how one of its key features—broad public participation in financial markets—emerged. Business and social historians have shown that the rise of modern financial institutions depended on innovations in banking, currency, and corporate organization, and cultural historians have explained Americans' ambivalent embrace of gambling and risk taking and their complex relationship to the market.[4] But neither business nor cultural history has explained how ordinary Americans became market participants nor how their increased participation exposed and redefined the troublesome moral and economic connections between gambling and the marketplace.

The number of Americans owning stock more than tripled between 1900 and 1922, from 4.4 million to 14.4 million, or from about 5 percent of the population to about 12 percent. Many of the new investors were people of modest means, the so-called middle and wage-earning classes.[5] This article seeks to explain that dramatic increase in popular participation in the nation's financial markets by revealing the technological and institutional mechanisms that enabled and propelled it during a key formative period. By the 1870s the telegraph network and stock ticker broadcast market information rapidly and widely, permitting greater public participation. However, prohibitively high margins, brokers' fees, and lot sizes effectively barred people of limited means. Bucket shops, a direct outgrowth of the ticker, provided the only venue for the million to participate in financial markets. By broadcasting stock and commodity quotations to thousands of bucket shops, the ticker made speculation a popular activity. Whereas speculation had

[3] On bucket shops, see Cowing, *Populists, Plungers, and Progressives.* For accounts of the Chicago Board of Trade's fight against bucket shops, see Jonathan Lurie, *The Chicago Board of Trade, 1859–1905: The Dynamics of Self-Regulation* (Urbana, 1979), 75–105, 138–67; and Ann Fabian, *Card Sharps and Bucket Shops: Gambling in Nineteenth-Century America* (New York, 1999), 153–202.

[4] On the business and social history of the development of finance capitalism, see Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977); James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, 1986); Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America, 1865–1896* (New York, 1997); Sven Beckert, *The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850–1896* (New York, 1993); Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, Mass., 1962); Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865–1879* (Princeton, 1964); Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago, 1999); Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877–1900* (New York, 2000); and Richard White, "Information, Markets, and Corruption: Transcontinental Railroads in the Gilded Age," *Journal of American History,* 90 (June 2003), 19–43. For works that argue that chance, luck, and risk taking have long occupied central places in the American economic landscape, see Jackson Lears, *Something for Nothing: Luck in America* (New York, 2003); and Fabian, *Card Sharps and Bucket Shops.* On how Wall Street became the focal point for a culture of risk taking, see Steve Fraser, *Every Man a Speculator: A History of Wall Street in American Life* (New York, 2005); Cowing, *Populists, Plungers, and Progressives;* and Walter Benn Michaels, *The Gold Standard and the Logic of Naturalism: American Literature at the Turn of the Century* (Berkeley, 1987).

[5] These figures are conservative; there was a sixfold increase in the number of shareholders in a group of 66 companies surveyed between 1900 and 1923. Cedric Cowing claims there were only 500,000 total shareholders on the eve of World War I. According to Steve Fraser, roughly "half of the American population own securities today," thanks to mutual funds and the Internet. H. T. Warshow, "The Distribution of Corporate Ownership in the United States," *Quarterly Journal of Economics,* 39 (Nov. 1924), 15–38; Cowing, *Populists, Plungers, and Progressives,* 95; Fraser, *Every Man a Speculator,* 577.

MR. A. MERGER HOGG IS TAKING A FEW DAYS' MUCH-NEEDED REST AT HIS COUNTRY HOME

This 1903 cartoon shows a businessman unwilling to forgo his stock quotations even while on vacation, suggesting the psychological power and ubiquity of the ticker. *Reprinted from Charles Dana Gibson,* The Gibson Book: A Collection of the Published Works of Charles Dana Gibson *(New York, 1907).*

typically been the province of the wealthy or well-connected, by 1880 ordinary men (and sometimes women) could step into a bucket shop and speculate in stocks or grain.

Bucket shops aroused the ire of exchange officials such as Abner Wright because they mimicked exchanges' transactions and competed with brokers for speculative customers trading on margin, thus calling into question the moral legitimacy of organized speculation. For many critics bucket shops confirmed that trades on 'Change were merely gambling wagers dressed in respectable clothing. As bucket shops flourished, they simultaneously exposed and reinforced this entanglement of gambling and speculation. In response, exchange officials, legislators, judges, and reformers tried to disentangle them, to remove the taint of gambling from what they asserted was legitimate and useful economic activity.[6] Thus the speculator of limited means and experience—the typical bucket shop patron—became a moral and economic problem. At first, exchange officials, brokers, economists, and legislators attempted to solve the problem by shutting down the bucket shops. They denied them access to market quotations and prosecuted them under state and federal antigambling laws. Having stamped out the bucket shops by 1915, exchange officials and brokers exhorted small speculators to become responsible investors and welcomed their participation in the markets. The Liberty Loan drives of World War

[6] Reform efforts by exchange leaders were similar to the efforts of the financial community to educate the public about the necessity of banking reform, which began in the 1890s and culminated in the Federal Reserve Act of 1913 and thereby in a national banking and currency system favorable to business interests. See Livingston, *Origins of the Federal Reserve System,* esp. 33–34, 71; Ritter, *Goldbugs and Greenbacks;* and Beckert, *Monied Metropolis.*

I and employee stock ownership plans, along with brokers eager to tap new customers, all helped transform the bucket shop gambler into the investor of the 1920s and beyond.

The Significance of the Telegraph Network and the Ticker for Financial Markets

By reducing risk, informational asymmetry, and transaction costs, the telegraph transformed and modernized many sectors of the American economy. But its effects on the nation's financial markets turned out quite differently from what early observers had expected. After its introduction in the 1840s, most businessmen anticipated that the telegraph would reduce opportunities for speculation and manipulation by broadcasting market information rapidly and widely. A writer in *DeBow's Review* in 1854 thought that the telegraph had reduced "cotton and stock gambling" by 95 percent, from $40 million a year to only $2 million. By 1890, however, Western Union's president Norvin Green testified to the U.S. Congress that 46 percent of his company's message traffic was "purely speculative," including "stock-jobbing, wheat deals in futures, cotton deals in futures," and horse racing odds, while only 34 percent pertained to "legitimate trade."[7]

An examination of technological innovation in telegraphy reconciles the disparate statistics given by *DeBow's Review* in 1854 and Green in 1890 and shows how the telegraph network came to abet speculation. In the decade after the Civil War, the ticker and the quadruplex revolutionized the American telegraph industry and accelerated the flow of information from exchange floors to market participants. Modern American financial markets grew out of speculation in government-issued bonds and paper currency during and immediately after the Civil War.[8] To facilitate this speculation, Edward Calahan invented the ticker in 1867. This printing telegraph broadcast price quotations to brokers' offices, allowing them to monitor transactions on exchange floors from a distance. Other inventors, particularly Thomas Edison, brought the ticker to a state of technical perfection by the mid-1870s. In 1873 Edison invented the quadruplex, a system that allowed four messages to travel simultaneously over one telegraph wire. Western Union began using the quadruplex in 1876, and it effectively quadrupled circuit capacity on major trunk routes without requiring the costly installation of more lines. More important from the standpoint of financial markets, the quadruplex allowed Western Union to lease excess circuit capacity for private wire networks controlled by financiers and speculators. Taken together, the ticker and the quadruplex allowed Western Union to exploit the growing demand for real-time financial information.[9]

[7] Chandler, *Visible Hand;* James R. Beniger, *The Control Revolution: Technological and Economic Origins of the Information Society* (Cambridge, Mass., 1986); Richard DuBoff, "Business Demand and the Development of the Telegraph in the United States, 1844–1860," *Business History Review,* 54 (Winter 1980), 459–79; William Cronon, *Nature's Metropolis: Chicago and the Great West* (New York, 1991); JoAnne Yates, *Control through Communication: The Rise of System in American Management* (Baltimore, 1989). "The Telegraph," *DeBow's Review,* 16 (Feb. 1854), 168. Norvin Green's testimony is in U.S. Congress, House of Representatives, House Committee on Post Offices and Post Roads, *Postal Telegraph Facilities,* 51 Cong., 1 sess., Feb. 11, 1890, p. 41. Green also noted that New York City offtrack betting parlors annually paid Western Union $750,000 to transmit horse racing odds and results.

[8] Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (New York, 1990), 238–302.

