by Marvin N. Olasky

Hornswoggled!

How Ma Bell and Chicago Ed conned our grandparents and stuck us with the bill.

Everybody loves to hate the phone company. And the electric company. And the gas company. And any other company that can act with unresponsive arrogance just because it has the government's protection as a legal monopoly. But when angry consumers and other critics call for an end to these monopolies, choruses of utility PR people and government regulators recite the same old story—once upon a time there was competition among utilities, but "the public" got fed up and demanded regulation. Again and again comes the tale: Free enterprise in utilities lost in a fair fight.

It makes a good story. But it's not true. The real story of how public-utility monopolies came to be goes like this: Early in this century, two utility executives, Theodore Vail of AT&T and Samuel Insull of Chicago Edison, saw that competition was threatening their businesses. The solution to their problems, they decided independent of one another, was to get government to guarantee their markets and protect them from competitors. To succeed, they would have to manipulate public opinion to create the impression of popular dissatisfaction with competition among utilities. Then they could persuade government to step in and set their companies up as monopolies.

Evidence of the real story behind the origin of utility regulation largely comes from hearings of the Federal Trade Commission and the Federal Communications Commission conducted during the late 1920s and 1930s, which revealed the comprehensive public-relations strategies that Vail and Insull used to support their great con games. Few scholars, it appears, have looked closely at this evidence. Yet what the actual records reveal is a fascinating tale of immense greed, masterful propaganda, and sleazy politics.

Lights Out for Competition

Samuel Insull came to the United States from England in 1881 to be Thomas Edison's secretary, then Edison's key manager and strategic planner. Edison's inventions turned dozens of industries upside down. Insull learned from him how quickly new inventions could radically alter existing patterns of commerce under conditions of free competition—and Insull was resolved not to allow competition to disrupt his plans, once he was in power.

Insull came to the city he would dominate for four decades when he took control of Chicago Edison in 1892. In his biography of Insull, historian Forrest McDonald describes how the young executive learned to play political hardball in one of the nation's major leagues, the Chicago City Council. By 1905, after merging Chicago Edison with Commonwealth Electric, Insull had gained monopoly power in the electric lighting and power business in Chicago.

Before 1905, the electricity industry was "one of full and free competition," economist Burton Behling noted in a 1938 monograph. Municipalities reserved the right to assign franchises, but "the common policy was to grant franchises to all who applied." In 1887, for instance, a single New York City Council resolution granted competitive franchises to six different electric companies. Low prices and innovative developments resulted, along with some bankruptcies and occasional disruption of service.

Once Chicago Ed was dominant, Insull increasingly emphasized the importance of avoiding disruption of electrical service and how competition supposedly contributed to the problem. Through frequent speeches, many collected in the 1915 book *Central-Station Electric Service,* he popularized anti-competition arguments. And as president of the National Electric Light Association (NELA), a major utility trade group, Insull argued that utility monopoly and "franchise security" could best be secured by the establishment of government commissions, *which would present the appearance of popular control.*

The way to sell such a plan to the public, Insull suggested, would be to emphasize the commissions' power to fix rates. He told utility owners not to worry about regulation—regulated rates might be slightly lower than those utility owners would prefer to charge, but they would be higher than what would prevail under full competition.

Insull's theory that regulation by commission would benefit utilities was dead right, as economic historian Gregg Jarrell showed in a 1978 article in *The Journal of Law and Economics.* In states that led the way in regulation, Jarrell noted, utilities' prices and profits rose while their output fell. But states that continued to allow competition had lower prices for electricity. "State regulation of electric utilities," Jarrell concluded, "was primarily a proproducer policy."

Insull's real public-relations genius, however, lay in convincing the American public that state regulation was primarily a pro*consumer* policy. To accomplish that legerdemain, he masterminded specific PR strategies to overcome popular objections to his anti-competitive maneuvering.

First, he instructed his PR managers to heighten popular fears of socialism in order to promote acceptance of government-regulated monopoly as a less-undesirable alternative. According to biographer Forrest McDonald, Insull had no objection to socialism in general and "lobbied for twenty years to bring about a government-owned system for England." Insull believed he could maintain his power under any system, public or officially private, in which governments afforded his organization monopoly status. But he knew that most Americans favored a competitive system and would support regulated monopolies only if they were seen as precautions against socialism rather than stiflers of competition.

Second, Insull realized that he and his cohorts in government would have to perform a charade at times, because those favoring competition would stand for regulated monopolies only if the regulators were seen as severe watchdogs. Insull's principle was never to attack a governmental official who attacked him: "One must expect and accept public denunciations by one's political friends, whenever political expediency necessitated," he once remarked.

