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## POWER TO THE PEOPLE: DAVID LILIENTHAL FOUNDS TVA'S ELECTRIC POWER POLICY, 1933

AARON D. PURCELL\*

Neither government nor any other institution is so inspired that it can wisely monopolize all the power within its reach.<sup>1</sup>

Arthur Morgan, 1934

On April 10, 1933, President Franklin D. Roosevelt presented the Tennessee Valley Authority bill to Congress. Passed by a wide margin, the measure was signed into law by the president on May 18, 1933, thereby creating perhaps the most successful government agency of the New Deal.<sup>2</sup> Congress appropriated fifty million dollars for the Tennessee Valley Authority (TVA) and gave it comprehensive powers for owning, developing, and operating hydroelectric resources in the Tennessee Valley.<sup>3</sup> By the end of the 1930s this experiment in regional

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<sup>1</sup> Arthur E. Morgan, *Observations*, comp. Vivian H. Bresnehen (Yellow Springs, 1968), 92.

<sup>2</sup> Franklin D. Roosevelt, "A Suggestion for Legislation to Create the Tennessee Valley Authority," in *The Public Papers and Addresses of Franklin D. Roosevelt*, comp. Samuel I. Rosenman, vol. 2, *The Year of Crisis: 1933* (New York, 1938), 122. A copy of the Tennessee Valley Authority Act signed by Franklin D. Roosevelt is on microfilm roll 1, box VI A, Establishment of TVA, Arthur E. Morgan Papers, Olive Kettering Library, Antioch University, Yellow Springs, Ohio (hereafter cited as Arthur Morgan Papers).

<sup>3</sup> Louis B. Wehle, *Hidden Threads of History: Wilson through Roosevelt* (New York, 1953), 157.

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<sup>4</sup> Francis Biddle, *In Brief*

<sup>5</sup> Roosevelt, *Papers and Addresses* Morgan and his TVA to (Buffalo, 1974); Roy Taylor (Jackson, 1987); Walter (Moynan, 1977); and Clark *Engineer, Educator, and* information on David Lilienthal (7 vols., M. Lilienthal: *Public Service* Neuse, *David E. Lilienthal* 1996). For further information *Common Mooring* (Arthur Harcourt A. Morgan *Themselves—But For* further information on Arthur Morgan's direct Bridges: *Conflicting Perspectives* 1933-1939" (M.A. thesis)

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planning, with its triple purposes of flood control, navigation, and the production of cheap electric power, flourished.<sup>4</sup>

TVA was and continues to be a federal corporation controlled by a three-member board of directors. The members are appointed by the president, approved by Congress, and serve staggered terms. In 1933, President Roosevelt recognized the need to appoint diversely qualified individuals who would be concerned with regional planning as well as social and economic interests in the Tennessee Valley. As board chairman Roosevelt chose Arthur E. Morgan, an engineer, educator, and moralist. After Morgan's acceptance of the position he chose Dr. Harcourt A. Morgan (no relation), an agricultural specialist respected throughout the South. Finally, at Roosevelt's suggestion, Morgan added the young, politically connected "New Dealer" electric power expert David E. Lilienthal to complete the TVA's first board of directors.<sup>5</sup>

Under their early leadership, the agency established policies and determined specific areas of emphasis. Perhaps TVA's most important and occasionally most controversial division was the electric power program. Over the course of TVA's sixty-five year history, the agency's greatest contribution to the region was the construction of thirty-nine dams and reservoirs. At these facilities rushing waters turned giant turbines to produce abundant electricity. As TVA's first power director, David Lilienthal managed this important division. During the 1930s Lilienthal determined how to distribute TVA's enormous energy supply

<sup>4</sup> Francis Biddle, *In Brief Authority* (Garden City, 1962), 52.

<sup>5</sup> Roosevelt, *Papers and Addresses*, 2:123-24. For further information on Arthur Morgan and his TVA tenure see Arthur Morgan, *The Making of the TVA* (Buffalo, 1974); Roy Talbert Jr., *F.D.R.'s Utopian: Arthur Morgan of the TVA* (Jackson, 1987); Walter Kahoe, *Arthur Morgan: A Biography and Memoir* (Moylan, 1977); and Clarence J. Leuba, *A Road to Creativity: Arthur Morgan, Engineer, Educator, Administrator* (North Quincy, 1971). For further information on David Lilienthal see David Lilienthal, *The Journals of David E. Lilienthal* (7 vols., New York, 1964-1983); Willson Whitman, *David Lilienthal: Public Servant in a Power Age* (New York, 1948); and Stephen Neuse, *David E. Lilienthal: The Journey of an American Liberal* (Knoxville, 1996). For further information on Harcourt Morgan see Ellis F. Hartford, *Our Common Mooring* (Athens, 1941); and Mouzon Peters, "The Story of Dr. Harcourt A. Morgan," Book V in *Makers of Millions: Not for Themselves—But For You*, ed. Louis D. Wallace (Nashville, 1951). For further information on TVA's first board of directors, especially focusing on Arthur Morgan's direction, see Aaron D. Purcell, "Building Dams, Burning Bridges: Conflicting Philosophies on the Tennessee Valley Authority Board, 1933-1939" (M.A. thesis, University of Louisville, 1996).

to residents of the Tennessee Valley and what to do about private power businesses and interests already in the area.

Through analyzing archival, other primary, and secondary sources, this essay examines TVA's power program, focusing on the most critical year, 1933. During this first year Lilienthal proved to be the key person in launching this important division and he made significant strides toward his goals for the budding agency. His background, early power experiences, and electric power philosophy will be discussed as well as his confrontations with fellow TVA board member Arthur Morgan and southern electric power magnate Wendell Willkie. Lilienthal's founding of TVA's power program in 1933 deserves attention to better understand TVA's present electric policies.

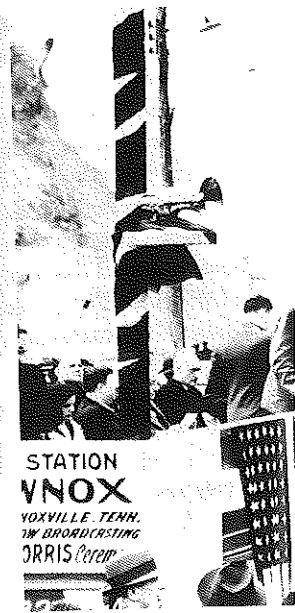
David Lilienthal was born on July 8, 1899, in the back of his parents' first grocery store and haberdashery in Morton, Illinois. Raised in a Jewish family considered in the Old World to be full of impious impractical dreamers, Lilienthal grew up in Valparaiso, Indiana. His father, Leo Lilienthal, operated a succession of retail stores and managed to send his son to college.<sup>6</sup>

Lilienthal's educational background included a degree from DePauw University in 1920.<sup>7</sup> His major interest was labor reform together with a desire for correcting social and economic problems. Propelled by these interests he decided to enter the legal profession. His choice of law schools was Harvard University because of its influential liberal and progressive graduates and teachers such as Dean Roscoe Pound, Felix Frankfurter, Zechariah Chafee, and Supreme Court justice Louis D. Brandeis.<sup>8</sup>

<sup>6</sup> Neuse, *Lilienthal: American Liberal*, 1-3; Thomas K. McCraw, *Morgan versus Lilienthal: The Feud within the TVA* (Chicago, 1970), 18; Lilienthal, *Journals*, vol. 1, *The TVA Years, 1939-1945* (New York, 1964), 3.

