Interview with Loyola University Professor Harold Platt for Program Two: "Electric Nation"

Note: This transcript is from a videotaped interview for the "Electric Nation" segment of "Great Projects." It has been edited lightly for readability.

Harold Platt: In 1929, Samuel Insull was one of the most famous men in America. He had arrived here in 1880 as a secretary for Thomas Edison, an immigrant, young immigrant from England. And during that time, 'til 1929, he had fulfilled the American dream and more, rising up to become the head of the largest utility company in America, Commonwealth Edison, and a vaster empire of holding companies of utility companies across America that apparently controlled about one-eighth of the electricity in the entire country. He was famous because he was so outspoken as the leader of the electrical utilities industry and he was outspoken as a great leader of Chicago.

HP: In 1892, Samuel Insull faced a big decision. Two of the largest companies making electrical equipment joined together as General Electric. Sam Insull was heading the manufacturing arm of Edison's company up in Schenectady, New York. And under the new merger plan, he would have ended up as second vice president or third in charge of the entire General Electric company. This was quite a prestigious position but not the top man. At the same time, Chicago Edison a fledgling little electric company in Chicago was searching for a new president, and Insull as Edison's point man in selling central station service was familiar to the Chicago businessmen. They asked Insull for advice as to who they should ask to be the next president, and instead he put his own name forward. This gave him an opportunity to fulfill Edison's idea that central stations would be the way that electricity would develop, and here was an opportunity for Insull to prove Edison's ideas by taking over this small company in Chicago.

HP: When Sam Insull came to Chicago in 1892 he arrived at a very important moment, a moment of the Great World's Fair, Colombian World Exposition of 1893. Based on the previous great exhibition in Paris in 1889, the electrical industry had already decided to make this an electrical exhibition, to provide so much electricity, so overwhelming, that the American public would definitely understand that this new technology was the wave of the future. So when Insull arrived the World's Fair was already well in the works and actually the alternative to the Edison Direct Current System had won the big contract for the fair -- this was George Westinghouse -- alternating current system. So the fair was very filled with electricity. Not just lights, but all kinds of spotlights and dancing fountains buoys along the waterfront that lit up a sidewalk that moved and intramural train that went around the fair. So people could not escape the effects, the wonderful effects of electricity. Insull was able to view the fair and from this, he learned some important lessons.

HP: Probably the most important lesson was seeing that electricity was used in so many different ways at the fair, that there had to be a way to make ... electricity universal for street railways, for ... lights, for big machines, for all different kinds of uses. And it was at the fair that this process of finding a way to transform and change electricity ... into the

form that was needed was worked out. And it's from this that Insull can take this idea and expand it to build a whole citywide network of electrical, central station service that would provide universal electricity to all kinds of users.

HP: In 1892, when Sam Insull arrived in Chicago, the plans for the World's Fair actually had more electrical use than the whole city of Chicago itself. The main problem was that electricity could not be conveyed very far without losing all of its power. Maybe a half a mile was the limit. This meant that in the early days from Edison 1880 to this point stations served these little circles of space, and basically served only in the most lucrative business districts. In some of the outlying areas of Chicago, there were these alternating current systems, supplying residential and business strips with overhead wires. Sometimes someone would buy just a generator, put it in the basement and maybe have a little extra and they'd run a string of lights across to their neighbors or to the neighboring store. Insull's idea was to consolidate all this, to obtain a monopoly of service throughout the city and then build an entire network or system of central stations and sub-stations that could serve the entire city, and that way, in the sense, as he talked about, producing massive production, or the idea that through large scale production, he'd be able to get the cost down and be able to actually make it affordable for common people.

