An Interview with

THOMAS J. WATSON, JR.

AND

JAMES W. BIRKENSTOCK

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Conducted by Arthur L. C. Humphreys

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Abstract

Watson and Birkenstock discuss the circumstances surrounding the decision reached by Thomas J. Watson, Sr., and Raleigh Phillpotts, chairman of British Tabulating Machines Company (BTM), to end the original licensing agreement between International Business Machines (IBM), BTM, and International Computers, Ltd. during World War II and after 1949. The interview covers the original agreement made in the early 1900s by Herman Hollerith, the relationship between IBM and BTM during World War II and after 1949, and the IBM license agreements with Cyril Holland-Martin and Gerhard Dirks.
THOMAS J. WATSON, JR. AND JAMES W. BIRKENSTOCK INTERVIEW  
DATE: 25 April 1985  
INTERVIEWER: Arthur L. C. Humphreys  
LOCATION: IBM World Headquarters (Armonk, NY)

HUMPHREYS: Today is the 25th of April 1985. My name is Arthur Humphreys and I'm at Armonk, at the world headquarters of IBM ready for a recorded discussion with Mr. Thomas J. Watson, Jr. and Mr. Jim Birkenstock. Tom Watson is Chairman Emeritus of IBM and needs no introduction from me and nor does Jim Birkenstock, a former vice president of IBM, now retired. Jim, like me, is a member of the Board of the Charles Babbage Foundation for the History of Information Processing. I feel I must say a few more words to introduce myself. I'm a former managing director and former deputy chairman of International Computers Limited, the British computer company, who first joined one of its founder companies, the British Tabulating Machine Company Limited, 1940. I retired from ICL in June 1983 after 43 years service, 20 of which as a member of the main board. The British Tabulating Machine Company or BTM, was a licensee of IBM under an agreement made in the early 1900s and signed by Dr. Hollerith himself, at the time as founder member of the American Tabulating Machine Company, Ltd. The license agreement, among other things, gave the BTM marketing rights for all of IBM's products in the British empire, excluding Canada. The agreement was ended in October 1949 and I'm now with Tom Watson and Jim Birkenstock having a discussion about the old days of our association and recalling our recollection of the circumstances in which Tom's father, Mr. Thomas J. Watson, Sr. and Mr. Raleigh Phillpotts, chairman of the BTM, reached a decision to go their separate ways.

After the end of the Second World War, a delegation from the British Tabulating Machine Company came over to see Mr. Watson, Sr. and actually their visit was spread over the Christmas period. They came with the idea that it was time to discuss how one should proceed to consolidate and implement the agreement now that the war was over. And they were entertained over Christmas by Mr. Watson, Sr. and I remember Mr. Stammers and Mr. Cranfield over there telling me that they were happy to nurse the grandchildren on their knees during the Christmas festivities. And I think also, Tom, your father actually provided a glass of sherry for the guests on that occasion.
WATSON: I'm sure he did.

HUMPHREYS: But the agreement was ended somewhat spectacularly, I think, in October 1949 after a visit to your father by Mr. Phillpotts as it was then and Mr. Stammers and they were accompanied by a lawyer named Sir Sam Brown. But they went - and I know that they went because I had to do a lot of work to brief them and to prepare their case - they went not with the intention of ending the agreement but of trying to modify it. They finished up ending the agreement. So I just wonder whether you can recall from an IBM point of view why that happened?

WATSON: Well, I have several observations. I had known a little bit about the agreement. I believe the royalty rate was set before my father ever got in IBM. I think that royalty rate probably went back to when Dr. Hollerith signed that first agreement. And there was always a feeling on the British Tabulating Machine Company's part that the royalty was inordinately high and in the light of hindsight, of today, perhaps it was. I think it was a 25% royalty. And this made it difficult for BTM to operate according to BTM. Father felt that since your company had operated for so long under that rate that it was no real problem. I think he also felt that in some ways it was difficult to have a single company owned privately or outside of IBM while all the rest of the world was owned by the parent company here at home. And as you remember, part of the German company was owned by German people and before the U.S. got in the war, we sent a lawyer into Berlin and we bought that minority German interest, because the German's thought they'd win the war and have everything in IBM anyway. And so the British company was the only one that we had a licensing agreement with. And then, as you pointed out earlier, you were doing your own development, adapting the machines to pound sterling and that went further into other devices. You had very competent systems engineers and inventors and we began to have difficulty deciding what you owed royalty on and what you didn't. And so as a result of that, plus, I suppose, some feeling of animosity, perhaps that's too strong a word, between Sir Raleigh Phillpotts and my father. And as I recall back to those days I can see both sides. Sir Raleigh felt that he had a very difficult royalty rate and father thought the royalty rate was perfectly normal and they just never got along very well and that didn't help the thing in operating. So I think both sides probably concluded that it was better to each go our own way. I don't think we realized that you were coming over to try to alter the agreement, but perhaps we did. In any case, before you arrived, there were some conferences that went on and I recall that we decided,
particularly, I think, my brother by that time was active, that we had decided to try and find out a way of disengaging from the whole thing. And I believe we gave you patent rights and suspended or stopped all royalties on everything, which was something that you got out of it, and we got out of it the right to operate in the British empire on our own score.