<sup>7</sup> Perhaps the most influential experience of his college years occurred during the summer of 1917, when he worked in a railroad car factory. After observing veteran workers in the factory Lilienthal recorded in his journal that too much of the workers' time was wasted on dull, monotonous tasks. From this important experience Lilienthal started his lifelong struggle to improve working conditions for laborers. Lilienthal, *Journals* 1:3.

<sup>8</sup> Lilienthal, *Journals*, 1:9-11. For more information on these four judicial giants see David Wigdor, *Roscoe Pound: Philosopher of Law* (Westport, 1974); Edward McLean, *Law and Civilization: The Legal Thought of Roscoe Pound* (Lanham, 1992); Donald Smith, *Zechariah Chafee, Jr.: Defender of Liberty and Law* (Cambridge, 1986); Melvin I. Urofsky, *Felix Frankfurter: Judicial Restraint and Individual Liberties* (Boston, 1991); Philippa Strum, *Brandeis: Beyond Progressivism* (Lawrence, 1993); Robert Burt, *Two Jewish*



David Lilienthal speaking at a podium. Courtesy Tennessee Valley Authority.

Once at Harvard, Lilienthal's relationship with one of Felix Frankfurter's law firm of Donald Pound developed. Upon graduation in 1920, Lilienthal's three-year lessons about the strength of the law. He established his own commitment to the law, interested in public utility.

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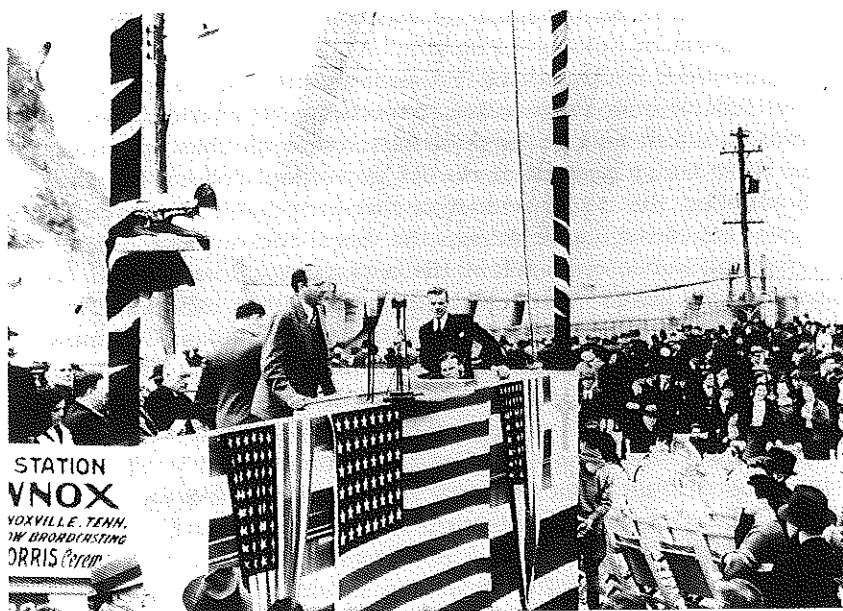
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David Lilienthal speaking at the dedication of Norris Dam in East Tennessee, 1936.  
*Courtesy Tennessee Valley Authority Archives.*

Once at Harvard, Lilienthal made his presence known. He became one of Felix Frankfurter's star pupils, and their student-teacher relationship developed into one of friendship and mutual admiration. Upon graduation in 1923, Lilienthal secured a position in the Chicago law firm of Donald Richberg, which specialized in labor legislation. Lilienthal's three-year tenure at the firm provided him with important lessons about the strength of private privilege in America as well as the power of the law. After leaving Richberg's firm in 1926, Lilienthal established his own successful practice in Chicago, but his commitment to the public welfare led him to become increasingly interested in public utility laws.<sup>9</sup>

*Justices: Outcasts in the Promised Land* (Berkeley, 1988); and Leonard Baker, *Brandeis and Frankfurter: A Dual Biography* (New York, 1986).

<sup>9</sup> Anthony Coelho, "David Eli Lilienthal: Pragmatic Liberal at the Crossroads" (History term paper, Brown University, 1973), 3, available at the TVA Corporate Library, Knoxville, Tennessee (hereafter cited as TVA Corporate Library); Neuse, *Lilienthal: American Liberal*, 27.

The problem of utility regulation was complex and became more so with the advent of holding companies. At the time, interstate holding companies were not regulated by state utility commissions and no effective federal utility regulatory commission yet existed. Lilienthal's goal was to discover how the public interest could best be protected against these concentrations of electric power and political power.<sup>10</sup>

Throughout the 1920s and into the early 1930s Lilienthal was primarily concerned with labor, the need for a more responsive judiciary, and public utilities law. His opportunity to take direct action arose in 1931 when Wisconsin governor Philip LaFollette offered Donald Richberg a position on the Wisconsin Railroad Commission. When Richberg declined the position, he suggested that LaFollette ask the young, energetic David Lilienthal. Although it would mean sacrificing the financial advantages of a private practice, Lilienthal accepted the position and embarked on full-time public service.<sup>11</sup>

With this position, Lilienthal saw opportunity in the new and open field of utility regulation. Lilienthal had the talent and ambition to make a name for himself and in a few years became the acknowledged master of public utilities law. It was no accident that Lilienthal at age thirty-one became the youngest member in the history of the Wisconsin Railroad Commission.<sup>12</sup>

Lilienthal changed the organization's name to the Wisconsin Public Service Commission and drafted a bill that broadened the commission's regulatory powers. His central belief was that "a public utility enterprise is a public business."<sup>13</sup> Customarily, regulatory commissions were quite passive but Lilienthal actively searched for legal ways to reorganize and strengthen such commissions. He concluded that if regulation was to be effective, holding companies as well as their subsidiaries must be regulated in the public interest.<sup>14</sup>

Because he sought sweeping reform, utility magnates acted quickly against Lilienthal. In 1932, when Progressive Republican LaFollette failed to win renomination to the governorship, Lilienthal's biggest adversary, the Wisconsin Telephone Company, pushed for Lilienthal's removal. As Lilienthal's 1932 reconfirmation to the Public Service

<sup>10</sup> McCraw, *Morgan versus Lilienthal*, 20.

