Suggested Citation:


This article is protected by copyright, East Tennessee Historical Society. It is available online for study, scholarship, and research use only.
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.1

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.2 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.3 By the end of the 1930s this experiment in regional

4 Francis Biddle, In Brief (Buffalo, 1974); Roy T. Morgan and his TVA to the World: A Personal Story (Jackson, 1987); Walter A. Haas, Jr., David Lilienthal (Moylan, 1977); and Cleon G. Rainwater, Engineer, Educator, Advocate: Further Biographical Information on David Lilienthal (Tulsa, 1996). For further information on David Lilienthal and his work, see Luteg T. How, The New Deal and the Tennessee Valley Authority (Chapel Hill, 1938). For further information on Arthur Morgan's activities, see Arthur Morgan's directorship of the Lewis and Clark National Historical Park: A Guide to the National Historic Landmark (Yellow Springs, 1966).


planning, with its triple purposes of flood control, navigation, and the production of cheap electric power, flourished.  

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.

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.

4 Francis Biddle, *In Brief Authority* (Garden City, 1962), 52.

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.6

Lilienthal’s educational background included a degree from DePauw University in 1920.7 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.8

---

7 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.
8 Lilienthal, Journals, 1-9-11. For more information on these four judicial giants see David Wigdor, Roscoe Pound: Philosopher of Law (Wesport, 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, 1980); Melvin I. Urofsky, Felix Frankfurter: Judicial Restraint and Individual Liberties (Boston, 1991); Phillippa Strum, Brandeis: Beyond Progressivism (Lawrence, 1993); Robert Burt, Two Jewish

---

Once at Harvard, Lilienthal, like one of Felix Frankfurter’s legal mentors, developed a mutual relationship developed with Professor Brandeis. Upon graduation in 1920, Lilienthal joined the law firm of Donald Smith and established his own law firm. Lilienthal’s three-year apprenticeship laid the groundwork for lessons about the strengths and weaknesses of the law. As he established his own practice, Lilienthal learned the importance of the court system and its role in setting standards of justice. Lilienthal, Journals, 1-9-11. For more information on these four judicial giants see David Wigdor, Roscoe Pound: Philosopher of Law (Wesport, 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, 1980); Melvin I. Urofsky, Felix Frankfurter: Judicial Restraint and Individual Liberties (Boston, 1991); Phillippa Strum, Brandeis: Beyond Progressivism (Lawrence, 1993); Robert Burt, Two Jewish

---

9 Anthony Coelho, "To the Wall"

(Grantier M. Professor, Corporate term paper, Corporate library, Grantier M. Professor, Corporate library); Neuse, Lilien...
and what to do about private
in the area.

Primary, and secondary sources,
program, focusing on the most
Lilienthal proved to be the key
invention and he made significant
agency. His background, early
philosophy will be discussed as
TVA board member Arthur
magnate Wendell Willkie.
program in 1933 deserves
ent electric policies.
9, in the back of his parents’
Morton, Illinois. Raised in a
World to be full of impious
Valparaiso, Indiana. His
cession of retail stores and
cluded a degree from DePauw
and labor reform together with a
inc problems. Propelled by
legal profession. His choice of
cause of its influential liberal
such as Dean Roscoe Pound,
Supreme Court justice Louis

Lilienthal, and the
history of the nation's
1970), 18; Lilienthal,
(Chicago, 1970), 18; Lilienthal,

his college years occurred during
in a railroad car factory. After
ental recorded in his journal that
on dull, monotonous tasks. From
his lifelong struggle to improve
Jourals 1:3.

information on these four judicial giants
*Robert of Law* (Westport, 1974); *Legal Thought of Roscoe Pound*
Chafee, Jr.: *Defender of Liberty*
(Rocky, Felix Frankfurter: *Judicial
1994); Philippa Strum,
1993); Robert Burt, *Two Jewish

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.9

---

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. Lillenthal's goal was to discover how the public interest could best be protected against these concentrations of electric power and political power.\textsuperscript{10}

Throughout the 1920s and into the early 1930s Lillenthal 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 La Follette offered Donald Richberg a position on the Wisconsin Railroad Commission. When Richberg declined the position, he suggested that La Follette ask the young, energetic David Lillenthal. Although it meant sacrificing the financial advantages of a private practice, Lillenthal accepted the position and embarked on full-time public service.\textsuperscript{11}