Third, Insull believed that industry executives, as soon as the time was right, should lead the fight for increased regulation. Such a stance would allow executives to develop alliances with proregulation politicians, who would man the regulatory commissions when established or at least appoint regulatory officials. Under Insull's instigation, the National Electric Light Association trade group set up a Committee on Public Policy in 1906, which lobbied vigorously for establishment of state regulatory commissions.

By 1912, scholar Gregg Jarrell has

BETTMAN ARCHIVES

sleazy (slē•zē) 1. vulgar, disreputable. See Samuel Insull.

found, "utilities were the main champions" of state regulation. J. Allen Smith, a former dean at the University of Washington, wrote in a 1914 issue of the *Annals of the American Academy of Political and Social Science* that the regulatory movement, "though ostensibly designed to give cities more effective protection against public utility abuses, has not had its origin in any popular demand from urban communities. The initiative in this matter seems to have come very largely from the public utility interests."

That phase one of the Insull-led utility campaign succeeded is evident from the chronology of events: Early in the 20th century, only five states had regulatory commissions for utilities. Between 1912 and 1917, *25 states* established regulatory commissions. But Insull's artful machinations were not yet exhausted.

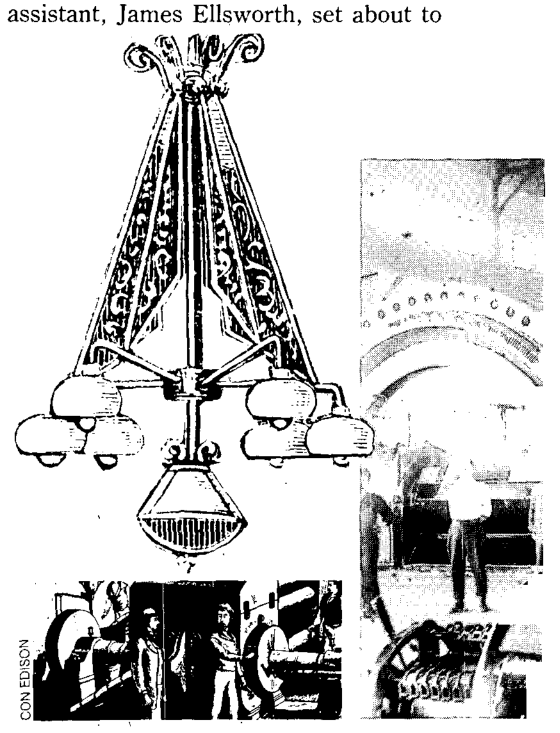
Boy Did We Get a Wrong Number

While Insull was busy hatching his PR deceptions in the Windy City, Theodore Vail was also pondering the problem of competition at AT&T's New York City headquarters. Vail had been president of American Bell during the 1880s and rejoined the company in 1902 as a member of the AT&T board of directors. At that time, Bell's dominance of the telephone industry could not be taken for granted. In 1903 the company listed 1.3 million subscribers. That same year, according to a Census Bureau report, independent companies had over 2 million. By 1905—the year a book entitled *How the Bell Lost Its Grip* came out—the independents were breathing hard down Bell's neck. Vail perceived that the threat came predominantly from competition, not regulation. It was an accurate perception.

When he resumed AT&T's presidency in 1907, Vail immediately analyzed the Bell System's competitive problems, city by city. In Toledo, for instance, Home Telephone Company had begun competing with the local Bell franchise in 1901. Charging rates half those of Bell, it had 10,000 subscribers in 1906, compared to 6,700 for Bell. In Nebraska and Iowa, independent phones outnumbered those of Bell 260,000 to 80,000.

In his 1975 book, *Telephone: The First Hundred Years,* John Brooks reported that cities with referenda on the granting of independent franchises were voting decisively in favor of competition over regulated monopolies. In Portland, Oregon, a new telephone company won a franchise by a vote of 12,213 to 560. In Omaha the independent company was approved by a vote of 7,653 to 3,625. And in a national survey of 1,400 businessmen, 1,245 said that competition had resulted or could result in better phone service in their cities, with 982 adding that competition had forced Bell to improve its own service.