[9] In 1866, Western Union bought out its leading rivals and handled at least 80% of telegraph traffic thereafter. In 1870, Western Union president William Orton concluded that the "great future of telegraphy" lay in ticker service. He anticipated that its profits would eventually exceed those of public message traffic. William Orton to Anson Stager, Nov. 12, 1870, President's Letterbooks, Western Union Telegraph Company Collection (National Museum of American History Archives Center, Smithsonian Institution, Washington, D.C.); Orton to James Simonton,

National and intraurban telegraph networks transformed the operations of stock and commodity exchanges and the activities of brokers and speculators. Those networks allowed traders to monitor markets and to conduct trades from a distance, making it possible for the New York Stock Exchange to move in 1871 from twice-daily auctions to continuous trading in all its listed securities and for speculators in distant cities to attempt corners on the Chicago Board of Trade. The emergence of this new communications infrastructure had two somewhat contradictory effects on the nation's financial markets. On the one hand, it flattened the economic geography of those markets by eliminating the need for market participants to be physically present at exchanges. On the other hand, it facilitated the centralization of financial power on the floors of the large New York and Chicago exchanges and eroded the position of smaller regional stock and commodity exchanges.[10]

The ticker affected financial markets through two attributes that the telegraph network alone lacked: a psychological effect on market participants and ubiquity. The ticker had a psychological hold because it mediated between speculators and the mysterious, often inscrutable, workings of the market, a market that could suddenly enrich or impoverish participants. Indeed, almost all contemporary discussion of the ticker emphasized its allure. Horace L. Hotchkiss, a banker and a founder of the Gold and Stock Telegraph Company, recalled that when the ticker first entered commercial service in December 1867, it "created a sensation as the quotations made their appearance on the tape. The crowd around it was at least six deep." In 1889 the financial writer George Rutledge Gibson noted that "dealers hover over, and intently watch the 'ticker' as it rapidly unwinds the tangled web of financial fate." Even ruined speculators, the "ghosts" of Wall Street, continued to succumb to the lure of the ticker. These ruined men served as an allegory for the ticker's almost-addictive power: "the ticker is always a treacherous servant. In the end it proved itself the master. Now the man who once dealt in thousands of shares of stock sits in a dingy, little bucket shop," still intently watching the ticker. To avoid a similar fate, another financial writer, Thomas Gibson, warned the speculator "to divorce himself from the alluring attractions of the ticker . . . propinquity to the ticker will far oftener prove a detriment than an aid to profits."[11]

Dec. 24, 1874, Dec. 3, 1875, *ibid.*; Norvin Green to E. K. Willard, July 10, 1879, *ibid.*; Green to William H. Forbes, Dec. 19, 1879, *ibid.*; Green to Edward Sweet and Co., Jan. 28, 1880, *ibid.*

[10] By 1894 brokers at the Boston Stock Exchange knew of trades on the New York Stock Exchange within thirty seconds. Examples like this support economic historian Alexander Field's claim that the private wire and ticker networks allowed commodity and securities trading to attain "performance standards we associate with the twentieth century." Henry Crosby Emery, *Speculation on the Stock and Produce Exchanges of the United States* (New York, 1896), 139; Alexander Field, "The Telegraphic Transmission of Financial Asset Prices and Orders to Trade: Implications for Economic Growth, Trading Volume, and Securities Market Regulation," *Research in Economic History,* 18 (1998), 167. For the ticker's effects on regional exchanges, see Bradford Scharlott, "The Telegraph and the Integration of the U.S. Economy: The Impact of Electrical Communications on Interregional Prices and the Commercial Life of Cincinnati" (Ph.D. diss., University of Wisconsin, 1986).

[11] Horace L. Hotchkiss, "The Stock Ticker," in *The New York Stock Exchange: Its History, Its Contributions to National Prosperity, and Its Relation to American Finance at the Outset of the Twentieth Century,* ed. Edmund Clarence Stedman (New York, 1905), 434; George Rutledge Gibson, *Stock Exchanges of London, Paris, and New York: A Comparison,* (New York, 1889), 82–84; Thomas Gibson, *The Pitfalls of Speculation* (New York, 1906), 47; *New York Times,* Aug. 19, 1894, p. 24; *ibid.*, Feb. 7, 1904, p. 30; The Scalper, "Ticker Talk," *Ticker,* 2 (May 1908), 29. For the argument that the ticker was the key transformative technology that caused "a radical abstraction and reconfiguration of the visual experience of the market," see Alex Preda, "Of Ticks and Tapes: Financial Knowledge and Price-Recording Technologies in Nineteenth Century Financial Markets" (in David Hochfelder's possession).

Within a few years of its introduction in 1867, the ticker could be found almost anywhere: in brokers' offices, banks, hotels, restaurants, and even saloons and cigar stores. Until 1871 ticker service existed only in New York City, where about 700 machines were in operation. In that year Western Union acquired control of the Gold and Stock Telegraph Company, the main purveyor of ticker service. Western Union's national wire network allowed the expansion of ticker service outside New York, so that by 1873 it had subscribers in twenty cities. By 1879 the Western Union executive James D. Reid calculated that Gold and Stock had 1,574 tickers in service, about 1,000 of them in New York City; by 1886 they had about 2,200 tickers scattered across the country. Gold and Stock's rival, the Commercial Telegram Company, operated about 900 instruments in major commercial cities. By 1889 the ticker had become so common that the New York broker John T. Denney complained 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." In 1903 the financial writer Sereno Pratt claimed that there was "no better proof . . . of the universality of speculation" than the ubiquity of the ticker. Five years later a writer in the magazine the *Ticker* diagnosed a common disease caused by the instrument: "speculitis."[12]

Bucket Shops as a Shadow Market

Contemporary observers and historians have properly credited the ticker with laying the foundation for the modern brokerage industry, solidifying the financial power of the major New York and Chicago exchanges, and reconfiguring the geographic and psychological relationship between markets and participants. But perhaps the ticker's most significant and lasting effect was to popularize speculation through the institution of the bucket shop. Bucket shops first arose in New York in 1877; by early 1878 they spread to Chicago, Milwaukee, St. Louis, and other commercial centers. The directors of the Chicago Board of Trade noted in 1910 that they "first appeared shortly after . . . the ticker began to be generally used for the prompt distribution of market quotations." At first, as the Board of Trade's official historian Charles H. Taylor noted in 1917, "they were not viewed with particular alarm" but regarded as "a sort of democratized Board of Trade, where the common people could speculate."[13]

Although exchange leaders were at first unconcerned, bucket shops soon drew business away from legitimate brokers, particularly that of speculative clients who traded on margin. Margin trades allowed speculators to put up a fraction, usually 10 percent, of the cost of a trade and to borrow the remainder from their brokers. Because bucket shops operated at the legal and moral periphery of the economy, closed or changed names and locations frequently, and left behind no business records, it is difficult to determine their

[12] Ticker figures are from Orton to Frank Scudamore, Aug. 11, 1873, President's Letterbooks, Western Union Telegraph Company Collection; James D. Reid, *The Telegraph in America* (New York, 1879), 613–14; James D. Reid, *The Telegraph in America* (New York, 1886), 731; Scharlott, "Telegraph and the Integration of the U.S. Economy," 120–22; Ranald Mitchie, *London and New York Stock Exchanges: 1850–1914* (London, 1987), 174; Committee on Arrangements, minutes, Feb. 8, 1886, General Files, 1872–1915 (New York Stock Exchange Archives, New York, New York). John Denney's quote is from *New York Evening Post,* June 1, 1889, Mitchell Scrapbooks, *ibid.* Sereno Pratt, *The Work of Wall Street* (New York, 1903), 139; "Speculitis. A Name for the Wall Street Disease. The Cause, the Symptoms, and the Cure," *Ticker,* 2 (July 1908), 159–61.

[13] Taylor, *History of the Board of Trade of the City of Chicago,* 565, 585, 1218–22.

exact extent. Yet evidence gleaned from the archival records of Western Union, the Chicago Board of Trade, and the New York Stock Exchange; state and federal court cases; newspaper and magazine stories; memoirs of speculators and financial writers; and exposés by antigambling crusaders and muckraking journalists shows that the shops were widespread and were the main point of entry for ordinary Americans to speculate.

While these sources dealt mainly with how bucket shops operated and seldom gave specific details about their customers, it is possible to draw a composite picture of bucket shop patrons and to trace how bucket shops popularized speculation. Many contemporary accounts emphasized the diverse clientele of the bucket shops. For example, in September 1879 the *Chicago Tribune* described the bucket shop as a place where "no broker is necessary, any person, man or woman, boy or girl, white, black, yellow or bronze can deal directly." However, the first bucket shops sprang up in the financial centers of major cities and catered to the young male clerks who worked in nearby banks and investment houses. Such men lacked the means to trade in stocks and commodities, yet they had ready access to financial information and moved in a heady speculative atmosphere. In 1879 the *National Police Gazette,* a magazine that featured lurid stories about urban crime and vice, described the bucket shop clientele as composed of "all classes of men who have been bit by the scorpion speculation," but the article asserted that most patrons were "young clerks" employed by bankers and brokers who had thus "become imbued with the spirit of stock-gambling." Before the arrival of the bucket shops, "there was no other outlet for this spirit." Five years later the magazine complained that bucket shops had become "the cause of no end of petty thefts on the part of office-boys and small salaried clerks" seeking to cover bucket shop losses. Specific incidents bore out the magazine's claim. In October 1880 George Lehman, a young Philadelphia clerk "fond of the society of fast men and women and horses," embezzled over $20,000 from his employer to cover his losses in a bucket shop. Three years later, Arthur H. Blaney, a thirty-year-old respectable family man and head bookkeeper of Boston's Massachusetts Loan and Trust Company, bilked his employer of $44,000 to cover three years of losses in bucket shops. In 1883 Frederick M. Ker, a clerk with a Chicago bank, faced a ten-year jail term for stealing a similar amount from his employer to cover his bucket shop losses. Even the celebrated speculator Jesse Livermore, the so-called Boy Plunger, made his first thousand dollars before the age of sixteen by trading at bucket shops while working as an office boy at the Boston brokerage firm Paine Webber.[14]