With this position, Lillenthal saw opportunity in the new and open field of utility regulation. Lillenthal 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 Lillenthal at age thirty-one became the youngest member in the history of the Wisconsin Railroad Commission.\textsuperscript{12}

Lillenthal 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."\textsuperscript{13} Customarily, regulatory commissions were quite passive but Lillenthal 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.\textsuperscript{14}

Because he sought sweeping reform, utility magnates acted quickly against Lillenthal. In 1932, when Progressive Republican La Follette failed to win renomination to the governorship, Lillenthal's biggest adversary, the Wisconsin Telephone Company, pushed for Lillenthal's removal. As Lillenthal's 1932 reconfirmation to the Public Service Commission looked down on his reforms.\textsuperscript{15}

Because the Lilienthal and Morgan families were frequently at odds, the Federal Power Commission offered Lilienthal a position. He accepted. In 1933, Morgan heartily endorsed Lilienthal as the third member of the commission. Morgan said that anyone in public service who combined talents for offensive warfare.\textsuperscript{16} Lillenthal was no exception. He had a keen eye for electricity to Wisconsin, but when economic reformers in the state saw the need for greater local control, he continued to fight for the combination of state and federal regulation.

Just as his fellow reformer, Arthur Morgan of the Tennessee Valley Authority, liked to establish his utility philosophy, Lillenthal was a passionate advocate for the combined strength of state and federal regulation. However, Lillenthal believed that federal regulation was not enough. He convinced the commission to raise reforms in the basic structure of the utility industry.\textsuperscript{20}

According to Lillenthal's adherents, "the standard of living for the average American family is dependent on the power industry, and the condition of this industry affects the health and welfare of the nation. The utilities are not only an economic asset; they are an important factor in the national defense."

\begin{footnotes}
\item[13] Quoted in ibid.
\item[14] Ibid., 21-22.
\item[15] Ibid., 22.
\item[16] Whitman, Lilienthal, 11.
\item[18] Lilienthal, Journals.
\item[20] Coelho, "Lilienthal at War," 39.
\end{footnotes}
Commission looked doubtful, he searched for another way to carry out his reforms.\footnote{Ibid., 22.}

Because the Lilenthals were financially strapped, Lilenthal'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 Lilenthal. A power expert was needed for TVA, and Roosevelt encouraged Chairman Morgan to appoint Lilenthal.\footnote{Whitman, *Lilenthal: Public Servant*, 9.} On May 30, 1933, Morgan heartily recommended the appointment of Lilenthal as the third member of TVA's board of directors, saying that Lilenthal was an excellent choice.\footnote{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 starts on TVA books, Arthur Morgan Papers.}

Like Arthur Morgan, Lilenthal had a passion for progressivism and social reform. However, from working with electric utilities in Wisconsin Lilenthal knew how the political system operated and knew the strengths of his opposition, while Morgan did not. Lilenthal 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."\footnote{Lilenthal, *Journals*, 1:27.} Also, with his two years of work bringing electricity to Wisconsin farmers, Lilenthal understood the need for greater local control, freer municipal management, and less reliance on bureaucratic direction in the utility business.\footnote{McCraw, *Morgan versus Lilenthal*, 23.}

Just as his fellow board members had intentions for the Tennessee Valley Authority, likewise Lilenthal imagined the opportunity to establish his utility philosophies on a grand scale. Lilenthal had ideals, but he was more of a realist than Arthur Morgan. Lilenthal knew that the Tennessee Valley region was economically stagnant and that the local prejudices and attitudes about development had to be respected. However, Lilenthal believed that once the standard of living had been raised reforms in the Tennessee Valley would occur, could occur, and should occur.\footnote{Coelho, "Lilenthal: Pragmatic Liberal," 16.}

According to Lilenthal, through the use of cheaply produced electricity the standard of living in the region would rise. Also, the
The three original TVA directors: from left, David Lilienthal, Arthur Morgan, Harcourt Morgan. *Courtesy Antioch College, Yellow Springs, Ohio.*

The 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.21

On June 16, 1933, the Tennessee Valley Authority board of directors held its first meeting.22 It lasted eight hours and dealt with a wide variety of subjects; but, most importantly, the board discussed TVA's electric power policy.23 The topic of power policy arose out of the receipt of a letter from the Commonwealth and company that owned the valley. In the letter was the importance of C&S to the company, the hostility between Morgan and Lilienthal, and the fact that Morgan gave into Lilienthal's pressure.