<sup>11</sup> Donald Richberg, *My Hero: The Indiscreet Memoirs of an Eventful but Unheroic Life* (New York, 1954), 126-27.

<sup>12</sup> McCraw, *Morgan versus Lilienthal*, 21.

<sup>13</sup> Quoted in *ibid.*

<sup>14</sup> *ibid.*, 21-22.

Commission looked down on his reforms.<sup>15</sup>

Because the Lilienthal and foes alike believed that practice or be appointed to the Federal Power Commission for Lilienthal. A power encouraged Chairman in 1933, Morgan heartily named the third member of the Commission was an excellent choice.

Like Arthur Morgan, Lilienthal was a social reformer. However, Wisconsin Lilienthal knew the strengths of his opponents and said that anyone in public utility said the combined character of the offensive warfare.<sup>18</sup>

Lilienthal brought electricity to Wisconsin with greater local control, but on bureaucratic direct control. Just as his fellow board members of the Valley Authority, like Arthur Morgan, established his utility philosophy but he was more of a pragmatist than the Tennessee Valley Authority's local prejudices and a pragmatist. However, Lilienthal brought raised reforms in the public interest should occur.<sup>20</sup>

According to Lilienthal, electricity the standard

<sup>15</sup> *Ibid.*, 22.

<sup>16</sup> Whitman, *Lilienthal*.

<sup>17</sup> Arthur E. Morgan to David Lilienthal, 4/12/33-12/26/33, starts on TVA books.

<sup>18</sup> Lilienthal, *Journals*.

<sup>19</sup> McCraw, *Morgan*.

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Commission looked doubtful, he searched for another way to carry out  
his reforms.<sup>15</sup>

Because the Lilienthals were financially strapped, Lilienthal's friends  
and foes alike believed that he would either return to profitable private  
practice or be appointed by the newly elected President Roosevelt to  
the Federal Power Commission. However, Roosevelt had other plans  
for Lilienthal. A power expert was needed for TVA, and Roosevelt  
encouraged Chairman Morgan to appoint Lilienthal.<sup>16</sup> On May 30,  
1933, Morgan heartily recommended the appointment of Lilienthal as  
the third member of TVA's board of directors, saying that Lilienthal  
was an excellent choice.<sup>17</sup>

Like Arthur Morgan, Lilienthal had a passion for progressivism and  
social reform. However, from working with electric utilities in  
Wisconsin Lilienthal knew how the political system operated and knew  
the strengths of his opposition, while Morgan did not. Lilienthal once  
said that anyone in public life must have the "skin of a rhinoceros and  
the combined characteristics of the porcupine and the skunk for  
offensive warfare."<sup>18</sup> Also, with his two years of work bringing  
electricity to Wisconsin farmers, Lilienthal understood the need for  
greater local control, freer municipal management, and less reliance  
on bureaucratic direction in the utility business.<sup>19</sup>

Just as his fellow board members had intentions for the Tennessee  
Valley Authority, likewise Lilienthal imagined the opportunity to  
establish his utility philosophies on a grand scale. Lilienthal had ideals,  
but he was more of a realist than Arthur Morgan. Lilienthal knew that  
the Tennessee Valley region was economically stagnant and that the  
local prejudices and attitudes about development had to be respected.  
However, Lilienthal believed that once the standard of living had been  
raised reforms in the Tennessee Valley would occur, could occur, and  
should occur.<sup>20</sup>

According to Lilienthal, through the use of cheaply produced  
electricity the standard of living in the region would rise. Also, the

<sup>15</sup> Ibid., 22.

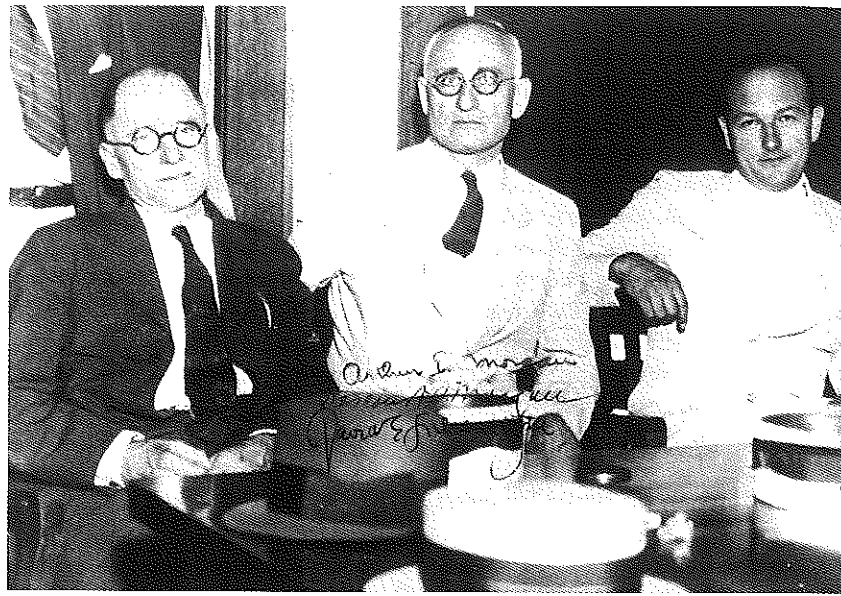
<sup>16</sup> Whitman, *Lilienthal: Public Servant*, 9.

<sup>17</sup> Arthur E. Morgan to Marvin McIntyre, 30 May 1933, folder: Correspondence  
4/12/33-12/26/33, Appointment of TVA Directors, box VI: TVA, P. Morgan  
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<sup>18</sup> Lilienthal, *Journals*, 1:27.

<sup>19</sup> McCraw, *Morgan versus Lilienthal*, 23.

<sup>20</sup> Coelho, "Lilienthal: Pragmatic Liberal," 16.



The three original TVA directors: from left, David Lilienthal, Arthur Morgan, Harcourt Morgan. Courtesy Antioch College, Yellow Springs, Ohio.

widespread availability of electricity would provide opportunity for industrial decentralization and for the growth of small-scale, local industries. Lilienthal strongly advocated the development of small businesses in the Tennessee Valley and believed that they could draw on local financial backing and indigenous resources.<sup>21</sup>

On June 16, 1933, the Tennessee Valley Authority board of directors held its first meeting.<sup>22</sup> It lasted eight hours and dealt with a wide variety of subjects; but, most importantly, the board discussed TVA's electric power policy.<sup>23</sup> The topic of power policy arose out of the

<sup>21</sup> Ibid.

<sup>22</sup> This encounter, at which David Lilienthal and Harcourt Morgan met for the first time, took place in the Willard Hotel in Washington. Talbert, *F.D.R.'s Utopian*, 101.

