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president of MCorp, one of whose subsidiary banks, Houston's Bank of the Southwest, once included Schlumberger official Jean de Menil, the husband of Dominique Schlumberger de Menil, on its board.

Green Mountain Energy of Vermont

Green Mountain Energy of Vermont says it is "dedicated to changing the way energy is made," by pushing "renewable resources like wind, water and geothermal." The company hopes that by creating the perception that buying its high-priced electricity, consumers will be making the world a better place. Green Mountain puts up an environmentalist front as part of its sales pitch, advertising an Environmental Advisory Board featuring representatives from the Natural Resources Defense Council, the Worldwatch Institute, the Rocky Mountain Institute, the Clean Energy Group, and the World Resources Institute, but its pedigree is pure finance. The chairman of Green Mountain is Sam Wyly, a founding partner of the $3 billion Maverick Capital hedge fund group, and one of the leading financial contributors to the political career of Texas Gov. George W. Bush; Wyly and his brother Charles have donated over $222,000 to the younger Bush's political campaigns.

Green Mountain director Dianne Dillon-Ridgley is a former president of Zero Population Growth and a member of the British Oxford Commission on Sustainable Consumption.

NRG Energy of Minneapolis

NRG Energy of Minneapolis, Minnesota, a subsidiary of Northern States Power Company, has been buying power plants in the United States and the United Kingdom, and now owns all or a portion of 57 power plants with a total generating capacity of 23,000 megawatts.

FPL Group/Entergy of Miami and New Orleans

FPL Group, of Miami, the parent of Florida Power & Light, announced on July 31 that it would merge with Entergy Corp., a utility based in New Orleans.

The board of FPL includes two directors with close ties to the Bush family: Fred Malek, who served as campaign manager of Bush/Quayle '92; and Armando Codina, a business partner of Florida Gov. Jeb Bush, son of the former President.

Sithe/Vivendi of New York and France

New York-based Sithe Energies has been buying up power plants in Pennsylvania and New Jersey. Sithe is 60% owned by France's Vivendi and 30% by Japan's Marubeni Corp. Vivendi has been actively buying water companies in the United States and Europe, and recently agreed to buy Seagram's, the liquor company run by the notorious Bronfman family.

Regulation: The Fight Which Saved the Nation

by Richard Freeman and Marsha Freeman

On July 18, Sens. Phil Gramm (R-Tex.) and Charles Schumer (D-N.Y.) introduced into the Congress Federal legislation for extreme deregulation of the U.S. power grid. The bill would take the nation backwards, to the era of the 1920s, when very little electric power regulation existed, and the Wall Street-City of London financier oligarchy ran America's electric utility policy, and a good part of its economic policy, as its own fiefdom. This contributed to the speculative orgy that culminated in the Great Depression.

The Gramm-Schumer bill calls for the dissolution of the Public Utility Holding Company Act (PUHCA), which was passed by the U.S. Congress in August 1935. President Franklin D. Roosevelt, who along with other patriots had pushed for the Act, signed it into law on Aug. 26, 1935.

The PUHCA was passed—along with the Federal Power Act, which was also adopted in 1935—in one of the fiercest battles in the nation's 225-year history. The Wall Street forces demanded that they be allowed to do as they pleased, and that Federal regulation with teeth—as opposed to the state "supervision" which existed at the time—was out of the question.

During the 1920s, the financier oligarchy, led by J.P. Morgan Bank, employed speculative "holding companies"—such as Morgan Bank's two big holding companies, the United Corp., and the General Electric Corp.—to buy up, through a large number of mergers, most of the nation's electric power-generating and transmission-line capacity. It also bought up a lot of the natural resources that went into electricity generation, including coal and natural gas, and it even attempted to monopolize water sources for hydroelectric power. It obtained a hammer-lock on America's electric power generation, as was obtained over few other economic processes in history.

But this is not just another "resource" or "commodity." This is the supply of vital electrical energy, which heats and electrifies homes, drives farm processes, and powers factories, a form of hard infrastructure that is indispensable to the nation's advancement, or even continued survival.

Under the Wall Street plan, one holding company would buy anywhere from 50 to 300 operating companies. These companies generated electric power or transmitted it along transmission lines; that is, they did the actual work of altering nature for the benefit of man. Then, for speculative purposes,

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a new holding company would be set up above the existing holding company. The new holding company would put up only a small amount of its own money, but would buy a controlling share in the existing holding company. This built in great leverage. Through manipulation, it would collect much of the stock dividends and bond yields of the existing holding company. It would also impose fees on the existing holding company, which would, in turn, pass on the fees and otherwise loot the operating companies, in order to keep the cash flowing to the top-most level of the holding companies.