HP: Once Insull decided that by the massing of production he could achieve universal supply for all his customers he went ahead to get as many customers as he could. The biggest user of electricity in the late 1890s in Chicago and elsewhere were the electric streetcar companies and electric elevated companies. In Chicago, Charles Yerkeys had involved the street railways in so much dirty politics, that the street railway companies themselves could not raise any money because of politics in the franchises were just tangled up completely. Insull took advantage of this, saying he would supply the power for the transit companies in Chicago and he would be able to finance the building of the stations to provide this power. Once he got the contract, then he was able to get the money to finance the building of the first really large scale generating plant at Fisk Street, the historic Fisk Street Station in 1903. Once he came aligned with that success, he was able then to continue this process of adding more customers, building the load, as it's called, and reducing the unit cost of electricity, so that more and more and more people could afford to use electricity and use more of it.

HP: In the late 1890s after Insull decided to build gigantic generating systems and provide a massing of production he faced a real engineering problem. The problem was that at the time generators could only be built so big. The basic problem is that steam engines in that day basically went up and down. They were called reciprocating engines, and at some point when you built them big enough, so big they began to destroy the foundations from the pounding, and the metal itself faced fatigue and would fall apart. So he seemed to be facing a limit that he could not get beyond. At the same time, though, there was an alternative technology—spinning turbines that had been used in water and very small electric plants elsewhere.

Insull's idea was to go to GE and tell them to build a really, really big one, steam turbine. And that this would solve the problem of the pounding turning into a smooth rotary

motion. GE was astounded that you could build such a thing. They were very unsure whether such a thing could be done, and they said, "We won't take the risk. No one has done this. It probably can't be done." Insull said, "Do it anyway. I'll take the risk." And GE then went ahead built this steam turbine, this ... experimental machine. It was installed at Fisk Street, and everyone was quite unsure whether it would work or not. In fact, I think Insull's chief engineer said, "You better leave the building. It may blow up." And Insull's answer apparently was, "If it blows up, I'm going to stay here and blow up with it."

HP: Once Sam Insull got the street railway contracts basically he had the money to pay the bills for the expensive equipment he was buying and the building of the Fisk Street Station. Everything that he added during the times the street railways weren't running during the rush hours was sort of gravy. It was definitely going to be pure profit for him, and he realized that he could go out and sell electricity to every kind of customer -- night customers, day customers housewives, businesses, and he really went after them all. He became a genius in marketing electricity. He offered all night restaurants very cheap deals. He went to the ice companies and says, "Look, make your ice at the night time when everybody else is sleeping, the electricity is off, my equipment is sitting idle. I'll give you a deal." They went for it.

He went to big office buildings and said, "Look, your elevators aren't working well because you use old antiquated equipment. Bring in central station service, your elevators will work great." And sold office buildings on that idea as well. So he went after everyone. He went after housewives by sending door-to-door salesmen. He figured that once they were hooked up, they were hooked. So one of his most famous campaigns was giving away electric items. And in a big fanfare, he sent around to the neighborhoods these big trucks handing out the irons if they would only sign up for service, realizing that once they had signed up for that service they would just add more and more use to it and would never unplug their irons or their lights.

HP: Sam Insull went after every kind of customer from the biggest to the smallest. Maybe the smallest was the household and the housewife. In one famous campaign, he brought in 10,000 GE irons and gave them away free, so to speak, to anyone who would sign up for service. He realized that once the housewife had the convenience of the modern iron, had the electric lights in the house, that they would never give it up again. So once they were hooked up, they were hooked.

HP: In 1909, Sam Insull could say that he had achieved his dreams. He had achieved tremendous success. His whole idea of unifying the city of Chicago as one, unified network of power had worked; he had brought the price of electricity down to the point where many of the middle class and even some of the better-off working class could now afford electric lighting. He had consolidated his empire within the city, and with that went the trappings of success as well, becoming one of Chicago's most notable figures at the time. He had obtained an apartment on the Lakeshore Drive in Benjamin Marshall's very first luxury, high-rise, private apartment building. He was noted for driving around

in a huge limousine, chauffeur driven limousine around town and being very much now the country gentleman on an English model, as the English immigrant would want to be.