<sup>23</sup> At the meeting the board elected Harcourt Morgan vice-chairman, approved the official seal of the corporation, and approved arrangements for surveys for a dam to be built around the Cove Creek site (later to be called Norris Dam after Senator George Norris). Kahoe, *Morgan: Biography and Memoirs*, 74; McCraw, *Morgan Versus Lilienthal*, 27.

receipt of a letter from the Commonwealth and the company that owned the Valley. In the letter the importance of C&S to the region resulted in hostility between Harcourt Morgan and David Lilienthal. Lilienthal gave in to Chairman Morgan's demand against committing TVA to

Thus, at the first board meeting government ownership was understood that they would face other policy challenges. Lilienthal's policy existed on Morgan's narrow terms. The tactics and strategy of the issue emerged between the two. Lilienthal believed in government ownership. Arthur Morgan believed in existing private power. For the moment and for the time being, they worked out at a later date.

But their differences on the board that arose at the first meeting. Arthur Morgan found himself at odds with the two directors. This first meeting of the electric power policy is the basic goal of TVA.<sup>24</sup> Morgan and Lilienthal had different power policy but also shared the basic goals of TVA.<sup>25</sup>

Roosevelt had appointed Lilienthal to the board, but also chief of the TVA. He temporarily scattered his commitments, Lilienthal served on a part-time service. The board accomplished a great deal. He reported for permanent service.

<sup>24</sup> Lilienthal, *Journal*

<sup>25</sup> Lilienthal, *Journal*

<sup>26</sup> Ibid.





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receipt of a letter from Wendell Willkie, president of the Commonwealth and Southern Corporation (C&S), the holding company that owned most of the electric utilities in the Tennessee Valley. In the letter Willkie invited Chairman Morgan to discuss the importance of C&S to TVA. A long discussion of TVA's power policy resulted in hostility between Arthur Morgan and David Lilienthal, with Harcourt Morgan acting as mediator. Eventually, Harcourt Morgan and Lilienthal gave in to Arthur Morgan's arguments and authorized Chairman Morgan to confer with Willkie, but they cautioned him against committing TVA to any agreement or cooperation with C&S.<sup>24</sup>

Thus, at the first board meeting the matter of private utilities versus government ownership of utilities took top priority. The directors understood that they needed to determine TVA's power policy before other policy challenges emerged. While fundamental agreement existed on Morgan's meeting with Willkie, a difference of opinion as to the tactics and strategy of dealing with the public versus private power issue emerged between Lilienthal and Chairman Morgan. Lilienthal believed in government control and regulation of electric power while Arthur Morgan believed that TVA should cooperate with already existing private power companies. However, they agreed to disagree for the moment and both expected that their differences would be worked out at a later time.<sup>25</sup>

But their differences were never resolved. Instead, the division in the board that arose at the first meeting grew more open and severe, with Arthur Morgan finding himself increasingly in opposition to the other two directors. This first meeting was important because it introduced the electric power issue. It was with this important issue that Arthur Morgan and Lilienthal began not only a bureaucratic struggle over power policy but also a personal and philosophical struggle over the basic goals of TVA.<sup>26</sup>

Roosevelt had appointed Arthur Morgan not just chairman of the board, but also chief engineer. After the June 1933 meeting, the board temporarily scattered. During the next six weeks, due to prior commitments, Lilienthal and Harcourt Morgan were available only for part-time service. The launching of TVA was up to Arthur Morgan, and he accomplished a great deal. When Harcourt Morgan and Lilienthal reported for permanent duty in late July 1933, they found that the

<sup>24</sup> Lilienthal, *Journals*, 1:39; McCraw, *Morgan versus Lilienthal*, 27.

<sup>25</sup> Lilienthal, *Journals*, 1:39.

<sup>26</sup> *Ibid.*

chairman had accumulated a great deal of administrative power. Both men had specific concerns about areas they regarded as "theirs"; for Harcourt Morgan it was agriculture, and for Lilienthal electric power.<sup>27</sup>

In late June 1933 Arthur Morgan had initiated the process of determining TVA's power policy. On June 28 the chairman met Wendell Willkie for dinner at the University Club in New York City. Their discussion centered on the relationship between TVA and the Commonwealth and Southern electric company. Morgan explained to Willkie that because the organization had been in existence for only a week and there had been only one board meeting, the directors had yet to formulate a power policy. However, Morgan stated that some fundamentals could be agreed on if handled in a straightforward manner.<sup>28</sup>

At this June meeting, Morgan and Willkie discussed issues of TVA's territory and the distribution of TVA's electricity. Willkie argued that the goals of the TVA Act would be fulfilled if the government generated power but private companies distributed it under government supervision. Morgan replied that he, the other board members, and Roosevelt thought otherwise, believing that the TVA Act committed the Authority to generate and to distribute electric power. At the end of the meeting, Morgan suggested that "all our dealings with each other be open and above-board—that we do not have underhanded or indirect gossip and propaganda." The meeting concluded with Willkie agreeing to Morgan's vague suggestion about further negotiations.<sup>29</sup>

The goodwill between Morgan and Willkie continued into July 1933. In a letter to Willkie dated July 12, Morgan reemphasized that friendly and cooperative efforts between TVA and C&S were necessary for ultimate success.<sup>30</sup> Willkie replied that he favored collaborative efforts,

<sup>27</sup> Talbert, *F.D.R.'s Utopian*, 101-103.

<sup>28</sup> Arthur E. Morgan, "Memorandum of a Talk between Arthur E. Morgan, and Mr. Willkie, President of the Commonwealth and Southern Corporation, at the University Club, New York, Wednesday Evening, June 28, 1933," p. 1, folder: Morgan, Arthur E. 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers, Mudd Library, Princeton University (hereafter cited as David Lilienthal Papers).

<sup>29</sup> *Ibid.*, 1-4.

<sup>30</sup> Arthur E. Morgan to Wendell Willkie, 12 July 1933, folder: Morgan, Arthur E., 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers.

but added that the conduct of the TVA was on the cold basis of its merits.

In early July 1933, for example, Chairman Morgan sent a memorandum to the directors outlining his own plan for TVA's power policy. In the "preliminary" plan, Morgan's power policy. Morgan's plan was to have private companies in the operation of TVA's power beyond his domain of agriculture. Morgan entered into Lilienthal's domain of electric power.<sup>33</sup>

Lilienthal fired back a memorandum in which he stated that he would develop a sound power policy. He stated that his views between the directors and the government approach to the power industry were every reasonable expectation. He stated that Morgan's views were "hazardous."<sup>34</sup>

Shocked at such an interpretation of Lilienthal's views, Morgan attempted to retaliate, Morgan attempted to create a homogeneous moral standards, separate from the TVA meeting, in late July 1933. Morgan's Authority Code of Ethics was a code of professional honesty, and the chairman intended to enforce it. Specifically, the code of ethics was:

<sup>31</sup> Wendell Willkie to Arthur E. Morgan, 12 July 1933, folder: Willkie, Wendell, 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers.

<sup>32</sup> In this key document, Morgan outlined his views on the area around Muscle Shoals and the power program. Arthur E. Morgan, "Memorandum," undated, folder: Morgan, Arthur E. 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers, Mudd Library, Princeton University (hereafter cited as David Lilienthal Papers).