Bell had been promoting itself as a monopoly provider on the grounds that only a monopoly system would allow telephone users in different cities or different parts of a town to talk with each other. Yet Vail knew that system interconnects were fast becoming technologically feasible, and many scoffed at the company's argument. Something had to be done. Vail and his key public relations assistant, James Ellsworth, set about to



CON EDISON

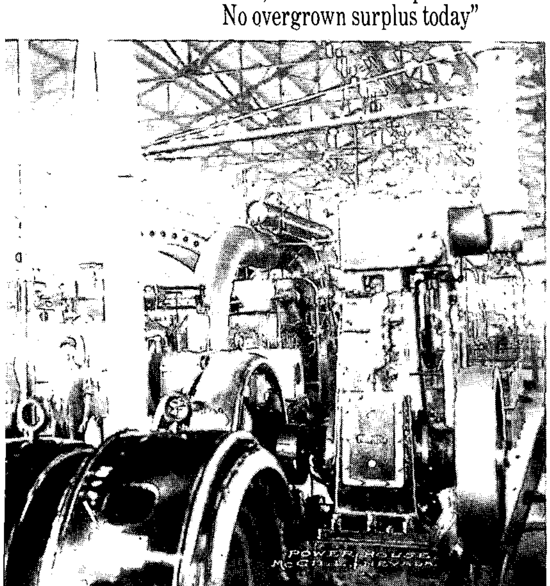
develop three additional lines of defense against competition.

The company's best answer to competition, from the consumer's point of view, was rate-cutting. In some instances, Bell licensees cut their prices to meet the competition. But this procedure was costly to Bell, and for that reason, Vail generally used it as a last resort.

A more frequent defense was political. For example, shortly after the turn of the century, Bell's Buffalo licensee succeeded in having the city council force the competing Frontier Telephone Company to pay the city $50,000 in cash, give the city free use of 100 telephones, and pay a 3 percent gross-receipts tax. Bell had no such requirements. Frontier soon went under. But the political shenanigans and occasional payoffs needed to produce such deals could backfire. In San Francisco a Bell licensee vice-president, Louis Grant, was sentenced to five years in prison for attempting to bribe city supervisors.

Bell's third and most important line of defense, once Vail took over, was public relations. Even before Vail became its president in 1907, AT&T had already gained a reputation for pressure tactics, such as linking its advertising expenditures at a publication with requirements that the newspaper or magazine run editorial puffs about the company. But Vail, like Insull, had larger ambitions. Vail's goal, as his speeches collected in the volume *Views on Public Questions* make clear, was to gain not just a few polite mentions but to win public support for regulatory agencies that could establish barriers to Bell's competitors.

"Yes, we've no excess profits
No overgrown surplus today"



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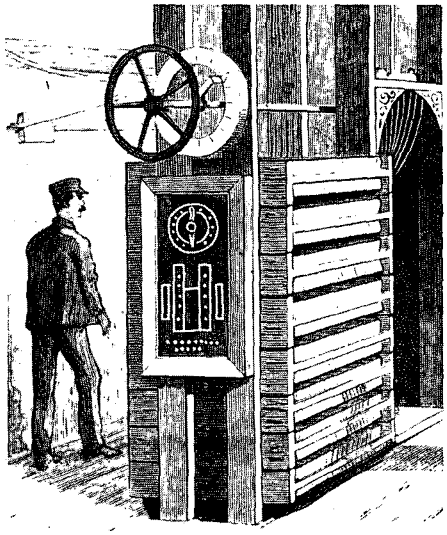

CON EDISON

States that continued to allow competition had lower utilities prices.

Vail argued that AT&T could successfully fight a two-front war—stifling smaller companies on one front and holding off the federal government's trustbusters on the other—if it convinced the public that economic efficiency demanded one big telephone company. Things fell Vail's way in 1910, when, after extensive AT&T lobbying, Congress gave the Interstate Commerce Commission jurisdiction over interstate telephone and telegraph communications.

Vail's own conception of the commission's charter was apparent in an article he produced for *Atlantic* in 1915, "Public Utilities and Public Policy." Vail vented less spleen on socialism than on "vicious acts" of competition. He argued, for instance, that competition creates bad public relations for business, since "the settlements of competitive wars always affect the public unfavorably. . . . When prices are restored . . . they are in constant contrast with the cut price of competitive war, and the consumer is constantly reminded of the differences and resents them."

For Vail, the prime enemy was clear: competition. He did not like competition, "excepting that kind which is rather 'participation' than 'competition,' and operates under agreement as to prices or territory." Vail, like Insull, knew that other businessmen as well as the public generally still needed to be convinced about the uses of regulation. "Some corporations have not as yet quite got on to the new order of things," Vail complained. A total public-relations war would have to be waged.