HUMPHREYS: I remember during the war, in order to avoid making a lot of detailed calculations about royalty payments, the British Tabulating Machine Company proposed and IBM accepted that the company would pay a reduced rate, and I think it was 23 and 3/4 percent instead of 25, and that it would all be settled after the war. I took part myself in a lot of work with some accountants that IBM sent over to explore all the details. As a result of this investigation, IBM reached the view that the royalty had been quite substantially underpaid, and that the BTM owed a fair amount of money. And then there were also two other significant points. I think your father took the view that the company was not entitled to deduct tax, whereas the British government said tax must be deducted. When there is a convention between the United States government and the U.K. government there are no problems, but sometimes the convention applied and sometimes it didn't. Now your father took the view that if the British government insists on deducting the tax, then you must pay a royalty which having had the tax deducted equals the money that IBM is entitled to have. So that would mean, of course, doubling it. Your father drew his view on the subject from a letter that Mr. Dunstall, one of the original directors, had written in 1910 saying that yes, we will pay without deducting tax, which was fine in 1910 because the tax was 5%. But during the war it went to 50% and of course that raised another matter. Then there was also the controversy about what was the rate of exchange. The agreement specified that for the purpose of conversion from sterling to dollars, 25 pence should equal one shilling, or 25... No, that there should be $5 to the pound. That was the formula. But of course when the time came to make the calculations, the rate had gone to $4 to the pound, and then went to $2.80 to the pound. So that, of course, threw up another substantial sum of money that was due. Now all of this caused a number of problems for the company and it was these things that they hoped to settle when they came over to see your father in October of ’49.

WATSON: Right. Well, to just follow up on that, I don't know any of those details. But if I were asked to give one reason, overall reason, for the break-up, I would say that it was a personality conflict between Sir Raleigh and my
father. As far back as I can remember, my father made his first trip to Europe in 1919 with Congressman Fairchild, one of the owners of IBM, and I believe met Sir Raleigh at that time or soon thereafter. But they got off initially on the wrong foot with each other and by the time the agreement was settled and we went our separate ways they had a very pleasant dinner that I remember very well and they parted jovially with lots of smiles and handshakes. But during the course of their business relationship, it was always a very tense matter. And I think that skewed the relationship and I think my father in his heart really believed that IBM might do better if it was operating directly with its own people rather than operating through a licensee.

HUMPHREYS: Yes, well I'm sure that he did hold that view and then I know also because I remember looking through correspondence that he had always expressed a fair amount of dissatisfaction about the way in which the business had been operated. Your father didn't think that they had gone about it with sufficient energy and that the business ought to have been very much larger than it was after 30 or 40 years, particularly as it had access to all of the British empire, the British commonwealth, and your father was always disappointed. And of course it was always pointed out well, it's because the royalty's too high. I'm sure it was a Catch-22 situation, you see.

During the war, I formed a great affection for IBM and the attitude that they took towards the staff and the company of the British Tabulating Machine Company. I remember we used to receive cables saying please allocate $50,000 to the King George fund for sailors and debit our royalty account. Then another cable would come in, please give all your staff a banquet to celebrate Christmas and charge our royalty account. And another one was, please cable us with the name and address of every member of your staff. And we did all that and the result was that everyone had a food parcel addressed to them, which was addressed to them personally, you know, which was very generous. And that's why I believe the people in the company, not knowing of course all the decisions and considerations at the top level, were disappointed when the agreement ended, because we always thought that in fact everybody had such an affection for IBM. Now, do you recall those days, Tom, when...