<sup>33</sup> Morgan took this action as a matter of policy but was unavailing. K. McCraw, *TVA and the Muscle Shoals*, 193, Princeton University Press, 1964.

<sup>34</sup> David E. Lilienthal to Arthur E. Morgan, 12 July 1933, folder: Lilienthal, David E., 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers.

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between Arthur E. Morgan, and  
ith and Southern Corporation, at  
y Evening, June 28, 1933," p. 1,  
33 Correspondence, Name Files (K-  
Princeton University (hereafter

y 1933, folder: Morgan, Arthur E.,  
me Files (K-R), David Lilienthal

but added that the conduct of their business would be "measured on  
the cold basis of its merits."<sup>31</sup>

In early July 1933, following a mid-summer meeting with Willkie,  
Chairman Morgan sent a memorandum to Lilienthal to clarify TVA's  
power policy. In the "penciled memorandum" Morgan explained that  
his own plan for TVA's electric division would become accepted  
power policy. Morgan's plan involved cooperation with private utility  
companies in the operating region.<sup>32</sup> With this memo, Morgan stepped  
beyond his domain of administrative responsibility for engineering and  
entered into Lilienthal's designated territory of expertise—electric  
power.<sup>33</sup>

Lilienthal fired back on July 21, 1933. In his response to Morgan's  
memo he stated that he believed that the most constructive way to  
develop a sound policy of power was "through the frank exchange of  
views between the directors." Lilienthal was skeptical of Morgan's  
approach to the power issue, for he found it to be "running counter to  
every reasonable expectation under the circumstances," and he insisted  
that Morgan's views exposed the Authority to unspecified "gravest  
hazards."<sup>34</sup>

Shocked at such a dissenting response, Chairman Morgan  
interpreted Lilienthal's letter as a personal attack on himself. To  
retaliate, Morgan attempted to solidify his presence within TVA by  
creating a homogeneous staff who lived up to Morgan's ethical and  
moral standards, separated from Lilienthal. At the second board  
meeting, in late July 1933, Morgan introduced his "Tennessee Valley  
Authority Code of Ethics" to his fellow directors. The code stressed  
professional honesty, company loyalty, and Protestant morality, and  
the chairman intended to require all TVA employees to agree to it.  
Specifically, the code prohibited bribery, gambling, the use of habit-

<sup>31</sup> Wendell Willkie to Arthur E. Morgan, 15 July 1933, *ibid.*

<sup>32</sup> In this key document Morgan implied that he wanted to select a small area,  
the area around Muscle Shoals, and set up a demonstration of the TVA's public  
power program. Arthur E. Morgan to David E. Lilienthal, "Penciled  
Memorandum," undated [around 10 or 15 July 1933], *ibid.*; Talbert, *F.D.R.'s  
Utopian*, 139-40; Richard A. Colignon, *Power Plays: Critical Events in the  
Institutionalization of the Tennessee Valley Authority* (Albany, 1997), 133.

<sup>33</sup> Morgan took this action because he complained that TVA had no coherent  
policy but was unavoidably creating one in its negotiations with C&S. Thomas  
K. McCraw, *TVA and the Power Fight: 1933-1939* (New York, 1971), 57.

<sup>34</sup> David E. Lilienthal to Arthur E. Morgan, 21 July 1933, folder: Morgan, Arthur  
E., 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal  
Papers.

forming drugs, premarital sex, large personal expenditures, and the receiving of gifts or favors. It furthermore encouraged friendliness, company enthusiasm, thriftiness, and an unyielding devotion to the TVA. With this code, the chairman hoped to set the standards for personal, social, and business conduct within the TVA.<sup>35</sup>

Not surprisingly, Morgan's code did not survive its first reading at the board level. Lilienthal opposed Morgan's commandments, believing that they regulated individual thinking and action too much. Lilienthal and Harcourt Morgan requested that the code not be considered for adoption. It was never voted on or issued to TVA employees.<sup>36</sup>

Because of their opposition to Arthur Morgan's tight moral and bureaucratic control, Harcourt Morgan and David Lilienthal pushed for a division of responsibilities within the TVA board. On August 3, 1933, Lilienthal and Harcourt Morgan sent Chairman Morgan a memo. Carefully constructed, it called for an allocation of initial responsibilities: Arthur Morgan would take charge of nine areas of TVA, while Harcourt Morgan and Lilienthal would equally split six other domains. Arthur Morgan grasped the significance of controlling such a large number of TVA's programs while his fellow board members controlled so little, and he therefore endorsed the idea. However, what Morgan failed to understand was that when the division took effect he would have no authority over electrical or agricultural activities, which were both necessary for his own Tennessee Valley plans. Morgan also failed to grasp the fact that he could be outvoted by his two fellow board members. The hidden hand of Lilienthal, the experienced bureaucratic in-fighter, can be seen here gaining advantage on the older but naive Morgan.<sup>37</sup>

<sup>35</sup> Arthur E. Morgan, "An Ethical Code for the Staff of the Tennessee Valley Authority," 1-8, 15 July 1933, folder: Ethical Code for the Staff of the TVA, box III Writings, A. Books 17 *Making of the TVA*, 1974, a. sources, early documents, more recent clippings, etc., Arthur Morgan Papers, which is reprinted and analyzed in Roy Talbert, Jr., ed., "Arthur E. Morgan's Ethical Code for the Tennessee Valley Authority," *East Tennessee Historical Society's Publications* 40 (1968): 119-27.

<sup>36</sup> Kahoe, *Morgan: Biography and Memoir*, 77-86.

<sup>37</sup> Harcourt A. Morgan and David E. Lilienthal, "Memorandum on Organization," 3 August 1933, folder: July 1938, TVA: Report: "Power Policy"—TVA, 1933-1936, David E. Lilienthal's Personal Folder, Vol. 2, Sect. 14, box 87, 1938 Correspondence, Name Files: (TVA: Report: "Power Policy" [1 of 2]), David Lilienthal Papers.

At the next board meeting, the division of responsibilities dealing with agricultural and land acquisition and Morgan would act as responsible for engineering, housing, flood control, and economic organization.

Administratively, Harcourt Morgan intentionally put themself and Arthur Morgan isolated from Harcourt Morgan's respective areas of responsibility to avoid interference.

Along with the division of responsibilities, at the end of August 1933 a plan was developed. On August 14, in spite of opposition, Arthur Morgan furthered his plan in a memorandum outlining cooperation with all other departments to avoid duplication of already existing work. The setting up of a test plant at Louisville, or Cincinnati, was also a feasibility.<sup>39</sup>

Two days later Arthur Morgan sent a memo by sending the plan to Harcourt Morgan's proposal. Lilienthal charged that the plan was in the public interest,

<sup>38</sup> "Minute Entry - August 1933," Herman Pritchett, *Administration of the Tennessee Valley Authority* (Cincinnati: 1933), explaining the distribution of responsibilities, box VI B 1, Board Meeting Minutes, 1933-1934, Arthur Morgan Papers.