By the mid-1880s bucket shops had moved into neighborhoods outside financial districts and into smaller cities and the countryside. Several uptown New York bucket shops catered exclusively to prosperous women, who preferred to deal there instead of going to Wall Street, where they feared "exciting adverse comment." In 1884 the *New York Times* reported that bucket shops were "thriving in all of the large towns and cities from New-York to Chicago, and that operators who once traded legitimately with members of the Stock Exchange, now operate" through them.[15]

[14] For a reproduction of the *Chicago Tribune* article, see *ibid.*, 586–88. "Glimpses of Gotham," *National Police Gazette,* June 14, 1879, p. 14; "The Spirit of Speculation: How the Passion for Gambling Is Being Fostered by Wall Street," *ibid.*, Feb. 12, 1881, p. 11; *New York Times,* Sept. 4, 1884, p. 8. On defalcating clerks, see *ibid.*, Oct. 29, 1880, p. 5; *ibid.*, June 19, 1883, p. 1; and *ibid.*, Nov. 18, 1883, p. 1. On Jesse Livermore, see Edwin Lefevre, *Reminiscences of a Stock Operator* (New York, 1923); Cowing, *Populists, Plungers, and Progressives,* 101–3; and Richard Smitten, *Jesse Livermore: World's Greatest Stock Trader* (New York, 2001), 22–30.

[15] *New York Times,* Sept. 11, 1882, p. 8; *ibid.*, Sept. 4, 1884, p. 8.

The earliest bucket shops seem to have catered to those who were already predisposed to speculate but could not do so through brokers because of limited means, sex discrimination, or other reasons—customers, as one newspaper account put it, "no broker would care to have."[16] By the turn of the twentieth century, however, bucket shops had not only spread geographically but were also competing with brokers by actively soliciting business through newspaper advertisements, printed investors' guides, and tip sheets. As the bucket shop industry expanded into new regions and tapped new customers, it exhibited a trend toward consolidation and concentration. As early as 1887 the *New York Times* reported that a syndicate popularly known as the "Big Four" controlled the bucket shops in Manhattan, had branches in all the large towns of the country, and possessed millions of dollars in working capital. By the turn of the century, the Haight and Freese Company, specializing in New York stocks, operated approximately 70 branches on the eastern seaboard, extending as far south as Richmond and as far west as Pittsburgh and Buffalo. The Coe Commission Company of Minneapolis, specializing in grain quotations, operated 100 offices across the nation's northern states, from Boston to Spokane, Washington. 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 ranging from \$100,000 to \$500,000.[17]

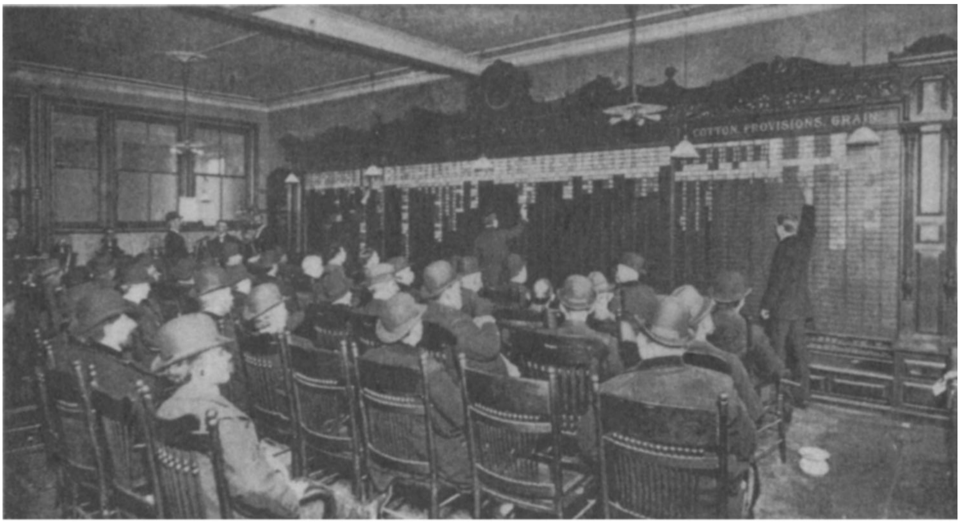
While most bucket shop business came from those who wished to speculate with a few dollars, by the turn of the century many new accounts belonged to novice investors. Take Ridgway Bowker, a sixty-year-old Philadelphia typesetter who before 1903 had never invested in the stock market. That summer Bowker read a newspaper advertisement for Haight and Freese and decided to investigate further. After reading its slick *Guide to Investors,* Bowker opened an account with \$150. After some initial successes, he soon incurred losses and found himself handing over more and more money "to protect his margin." He ultimately lost \$3,200, most of his retirement nest egg, and was forced to return to work at a salary of \$60 a month. Bowker's predicament became the subject of a muckraking exposé of bucket shop operations. Another customer, Charles Weiss of Boston, believing he was investing in stocks, lost over \$5,000. In 1905 his widow Anna sued in federal court to recover his losses. Merrill A. Teague, the author of the exposé featuring Bowker, claimed that these incidents were hardly unique, that they had counterparts "in nearly every county and hamlet in the United States" and that bucket shops annually stole \$100 million from "Americans of comparatively small earnings" such as Bowker and Weiss.[18]

Bucket shop proprietors lured such people as Bowker and Weiss by claiming that their operations were identical to those of regular brokers, except that they catered to the small investor. To emphasize these similarities, bucket shop proprietors outfitted their offices

[16] *Ibid.*, Aug. 14, 1887, p. 9.

[17] On the so-called Big Four, see *ibid.*, Nov. 3, 1887, p. 3; and *ibid.*, May 12, 1889, p. 9. For details of bucket shop operations, including those of the Haight and Freese Company, Coe Commission Company, and M. J. Sage Company, see John Hill Jr., *Gold Bricks of Speculation: A Study of Speculation and Its Counterfeits, and an Expose of the Methods of Bucketshop and "Get–Rich–Quick" Swindles* (Chicago, 1904); Merrill A. Teague, "Bucket-Shop Sharks," *Everybody's Magazine,* 14 (June 1906), 723–35; Merrill A. Teague, "Bucket-Shop Sharks," *ibid.*, 15 (July 1906), 33–43; Merrill A. Teague, "Bucket-Shop Sharks," *ibid.* (Aug. 1906), 245–54; Merrill A. Teague, "Bucket-Shop Sharks," *ibid.* (Sept. 1906), 398–408; *McCarthy v. Meaney,* 183 N.Y. 190 (1905); and *New York Times,* Nov. 19, 1905, p. 15.

[18] Teague, "Bucket-Shop Sharks," 728; *Weiss v. Haight & Freese & Co.,* 148 Fed. 399 (1906). For similar cases involving other bucket shops, see *Joslyn v. Downing, Hopkins & Co.,* 150 Fed. 317 (1906); *Williamson v. Majors,* 169 Fed. 754 (1909).

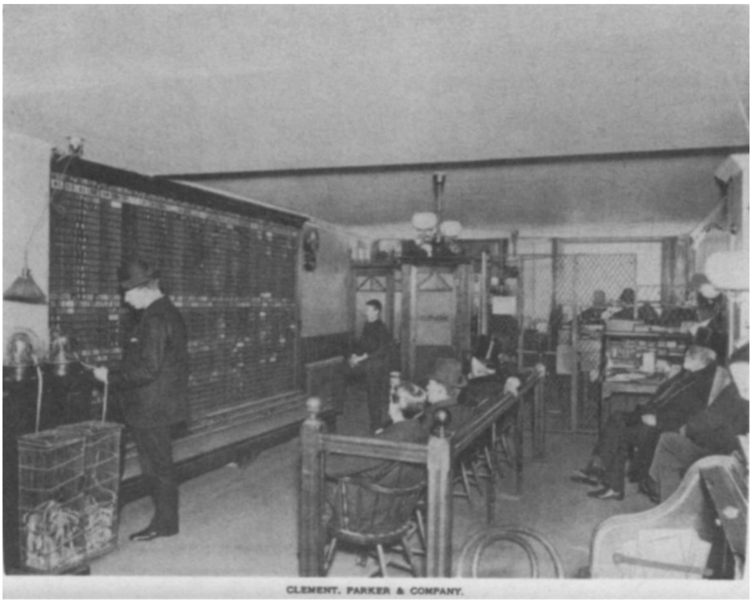


The customer room of the downtown Manhattan office of the Haight & Freese bucket shop was similar to regular brokers' facilities. *Reprinted from* Haight & Freese's Guide to Investors *(Philadelphia, 1899).*

with the same tickers, blackboards, telephones, and reading matter found in brokers' offices. Jesse Livermore recalled that the Cosmopolitan Stock Brokerage Company, a large Boston bucket shop, had "a fine office and the largest and completest quotation board I have ever seen anywhere. It ran along the whole length of the big room and every imaginable thing was quoted . . . everything that was bought and sold in New York, Chicago, Boston, and Liverpool." In 1886 the *New York World* reported that many of Manhattan's two hundred bucket shops were fitted up as sumptuously as Wall Street brokers' offices. Bucket shop patrons showed "no more diffidence going into these places than is shown going into the New York Stock Exchange, and the class of customers has greatly improved."[19]

A typical bucket shop transaction had the outward form of a margin trade placed with a broker but with much lower margins and smaller lot sizes. Legitimate exchanges such as the New York Stock Exchange required minimum margins of 10 percent and minimum trades of one hundred shares, transactions that involved hundreds or thousands of dollars. By contrast, most bucket shop transactions involved sums ranging from $10 to $50. For example, the Haight and Freese chain charged a commission of 0.125 percent and required minimum margins of 3 percent per share of stock, three cents per bushel of grain, or a dollar per five-hundred-pound bale of cotton. The Christie-Street Commission Company, a large midwestern chain specializing in Chicago commodities, charged commissions of an eighth cent per bushel of grain and a quarter cent per share of stock and required margins of one cent per bushel of grain or a minimum transaction of $10. A customer placing a typical buy order at Haight and Freese would "buy" $500 worth of

[19] Lefevre, *Reminiscences of a Stock Operator,* 15–16; *New York World,* Dec. 16, 1886, Mitchell Scrapbooks.