This pillaged existing physical plant and equipment. The holding companies also charged customers higher prices. In a model of operation which is known today as "shareholders' value," the U.S. electricity and power supply physical capacity was sucked up to transfer wealth to the swelling cancerous mass of speculative fictitious paper.

The Bubble Bursts

This contributed heavily to the speculative bubble, which burst in 1929. Millions of people who were common stockholders in the utility holding companies, lost hundreds of millions of dollars. Between 1929 and 1935, American power production fell by almost one-third. This decimated the economy. Despite this, the oligarchical financiers would not give up their utility holding companies, nor their control and use of the U.S. power-producing and transmitting system as a speculative plaything.

On March 12, 1935, President Roosevelt sent the Public Utility Holding Company bill, to regulate the industry, to Congress. It was sponsored by Sen. Burton Wheeler (D-Mont.) and Rep. Sam Rayburn (D-Tex.), and after its passage, it came to be known as the Public Utility Holding Company Act, or the Wheeler-Rayburn Act.

Writing about this Act, Roosevelt said, "Through the device of these pyramided holding companies, small groups of men with a disproportionately small investment were able to dominate and to manage solely in their own interest tremendous capital investments of other people's money." Elsewhere, he accused them of "looting." The Act called for breaking up the holding companies, setting the basis to pass on the soundness of the securities issued, and along with the Federal Power Act of 1935, setting up the regulation of the electric utilities, including "rate-making," which set a policy of pricing electricity on the principle of "parity pricing," as in farming. Parity means that the producer is guaranteed a price that enables him to cover his operating costs, plus a margin of surplus for investment in new and modernized plant and equipment. This system worked successfully for more than 60 years.

This remarkable achievement, won after one of the most intense battles with the forces of Wall Street in history, established the fundamental principle of the General Welfare clause of the U.S. Constitution: that the government has the right, and the obligation, to set policies that direct credit, energy, and, more broadly, all economic policy, to the effect of securing high rates of scientific and economic growth, and the cognitive and material development of current and future generations.

Now, the same Wall Street forces, having never given up on their "right to loot," are attempting to undo the achievement of the PUHCA of 1935. Here, we learn from looking at the devastation that deregulation and the speculative policy wrought on the U.S. power industry—and the entire U.S. economy—during the 1920s and early 1930s. We also look at FDR's courageous fight to regulate the industry, the benefits therefrom, and what we can apply today.

The Start of the Electric Power System

The U.S. power industry had its roots in the American System of Economics; it rejected the dictates of Wall Street. Thomas Alva Edison (1847-1931) played a major role in electricity generation and transmission. He was set on his path by the "Philadelphia Interests," the nationalist faction of industrializers, which was led by economist Henry Carey. Representing this group, William Jackson Palmer had set Edison up in 1872 to advance the work on the telegraph.

In 1882, Edison developed the nation's first central electricity generating station at Pearl Street in New York City. The steam-powered generator served 5,500 street lamps.

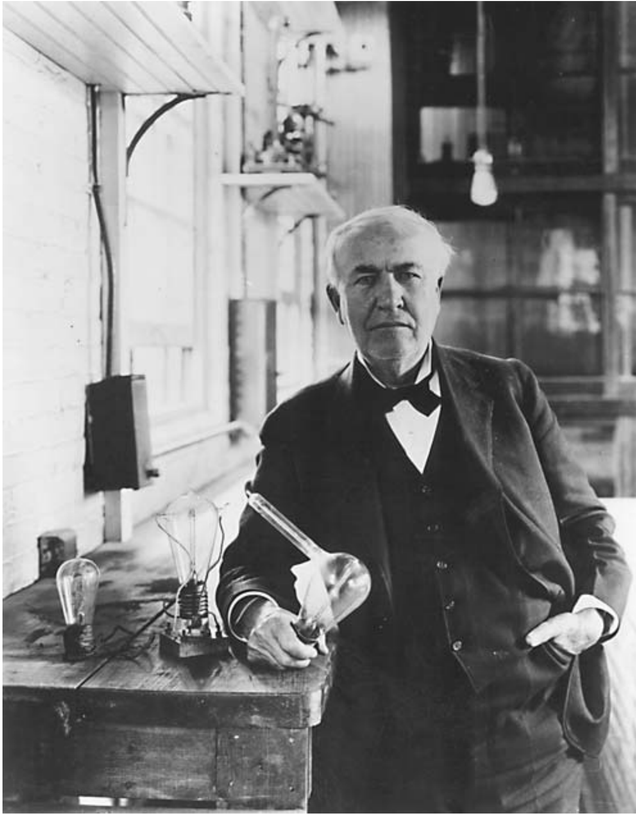
However, the financial interests of J.P. Morgan moved in on Edison. The Morgan firm, formed in London in the 1840s, represented the heart of British financier designs. In 1882, Morgan had used his financial leverage to force his way into a partnership with Edison. In 1892, J.P. Morgan pushed Edison out of Edison General Electric Co., which Edison had helped found, while at the same time, Morgan merged Edison General Electric with the Thomson-Houston Electrical Co. This newly merged company soon changed its name to General Electric. From its beginning, up through the early 1930s, the Morgan-controlled General Electric owned a substantial interest in power-generating stations in America.