Buying Off the Editors

Early in the century, phone and utility industry public-relations officials merely followed the practices worked out by the railroad industry toward the end of the 19th century: freelancers were paid to produce favorable articles. At AT&T, other PR practices came into play, as well, such as hiring lawyers not for their expertise but for their valuable contacts and awarding contracts for supplies to the highest bidders in order to make new friends. The company also would pay membership fees and expenses of managers dispatched to join community organizations under orders to socialize with political and civic leaders. But to Vail, these techniques still seemed somewhat random and incomplete. He wanted a company that was expanding its service into every hamlet to have PR efforts in every hamlet, as well.

Vail and and his right-hand PR man James Ellsworth took the first step toward such comprehensive coverage when they institutionalized the use of what came to be called "third party" editorial services—firms hired to regularly write and send out material favorable to a company's cause, in this case Bell's regulated-monopoly concept, but without any mention of the economic relationship—a refinement of the railroads' old trick of paying freelancers to do puff pieces for them. From 1915 through the '20s, for instance, Bell phone companies paid one firm more than $100,000 for such services. Insull's National Electric Light Association paid the same firm $84,000 a year to send out almost 13,000 newspaper articles annually, according to Ernest Gruening's 1931 book, *The Public Pays*. The articles usually appeared as original editorials without any reference to their source. The editorial service called itself an independent organization, but the agency received at least half of its income from utilities alone.

Use of such services was only the beginning. Soon industry front groups began sending out enormous numbers of PR "news releases." For example, in 1920 and 1921, 5 million pieces of such literature were circulated in Illinois alone by the Illinois Committee on Public Utility Information, headed by Insull's top PR aide, Bernard J. Mullaney.

Mullaney bragged to colleagues that he set up newspaper editors for his PR coups by first sending them huge amounts of accurate copy, to get them to rely on his work. After he had gained the editors' full trust, Mullaney would then begin slipping in a few fast ones. PR managers elsewhere reported similar successes with this tactic.

To make sure their messages were heard, utility PR people were instructed to develop "friendships" with newspaper editors, then exploit them. FTC hearing exhibits from the 1930s show how utility public-relations manager George E. Lewis, for example, boasted to associates that he had gained "the confidence of hundreds of newspapers in New Mexico, Colorado, and Wyoming" and "the friendship of dozens of editors. It has taken three years of effort to establish this relationship."

Bell publicists also were told to "go out of your way, if necessary, to render a service to editors," according to memos made public at Federal Communications Commission hearings in the 1930s. This generally meant giving editors free long-distance telephone service. Some PR managers were contemptuous of newspaper editors whose friendship was so forthcoming. J. B. Sheridan, director of the utility-sponsored Missouri Public Relations Committee, wrote that the editors he serviced were useful, but "all of them are 'God's fools,' grateful for the smallest and most insignificant service or courtesy."

Sheridan had more respect for those who proceeded on a cash basis. "The time is ripe for getting very close contact with the newspapers," he wrote in 1922 in a letter to one utility executive. "If we can stimulate a little local advertising for some of the leading papers in the state, I think we will have the newspapers and the operators so closely associated that it will be impossible to split them out in the future." Of his success with this tactic Sheridan could eventually report, "We now stand very well with the editors, and the press of the State."

The same cash value was being developed on the electric-utility front. As their campaign for total coverage proceeded, Insull and Mullaney told associates to "promulgate the idea rapidly among the newsapers that public utilities offer a very fertile field for developing regular, prompt paying, customers of their advertising columns. When that idea penetrates the United States, unless human nature has changed, we will have less trouble with the newspapers than we had in the past." Guy B. Newburn, director of the Tennessee Public Utility Information Bureau, reported typical success in playing on human nature: 40 Tennessee newspapers ran pro-utility editorials after he placed ads with them.

From the utility perspective, prime placement of material unidentified by source was excellent, but bylined articles by well-known reporters could take advantage of those writers' credibility and thus be even more effective. A ghost-writing industry along these lines soon developed. In one documented case of this, Newburn of Tennessee sent clippings to C. A. Beasley of the Alabama Power Company and wrote (in a letter made public during FTC hearings): "I want to call your attention particularly to the story appearing in the (Memphis) *Commercial-Appeal*, under the signature of R. M. Gates, Washington correspondent. . . . The story which he filed is one which I dictated, and it appeared in the *Commercial-Appeal* exactly as dictated to Mr. Gates by me." Other utility publicists reported similar successes.