This included not only the fancy apartment downtown but buying a big country estate in Lake County out on the North Shore to have his country estate like a proper English gentleman. And this was called Hawthorn Farms, and he and other of the big rich of Chicago on the North Shore had these farms to raise horses and fancy cows and other things like that.

Insull was quite an iconoclast and he liked to prove other people wrong. One of the maxims in the electric industry was that you could not serve farm areas, because it was too expensive to run the wires out to their farms and to just scatter small farm area. Once Insull established his big country estate in Lake County, just to the north of the city he decided to prove that it was economical to serve even farm areas with electricity. I think he wired up about 300 of farms around his own estate and wrote a few papers that somehow by juggling the books, I think proved that rural electrification really worked. Of course this really only worked in this kind of hothouse environment of very rich country estates in Lake County, Illinois. And it takes really until the New Deal and rural electrification of FDR to bring electricity to the farm.

HP: By 1909, the basic plan that Insull had worked out about ten years earlier for the massing of production had really been fulfilled. He was serving the entire city of Chicago, he had brought the wires out to the neighborhoods and he faced the problem of what to do next to expand his empire. One of the ways he was able to do that was essentially to buy his best customers. And that included the electric street railways in particular as his best customer. He also then went into the business of building electric trucks, which he thought could at least serve large commercial interests like the department stores dairies other places that made short deliveries around the city. He started the company and then of course sold department stores and so forth that this was a good idea and built a whole network of garages around the city where they could recharge their batteries and receive service. He was also involved for a little while in what was called the Lead Trust which was an idea to provide battery operated taxi cabs in the city and in a sense monopolize the taxi service that way. He gets into building electric appliances as well, and sending up all kinds of appliance stores, again not only downtown, like a fancy department store, but in the neighborhoods as well, to get people more familiar with electric appliances, and of course to help Insull build the load on his system with more and more and more electric appliances.

HP: Sam Insull basically had an urban vision of an electric power grid, and it was really his associates that tried to convince him that he could expand his service into the suburbs and that this would be worthwhile, using this formula of getting the big street railway companies or other big consumers online, building a network of stations out and then getting everybody else to use the power. By the early 1900s the building of inter-urban railways into the suburban areas, especially along the North Shore and along west of Chicago, was already providing the kind of massive electrical use, all the way up and down the line already.

There were many little fledgling companies up and down these electric street railway, inter-urban lines, and he was finally convinced by his friends to buy up the Highland Park electric company, the Evanston electric company on the North Shore, and the Waukegan company. And this begins then to string together these suburbs into a more regional or metropolitan network of power. I think the real key here is 1908, 1909, when he actually connects up the grid from Chicago to the grid of the suburbs, and hence brings all power users, whether suburban or urban, into one massive network of power.

HP: One of the great problems that all electrical utility providers faced was the short range of the electrical units that they could provide service--only about a half-mile radius. The way that Insull gets around that is building a system of sub-stations. In other words, the power is generated here, it's sent to the neighborhood and then is broken down and changed ... into the ways that were needed in the neighborhood. That might be supplying direct current to the street railway. It might be providing 220 lines to a business, and it might also provide the 110, the normal electricity that we need for our homes and offices. So by that way he was able to have very large central stations that could produce electricity very economically and then send it out to the neighborhoods and break it down into the kinds of power that people needed for their various appliances.

HP: In 1912, Samuel Insull sets up his first holding company, Midwest Utilities. I think there were two reasons why he did this. For one, the utility industry had grown so large by then that no one person really could personally control or have a controlling financial interest in all of them. So one reason I think Sam Insull goes to utility companies is, through this pyramid of holding companies, very few people with very small shareholdings could actually control the entire pyramid of companies from the top down to the operating companies at the bottom. The second reason was that there were some economies, there was some efficiency by having centralized financial services… engineering services that a central office could provide to all the local utility companies that were operating down at the local level.