The public power system, in which the generating and/or transmission facilities were owned by a public institution—either of a state, city, or municipality—grew. In 1912, there were 1,737 public power systems in America; by 1923, there were 3,066 public systems, serving one out of every eight electricity consumers. The public systems charged often one-third to one-half less for electricity per kilowatt hour than the private utilities—which did what they could to sabotage the public systems.

The Growth of the Holding Companies

The type of holding company which destroyed the country, and which Roosevelt confronted, was typified by two groups: the Samuel Insull group and the House of Morgan.

During the 1900s, if an individual bought several companies, he would often form a holding company as a legal instrument to direct them. A holding company need not be specula-



Thomas A. Edison, backed by the "Philadelphia Interests," the nationalist faction of industrializers, played a major role in developing electricity generation and transmission.

tive and destructive; it could be just a vehicle to direct companies located in several localities in one state, or in several states.

However, the holding companies shifted their character toward speculation, especially under the impress of the Presidency of Calvin Coolidge (1923-29). Coolidge promoted speculation, under the influence both of his Treasury Secretary Andrew Mellon, the patriarch of the Mellon financier interests, and of the House of Morgan. Under the rubric of a "return to normalcy," and the "Roaring Twenties," the Coolidge Presidency instituted policies that fuelled the growth of the speculative bubble, while also destroying some sectors of the real economy, such as agriculture.

In the electric utility industry, a takeover boom was launched: Between 1922 and 1927, the utility holding companies, swallowed more than 300 small to medium-sized private companies, per year. The holding companies financed the takeover of the smaller companies by issuing either new debt or new stock. The new stock issues of the utility holding companies were snapped up. As a result, the electric utilities could issue as much stock as they wished. *During the 1920s, one-third of all corporate financing in America was issued by private power companies.* While some of this was spent for physical expansion, during the second half of the 1920s, most of it was spent on financial takeovers or for speculative purposes. The private electric holding company was leading the speculative stock market boom.

The holding company did not care about electricity generation as such, but on increasing the flow of funds into the coffers of the Morgans, Mellons, DuPonts, and so forth. Consider a typical holding company, which owned 100 operating companies which generated power, to see how this worked.

The holding company bought stock in each of the 100 operating companies, whereby it owned them. It would then instruct the companies to pay high dividends, most of which would flow to the holding company, which produced nothing. The cash flow would permit the stock of the holding company to rise on the stock market, because it was showing good earnings. Based on the strength of its stock price, the holding company would undertake a new issue of stock, to take in even more money. All the while, the holding company's instructions to the 100 operating companies to make high-dividend payouts, would lead to a destruction of the financial status of the operating companies; often, this would entail a physical looting of the companies.

This would be taken to another level of pyramiding, where holding company E would own holding company D, which would own holding company C, and so forth. Thus, the dividends are recapitalized again and again, upon which the mass of fictitious stock of all the holding companies is sustained. Further, this puts a tremendous strain on the dividends of the 100 operating companies, which are the ultimate, but limited source of the dividends for the pyramided structure.

There was another method of looting: Have the holding companies charge the operating companies exorbitant fees. According to one history of the period, in 1930, the Senate Interstate Commerce Committee held hearings in which it found that utility holding companies' servicing fees imposed upon subsidiary companies often " 'milk[ed]' the subsidiaries [so that] in many instances they yielded profits ranging from 51 to 321% of the cost of the services performed."

This led to higher charges to the customer for electricity, in order to support the dividends and other rates of return on the mass of fictitious paper.

Now consider two of the three biggest power-holding-company empires in this period, the Insull empire and the Morgan empire, and how they confronted President Roosevelt.

Morgan and Insull

During the 1880s, Samuel Insull had worked for Edison, and then in the early 1890s, became president of Chicago Edison (subsequently Commonwealth Edison). During the first two decades of his presidency of Chicago Edison, Insull is said to have done a good job. At its height, the Insull empire controlled 10% of all electricity generation in America. But, by 1929, his system had more than 18 holding companies

The United Corp. in 1935: Subsidiary Operating Companies

American Superpower Corp.
American Water Works & Electric Co.
Eastern States Power Corp.
Columbia Gas & Electric Corp.
Columbia Oil and Gas Co.
Commonwealth and Southern Corp. (which included Alabama Power, Georgia Power, etc.)
Consolidated Gas Co. of New York
Consolidated Gas, Electric & Power Co. of Baltimore
Electric Bond and Share Co.
Lehigh Coal & Navigation Co.
Mohawk Hudson Power Corp.
National Power & Light
Niagara Hudson Power Corp.
Pennsylvania Water & Power Co.
Public Service Corp. of New Jersey
Safe Harbor Water Power Corp.
St. Regis Power Corp.
United Engineers & Constructors, Inc.
United Gas Improvement Corp.
United Light & Power Co.
United Railway and Electric Co. of Baltimore

Source: U.S. Federal Trade Commission.

and more than 175 operating companies, and speculation had become a force within it.