The customer room of a prominent Boston stockbroker, shown in this 1893 photograph, clearly resembles customer rooms in contemporary bucket shops. *Reprinted from* The Boston Stock Exchange *(Boston, 1893).*

stock, ten shares of stock at the market price of $50 a share. Assuming a 3 percent margin per share, the customer paid $15 plus commission for this transaction.

Bucket shops made their money from two related tactics, low margins and so-called wash sales. Low margins allowed bucket shops to collect customers' wagers after only small declines in a stock's price. A speculator placing a margin trade on the New York Stock Exchange lost the margin if the stock declined by 10 percent. However, a patron of Haight and Freese lost the $15 margin on a stock purchase of $500 if the stock dropped only 3 percent to a share price of $48.50. At that point a patron could either deposit more money to "protect the margin" and keep the transaction open or could simply walk away having lost the $15 wager. Furthermore, bucket shops rigged the game by placing wash sales to wipe out customers' margins. Bucket shop patrons tended to be "bulls," that is, to bet that stocks would rise. When bucket shop proprietors saw that many of their customers wagered on a certain stock, they placed orders on legitimate exchanges to sell minimum lots of the stock at a price sufficiently below its current quotation to "wash down" the price. When the low quotation came through on the ticker, the bucket shop closed out its customers' margins. Jesse Livermore recalled that newspapers referred to a sudden, transitory drop in a stock's price as a "bucket shop drive."[20]

As this description of bucket shop practices suggests, the major difference between legitimate brokers and bucket shop proprietors lay in the relationship between customer and dealer. A broker acted as a customer's fiduciary agent, placing trades on the floors of the exchanges and rendering an accurate account of trades. Bucket shop proprietors and

[20] On bucket shop operations, see "Bucket Shops: An Inside View, and Some Lessons to Be Drawn Therefrom," *Ticker,* 2 (May 1908), 19–23; *Haight v. Haight & Freese,* 92 N.Y.S. 934 (1905); and Teague, "Bucket-Shop Sharks," 732. Livermore is quoted in Lefevre, *Reminiscences of a Stock Operator,* 19–20.

their customers were adversaries in a rigged, zero-sum game; bucket shops derived their income from customers' losses, not from commission fees for placing trades. In addition to carrying on wash sales, some bucket shops delayed the posting of quotations in the customer room by several minutes and refused orders when they knew that customers would win. The bucket shops of Boston, New York, St. Louis, and Hoboken, New Jersey, for example, collectively banned Jesse Livermore because of his successes.[21]

A second difference was that bucket shop wagers violated state antigambling laws. During the 1880s most states (West Virginia being the notable exception) banned stock and commodity transactions in which delivery was not contemplated.[22] That distinction was a source of much contention. Brokers on the regular exchanges claimed that delivery was contemplated in all their trades, yet critics of organized speculation routinely pointed out that delivery rarely took place and that most transactions were settled on the basis of price differences. Bucket shops found a loophole in that provision by requiring customers to sign trading slips stating that they agreed to take or make delivery of the stocks or commodities in which they traded. That loophole also allowed bucket shops to obtain injunctions from state courts when telegraph companies and exchanges tried to remove their tickers; since their customers signed slips stating that delivery was contemplated, judges concluded that bucket shops were just as entitled to receive quotations as brokers holding exchange seats.

A final difference between brokers and bucket shops lay in the effect of their transactions on markets. Orders placed with brokers set the prices of stocks and commodities traded on exchange floors. The quotations generated by these orders and transmitted over the ticker network provided the raw material for bucket shop transactions. However, that information flow was unidirectional: bucket shop transactions had no real effect on the market prices of stocks and commodities. The so-called wash sales by bucket shops had only a transitory effect on market prices, and this limited intervention into the regular markets became more difficult after the 1890s, when exchanges tightened their regulations and expelled or suspended members who traded on behalf of bucket shops.

Despite these differences, bucket shops functioned as a shadow or alternative marketplace and drew significant business away from legitimate brokers. Since bucket shops did not leave behind business records, it is impossible to obtain precise figures on the scale of their operations. However, contemporary accounts give a sense of their magnitude. In 1884 the *New York Times* claimed that bucket shops were annually depriving Stock Exchange brokers of a million dollars worth of commission accounts. In 1887 Chicago Board of Trade president Abner Wright resorted to drastic measures to prevent bucket shops from obtaining the board's quotations because he estimated that such shops accounted for 80 percent of the speculative business derived from broadcast quotations. In 1889 the *New York Times* estimated that the patrons of the nation's bucket shops wagered the equivalent of a million shares a day. By way of comparison, the average daily volume on the New York Stock Exchange in June 1888 was roughly 140,000 shares. Indeed, by 1888 competition from bucket shops for commission business had depressed the value of a seat on the New York Stock Exchange from $34,000 to $18,000, and a seat on the Chicago Board of Trade from $2,500 to $800. In 1905 the Haight and Freese chain had

[21] Smitten, *Jesse Livermore,* 31–38.

[22] Carl Parker, "Governmental Regulation of Speculation," *Annals of the American Academy of Political and Social Science,* 38 (Sept. 1911), 126–54.

between 10,000 and 20,000 accounts and a daily trading volume of about 70,000 shares. As late as 1913 William C. Van Antwerp of the New York Stock Exchange estimated that, on any given day, one bucket shop in Buffalo alone dealt in 8,000 shares, while all the legitimate brokers in that city traded a total of 11,000 shares.[23]

Telegraph service was essential to a bucket shop's operations. Bucket shop proprietors made strenuous efforts to secure their wire connections, leasing multiple redundant quotation circuits, employing skilled electricians and telegraphers, even tapping brokers' wires and bribing Western Union employees. In 1884 an attorney for Western Union told the secretary of the New York Stock Exchange that it was "a difficult matter" to discover how a large bucket shop obtained stock quotations. They "have a competent electrician and sundry linemen in their exclusive employ and maintain a system of mysterious wires from one point to another, by which when there is any interference with their instruments they may obtain quotations from various places." A few months later, the secretary of the Chicago Board of Trade gave his New York Stock Exchange counterpart details of the operations of a large Chicago bucket shop. The Public Grain and Stock Exchange ran ten leased wires from its Chicago office to other cities in the Midwest, obtained quotations from both Western Union and the Baltimore and Ohio Telegraph Company, and employed 10 telegraph operators. In 1887 the vice president of the New York Stock Exchange discovered that this bucket shop chain obtained its quotations several minutes earlier than the regular ticker service, employed 20 telegraph operators, and had 105 branch offices. An exchange member claimed that the same chain rented over one hundred circuits at a cost of $200,000 a year. When the Public Grain and Stock Exchange failed in 1890, the firm's headquarters employed 75 clerks and telegraph operators and had 120 branch offices. When a reporter asked the owner, Daniel A. Loring, why he himself had not taken advantage of the rising market, he replied, "I never speculate."[24]

Telegraph companies, especially Western Union, profited enormously from supplying bucket shops with tickers and leased wires. Western Union contracts with bucket shops for ticker service ranged from $6 to $40 a week depending on the class of service. (That the contracts could be canceled with one day's notice indicates the precarious and illicit nature of the bucket shop business.) As early as 1884 officials of the Chicago Board of Trade charged that Western Union received an annual income of $1,225,000 from bucket shop ticker rentals alone. In 1890 the *Western Electrician* estimated that Western Union received almost $1 million a year for tickers and wire leases from just seven bucket shop chains headquartered in Chicago, and in 1900 the *New York Times* estimated that Western Union took in a total annual income of $10 million from bucket shops. While

[23] *New York Times,* Sept. 4, 1884, p. 8; *ibid.*, March 6, 1885, p. 8; *ibid.*, April 16, 1885, p. 1; Taylor, *History of the Board of Trade of the City of Chicago,* 787; *New York World,* Dec. 16, 1886, Mitchell Scrapbooks; W. G. Nicholas, *Cold Facts about Bucket-Shops: Their Development Co-incident with the Enormous Shrinkage in the Value of Farm Products and the General Business Depression; A Gigantic Evil and Its Cure* (Chicago, 1887), 2–6; *New York Times,* Dec. 5, 1886, p. 1; *ibid.*, June 1, 1889, p. 1; *New York Evening Post,* June 1, 1889, Mitchell Scrapbooks; *New York Times,* May 10, 1905, p. 1; "The Index Man of the Under World of Finance," *New York Times Sunday Magazine,* Oct. 18, 1908, p. SM6; *New York Times,* Jan. 7, 1901, p. 15; and *ibid.*, May 8, 1913, p. 8. On the New York Stock Exchange's trading volumes from the 1880s to 1913, see http://www.nyse.com/marketinfo/datalib/1022221393023.html.

