

# **TVA**

Born and Bred in the Brier Patch

by

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**A** HARD, sleety rain fell on the snow and immediately froze into layers. The branches of the trees and the leaves on the shrubbery soon looked like crystal chandeliers reflecting sparkles of light. Then: blackness. Outside the house, the street and neighborhood sounded like a battle zone with loud tearing sounds, pops, and the thud of crashing limbs. There was no more electric power and in an instant we were transported from the late Twentieth Century to the middle of the Nineteenth. It was to last, for us, an agonizing ten days though neighbors several blocks from us either never lost power or had it back almost immediately.

There were no lights except the candles we quickly scrounged, no hot water, no heat from the furnace, no stove for cooking, no television, and no radio until we hastily found a small portable model. After several days, many of our neighbors filled the available local motel rooms, though we managed to stay put, camping in much as we had formerly camped out on vacation trips. There was a coal oil heater at the farm, and it was quickly brought to town and put into use to help keep the water pipes from freezing and to heat the cans of Campbell's Potato soup that we existed on. Yet, all this time, one could get in the car and drive a block or two and be back in the familiar world.

All of you have lived through this kind of experience at one time or another. We don't need to be told how absolutely central electric power is to our way of life. As early as the 1930s, 70% of the nation's homes had electricity and its expansion seemed limitless. Yet only 10% of the nation's farms were electrified, and there was no immediate prospect of changing that imbalance. The reasons were fairly complex, but mainly because the power companies, faced with rapid growth and insatiable demand, found it poor business to string long lines to serve a few customers when they could string short lines and serve many. Robust, even rampant, growth meant the farms were at the bottom of the list of those to be served, if, indeed, they were to be served at all.



The issue which culminated in the TVA began as a result of World War I. In 1916, legislation authorized the construction of nitrate plants for munitions and a hydroelectric dam to supply the plants with power. The dam, not completed until 1925, was named Wilson Dam. Since the war was over, the dam and two nitrate plants were considered expensive white elephants, and the government cast about for a way to dispose of them. In 1921, President Harding announced that if the government were assured of an adequate return on its investment, the dam would be completed and it and the nitrate plants would be leased to private industry. Henry Ford was interested. He offered to take over the project, produce fertilizer, and establish an industrial complex at Muscle Shoals. Everyone was wildly excited as he promised miracle after miracle and a real estate boom quickly materialized. It burst as quickly under the opposition of the Senate, the power companies, and the fertilizer "trust," with the latter two smelling unwanted competition.

Senator George W. Norris of Nebraska, a strong believer in public ownership of utilities, used his position as Chairman of the Senate Committee on Agriculture to push the governmental development of the Muscle Shoals property and several times secured congressional backing, but bills to accomplish this were vetoed by both Coolidge and Hoover. When Roosevelt came into office as President, he finally had a sympathetic ear in the White House.

Roosevelt had three reasons for favoring governmental development of the hydroelectric power of Wilson Dam. First, as Governor of New York, he had seen the positive effects of inter-governmental cooperation in electric power at Niagara Falls; Second, while Assistant Secretary of the Navy during World War I, he had become enamored of what he liked to call the "yardstick" theory. When shipbuilders were having to pay suspiciously exorbitant prices for sheet steel, he had the government build a factory to determine a fair price for the product and serve as a yardstick for private industry pricing; and third, and perhaps most influential, he was itching for a political fight with the "malefactors of great wealth" on territory of his own choosing. This last may need some explaining.

The private companies providing electric power were in deep hot water by 1933. In their rush to expansion and greed for profits in the face of insatiable demand, many had pyramided themselves into quasi-legal "holding companies" much like Enron in our own time. Men like Samuel Insull of Chicago had rapidly amassed millions and become the heroes of American business. They had piled atop the operating companies layer after layer of holding companies, all controlled by relatively small ownership of voting stock and multiplied into fantastic leverage. Excessive, fees, intercorporate borrowings, and manipulation of securities were the order of the day. This was, of course, not true of all power companies, but it was frequent enough to create a powerful stench. The whole network held together until the Great Depression hit in 1929, and by the early '30's, the collapse was as great and as rapid as the rise had been. In 1929, *Time* had honored Insull with a cover story. A short while later, completely disgraced, he fled to Greece. In a few years, he became a symbol of failure second only to Hoover. The climate sounds distressingly like today's and, like today's, it did not involve all moguls since not all could reach Insull's heights of greed, but it did give Roosevelt an ideal whipping boy in his push for the establishment of the TVA.