<sup>39</sup> Arthur E. Morgan to David E. Lilienthal, folder: Morgan, Arthur E. (K-R), David Lilienthal Papers.

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<sup>37</sup>

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"Memorandum on Organization," 3  
 Report: "Power Policy"—TVA, 1933-  
 Vol. 2, Sect. 14, box 87, 1938  
 "Power Policy" [1 of 2]), David

At the next board meeting the three directors officially agreed on a division of responsibilities. Harcourt Morgan would direct all matters dealing with agriculture, including fertilizer production. Lilienthal would supervise all aspects of electric power, including legal matters of land acquisition and the economics of transportation. Chairman Morgan would act as TVA's general coordinator and be specifically responsible for engineering, construction, training, regional planning, housing, flood control, forestry, and other matters relating to social and economic organization.<sup>38</sup>

Administratively, Harcourt Morgan and Lilienthal had effectively and intentionally put themselves into a protected, allied position leaving Arthur Morgan isolated and vulnerable to attack. From August 5, 1933, onward Harcourt Morgan and Lilienthal could work within their respective areas of interest without fear of Arthur Morgan's interference.

Along with the division of responsibilities, the board adopted by the end of August 1933 a power policy for TVA—but not without a struggle. On August 14, in spite of the division of responsibilities agreement, Arthur Morgan further exasperated his co-directors with yet another memorandum outlining his power policy. Morgan's memo endorsed cooperation with all private utilities, especially C&S, urged no duplication of already existing transmission lines, and advocated the setting up of a test electric territory in a city such as Memphis, Louisville, or Cincinnati for five or ten years to evaluate the economic feasibility.<sup>39</sup>

Two days later an infuriated Lilienthal responded to Morgan's memo by sending the chairman two of his own. The first criticized Morgan's proposal of cooperation with private utility companies. Lilienthal charged that the proposal was impractical, unscientific, not in the public interest, a danger to TVA's mission, and opposed by time-

<sup>38</sup> "Minute Entry - August 5, 1933," *ibid.*; Talbert, *F.D.R.'s Utopian*, 104; C. Herman Pritchett, *The Tennessee Valley Authority: A Study in Public Administration* (Chapel Hill, 1943), 155-56. The board-approved outline explaining the distribution of responsibility is also located on microfilm roll 3, box VI B 1, Board Meetings and TVA Relationships, Part I: Board of Directors Meetings, 1933-1938, Board Minutes: Policies and delegation of authority, Arthur Morgan Papers.

<sup>39</sup> Arthur E. Morgan to H. A. Morgan and David E. Lilienthal, 14 August 1933, folder: Morgan, Arthur E., 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers.

tested public men.<sup>40</sup> In the second, Lilienthal set forth his own goals for a power policy. He emphasized that generating and distributing electricity was a public business. He explained that through government ownership of electric power distribution utility customers would pay cheaper rates and escape private electric monopolies.<sup>41</sup>

The next day, August 17, Lilienthal followed up his power policy memo with a plan of action for carrying out his power program. At the beginning of the document Lilienthal reminded the other board members that they had delegated TVA's power division to him. He then outlined his plans for constructing transmission lines, establishing rates, designating territory, and dealing with private power companies. He concluded by saying that although other plans of organization had been prepared and presented, none was satisfactory.<sup>42</sup>

With two differing power proposals before the board, a vote became necessary. On August 24, 1933, the board adopted TVA's official "power policy," a policy designed and written by Lilienthal. Harcourt Morgan's vote gave Lilienthal's policy a majority, which defeated Chairman Morgan's plan. The disputed power issue and the desire to restrain Arthur Morgan strengthened the relationship between Lilienthal and Harcourt Morgan.<sup>43</sup>

By the end of August 1933, after being defeated and outmaneuvered by Lilienthal, Arthur Morgan removed himself from the electric power issue and concentrated his efforts on the planning and construction of

<sup>40</sup> David E. Lilienthal, "Memorandum in Opposition to Proposal of Chairman A. E. Morgan for Territorial Division Agreement and 'Cooperation' between Tennessee Valley Authority and Private Utilities," 16 August 1933, *ibid.*

<sup>41</sup> David E. Lilienthal, "Principles for a Power Policy," 16 August 1933, folder: Power Policy Inserts—I, box 88, 1938 Correspondence, Name Files (TVA: Report: 'Power Policy' [2 of 2])—Willkie, Wendell L.), *ibid.*

<sup>42</sup> David E. Lilienthal, "A Plan of Action for Carrying out the Power Program," 17 August 1933, folder: July 1938, TVA Report 'Power Policy' TVA, 1933-1936, David E. Lilienthal's Personal Folder, Vol. 1, Sect. 1, box 87, 1938 Correspondence, Name Files (TVA: Report: 'Power Policy' [1 of 2])—Willkie, Wendell L.), *ibid.*

<sup>43</sup> Talbert, *F.D.R.'s Utopian*, 144; Roy Talbert, Jr., "Beyond Pragmatism: The Story of Arthur E. Morgan" (Ph.D. diss., Vanderbilt University, 1971), 194; "TVA Power Policy Summary," folder: July 1938, TVA: Report: "Power Policy"—TVA, 1933-1936, David E. Lilienthal's Personal Copy, box 87, 1938 Correspondence, Name Files: (TVA: Report: "Power Policy" [1 of 2]), David Lilienthal Papers.



Site of Norris Dam on the Tennessee River. From the collection of the McCung Historical Company.

TVA's town of Norris was planned for his own use.

When Lilienthal took office in 1933, foremost in his mind was the elimination of private utilities and the creation of public power. He had a strong interest in economics, and during his tenure he became convinced that government should stimulate consumption and correct imbalances as a means of

<sup>44</sup> On the town of Norris, see the report of the Planned New Town of Norris, Tennessee, by Arthur E. Morgan and Michael J. McGee, *The Resettlement of Norris, Tennessee*.