[24] *New York Times,* Oct. 18, 1883, p. 1; Gold and Stock Telegraph Company attorney to George W. Ely, March 25, 1884, Committee on Arrangements, General Files (New York Stock Exchange Archives); James H. Milne to Ely, Aug. 4, 1884, *ibid.*; William P. Grovesteen to Governing Committee, Feb. 28, 1887, in *Stock Quotations. The New York Stock Exchange Should Control Its Own Quotations,* undated pamphlet in Mitchell Scrapbooks; Memorandum giving list of bucket shops in New York City [1886 or 1887], Officers' Files, Vice President R. H. Thomas, *ibid.*; "Tottering Bucket Shops," *New York Tribune,* April 27, 1890; *New York Times,* May 20, 1890, p. 8.

This view of New Street in New York City after a blizzard in 1888 shows the extensive telegraph and telephone network that served the city's financial district. *Courtesy New York Stock Exchange Archives.*

the estimates suggest the magnitude of Western Union's income from bucket shops, it is difficult to determine an exact amount because the company's executives refused to distinguish service provided to legitimate brokers from service provided to bucket shops. Recall, however, Norvin Green's testimony to Congress in 1890 that just under half of Western Union's message traffic was "purely speculative." It is also suggestive that Western Union's income from a kindred service—providing horse racing results to poolrooms—generated $2 million in income and $216,000 in profit in 1904.[25]

Western Union's executives frequently protested that the company had no knowledge of how its customers used its facilities. However, records of Western Union, the New York Stock Exchange, and the Chicago Board of Trade all confirm that the telegraph company knowingly and eagerly supplied bucket shops with ample wire plant. For example, the record book from Western Union's Louisville, Kentucky, office shows that local employees

[25] For figures on Western Union's bucket shop business, see *Western Electrician,* June 7, 1890, p. 325; *New York Times*, Nov. 29, 1884, p. 1; and *ibid.*, May 30, 1900, p. 2. On Western Union's service to poolrooms, see Record Book of Louisville Office, 1877–1940, Western Union Telegraph Company Collection; C. S. H. Small to Frank B. Rae, June 21, 1888, Miscellaneous Correspondence from Superintendent's Office, 1877–1910, Western Union Telegraph Company Collection; Vidkunn Ulriksson, *The Telegraphers: Their Craft and Their Unions* (Washington, 1953), 200–201; U.S. Congress, Senate, Judiciary Committee, *Interstate Race Gambling by Telegraph,* 60 Cong., 2 sess., Jan. 21, 1909, p. 8; and Western Union Telegraph Company Annual Report, 1905, p. 7, Western Union Telegraph Company Collection.

ORDER DESK—GENERAL OFFICE, HAIGHT & FREESR.

This photograph of the main New York City office of the bucket shop Haight & Freese shows the proximity of the tickers to the order desk. *Reprinted from* Haight & Freese's Guide to Investors *(Philadelphia, 1899).*

were intimately familiar with the proprietors' names, locations, and business details of the bucket shops they supplied. The record book also shows that after 1880 the quadruplex gave the Western Union circuit managers flexibility in connecting bucket shops in Louisville to the networks of leased wires controlled by the large chains. The local Louisville bucket shops switched affiliations, changed names, and moved frequently, but the quadruplex gave Western Union managers the flexibility to perform rapid circuit cutovers and to maintain service with minimal interruptions. Bucket shop wire leases persisted until at least 1910 in Louisville and around the country. (Western Union apparently stopped recording them that year after a federal grand jury indicted the corporation for violating a new law prohibiting bucket shop operations in the District of Columbia.) While Western Union temporarily cut off the bucket shops after the indictment, its reformation was short-lived. In 1913 the New York Stock Exchange appointed a special committee to investigate bucket shop operations "with special reference" to Western Union's role in supplying them quotations.[26]

In addition to Western Union's connivance, widespread public confusion about the difference between speculation and gambling allowed bucket shops to flourish. Farmers who blamed eastern financiers for their economic woes saw little difference between speculation in futures contracts on the Chicago Board of Trade and outright gambling. In 1883, referring to grain speculators, one farmers' newspaper 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

[26] Record Book of Louisville Office, 1877–1940, Western Union Telegraph Company Collection; *New York Times,* July 8, 1910, p. 1; "Digest of the Preliminary Work of the Special Committee of June 25, 1913," Special Committee on Bucket Shop Operations (New York Stock Exchange Archives).

same condemnation and the same treatment by authorities." Speculators admitted that there was little to distinguish their activities from gambling. In 1888 Charles Hutchinson, the president of the Chicago Board of Trade, claimed that speculation on the board benefited both producer and consumer. His father, Benjamin Hutchinson, one of the board's senior members, reputedly reacted to his son's speech by exclaiming to a group of traders on the floor: "Did you hear what Charlie said? Charlie said we're philanthropists! Why bless my buttons, we're gamblers! You're a gambler! You're a gambler! and I'm a gambler!" In response to an imminent police crackdown on bucket shop proprietors based on the charge of "just plain ordinary gambling," a reporter for the *New York Times* wondered, "suppose some zealous citizen should come along and want to press the same sort of charge against the Stock Exchange?" In 1909 David W. James, a wealthy Georgia cotton planter, did just that. James refused to pay his broker nearly $50,000 in losses incurred on the New York Cotton Exchange because he claimed that the transactions were gambling wagers, since he never intended to take delivery but only wanted "to play the market."[27]

Even economists who studied the nation's financial markets expressed doubts about the distinction between speculation and gambling. In his 1896 doctoral dissertation, the economist Henry Crosby Emery claimed that "the gaming instinct" was integral to speculation, although "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 that was praiseworthy about speculation. In 1909 New York governor Charles Evans Hughes appointed a committee of eight bankers, merchants, and lawyers to investigate abuses in organized speculation. The committee reported 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."[28]

Bucket shop proprietors exploited the public's uncertainty about the difference between speculation and gambling to present themselves as respectable brokers who catered to the small investor. In its 1899 *Guide to Investors,* Haight and Freese claimed that its facilities were "designed for the benefit of THE MILLION" who lacked the capital and experience to invest with high-priced brokers. In 1905 the manager of Haight and Freese's Philadelphia office insisted in court that his firm was "a competitor of the New York Stock Exchange." In 1906 *Everybody's Magazine* gave C. C. Christie, the so-called Bucket Shop King, an opportunity to reply to Merrill Teague's four-part exposé of the bucket shop industry. Christie defended his status as an "independent" broker by citing figures showing that only about 1 percent of trades on the Chicago Board of Trade resulted in delivery of actual grain. Traders concluded the other 99 percent 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, re-

[27] For both the quotation from the *Western Rural,* Feb. 7, 1883, and Benjamin Hutchinson's remarks, see Lurie, *Chicago Board of Trade,* 87, 91. *New York Times,* Aug. 30, 1887, Mitchell Scrapbooks. For details of David W. James's transactions, see *Springs v. James,* 121 N.Y.S. 1054 (1910).

[28] Emery, *Speculation on the Stock and Produce Exchanges of the United States,* 98; *Report of Governor's Committee on Speculation in Securities and Commodities* (Albany, 1909), 4, 7.

iterated that bucket shops were gambling dens, though he admitted, "I'll have no quarrel with Christie about the Chicago Board of Trade. . . . Speculation upon margin is gambling; marginal gambling now holds sway on ALL legitimate exchanges."[29]

The Exchanges Confront the Bucket Shops

Teague's rejoinder to Christie neatly encapsulated the difficulty that the directors of the organized exchanges faced when they confronted the bucket shops and the reasons the exchanges struggled from 1878 to 1915 to stamp them out. First, bucket shops competed with brokers, particularly for speculative clients who traded on margin. Many brokers keenly felt this competition and pressed the directors of exchanges to take decisive action. More important, as Teague suggested, bucket shops cast doubt on the moral and economic legitimacy of speculation. Many Americans saw scant difference between trading on margin through a broker, wagering on price movements in a bucket shop, and gambling at cards or dice. The same acquisitive drive and addictive thrill lay behind both gambling and speculation.