There were, of course, more responsible large holding companies. One of the best was the Commonwealth and Southern Corporation, which had major interests in the Tennessee Valley. The C&S President was a young lawyer from the midwest, Wendell Willkie, who would become, along with David Lilienthal of the TVA, the leading protagonist in the epic war over public versus private ownership of electric power.

Willkie was probably not as smart as Lilienthal, but he was more pragmatic and more tactful. Backed by a bevy of the very best corporate lawyers and an enormous reserve of cash, Willkie represented his constituency well. He gained so much fame and reputation in so doing that he became the Republican nominee for President in 1940 and was probably the only man in the country who could give the incumbent a good race. He and his hirelings, denied access to the Executive and not having sufficient support in Congress or with the public, used the courts as their primary weapon to hamstring the Tennessee Valley Authority Act of 1933.

For the implementation of the TVA Act, Roosevelt appointed Arthur E. Morgan as Chairman of the new agency. Morgan consistently upheld the view of the Authority as a broad, multi-purpose enterprise, as was inferred in the legislation. Its function was to stimulate the general improvement of society in one of the poorest regions in the country. It was to do this through conservation of natural resources by means of flood control, improved agricultural practices, including fertilization of the soil, and the creation and distribution of electrical power. Like slavery in the Civil War, electrical power swiftly became the dominant issue and the other purposes, less dramatic and not as redolent of the issue of public versus private ownership of utilities, surged to the forefront. Morgan, an engineer by background, was more interested in flood control and, of the three original directors, the most willing to cooperate with Willkie and the private producers.

The second of the three original directors was another Morgan: Harcourt A. He was the 65-year-old president of the University of Tennessee. He was primarily interested in agricultural improvement and in securing the support and elevation of the "human resources" of the Valley. He was an excellent liaison with the local leadership. He proved to be a "swing" man on the three-man board.

The third appointee was a young idealist, David E. Lilienthal. Lilienthal was totally dedicated to public power. He proved to be the point man in the battle with the utilities represented by Willkie. He lacked tact and was not as savvy politically as his opponent, but he had the backing of the Executive if and when Roosevelt could be pinned down to a position. Lilienthal also had a fire in his belly that sometimes approached fanaticism. Only thirty-three years old, he had the support of the liberal element in politics and the law schools, in particular Felix Frankfurter. In speech after speech, he reiterated the central tenet of the public tradition: "A public utility enterprise is a public business." His aggressive manner soon attracted national attention and, needless to say, he was anathema to the utility magnates. George Norris, who had battled so long in the Senate for this position, was very pleased. Roosevelt, with his usual canniness, had balanced the makeup of the TVA leadership.



By the closing months of 1933, the TVA board had electrical power capacity ready for the market. Two questions arose immediately: What market? and What price? Their authorization was to sell wholesale, not retail. And to favor publicly held local utilities. They were to limit the area they served to the vicinity of Wilson and the projected Norris Dams and to cooperate with the privately owned utilities. It turned out to be a big package to handle.

Setting the rate was an exercise in guesswork. Rate would depend on consumption. The average residential kilowatt hours consumed by the customers of TEP (Tennessee Electric Power, a subsidiary of Willkie's Commonwealth and Southern) was 612. Since the rate set by TVA was supposed to be a yardstick of TEP's performance, it would be a vital figure. Yet the board really had nothing to go on, no prior cost experience, and no transmission capability. They were flying totally blind. TEP was charging 5.8 cents per kilowatt hour. The national average was about 5.5 cents. The TVA board took a flying leap and estimated that if the price was right, the consumption would double and that would enable the price to be right. It was a chicken and egg sort of thing. They estimated that, for yardstick purposes, the rate would be an average of about 2 and 3/4 cents per KWH for the average user. This represented a gigantic gamble that demand would be drastically greater than private operators believed. For a fully electrified home, they let the word get out that the rate would average seven mils per KWH.