PR managers also developed impressively roundabout methods of gaining third-party endorsements. For instance, in 1923 Sheridan of Missouri had one of his articles printed as an editorial in the small-town *Excelsior Spring Standard*, just so he could "reprint it as a special bulletin, credit the newspaper in which it appeared . . . , and distribute it to all newspapers in Missouri," as he recounted to a colleague. Similarly, S. E. Boney, a North and South Carolina utility PR man, convinced the North Carolina attorney general and a prominent South Carolina judge to contribute articles ghostwritten by Boney to a utility-published magazine, *Public Services*. Boney then sent out press releases announcing endorsements from such leaders.

Theodore Vail: The AT&T kingpin who hated competition and loved regulation.

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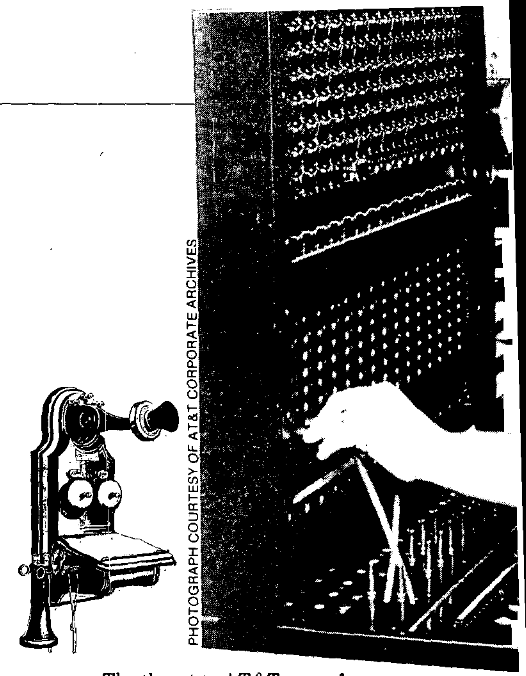

PHOTOGRAPH COURTESY OF AT&T CORPORATE ARCHIVES

The threat to AT&T came from competition, not regulation.

Other local utility PR managers developed more-subtle forms of sweet-talking. H. M. Blain, director of the Louisiana-Mississippi Committee, persuaded editors of most of those states' leading newspapers to run a daily column of questions and answers called "Ask Miss Lou." Some questions came from readers, but questions on utility subjects were slipped in and answered by Blain. The substance was similar to that of the utility press releases and ghostwritten editorials: opposed to governmental takeover of utilities, but sharply pointing out the "inefficiencies" of competition and the need for regulated monopoly.

Boy Scout Monopolists

Theodore Vail died in 1920, but his policies continued for a time. Insull continued strong throughout the 1920s. Increasingly during the decade though, it became apparent that even the comprehensive public-relations bombarding of the press that utilities had put into effect was not enough to create public confidence in the regulated monopolies. Electric-utility public-relations counselors argued that "all community elements must be mobilized." J. F. Owens of the NELA public-relations counselors committee proclaimed, "Through women's clubs, we have one of the greatest avenues for the dissemination of correct information relative to the public utility." Utility companies bought memberships in local clubs for women employees and managers' wives, and tried to get them elected to leadership positions.

FTC investigations of the '30s showed that some club leaders apparently were purchased outright. Mrs. John D. Sher-

man, president of the General Federation of Women's Clubs, was paid $600 per month beginning in October 1926 to "write" articles prepared for her by utility PR men, who would then place them in leading magazines. Women who did not require cash were sometimes thrilled by bylines. Maria Croft Jennings, president of the South Carolina Federation of Women's Clubs, wrote in a letter to utility PR man S. E. Boney, "The article that you wrote which you so kindly allowed me to sign as my own has seemed to make quite a 'hit.' I appreciate the copies that you sent and am enjoying the delightful publicity caused by the various papers copying the article, although I feel quite an imposter."

"Total community coverage" was the goal, as came out during the FTC hearings of the 1930s. Included among the hearings' exhibits, for example, is the recommendation of E. C. Deal of the Electric Bond and Share Company that the ideal public-utility manager "should identify himself with the Boy Scout movement...and should encourage some of his lieutenants to become scout executives, scout masters, etc." Sheridan of Missouri even went so far as to dispatch a colleague to investigate the judging of St. Louis high-school debates about electric railways—the debates had been won by those critical of the regulated-monopoly position, so Sheridan wanted to "ascertain the means employed to initiate, manage and judge these debates in the public schools."