Exchange officials and allied economists slowly and painstakingly constructed a distinction between speculation and gambling as a key weapon in the war against the bucket shops. The concept of delivery formed the basis of that distinction. Behind trades on exchange floors lay real value—actual stocks or agricultural products that could change hands. And even the most speculative trades helped produce something else of value: an orderly market, symbolized by the stream of quotations printed by the ticker. In contrast, bucket shop transactions were counterfeits; no articles of value lay behind them. Bucket shop proprietors were economic parasites who fed off exchanges' quotations and drained their customers' pocketbooks. Denunciations of bucket shops thus partook of the same rhetoric of value used by advocates of the gold standard against silverites and greenbackers, with a large and shrill dose of moral outrage. In 1908 one Chicago Board of Trade official charged that the bucket shop was "thoroughly demoralizing to industrial and mercantile life; it pollutes everything it touches and taints everybody with whom it is in any manner identified. It is insidiously pernicious and undermining, and is at war with every legitimate industry and every principle of mercantile life."[30]

Before fully articulating this distinction, exchange officials tried more practical and direct means to shut down bucket shops. At first, during the 1880s and 1890s, they treated bucket shops as business rivals and sought to eliminate them by blocking their access to stock and commodity quotations. Most bucket shops, however, obtained injunctions preventing Western Union and the exchanges from removing their tickers. Judges granted the injunctions because they saw little difference in the methods employed by the exchanges and bucket shops, and they regarded the exchanges' anti–bucket shop campaign as merely an attempt to crush smaller competitors.

The Chicago Board of Trade contended with both the conflation of speculation and gambling and antimonopoly sentiment during its protracted litigation to regain exclusive

[29] *Haight & Freese's Guide to Investors* (Philadelphia, 1899), 25, 58; C. C. Christie, "Bucket Shop vs. Board of Trade," *Everybody's Magazine,* 15 (Sept. 1906), 708–9, 713.

[30] "The Chicago Board of Trade, How It Helps the Farmer, Grain Dealer and Shipper," *Ticker,* 2 (Oct. 1908), 255–60. Jackson Lears, Ann Fabian, and Jonathan Lurie all point out the rhetorical and moral confusion that marked contemporary efforts to distinguish legitimate business and gambling. Lears, *Something for Nothing,* 194; Fabian, *Card Sharps and Bucket Shops,* 4, 5, 157, 188, 198; Lurie, *Chicago Board of Trade,* 78–79.

control of its quotations. In rulings in state and federal courts between 1883 and 1903, judges continually upheld the right of bucket shops to obtain the board's quotations. The judges ruled that there was scant moral and economic difference 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. In 1883 Murray Tuley, an Illinois state judge, enjoined Western Union and the board of trade from removing the tickers of the Public Grain and Stock Exchange. Tuley concluded that the board of trade was not "engaged in a moral reform movement. . . . It is competition—not immorality which the Board of Trade is seeking to put down." He accused the board of seeking to establish a "monopoly in the dealing in and brokerage of grain and other commodities." By equating the board's operations with those of bucket shops, Tuley dealt the board an important legal blow. In 1889 the Illinois Supreme Court ruled that the board of trade faced two equally unpleasant options: to provide its continuous market to all parties wishing it—including bucket shops—or to cease distributing its quotations altogether.[31]

Frustrated at the state level, the board appealed to the federal courts, at first with little success. In 1903 a federal judge ruled that speculation on the board's floor "tends only to excite the gambling propensities of the public. Such is not a species of property which appeals to a court of conscience for protection." In another ruling that year, a federal judge held that the board's trades were akin to wagers and thus its activities were "so infected with illegality as to preclude resort to a court of equity for its protection." In a third case in 1903, a panel of three appellate 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." However, the board successfully appealed to the U.S. Supreme Court, and in 1905 it obtained a landmark ruling that gave it and other exchanges property rights to their quotations and allowed them to cut off bucket shops from receiving them, thus concluding protracted litigation that had cost the board about $120,000 and had spanned 25 years, 248 injunctions, 27 jurisdictions, 20 cities, and 11 states.[32]

In his celebrated majority opinion, Associate Justice Oliver Wendell Holmes affirmed exchanges' efforts to distinguish between speculation and gambling. He outlined a working definition of speculation that distinguished between its socially useful and harmful varieties and concluded that the former depended on restricting popular participation in the nation's financial markets. He agreed that transactions on exchange floors, even those that did not result in actual delivery, were "serious business contract[s] for a legitimate and useful purpose" and not "mere wagers," as bucket shop proprietors had charged. When undertaken by "competent men," speculation was "the self-adjustment of society to the probable," a "means of avoiding or mitigating catastrophes, equalizing prices and

[31] *Public Grain and Stock Exchange v. Western Union Telegraph Co.,* 1 Ill. Cir. Ct. 548 (1883). Judge Murray Tuley's decision is quoted in *Bryant and another v. Western Union Tel. Co.,* 17 Fed. 825, 830 (1883); and *New York and Chicago Grain and Stock Exchange v. Chicago Board of Trade,* 127 Ill. 157 (1889). For the board's reaction to the case, see Lurie, *Chicago Board of Trade,* 99–102, 138–51.

[32] *Board of Trade of City of Chicago v. Donovan Commission Co.; Same v. Cella Commission Co.,* 121 Fed. 1012, 1014 (1903); *Board of Trade of City of Chicago v. L. A. Kinsey Co.,* 125 Fed. 72, 78 (1903); *Christie Grain and Stock Co. v. Board of Trade of City of Chicago,* 125 Fed. 161, 169 (1903); Taylor, *History of the Board of Trade of the City of Chicago,* 1218–22.

providing for periods of want." However, "incompetent persons bring themselves to ruin by undertaking to speculate in their turn."[33]

In addition to facing a hostile legal climate before Holmes's decision, exchanges often found their efforts to stamp out the bucket shops obstructed by telegraph companies (especially Western Union) because they were reluctant to lose this lucrative market. There were frequent and often fruitless conflicts over the terms of the contracts by which the telegraph companies obtained quotations from the exchanges. Indeed, Abner Wright's forceful ejection of telegraph companies from the Chicago Board of Trade demonstrated the frustration and futility many exchange officials felt in their attempts to cut off bucket shops through legal and contractual means. In 1883, for example, Western Union refused to accede to the Chicago Board of Trade's demand that it halt ticker service to bucket shops. The company's president, Norvin Green, claimed that this demand was not only "impracticable" to carry out in the face of bucket shop injunctions but also likely to "defeat what is most important to the business of the Board of Trade—an extended and wide spread distribution of the latest quotations. It is this that makes orders."[34]

By 1886 Wright favored ending the distribution of quotations altogether, since bucket shops, in his estimation, had accounted for an 80 percent decline in the board's commission business over the past three years. While the board was not yet ready to embrace such a drastic step, it did so in 1890, following the adverse 1889 Illinois Supreme Court ruling. The blackout shut down few bucket shops; most used quotations from other exchanges or obtained the board's quotations through surreptitious means. Opposition to the blackout mounted from within and without. Since trading proved difficult without the continuous market, many board members lost clients to other exchanges. Those exchanges in turn proved unable to coordinate their markets with Chicago's. In July 1892 the board reversed itself, and Western Union and the Postal Telegraph Company resumed transmission of the Chicago ticker.[35]

The New York Stock Exchange also vacillated between denying public access to its quotations entirely and pressuring Western Union to sever its ties to bucket shops. In 1897 the governors of the exchange resolved not to renew Western Union's contract when it expired at the end of June, claiming that the telegraph company had failed to live up to its contractual obligation to do no business with bucket shops. The governors accused Western Union of broadcasting its quotations "to practically every bucket shop in the United States" and concluded that "the aid of the Western Union Telegraph Company is essential to this organized system of fraud, and that aid has not been withheld." The stock exchange explored several alternatives over the next few months, including setting up a preferred or rapid quotation circuit for its members and sending out quotations to nonmembers at infrequent fifteen- or thirty-minute intervals. In the end, though, its directors concluded that they had no choice but to keep providing Western Union with

[33] *Board of Trade of the City of Chicago v. Christie Grain and Stock Company,* 198 U.S. 236, 249, 247 (1905). Justices John Marshall Harlan, William R. Day, and David J. Brewer dissented.