WATSON: Well, I wasn't around here at that time, but it was not at all untypical of my father who ran IBM as his personal fiefdom even though he never owned more than 5% of it. But those kinds of gestures were quite typical of
him. He did the same thing to IBM employees who went off to war, the Americans, and it doesn't surprise me. He had the advantage of having built the company from something very small and the employees were perfectly willing to have him run it as his own personal company, and, in fact, that's the way he did run it, with very few outside interferences. I think, one other thing, I think that there were some discussions between Sir Raleigh and he about purchasing the company and that would have preserved all of the employees as a division of the IBM Company. I don't know what that ever came to, but I know that was one of the things that they had on their agenda to discuss while they were here.

HUMPHREYS: Yes. I know that there was a number of difficulties about which they were advised by lawyers, but in terms of my sort of look at the issue, I took and looked at the minutes that were recorded in the minute books at the company of the British board meetings, and they could hardly be more vague. It was just that a letter had been drafted to Mr. Thomas J. Watson and agreed to by the lawyers that the board agreed that a delegation should go to the United States to talk to Mr. Thomas J. Watson and then the next minute just recorded that the agreement had ended. It didn't really say anything about it. And I can recall Tom, just a personal thing, on one occasion I think in the late '40s I attended a board meeting instead of the secretary. And I had to take the notes at this board meeting and I drafted the notes out and I took them to the chairman who said, "Yes, they're fine, but vague them all up."

WATSON: He was a smart businessman.

HUMPHREYS: That's right.

WATSON: There were plenty of notes that we had that we wished we'd vague'd up a little weren't there, Jim?

BIRKENSTOCK: That's a new term to me.

HUMPHREYS: That's right. Now, I just wanted to talk... We've talked about Raleigh Phillpotts and things, but you knew Vic Stammers fairly well, didn't you?
WATSON: I did.

HUMPHREYS: And Cecil Mead and perhaps you remember Albert Cranfield and Harry Waters.

WATSON: Yes, very well.

HUMPHREYS: And Cyril Holland-Martin. Unfortunately, they've all passed on now. But they were all very nice gentlemen, all of them.

WATSON: Vic Stammers became a particularly good friend of mine. As a matter of fact I believe he had a second marriage rather late in his life and I helped arrange part of his honeymoon here in the United States. We knew of a lodge on top of a mountain up here in New England and he got the bridal suite and he enjoyed it very much. Yes, we've always enjoyed seeing Vic.

HUMPHREYS: And if I could switch for a moment to Jim Birkenstock. Just after the war, Jim, you used to have a lot of conversations with Cyril Holland-Martin and a few more of them on issues of patents and things.

BIRKENSTOCK: I did.

HUMPHREYS: And I think it would be nice if you gave one or two recollections if you can on the people that you used to talk with?

BIRKENSTOCK: Well, most of my dealings were with Cyril Holland-Martin. And I would say that most of them came after the disengagement in 1949. It then became my responsibility as the BTM made certain inventions that were of interest to the IBM Company and of course, as IBM made inventions that now were no longer under agreement to BTM, to arrange for licenses back and forth -- cross licenses. And I think this was done with no acrimony and the
utmost of cooperation. I remember one incident when we awakened to the Dirks' patents. We sort of went to sleep on the fact that there was a fellow by the name of... a big fat German by the name of Dirks who now had inventions in core storage. And core storage became pretty important to us in those days and here we found ourselves sitting there without license under Dirk's patents. When we went to investigate it, low and behold we found that we had been beaten to the draw by ICL or BTM. They had an exclusive license for U.K and certain other territories under the Dirk's patents and we couldn't function in that area on core storage without dealing with them. So we engaged in three-cornered, really, negotiations with Cyril Holland-Martin and Gerhard Dirks and we worked it out. One of the reasons we worked it out was because we had something that ICL wanted, too. But I believe with a minimum amount of payment, we ended up with a cross-license bargaining and trading some of our important patents for the right to operate under the Dirk's and other BTM/ICL patents. I don't remember any real acrimony and really it was a cordial and interesting and fruitful negotiation on both sides. I don't want to monopolize the conversation, but at some point I want to tell about the fine cooperation we got in getting ECMA established.