"If we have any propaganda," Earle W. Hodges, director of the Arkansas Bureau, boasted at the NELA's 1923 meeting, "we so conceal or sugar-coat that propaganda with boosting and working for art that it is generously entered into and gotten back of by all of the chambers of commerce, civic clubs, men's and women's organizations over the State." The Wisconsin Utilities Association adopted the sugar-coating approach and printed a song—to be sung to the tune "Yes, We Have No Bananas"—with the words, "Yes, we've no excess profits, No overgrown surplus today. We've interest unceasing, And taxes increasing, And all of the help to pay."

While these pseudo-subliminal methods may seem silly, others were more subtly crafted. In 1924, for instance, P. S. Arkwright, chairman of the Southeastern Division of the NELA, confided in a letter to a utility PR colleague that he and his assistants had placed posters in hundreds of schools. The posters provided "facts about the State, but never any propaganda about the company. This company believes the result is that school children constantly seeing the name of the company associated with facts about the State's greatness are beginning to associate the company itself with the progress of the State."

Some utility PR officials, viewing as their goal the total dominance of communications and education, moved to excise from government and economics textbooks passages opposing regulated monopoly. This was to proceed secretly, one utility executive noted in a memo made public by the FTC, because "if the public were to get the idea that textbooks were being used for propaganda for public utility companies, the reaction would be worse than the original misinformation."

Willing professors were used as spear-carriers. For instance, Horace M. Davis, director of the Nebraska Committee on Public Utility Information, described in a 1925 letter to a fellow associate how he had cleverly won academic support for the regulated-monopoly concept: "We have been at it for more than two years here...first selling the idea to the agricultural college folk and letting them take the spotlight and assume all the leadership. Just yesterday we went through the motions of setting up an actual joint committee on relations of electricity to agriculture. The dean of the agricultural college will be chairman but will do little actual work....The college can say things that we can not say and be believed."

The cumulative impact of all these utility public-relations deceptions—manipulating editors, club leaders, professors, and anyone else who might have influence—was overwhelming. It had to be, because overcoming the American public's underlying pro-competitive sense was not easy—especially since consumers actually ended up paying higher utility bills. Yet by 1930 the concept of regulated, "natural" monopoly in utilities was well-established. That year, Congress established the Independent Federal Power Commission, against the objections of Sen. C. C. Dill. Commissions, he noted with great foresight, "are responsible to nobody directly." In 1934 Congress again ignored similar complaints and warnings about the over-reaching power of commissions when it established the Federal Communications Commission to "exercise unified control over all facilities for interstate communication," including radio and telephone. A half-century later, the idea of "unified control" is still with us.

Today's deregulation movement is challenging that idea with increasing vigor. All the while, utility PR people and government regulators continue to recite the "free enterprise lost in a fair fight" tale. That story won't wash any longer. Vail and Insull and their cronies managed to hornswoggle several generations of Americans, but their modern-day counterparts have a tougher battle on their hands. American consumers are getting wise to the regulated-monopoly con, and it doesn't take subterfuge for them to make their case—only open information and honest analysis. Let's hope that it's enough. ◨

AT&T's goal: To win public support for regulatory barriers to Bell's competitors

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Foreign Exotica

Revelations from a CIA manual.

by **Thomas O. Melia**

Disciples of Henry Kissinger will doubtless read too much into the fact that Argentina, Bolivia, and Haiti each has a "Minister of Foreign Affairs and Worship." Students of comparative criminology may want to investigate the import of Italy calling its chief law enforcement officer "Minister of Pardons and Justice" while his counterpart in Lesotho is called "Minister of Justice and Prisons." (Which leads to a lower rate of recidivism—pardons or prisons?)

Those who like to slice short cuts through cocktail party chatter about the moral symmetry of East and West by announcing that US border guards are hired to keep people *out* will want to check which countries have ministries of emigration as opposed to immigration. (Poor confused Haiti has both, and Indonesia has Martono, "Minister of Transmigration.")

France has a minister of "Decentralization," indicating that problems still linger from that Napoleon period they went through. Brazil, with a shorter history but apparently larger problems, has gone a step further in appointing a "Minister of Debureaucratization and Decentralization"—a title clearly devised by an interagency task force (and a sign that this ministry will be around for a very long time indeed).

These and other insights into the state of the state in the world today can be found in *Chiefs of State and Cabinet Members of Foreign Governments*, as tightly written and comprehensive a text on comparative government as there is. Published by the CIA's Directorate of Intelligence and updated bimonthly, it is available to the public in a no-frills paper edition bearing on the cover the