[34] Norvin Green to Robert C. Clowry, Dec. 29, 1883, Board of Directors Meeting Documents, Jan. 2, 1884, Chicago Board of Trade Records (Special Collections, University of Illinois at Chicago Library, Chicago); Clowry to J. M. Ball, Dec. 29, 1883, *ibid.*

[35] *New York Times,* Dec. 5, 1886, p. 1; Taylor, *History of the Board of Trade of the City of Chicago,* 787. Official Notification from George Stone to Western Union, March 1, 1890, Board of Directors Meeting Documents, Chicago Board of Trade Records; contract between the Chicago Board of Trade, Western Union Telegraph Company, and the Postal Telegraph-Cable Company, May 31, 1892, *ibid.*

continuous quotations. One despondent governor told a reporter that the inability of the exchange to find a workable alternative resulted "in a victory for the Western Union. . . . As the ticker matter stands now, the Western Union can practically dictate to us any contract it may desire."[36]

Only the threat of an independent telegraph system owned and operated by the major exchanges brought the telegraph companies to heel. In 1900 relations between the Chicago Board of Trade and the companies again reached an impasse. Unable to secure their assistance in cutting off bucket shops, the board cancelled its 1892 joint contract with Western Union and the Postal Telegraph Company. Resolved not to repeat the indecisiveness of the late 1880s and early 1890s, the board decided to control its quotations at every point, from the telegraph instruments near the pits to the tickers in brokers' offices. At first Western Union's managers were unconcerned; the board of trade and the New York Produce Exchange had both threatened to set up independent exchange telegraph networks in 1883 and 1890. This time, however, the board planned to connect some two dozen exchanges to these wires by 1905, and by the spring of 1901, it was well on its way to doing so. Western Union and Postal backed down, and the two companies signed a new contract agreeing to the Chicago Board of Trade's policy for distributing quotations.[37]

Faced with a hostile legal environment and poor cooperation from the telegraph companies, exchange officials had, by the mid-1890s, broadened their campaign against the bucket shops along three fronts. They first undertook a concerted program of publicity to distinguish their operations from those of the bucket shops. The Chicago Board of Trade established a Committee on Promotions to carry out this task. Responding to President Theodore Roosevelt's December 1906 message to Congress, in which he warned that "reckless speculation and disregard of legitimate business methods" threatened the country's prosperity, board president Hiram Sager summarized the challenge facing the organized exchanges in a 1908 article in *Harper's Weekly.* "The only reasonable explanation" why "so many well-meaning people," including Roosevelt, regarded the exchanges as sources of gambling, Sager maintained, was that bucket shops "have been allowed to flourish." In 1909 the board helped organize a Council of Grain Exchanges whose major duties were publicity campaigns and legislative lobbying. As late as 1916 the council found that its greatest difficulty, "a task of colossal proportions," was "convincing the legislators that we are not dealing in phantom grain."[38]

Second, seeking to increase its moral distance from bucket shops, the board embarked on a campaign of internal reform to eliminate abuses in its own ranks. In 1895 it launched a thorough investigation of its members' private wire connections, focusing on twenty brokers with large networks. That investigation resulted in the expulsion of one member and a three-year suspension of another for their telegraphic links to bucket shops. Other brokers soon refused to fill orders placed by bucket shop owners (presumably placed by

[36] *New York Times,* March 20, 1897, p. 12; *ibid.,* June 19, 1897, p. 12; Committee on Arrangements, minutes, Jan. 15, 1897, New York Stock Exchange Archives.

[37] Board of Directors, minutes, July 27, Nov. 6, 1883, April 9, April 29, 1890, Sept. 11, 1900, and March 23, 1901, Board of Directors Meeting Documents, Chicago Board of Trade Records. For sample applications for ticker service, see Market Report Committee, meeting of Jan. 27, 1903, Miscellaneous Documents, *ibid.*

[38] William Griffith, ed., *The Roosevelt Policy: Speeches, Letters, and State Papers, Relating to Corporate Wealth and Closely Allied Topics* (3 vols., New York, 1919), II, 438. Hiram Sager's article, reprinted as a circular, in Market Report Committee, Miscellaneous Documents, Chicago Board of Trade Records; "Report of the Seventh and Eighth Annual Meetings of the Council of Grain Exchanges," Jan. 20–21, 1916, Jan. 18, 1917, *ibid.*

A crowd gathers outside the Mallers Building in Chicago during a 1905 police raid on a downtown bucket shop. A flurry of similar raids occurred in 1906 following the publication of Merrill Teague's four-part exposé in *Everybody's Magazine. Courtesy Chicago Historical Society,* Chicago Daily News *Negatives Collection, DN-0002973.*

them to "wash down" the quotations of particular commodities). In 1900 the board expelled another five members, including vice presidents James Nicol and Henry Parker, and suspended twelve for having connections to bucket shops.[39]

Third, exchanges aggressively investigated bucket shop operations and turned over voluminous evidence to local, state, and federal law enforcement officials. In 1896 the Chicago Board of Trade launched a series of investigations that helped a Cook County grand jury obtain 281 indictments. The board also exhaustively investigated bucket shop operations outside Chicago, often in cooperation with other commodity exchanges. The board hired investigators to examine the wire connections of member firms, to pose as customers at bucket shops, and to get insider information about bucket shop operations from their telegraph operators and clerks. By 1899 these investigations had resulted in the closure of 188 bucket shops. The board of trade's investigations intensified after the Supreme Court's 1905 decision gave it a firm legal foundation to restrict access to quotations. From 1906 to 1915, the board sent at least seven investigators throughout the country to gather evidence on bucket shop operations. These investigations were instrumental in exposing and shutting down bucket shops in the Midwest and West. In 1909 board of trade investigators even rooted out a ring of nine Pittsburgh Western Union employees—including three managers—who had surreptitiously supplied quotations to bucket shops for five

[39] Taylor, *History of the Board of Trade of the City of Chicago,* 916, 903; Hill, *Gold Bricks of Speculation,* 355.

years. In 1913 the New York Stock Exchange provided federal authorities with evidence of bucket shop operations in New York, Pennsylvania, Ohio, and Virginia.[40]

The exchanges' publicity and law-enforcement campaigns culminated in a 1909 federal law banning bucket shops in the District of Columbia. Armed with this authority, as well as evidence provided by stock and commodity exchanges, U.S. Attorney General George Wickersham appointed a special agent, Bruce Bielaski, to investigate and indict the major bucket shop chains. Using methods pioneered by the board of trade's investigators, Bielaski spent ten weeks in early 1910 investigating bucket shop operations in seven cities. As a result of his efforts, federal officials shut down several large bucket shop chains with offices in Washington, D.C. In his annual report for 1910, Wickersham proudly reported that "substantially every bucket shop in the country has been put out of business as a result of this crusade." At the conclusion of the final court case arising out of this crusade in 1913, the bucket shop was on the road to extinction. By the end of 1915, William C. Van Antwerp of the New York Stock Exchange pronounced the bucket shop dead, thanks to the efforts of the major exchanges and the "support of public opinion, the courts, the legislatures, the public service commissions, and the press." Tellingly, he failed to include telegraph companies among the exchanges' allies.[41]

Conclusion: Bucket Shops and the Problem of the Small Speculator

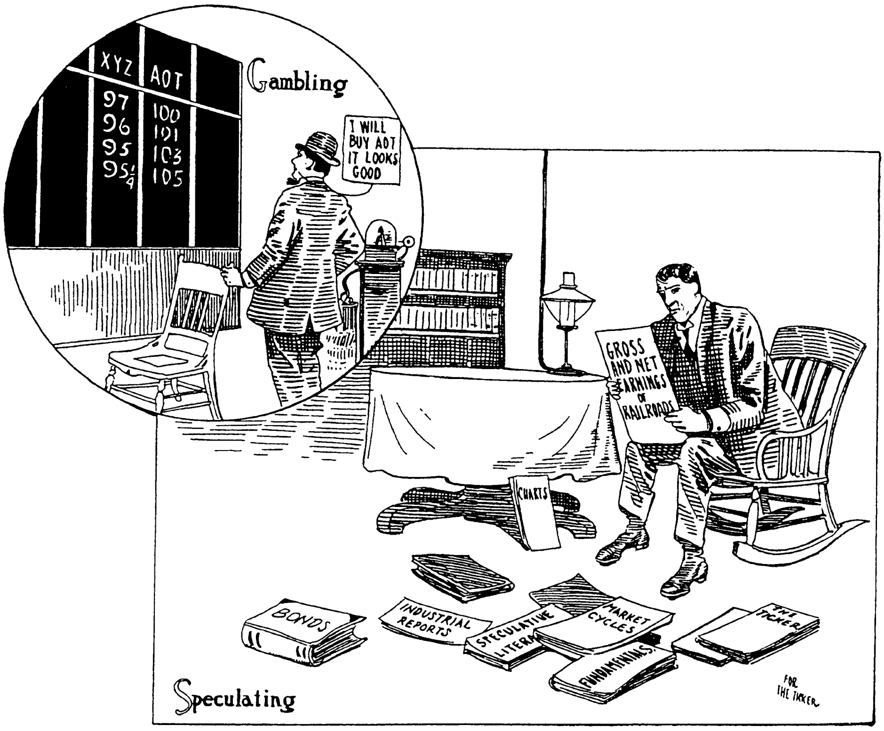
Before the ticker and bucket shop popularized speculation in the late 1870s, the public typically viewed the manipulations of professional speculators from the sidelines as fascinated but disinterested spectators. While stories of the failures of speculators in stocks and gold served as moral warnings about the heedless pursuit of wealth, the vast majority of Americans had little stake in the operation of the nation's financial markets. After the rise of bucket shops, however, the speculator of little financial means or experience became a moral and economic problem. As early as 1880 stories of reckless men who squandered tens of thousands of dollars, bankrupted their employers, ruined their reputations, and destroyed their families appeared in the press.