HUMPHREYS: Now, just before the delegation, which ended the agreement, came over, which was in October, I remember right at the dawn, really, of the computer business, a letter came to BTM from your father, Tom, which drew attention to the issue that whereas it's fairly easy to build a box with electronics or tubes to be a computer, it's pretty difficult to get information into it and get information out of it. The burden of the letter that your father wrote was he wanted our views on the policy to be followed when somebody came along and said we would like to buy some card readers or we'd like to buy some printers, should we, as a matter of policy, supply them or not? And that was the first introduction for me of what turned out to be quite a sort of a significant issue. And I think we took the view that we'd better supply the stuff. And do you recall that sort of issue arising, Tom, in early 1949?

WATSON: Well, I remember it being a great question in IBM because our law was more and more forcing us to do that in order to be in compliance, both with general law and antitrust law. I did not know that my father had solicited the opinion of BTM on that, but it was a worthy question to bring up and we decided to do the same thing you did later on, to supply the things.
HUMPHREYS: Yes. Now, of course, as you mentioned the legislation, I wondered whether before the agreement with BTM ended, and whether IBM had been concerned about the fact that the agreement very likely was not consistent, at least it was inconsistent with the Sherman Act. There were a lot of provisions in that agreement which might have caused some legal problems. And I wondered whether it used to bother IBM that the agreement existed.

WATSON: I don't think that I can claim to have been high enough in the company at that particular time to really have any knowledge of that. I mean I knew about the Sherman and the Clayton Acts because you may recall that my father and all of the other officers of the National Cash Register Company were indicted for violation of those two acts. In that, they bought all of the second hand shops that dealt in second hand cash registers. Father was a very callow youth at the time he did it, I don't really think he even knew of the law involved and the law had not been strengthened by a number of cases at that time. But he certainly was very sensitive to the Sherman and Clayton Acts, the antitrust laws. I don't recall the fact that he ever discussed with me the fact that the BTM agreement might haunt him. On the other hand, I'm sure that at the time after he had made up his mind that he wanted to change the relationship and be a competitor rather than a licensor, I think that he, knowing him as I did, would have brought up every possible sales point towards that end with the British Tabulating Machine Company and maybe that was one of the ones that he did bring up. I'm sure it was a valid one.

HUMPHREYS: Yes, that's right. Actually, that leaves open, Jim, to ask you, there were certain issues about antitrust legislation that cropped up in relation to ECMA did it not? You know, ECMA is the European Computer Manufacturer's Association, which you and Cyril Holland-Martin were instrumental in starting.

BIRKENSTOCK: That's right. The reason that we thought it was prudent to start ECMA, which is really the European counterpart of CBEMA, Computer Business Equipment Manufacturer's Association over here, was because of standards. And IBM, at your [Thomas Watson, Jr.] urging, took a very aggressive position in establishing standards in the United States so that other people could use our equipment in relationship to theirs and there was quite a bit of opposition in the early days in the industry to standards. It later proved to be the right step for the benefit of the whole industry.
We then found that as we got going and the movement started to gain momentum here in the United States for standards and supported now by the CBEMA, that we had a problem overseas. Because there was non-conformance over there, particularly in Europe, with the standards that were being promulgated here, we wondered what to do about it. Well, we thought that the best thing to do since there was nothing existing in Europe along the lines of the CBEMA, was to organize such an association. So how to go about that? Well, I went to see Vic Stammers and Cecil Weir as I remember and they immediately saw our point of view and expressed their willingness to cooperate. I went to Bulland got the grudging concurrence of Callies, I think his name was, the head of Bull and it turned out that ICL designated the responsibility to the Cyril Holland-Martin. And Cyril took the bit in his teeth and proceeded with some sideline guidance from myself to organize an ECMA. I think he became the first chairman of ECMA. This was, as far as I was concerned, a grand bit of cooperation between ICL and IBM. And I might say as an aside that a couple of years ago the IBM attorneys fighting the common market action against the IBM Company told me that one of the areas that the common market attorneys turned to focus on was IBM activity in Europe in that era that I just described in getting ECMA started and getting the standards activity underway. And he said you'll be happy to know that we came off as clean as a hound's tooth. That there was no criticism in the end, whatsoever. And I think a lot of this is creditable to the fine conduct and organizational ability of Cyril in those days.

HUMPHREYS: Well, thank you very much, Jim, for that contribution and may I thank you very sincerely, Tom, for giving up the time and for engaging with me in this interesting conversation. I don't think we've come upon any great profundity, but nonetheless, I'm pretty sure that it's very interesting and will be interesting to people that have the opportunity to read the script or to hear the recording. But thank you very much indeed.

END OF INTERVIEW