<sup>45</sup> By summer 1933, Lilienthal was on the board. From his personality and political views, Lilienthal and the TVA were a natural fit. Massachusetts, A

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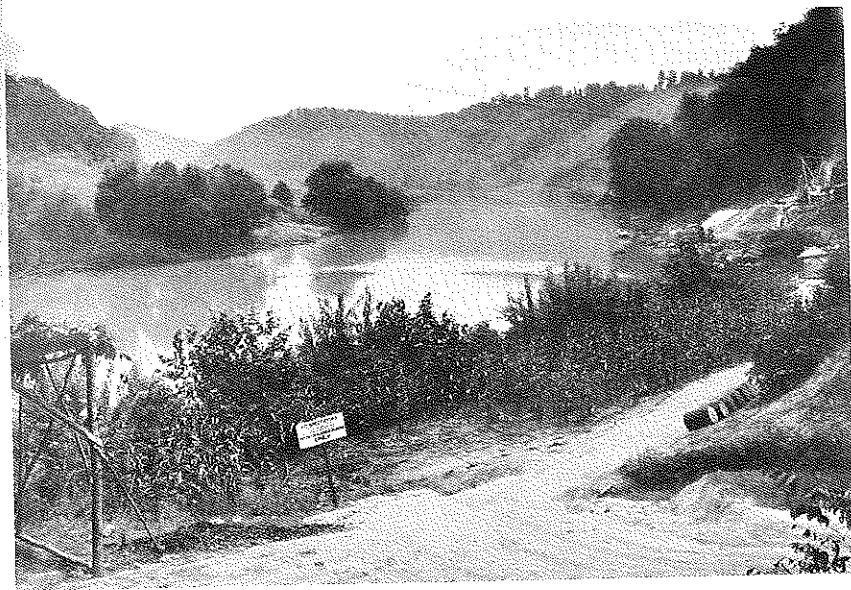
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 Personal Copy, box 87, 1938  
 'ower Policy' [1 of 2]), David



Site of Norris Dam on the Clinch River, prior to the dam's construction. *Courtesy McClung Historical Collection.*

TVA's town of Norris, Tennessee.<sup>44</sup> And by September 1933, Lilienthal planned for his own conferences with Wendell Willkie.<sup>45</sup>

When Lilienthal took full control of TVA's power program in the fall of 1933, foremost in his mind was the formidable opposition of the private utilities and the need to create a market for TVA's electric power. He had a strong background in institutional law and regulatory economics, and during his tenure as a Wisconsin utility commissioner he became convinced that the best way to build electric load and stimulate consumption was to lower prices. He viewed price imbalances as a major obstacle blocking economic recovery. As wages

<sup>44</sup> On the town of Norris, Tennessee, see Aclred J. Gray, "The Maturing of a Planned New Town: Norris, Tennessee," *Tennessee Planner* 32 (1974): 1-25; and Michael J. McDonald and John Muldowny, *TVA and the Dispossessed: The Resettlement of Population in the Norris Dam Area* (Knoxville, 1982).

<sup>45</sup> By summer 1933 Lilienthal had established himself as the dominant force of the board. From that point forward TVA bore the indelible marks of his personality and politics. See Gregory B. Field, "Political Currents: David E. Lilienthal and the Modern American State" (Ph.D. diss., University of Massachusetts, Amherst, 1994), 133.

plummeted and unemployment soared during the early 1930s, price levels remained artificially high, dissipating purchasing power and contributing to the underconsumption impasse that Lilienthal believed was the underlying cause of the Depression.<sup>46</sup>

For Lilienthal, fixed rates for electric power were a troublesome source of underconsumption. He viewed the power industry's resistance to rate reductions as an obstacle to the greater use of electricity. He accepted the utility industry's claims of 30 to 40 percent excess electricity capacity in the region, but he pointed out that an unacceptably high rate structure had created the surplus. To solve the problem Lilienthal needed to create a much greater market for power across the region so that TVA could justify its hydroelectric production and more readily acquire territory from private companies. To reach those goals Lilienthal first dealt with private utility companies located in TVA's operating region.<sup>47</sup>

By the early 1930s the biggest of the private power companies was Commonwealth and Southern, which served more than five million customers and owned a large portion of the private power companies in the Tennessee Valley. In 1932 the company's assets amounted to \$1.13 billion, which made it one of the largest holding companies in the United States. On January 4, 1933, four months before the creation of TVA, Wendell Willkie became C&S's president.<sup>48</sup>

In early October 1933 Lilienthal met with Willkie to discuss TVA's relationship with C&S. The two electric magnates met at the Cosmos Club in Washington and initially conversed about Indiana, their

<sup>46</sup> Gregory B. Field, "Electricity for All": The Electric Home and Farm Authority and the Politics of Mass Consumption, 1932-1935," *Business History Review* 64 (Spring 1990): 34.

<sup>47</sup> *Ibid.*, 35.

<sup>48</sup> The merger of J.P. Morgan's United Corporation and Bonbright and Company's American Superpower Company in May 1929 created Commonwealth and Southern. The two Wall Street companies formed the giant corporation by acquiring or exchanging stock in three holding companies: the Commonwealth Power Company, the Penn-Ohio Edison Company, and the Southeastern Power and Light Company. See Talbert, *F.D.R.'s Utopian*, 136-37. In the South the Commonwealth and Southern group served as the parent company for the substantial Alabama, Georgia, and Tennessee power companies, and also dealt with smaller companies in Mississippi, Florida, and South Carolina. Joseph Barnes, *Willkie: The Events He Was Part of, the Ideas He Fought for* (New York, 1952), 50.



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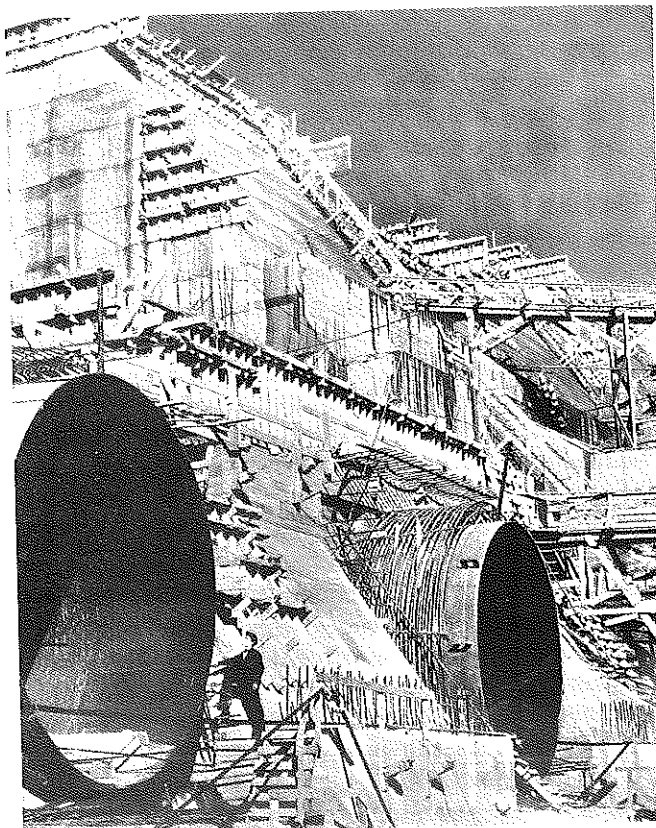


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Norris Dam under construction. *Courtesy McClung Historical Collection.*

Electric Home and Farm Authority  
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mutual birth state.<sup>49</sup> After brief idle conversation, Willkie made  
 Lilienthal a definite offer. Knowing that Norris Dam was six years away  
 from completion, Willkie estimated that TVA would generate only  
 between 40,000 and 50,000 kilowatts of power during the interim.  
 Willkie also mentioned that TVA's funds were somewhat limited and  
 said, "Your fellows have fifty million dollars, and that is all you are  
 likely to get." To solve both problems, Willkie offered to buy that  
 power, thus giving TVA about a half-million dollars of revenue and  
 making it independent of Congress.<sup>50</sup>

<sup>49</sup> Lilienthal later wrote "that we were two exceedingly cagey fellows who met  
 at lunch that noon." Quote from McCraw, *TVA and the Power Fight*, 63.