Contemporaries regarded such incidents as examples of personal moral failure. In 1883, when C. J. Lawrence asked the New York Stock Exchange to investigate bucket shops with an eye toward prosecuting them, exchange officials concluded that "it was not incumbent on them" to do so. "The Stock Exchange cannot . . . be held responsible . . . for the acts of swindling dealers in stocks, . . . nor can the heedless dupes of such men look with propriety to the Exchange for redress. . . . they have no stronger claim than the losers at faro, or policy, or any other gambling game." A decade later, when the wife of a Brooklyn man who lost money in a bucket shop sought legal redress, district attorney James Ridgway replied, "I cannot do anything for you. If your husband doesn't want to lose his money gambling, the best thing he can do is to keep away from such places."[42]

[40] Lurie, *Chicago Board of Trade,* 161–63; Taylor, *History of the Board of Trade of the City of Chicago,* 976; *New York Times,* May 5, 1909, p. 1; *ibid.*, May 16, 1913, p. 20. On the board of trade's investigative activities, see Market Report Committee, Miscellaneous Documents, Chicago Board of Trade Records.

[41] *New York Times,* April 3, 1910, p. 2; *Annual Report of the Attorney-General of the United States for the Year Ended June 30, 1910* (Washington, 1910), 23–24; *Annual Report of the Attorney-General of the United States for the Year Ended June 30, 1913* (Washington, 1913), 46; *New York Times,* Oct. 19, 1915, p. 14; *ibid.*, May 7, 1916, p. E4.

[42] Law Committee Reports and Resolutions, Feb. 13, 1883, New York Stock Exchange Archives; *New York Times,* July 26, 1893, p. 2.



The Difference.

This cartoon urges bucket shop gamblers to become responsible market participants. *Reprinted from the* Ticker, *Oct. 1910.*

Others, however, blamed margin and futures trading for the prevalence of the gambling instinct in speculation. The exchanges, they claimed, were the root cause of both the bucket shop and the ruin of the small speculator. The reformed gambler John Phillip Quinn offered a typical assessment in 1890. If the commercial exchanges were "restricted in its scope to the legitimate purposes of commerce, it is unquestionably of the highest benefit to the business world." But it was also "a gigantic agency for the promotion of gambling" and the source of the bucket shop evil. Similarly, a federal circuit court judge, in a 1902 ruling upholding the right of the O'Dell Commission Company to continue to receive Chicago Board of Trade quotations, argued that the "bucket shops are the offspring" of the regular exchanges. "When this species of gambling on the commercial and stock exchanges of the country ceases, the bucket shops will disappear, and not before."[43]

Those who believed in the social and economic utility of speculation on the exchanges, in contrast, regarded increasing public participation as the main danger facing the nation's organized financial markets. Echoing Justice Holmes's 1905 decision, the Hughes Commission in 1909 distinguished between "speculation which is carried on by persons of means and experience, and based on an intelligent forecast, and that which is carried

[43] John Phillip Quinn, *Fools of Fortune; or, Gambling and Gamblers* (Chicago, 1890), 577–78; *Board of Trade of City of Chicago v. O'Dell Commission Co.,* 115 Fed. 574 (1902).

on by persons without these regular qualifications." The most effective way to remove the gambling element from organized speculation was to "lessen speculation by persons not qualified to engage in it." To that end, the commission recommended doubling the New York Stock Exchange's minimum margin to 20 percent to discourage speculative trading. In 1911 the Columbia University professor Carl Parker recommended the "elimination from the field of speculation of those who are unfitted by nature, financial circumstances, or training to engage in it." Similarly, William C. Van Antwerp of the New York Stock Exchange claimed that the "great evil of speculation" lay with the participation "by uninformed people who cannot afford to lose." And the Council of Grain Exchanges in 1915 pronounced itself "opposed to the assumption of risks by those who are not financially or educationally qualified to speculate."[44]

Exchange officials' opposition to broad public participation in financial markets fueled the popularity of bucket shops. Barred by high margins, large lot sizes, and hostile brokers and exchange officials, even those who wished to make small stock investments had few opportunities to trade except in the bucket shops. Sereno Pratt of the *Wall Street Journal* estimated that in 1912 only 60,000 people placed trades on the New York Stock Exchange, and as late as 1916 only 80 of the New York Stock Exchange's 600 brokers accepted trades of less than 100 shares. In contrast, in 1902 Haight and Freese claimed to have over 10,000 accounts. Some of those accounts, like the ones opened by the retired Philadelphia typesetter Ridgway Bowker and the Bostonian Charles Weiss, belonged to people who apparently believed that they were buying small amounts of stock through a legitimate broker.[45]

Popular participation in the regular securities markets increased dramatically during and after World War I. Scholars such as Cedric Cowing, Steve Fraser, and Lizabeth Cohen have attributed that increase to the widespread purchase of Liberty Bonds and participation in employee stock ownership plans.[46] But the eradication of bucket shops on the eve of the war was another important factor. The *New York Times* noted a "remarkable increase in the odd lot business" on the stock exchange in April 1916; "thousands" of former bucket shop customers, "practically all of whom were small speculators, have opened accounts with branches of Stock Exchange houses." Those new customers were used to the mechanics of trading on margin because of their experience in bucket shops.[47]

The eradication of bucket shops, the Liberty Bond drives, and employee stock ownership plans propelled an ongoing shift in popular participation in the nation's financial

[44] *Report of Governor's Committee on Speculation in Securities and Commodities*, 3–5; Parker, "Governmental Regulation of Speculation," 152; William C. Van Antwerp, *The Stock Exchange from Within* (Garden City, 1913), 50; "Proceedings of the Sixth Annual Meeting of the Council of Grain Exchanges at Chicago, Illinois," Jan. 21 and 22, 1915, p. 2, Market Report Committee, Miscellaneous Documents, Chicago Board of Trade Records.

[45] Sereno Stansbury Pratt, *The Work of Wall Street: An Account of the Functions, Methods, and History of the New York Money and Stock Markets* (New York, 1912), 71.

[46] Cedric Cowing found that the number of Americans who held securities increased to 17 million because of Liberty Bond drives. Steve Fraser claimed that only 3.4 million new investors entered the stock market through their Liberty Bond purchases. Lizabeth Cohen cited a 1918 survey that found that 84% of unskilled workers at the Chicago Stockyards owned Liberty Bonds. She also detailed the emergence of employee stock ownership plans in the 1920s as an integral part of corporate welfare. Such plans depended upon "the enthusiasm that workers demonstrated during the war for buying Liberty Bonds." By the late 1920s, stock ownership among eligible employees was as high as 70 to 80% in Chicago's large manufacturing corporations. Cowing, *Populists, Plungers, and Progressives*, 95; Fraser, *Every Man a Speculator*, 389; Lizabeth Cohen, *Making a New Deal: Industrial Workers in Chicago, 1919–1939* (New York, 1990), 164, 175, 183–84.

[47] *New York Times*, April 30, 1916, p. 21.

markets, from speculation in bucket shops to investment through legitimate brokers. That shift presented both an opportunity and an obligation for the organized exchanges. While brokers and exchange officials welcomed the increased business, they also sought to protect the unwary investor from predatory dealers. Newspapers, magazines, and exchange officials all warned investors of a new breed of swindlers who tried to prise away customers' Liberty Bonds in exchange for bogus stocks. Exchange officials proclaimed their newfound responsibility to protect investors. President Seymour Cromwell of the New York Stock Exchange, noting that small lots constituted a third of the transactions on his exchange, pledged to offer "inexperienced investors," particularly those who entered the financial markets through Liberty Bond ownership, "even greater protection" than that afforded to larger investors who, "through skill or experience, are better able to take care of themselves."[48]

The stock market crash in October 1929, however, made it clear that exchange officials could not protect small investors, particularly those who bought on margin, from the vicissitudes of the market. To those who lost their savings, investment through legitimate institutions turned out to be a bad gamble. The small investor of 1929 would have done well to heed the investment advice of Will Rogers: "Don't gamble: take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up, don't buy it."[49]

[48] On stock frauds after World War I, see Louis Guenther, "Pirates of Promotion," *World's Work*, 37 (Nov. 1918), 29–33; Louis Guenther, "Pirates of Promotion," *ibid.* (Dec. 1918), 149–53; Louis Guenther, "Pirates of Promotion," *ibid.* (Jan. 1919), 314–20; Louis Guenther, "Pirates of Promotion," *ibid.* (Feb. 1919), 393–98; Louis Guenther, "Pirates of Promotion," *ibid.* (March 1919), 509–18; and "Methods of the Modern Bucket Shops," *ibid.*, 46 (Aug. 1923), 361–62. On the reaction of the New York Stock Exchange and Consolidated Stock Exchange to the new frauds, see *New York Times*, Feb. 4, 1922, p. 1; *ibid.*, Feb. 5, 1922, p. 24. For Seymour Cromwell's public pronouncements, see *ibid.*, March 15, 1922, p. 19; and Cowing, *Populists, Plungers, and Progressives*, 164. On the New York Stock Exchange's embrace of the investor of small means after World War I, see Julia Ott, "The 'Free and Open' 'People's Market': Public Relations at the New York Stock Exchange, 1913–1929," *Business and Economic History On-Line*, 2 (2004), http://www.h-net.org/~business/bhcweb/publications/BEHonline/2004/Ott.pdf; and Janice Traflet, "'Own Your Share of American Business': Public Relations at the NYSE during the Cold War," *ibid.*, 1 (2003), http://www.thebhc.org/publications/BEHonline/2003/Traflet.pdf.

[49] *New York Times*, Nov. 1, 1929, p. 23.