I think with the formation of the first holding companies, Sam Insull began to see no end to growth. He had been successful on a local level; he had then been successful on a metropolitan level. He then even expands with Northern Illinois Electric Utilities company to the whole northern Illinois region. And in a sense there seemed to be no stopping him in this roll of success that he had. And so I think he sees that he can do no wrong – that electric utilities were clearly the wave of the present and the future. He could see that use would just get larger and larger and larger, so why not control more and more and more of this economic growth and have it under his own control? He felt he was the leader of the industry, he felt he was the man who personally could sort of marshal and sort of see this process through, so that everyone would be using electricity in the entire country and it would all be under his supervision and in a sense his control as well.

HP: One of the more interesting stories about Sam Insull is the way he went to sell electrical utilities back to his own customers. He gets into this because, as an Englishman,

he had been very worried about the coming of World War I. He was very in tune with what was going on in Europe, and because he was one of the few that said the United States had to prepare for this war, he is then appointed by the governor as the chairman of Illinois' preparedness commission to coordinate the war effort in Illinois. One of the major efforts in World War I was to sell war bonds to the American public to help pay for the War. And Insull, being a great marketing genius, set up a well-run organization to sell war bonds in Illinois.

With the coming of the end of the war, he essentially took the nameplate off of that office from war bonds and put on utility bonds. [He] used the same organization to go out into the street and sell his customers utility stock. His reasoning was that electricity was the wave of the future--you're using electricity, but you can in a sense profit from your own use of electricity by getting dividends, by being a shareholder in the company. This again went from door-to-door salesmen, which he was used to, from his selling appliances and irons from door to door into a massive stock selling at a time when most Americans were not stockholders. This was quite unusual in the 1920s for ordinary Americans to hold stock. The operation grew and grew into a massive operation, including sending circulars to all his customers, not only to pay the bills, but to buy some stock in his utility companies.

HP: After the great stock market crash of October 1929, most shares and companies plummeted very dramatically and drastically, as we all know, with the great crash of the stock market. Sam Insull, upholding a gigantic pyramid of operating and holding companies very much believed in this company, very much believed that electricity would still be used. And of course no one knew how bad the Depression would get that followed after 1929. So in the two or three years that followed the stock market crash, Sam Insull, being a great business leader, trying to put the best face on a bad time, himself bought into the notion that he could almost personally hold up not only Commonwealth Edison stock and all the other holding company stock that he was involved in, but basically personally hold up the entire American stock market. And so he pours more and more of his own personal fortune into buying stock to try and keep the price up. Of course we know now this was a losing effort but for two or three years, he very much believed in his own power to save America from the Great Depression.

After the efforts of Samuel Insull to shore up Commonwealth Edison and his other companies inevitably failed in the Great Depression, Insull is forced to come to his office and sign away the tens and scores of directorships and chairmanships and other kinds of positions he held in many, many companies. And the company was put in the hands of a very trusted businessman, James Simpson, who was at that time the Chief Operating Officer of Marshall Fields department stores. Marshall Field himself, or the family, had major interest in the Commonwealth Company. And the Commonwealth Edison Company, like other utility companies, struggled through the Depression, like everybody else, trying to maintain their financial integrity during this time.

HP: In many ways, Sam Insull became a scapegoat for the Great Depression. Franklin Delano Roosevelt in his 1932 campaign compared him with an Ishmael, as a public enemy

that had been too selfish, too driven to profit and had harmed everyone else. I think the reason why he becomes a notorious scapegoat and then is indicted later by the federal government for mail fraud, of all things, was because he was such a great business leader in the 1920s. He loved the role of being a great business leader. He, along with people like Henry Ford, Firestone of the tire company, and a few others made themselves into national icons of the success of the American business enterprise. So in this way, Insull kind of set himself up for the big fall.

Why Insull, other than Ford or Firestone? They were manufacturers. They had companies that made something. Insull had had a company, Commonwealth Edison, that made electricity but he also had built up this gigantic empire, a pyramid of stocks that had collapsed and had been blamed, in a sense, for the Depression, the great stock market crash. So I think that's the focus on Insull was because of his manipulation of the stock market, the creation of these holding companies that had built like a pyramid of cars that collapsed with the Depression, and so he became a natural target that everyone knew who he was.