Needless to say, retailers in the area, primarily customers of TEP, began lining up to sign contracts with TVA. On their waiting list, as their authorization stipulated, they gave preference to public utilities that were locally owned. There was one small hitch. TVA had no transmission facilities, so they would have to come to an agreement with TEP to use theirs. At this point, Mr. Willkie walked in and the head-knocking began.

Both public and private utilities recognized the cost effective nature of increasing electrical use. TVA set up a plan for the Tennessee Valley, through a consumer credit affiliate called Electric Home and Farm Authority. It was to provide low-interest loans for appliance purchases and worked with manufacturers to get low-cost appliances on the market. For the only time in the six

years of open warfare, the TVA and Willkie's C&S worked together for the common good. A flood of publicity was released and the program had very positive results.

Now, how was TVA to transmit their power? The only way open was to sell it to TEP, which had the transmission lines. So TEP would be both an only customer and an avowed enemy. Willkie and Lilienthal could not agree on a price. Willkie offered to sell TEP to TVA (at an inflated price). Lilienthal countered with a threat that, if necessary, TVA would build its own transmission lines. All this haggling took months. Finally, they came to agreement in January, 1934. Willkie had submitted to the agreement because another New Deal Agency, the PWA was offering loans and grants to municipalities to build their own public distribution systems. This multiplied the pressure on Willkie, and was of great assistance to Lilienthal. He had a powerful ally in Harold Ickes of the PWA.

The 1934 contract had stipulated that certain properties in Tennessee, Alabama, and Mississippi would be sold to TVA by C&S. Problems soon developed over the price demanded.

Thus far, there was no serious dispute over TVA's function in terms of flood control and conservation, since there was no organized opposition. The electric power aspect was traveling a rocky road, with its primary justification being the provision of a "yardstick" by which to judge the performance of the private sector. That yardstick soon proved to be unreliable. TVA was only authorized to produce hydroelectric power. In the absence of great rivers, other parts of the country used coal-fired generators. TVA's costs were divided between conservation, flood control, community upgrading, and electricity. There was no effective way to separate the costs of each into a valid and effective measure of the fairness and efficiency of the private producers. TVA's great contribution at this stage was to assure utility men they could reduce rates without reducing profits as usage grew, and grow it did. Like Topsy. Average usage tripled and prices plummeted. In Tupelo, Mississippi, average consumption went from 49 to 178 KWH, and the price dropped from 7.40 to 1.58 cents.



All the while this other maneuvering was going on, the court dockets were filled with lawsuits, injunctions, stay orders, appeals, and any other delaying tactic that Willkie and his lawyers could dream up. It was the deep pockets of the power trust against the deep pockets of the taxpayer. The taxpayer's pockets proved deeper in the end, but the road was a long, rocky one and led all the way to the Supreme Court.

One of our neighbors sat on the Court. He was Associate Justice James Clark McReynolds, who had been born and raised in Elkton. The Todd Countians still refer to him proudly as "Mr. Justice." He was living proof of the adage that "the liberal of yesterday is the conservative of today." McReynolds had been in the Attorney General's office and played a key role in the breakup of James Buchanan Duke's American Tobacco Company. This brought him to the attention of President Woodrow Wilson who, impressed with McReynold's progressive record, appointed him to the Supreme Court. The times had changed radically by the mid-1930s, but McReynolds' ideas remained set in concrete. He voted against the TVA, the NRA, and everything else emanating from the New Deal. In his opposition to the TVA, he was in the company of Kentucky's senators at the time, and in true Kentucky fashion, he cared not one whit when his vote was the only one cast "agin." He was one of those judges who led Roosevelt to attempt to pack the Court, which led to a serious break with "Dear Alben."

Roosevelt prescribed still more unpleasant medicine for the private companies when he created the Rural Electrification Administration, known as the REA. This became permanent in 1934 through the Norris-Rayburn Act. It operated chiefly as a lending agency with the Reconstruction Finance Corporation authorized to make loans from congressional appropriations. These loans were made available both to public agencies and private companies, but after much debate, the private companies decided not to accept REA money. The local utility companies did accept, and in great quantities. The upshot was that lines were rapidly extended to rural folk. The private tradition also embarked on a long overdue program of rural electrification with the result that farms

serviced grew from 11% in 1935 to almost 80% by 1950. Few New Deal programs achieved such striking gains.