Thus, at the first board meeting, government ownership was understood that they would not be free to discuss other policy challenges. Of course, there was no issue between Morgan and Lilienthal. The tactics and strategies of the issue emerged between Morgan and his new political colleagues. Morgan believed in government ownership but he eventually worked out a political compromise.

But there were differences between Morgan and Lilienthal. This first meeting was marked by the electric power issue of the day. Morgan and Lilienthal did not see eye to eye on power policy but also on the basic goals of TVA.24

Roosevelt had appointed Lilienthal to the board, but also chose to keep Lilienthal as part-time service. The new director accomplished a lot in the first meeting. He reported for permanent duty.

21 Ibid.
22 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.
23 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 Memoir*, 74; McCraw, *Morgan Versus Lilienthal*, 27.
24 Ibid.
25 Ibid.
26 Ibid.
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.\(^{24}\)

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.\(^{25}\)

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.\(^{26}\)

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

---


\(^{26}\) 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. 27

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. 28

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 only 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. 29

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. 30 Willkie replied that he favored collaborative efforts, but added that the condition was the cold basis of its merit.

In early July 1933, for his own plan for TVA's power policy. In the "pet" power policy. Morgan's companies in the operating, beyond his domain of action, entered into Lilienthal's power. 33

Lilienthal fired back in a memo he stated that he would develop a sound policy views between the direct approach to the power in every reasonable expectation that Morgan's views except hazards. 34

Shocked at such an interpretation Lilienthal's reticulate, Morgan attended a creating a homogeneous moral standards, separate meeting, in late July, Authority Code of Ethics, professional honesty, on the chairman intended. Specifically, the code

27 Tabert, F.D.R.'s Utopian, 101-103.
28 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).
29 Ibid., 1-4.
30 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.
31 Wendell Willkie to Arthur E. Morgan, 12 July 1933, folder: Morgan, Arthur E., 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers.
32 In this key document the area around Muscle power program. "Memorandum," undated, "Utopian," 139-40; Richard Institutionalization of Education, vol. 33 Morgan took this action policy but was unavailing. K. McGraw, TVA and....
34 David E. Lilienthal to Arthur E. Morgan, 1933, box 60, 1933 Correspondence, Name Files (K-R), David Lilienthal Papers.
of administrative power. Both were regarded as “theirs”; for example, a memorandum for Lilenthal electric power.27

In early July 1933, following a mid-summer meeting with Willkie, Chairman Morgan sent a memorandum to Lilenthal 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.32 With this memo, Morgan stepped beyond his domain of administrative responsibility for engineering and entered into Lilenthal’s designated territory of expertise—electric power.33

Lilenthal 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.” Lilenthal 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.”34

...
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.35

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.36

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 naïve Morgan.37


36 Kahoe, Morgan: Biography and Memoir, 77-86.

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.

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.

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-

35 "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 responsibilities 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.

36 Arthur E. Morgan to H. A. Morgan and David B. Lilienthal, 14 August 1933, folder: Morgan, Arthur E., 1933, box 60, 1933 Correspondence, Name Files (K)R, David Lilienthal Papers.
tested public men. 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.

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.

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.

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

---

40 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.


45 By summer 1933, the board. From Lilienthal and the board. From personality and planning, Lilienthal and the board. From personality and planning.
Lilienthal set forth his own goals for generating and distributing power. He explained that through its distribution utility customers would enjoy electric monopolies. He followed up his power policy with a plan for his power program. At the meeting in January 1933, the board reminded the other board members of the need for a power division to him. He then presented a plan for the establishment of the private power companies and the other plans of organization that had been in progress.

The issue of TVA's role in the electric utility industry was a matter of some debate before the board. A vote was taken, and the board adopted TVA's policy. The issue of power a majority, which included the board members, decided to fight the issue of the relationship between TVA and the private power companies.

Defeated and outmaneuvered in the power debate, Lilienthal found himself in the electric power industry, planning and construction of TVA's dam program. And by September 1933, Lilienthal had planned for his own conferences with Wendell Willkie.