<sup>50</sup> Quoted in Lilienthal, *Journals*, 1:712.

Lilienthal was unimpressed by the offer. He also reported that he was somewhat overwhelmed by Willkie's cocksureness. In his *Journals* Lilienthal described Willkie's psychological tactics of dealmaking at this initial encounter:

He started in throwing a scare into me—a reaction against public power was bound to occur long before Norris Dam could be finished; maybe we [TVA] wouldn't be able to finish it after all. They [private power companies] have been able to stop Wilson Dam half a dozen times. If they have to fight, they are ready to fight and lick us. This kind of offer is fair and liberal, but who knows how long an offer as good as this will be outstanding?<sup>51</sup>

This first encounter ended without an agreement and left Lilienthal "badly scared." He believed that accepting Willkie's proposal would have put an end to TVA before it actually started. For the remainder of 1933 Lilienthal continued conferences with Willkie. At these meetings he discovered that Willkie was determined to prevent TVA from building transmission lines. He concluded that if Willkie controlled the power sold at the switchboard, the electricity could be sold only to his companies or to a very limited market. However, as the contract between the U.S. Army Corps of Engineers and the Alabama Power Company for the purchase and sale of power at Wilson Dam, near Muscle Shoals, Alabama, was to expire on January 1, 1934, there was a deadline to meet.<sup>52</sup>

Lilienthal's continued resistance to Willkie's proposals put the C&S president in a bind and ultimately forced him to a less than advantageous compromise for his company. On December 12, looking "low and discouraged," Willkie offered to sell to TVA the Commonwealth and Southern facilities at three towns near Wilson Dam. Willkie realized that the more facilities he sold, either to TVA or to the cities, the greater the justification for the TVA power program. But if he did not sell his company's assets TVA would build duplicate transmission lines, and the cities, through cheap Public Works

<sup>51</sup> Quoted in *ibid.*

<sup>52</sup> *Ibid.*, 1:712-13.

Administration loans, and facilities would the

Thus, after several finally reached between 1933, Lilienthal suggested Alabama and Mississippi. Further, Lilienthal proposed those counties, including provide for the purchase. In response, Willkie rejected power from Wilson D

Although Lilienthal companies (too numerous advantages to an agreement losing his properties operating area, but he realized that after the negotiations between nearly impossible.<sup>53</sup>

After weighing the agreement later for five years, or, if days after the project agreement, Willkie's Mississippi, East Tennessee agreed to sell to TVA where construction had parties agreed not to not absorb all the power excess would be sold increase power sales cooperate in promotion return, TVA agreed market.<sup>56</sup>

<sup>53</sup> Neuse, *Lilienthal: A*

<sup>54</sup> Lilienthal, *Journals*

<sup>55</sup> *Ibid.*

<sup>56</sup> *Ibid.*, 1:714-15; Mc 65; Neuse, *Lilienthal*

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Administration loans, would duplicate distribution systems. C&S's lines and facilities would then simply become redundant and worthless.<sup>53</sup>

Thus, after several December meetings an informal agreement was finally reached between the two power executives. On December 13, 1933, Lillienthal suggested that Willkie sell C&S properties in certain Alabama and Mississippi counties, near the Muscle Shoals area, to TVA. Further, Lillienthal proposed that TVA would then buy everything in those counties, including the distribution systems in Mississippi, and provide for the purchase of transmission lines in the Alabama counties. In response, Willkie requested permission to continue purchasing TVA power from Wilson Dam.<sup>54</sup>

Although Lillienthal was opposed to dealing with private power companies (too reminiscent of Arthur Morgan's policies) he saw advantages to an agreement. Likewise, Willkie was unhappy about losing his properties and letting TVA establish a foothold in his operating area, but saw advantages to cooperation. Also, both men realized that after the Wilson Dam contract expired on January 1, 1934, negotiations between the two powerful organizations would become nearly impossible.<sup>55</sup>

After weighing the positives and negatives, the two shook hands on the agreement later that day, December 13. The agreement was to last for five years, or, if Norris Dam were completed sooner, until ninety days after the project's completion. As part of this significant agreement, Willkie's companies sold to TVA properties in northeastern Mississippi, East Tennessee, and northern Alabama. In addition Willkie agreed to sell to TVA a transmission line near the Norris Dam site, where construction had already started. As part of the arrangement the parties agreed not to compete with each other, and since TVA could not absorb all the power generated at Wilson Dam, it agreed that the excess would be sold to the Alabama Power Company. Finally, to increase power sales, the acquired C&S companies promised to cooperate in promoting the use and sale of electric appliances. In return, TVA agreed to forego further incursions into the power market.<sup>56</sup>

<sup>53</sup> Neuse, *Lillienthal: American Liberal*, 82.

<sup>54</sup> Lillienthal, *Journals*, 1:713-15.

<sup>55</sup> *Ibid.*

<sup>56</sup> *Ibid.*, 1:714-15; McCraw, *Morgan versus Lillienthal*, 43; Barnes, *Willkie*, 64-65; Neuse, *Lillienthal: American Liberal*, 82.

On January 4, 1934, exactly one year after Willkie took the helm at Commonwealth and Southern, he and Lilienthal officially signed their important agreement. Willkie had agreed to continue purchasing electric power from Wilson Dam and to sell sufficient properties to TVA to enable the agency to create a yardstick area. In February 1934 the city of Tupelo, Mississippi, which had a municipal power company, became TVA's first client. Willkie was consoled by his belief that the agreement would contain TVA to a small and secluded area. Lilienthal, although unhappy with the territorial restrictions, was pleased that TVA was finally selling power. By early 1934 he focused his attention on Tupelo and other tiny towns that TVA had agreed to serve.<sup>57</sup>

Clearly the fight with Willkie and other private power companies had just begun, but by the end of 1933 Lilienthal had accomplished a great deal for TVA's power program. Apart from negotiating with Willkie, Lilienthal had defeated Arthur Morgan and initiated his own power policy with little help or advice from his other board members or even Roosevelt.<sup>58</sup> He had also established himself as a dynamic political force and power expert. Well into the 1950s, Lilienthal remained a leader in the realms of politics and power.

<sup>57</sup> Talbert, *F.D.R.'s Utopian*, 144-45; McCraw, *TVA and the Power Fight*, 65.

<sup>58</sup> Lilienthal relied on his own advisors, including Morris Cooke, George Norris, and Felix Frankfurter. See Field, "Political Currents," 141.

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