HP: The 1920s in America is sort of characterized as a business culture. It was the successful businessmen, like Henry Ford and Sam Insull, that were the great heroes of the age. And so when the Great Depression hit, of course they became the targets for blame for causing so much misery and depression around America. Insull, I think, not only as a political figure, becomes the object of attack as a scapegoat for the Depression, with Franklin Roosevelt picking him out in particular as a public enemy. But also because he had sold his stocks so widely to ordinary people that normally could not afford to invest in stocks, certainly could not afford to lose their savings in stocks. Suddenly they were left with lots of paper that was worthless. And so his reputation changed dramatically in the days following the Depression and the collapse of his house of cards, his holdings companies, and given the political tenure, he becomes a great public enemy of many Americans.

Sam Insull went to trial, and I think in a very convincing way convinced the jury that he was not a crook. I think that is a fair assessment. The jury made the right decision. He made major errors in creating this pyramid of power holding companies that collapsed financial institutions. But, on the other hand, he believed in what he was doing. He was not trying to cheat people. And the fact that he threw so much of his own personal fortune into the into a black hole, basically, to try to shore up Commonwealth Edison, is fairly substantial proof that he was not trying to defraud people--that he really believed in his own vision.

And I think the jury accepted that notion that here was at this point a fairly elderly man, a man that was fairly broken in spirit, because his dream had been shattered, but clearly he was not out to cheat people or to defraud them. And I think that's why he is acquitted in a fairly short time period.

His longer legacy that comes down to us today is mixed. On the one hand, I think he was a visionary in trying to create a kind of almost a democratic vision of public utility

services. He did want to extend the service to everyone and felt that the quality of life would be enhanced with modern technology. I think that was a great legacy, and the legacy, in a positive way also of being able to build these kind of regional grids of power that were able to serve all these customers at a fairly reasonable rate. The negative legacy probably is in this financial area of creating these holding companies that were irresponsible.

This would lead to the creation under the New Deal of the Securities and Exchange Commission to regulate stocks in general and a special act in 1935 called the Public Utilities Holding Company Act, which was supposed to provide a death sentence on these conglomerates of utility companies. Now this never really happens. Companies do get around this, and today there are still very large utility corporations that control lots of individual operating companies, but under federal and state regulation now, so that it's much tighter. And that's probably his main legacy.

HP: By the late 1920s, Sam Insull had pretty much fulfilled his dream for providing power to every customer in the city and the suburbs. Sort of the last challenge was really to go back to his original experiments from [earlier in the century] that had remained experimental to actually provide electricity out to the countryside, to the farmers and hopefully improve their quality of life and bring them into the modern technology, modern world. By the late twenties, he begins to do this by figuring out ways to finance, which was the problem of financing building the wires out in these remote areas where you have long stretches between each customer, and it was quite expensive.

So, by the late twenties, he was trying to figure out ways to somehow share the cost and maybe provide the wires to a farm and then have them pay back little by little in each monthly bill some of the cost it took to get the wire out to that individual farm. Of course, the Depression intervenes; private companies like Commonwealth Edison, despite being big companies, had no money to do this kind of financing, and it evolves then into the Tennessee Valley Authority as an alternative regional power grid, and Rural Electrification Administration to provide public financing to provide electricity out to the farms.

HP: One of the major political responses to Insull's fall was sort of going back to an old American idea about monopoly and power and irresponsible power in private hands. With the collapse of Insull's empire these thoughts revived, that too much power was held by one man in the form of Sam Insull. And I think this does lead to notions of more support within the government to set up some kind of yardstick, some kind of public power alternative to private power. If not to literally supply the power to the public, then at least to act as a check and balance on private monopolies that were providing electric and other essential utility services.