By 1937, ninety-two suits had been entered against PWA allotments for power projects, fifty-eight against the Securities and Exchange Commission challenging the Public Utility Holding Company Act, and thirty-four against the TVA. The greatest challenge to the constitutionality of TVA's power program was entered September 13, 1934, and is known as the Ashwander Case. TVA was selling power to the privately held Alabama Power Company. Ashwander and other holders of preferred stock held this to be illegal because the TVA was unconstitutional. The judge ruled for Ashwander on the basis that the government lacked the constitutional power to engage in the electric utility business. TVA immediately took the case to the U.S. Circuit Court of Appeals, which reversed the lower court and held for the TVA. Ashwander and the stockholders then appealed to the Supreme Court, which ruled 8 to 1 for the TVA (McReynolds dissenting). The Court said the construction of the Wilson Dam was constitutional under the commerce and general welfare clauses and the government could dispose of its property, namely electrical energy created by the dam, irrespective of whether it was generated deliberately or incidentally.

By 1939, the TVA had won all its lawsuits and had secured a large integrated territory for its "yardstick" in spite of the concerted opposition of such groups as the United States Chamber of Commerce, the National Association of Manufacturers, and the National Coal Association. The Coal Association was particularly fearful that hydroelectric power would replace coal-fired generators. Other groups maintained that "the Tennessee River touches five states and drains the nation." Nor was there ever much lasting enthusiasm or success for any of the TVA's programs except flood control and electric power production. Perhaps because of this opposition, the whole program remained an experiment in the Tennessee Valley and was not duplicated elsewhere. It did remain strong in the Valley and the value of private power stocks fell considerably. This was probably more due, however, to the continuing

depression and also to private power business shooting itself in the foot. The disclosure by the Federal Trade Commission of the frenzied finance in that business wiped out any good will they had earlier had with the general public.

The private sector continued to maintain there had never been an actual or potential shortage of electricity, yet both private and public construction increased markedly as the 1930s came to a close. Finally, the coming of the war forced an adjournment of the power fight.

The REA showed that rural electrification could pay its way with only a little help from the government and TVA demonstrated dramatically that low rates brought increased consumption. The holding companies had been brought under control by the Wheeler-Rayburn Act and the private utilities had been stimulated to become more service-oriented in order to survive. The TVA, born during the depression and opposed every step of the way, grew to maturity during World War. Rural electrification, the primary concern of the writer, undoubtedly would have come in time without the TVA, but not nearly so soon and at a much higher price to the farm consumer and subsequently to the nation.

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For most of the factual material in this paper, I am indebted to:  
McCraw, Thomas K. TVA and the Power Fight, 1933-1939.

J.P. Lippincott Company: Philadelphia, 1971. One volume in a series entitled "Critical Periods of History," edited by Robert D. Cross and Paul K. Conkin.

The bias and opinions expressed are my own, based primarily on memories of living on a farm in Christian County, Kentucky, during the late 1930s.

My blood still boils and I find it virtually impossible to be objective in my assessment of the participants in the public versus private power contests of the '30s. Perhaps that comes from seeing my father rise early in the morning and



try to coax a fire from the banked embers in the fireplace, and my mother build a fire in the kitchen stove, fill the water tank in its side, and later put a heavy “sadiron” on its lid in order to iron our clothes: From seeing my father build a fire under one of two heavy iron kettles in the back yard and pump water from the cistern to fill them so my mother could bring out a washboard and begin scrubbing a week’s accumulation of dirt out of our clothes: From seeing my parents fill a washtub with warm water on Saturday night for the whole family to bathe in: and, from traveling to the little house behind the smokehouse on a cold winter day or fighting wasps for space at the same location in the summertime. It’s all very romantic to look back on with nostalgia. There was nothing romantic about it at the time, and our experience was repeated by hundreds of thousands of people all over rural America. We were by no means wealthy, but we could have afforded electricity if it had been available, and we did as soon as it became so. All this time, a few magnates of incredible greed were so busy amassing obscene wealth quickly that they completely ignored the rural areas until the coming of TVA forced them to take notice. When forced to do so, they wailed so loudly they were heard all over the nation except in the Tennessee Valley. There, the farm folk were so busy moving into the Twentieth Century they didn’t have time to hear them. **Brooks Major, August 2, 2003.**