TVA's town of Norris, Tennessee. And by September 1933, Lilienthal had planned for his own conferences with Wendell Willkie.

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

---


45 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), 155.
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.\textsuperscript{46}

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.\textsuperscript{47}

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.\textsuperscript{48}

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 mutual birthplace. Lilienthal described Willkie as a devoted Democrat, no doubt from complete party loyalty.\textsuperscript{49} Willkie also reminded Lilienthal that he had said, "Your forecasts are always correct. I shall be likely to get a little power, thus making it incumbent upon me to predict how much power I shall get and when."

\textsuperscript{46} Gregory B. Field, "Electricity for All: The Electric Home and Farm Authority and the Politics of Mass Consumption, 1932-1935," \textit{Business History Review} 64 (Spring 1990): 34.

\textsuperscript{47} Ibid., 35.

\textsuperscript{48} 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, \textit{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, \textit{Willkie: The Events He Was Part of, the Ideas He Fought for} (New York, 1952), 50.

\textsuperscript{49} Lilienthal biographers have regularly quoted the story of a meeting with Willkie at lunch that is described above in The Journal of East Tennessee History.
During the early 1930s, price fixing purchasing power and the impasse that Lilienthal believed was inevitable.\textsuperscript{46}

Electric power were a troublesome issue for the power industry, and the industry's claims of 30 to 40 percent capacity, but he pointed out that an increase in the surplus. To solve the problem, the industry sought to expand its hydroelectric production by merging with private companies. To reach its goal, utility companies located in the private power companies were serving more than five million customers. The largest holding company in the United States before the creation of TVA was the Commonwealth and Southern Corporation, which was founded in 1899 by a group of Ohio Edison Company, and the Duke Power Company. F.D.R.'s Utopian, 136

private magnates met at the Cosmos Club in Washington, D.C., and Willkie was invited to discuss TVA's implications. The meeting took place in March 1934, and the meeting was held at the Cosmos Club. Willkie later wrote that he was two exceedingly cagey fellows who met at lunch that noon.\textsuperscript{49} Quote from McCraw, TVA and the Power Fight, 63.

Norris Dam under construction. Courtesy McClung Historical Collection.

mutual birth state.\textsuperscript{49} 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.\textsuperscript{50}

\textsuperscript{46} 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.

\textsuperscript{50} 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?  

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.  

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 Administration loans, would be able to finance their own facilities.  

Thus, after several months of negotiation, finally reached between Lilienthal and Willkie in the fall of 1933, Lilienthal suggested that TVA buy the Alabama and Mississippi systems for $15 million. Furthermore, Lilienthal promised to provide the purchasing power for Wilson Dam. In response, Willkie readily agreed to sell power from Wilson Dam to TVA.  

Although Lilienthal’s companies (too remote from the advantages to an agreement) would lose his properties in the Wilson Dam operating area, but since they realized that after the negotiations between Alabama and Missouri, the nearly impossible.

After weighing the odds, TVA proceeded with the agreement later that year. After coding for five years, or, if necessary, he could be ready. The agreement, Willkie’s “green light” in Mississippi, East Tennessee and Alabama agreed to sell to TVA space where construction had already been completed. The parties agreed not to refuse to purchase any part of the excess would be sold to other utilities to increase power sales. In return, TVA agreed to cooperate in promoting the local electric markets.  

---

51 Quoted in ibid.
Administration loans, would duplicate distribution systems. C&S’s lines and facilities would then simply become redundant and worthless.\textsuperscript{53}

Thus, after several December meetings an informal agreement was finally reached between the two power executives. On December 13, 1933, Lilienthal suggested that Willkie sell C&S properties in certain Alabama and Mississippi counties, near the Muscle Shoals area, to TVA. Further, Lilienthal 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.\textsuperscript{54}

Although Lilienthal 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.\textsuperscript{55}

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.\textsuperscript{56}

\begin{thebibliography}{99}
\bibitem{} Neuse, \textit{Lilienthal: American Liberal}, 82.
\bibitem{} Ibid.
\end{thebibliography}
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.57

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.58 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.

57 Talbert, F.D.R.’s Utopian, 144-45; McGraw, TVA and the Power Fight, 65.
58 Lilienthal relied on his own advisors, including Morris Cooke, George Norris, and Felix Frankfurter. See Field, "Political Currents," 141.