A key indicator of the process is the change in the share price of the stock of Insull's two key companies: Between January and August 1929, a share of stock of Insull's Commonwealth Edison more than doubled in price, from $202 to $450, while a share of stock of Insull's Middle West Utilities more than tripled in price, from $169 to $529.

Initially, Insull hung on during the Depression. But, in April 1932, a group of New York banks, very much in the pocket of the House of Morgan, refused to roll over a $10 million loan for Insull's holding companies. Overstretched financially, his empire folded—19 of his companies defaulted on $200 million in obligations. According to one source, the losses of investors holding stocks in Insull's companies totalled between $500 million and $2 billion.

Insull's companies were put into receivership. He fled the country, and was brought back to stand trial on charges of financial malfeasance and fraud. He was acquitted. In part, Insull became a scapegoat, to cover up for the much larger role of the Morgan interests, although Insull was active in the bloating of stock and other illicit activities.

As powerful as many interests were, the Morgan Bank was the overwhelming command and control center for the financier oligarchy in the power industry. The House of Morgan ran General Electric Co., which it formed after it drove Edison out of Edison General Electric Co. in 1892. In 1929, General Electric and its subsidiaries produced 13.6% of the total electricity produced in the United States. But by far, the largest concentration point for control of U.S. electricity generation was the United Corp., which Morgan formed in 1929, assisted by the Bonbright group, expressly for that purpose. The accompanying table lists the utility companies that, through takeover and merger, were made part of United. The U.S. Federal Trade Commission reported in 1933, "The combined electrical output of this supergroup [United Corp.] is about 27% of the entire nation. In fifteen Eastern, Southern, and Midwest States where the group operates, it distributes practically 50% of the total electric energy."

There was no doubt that United Corp. was the House of Morgan. Morgan Bank partners were on its board and its books were kept at 23 Wall Street, Morgan Bank headquarters.

Among United Corp., General Electric, and some other companies, Morgan controlled 35-40% of total electricity production in the United States. Using the utility holding companies, the Morgan forces had immense power, which they used to pillage the utility industry on a mighty scale, and to reap gigantic profits through the speculation that the holding companies afforded them. They were not going to surrender this.

The Fight for the PUHAC

On March 12, 1935, President Roosevelt introduced to Congress the Public Utility Holding Company Act (PUHCA), an act with two titles, and of which Title I had a bombshell feature: It stated that many utility holding companies had no useful economic function, but were largely for pyramiding (speculation). It stated that the utility companies should *voluntarily* get rid of those holding companies which had no useful function. But, should that not be carried through, within five years, on Jan. 1, 1940, the Securities and Exchange Commission (SEC) *would be empowered to compel the dissolution of every holding company which did not establish an economic reason for its existence*. Most holding companies would be dismantled. This was called the "death sentence clause."

The death sentence caught everyone's attention.

The PUHCA had other powerful provisions. Within Title I, it stipulated for the utility industry, that the SEC should: regulate securities issues and intercompany transactions, lay down the principle that a holding company should not benefit from financial dealings with its own subsidiaries,

President Franklin D. Roosevelt signs legislation creating the Tennessee Valley Authority, May 18, 1933.

and demand uniform systems of reporting and accounting.

Title II of PUHCA authorized the Federal Power Commission to integrate the utility operating companies into regional systems on the basis of technical efficiency, not of speculative manipulation.

Taken as a totality, what the PUHCA meant is that before a utility holding company could issue stock and other securities, it had to register them and be cleared by the SEC. It could no longer issue unlimited amounts of stocks, and the level it set dividends at, had to be reasonable, and not result in looting the capital base and operating cash flow of the company. It also could not use fees and other devices to loot its subsidiaries. Its books had to be understandable by outside parties, rather than a bewildering maze of transactions meant to mask internal looting.

Supplementing the PUHCA, Roosevelt pushed through Congress the Federal Power Act (FPA) of 1935. The FPA expanded the powers of the Federal Power Commission to "regulate electric utilities' wholesale rates and transactions." Thus, the Federal Power Commission—which, in 1977, became the Federal Energy Regulatory Commission (FERC), but continued to execute the same function—"establishes just and reasonable rates for the transmission and sale of wholesale electric power in interstate commerce. It also regulates permanent interconnections of electric utilities and promotes the adequacy of interstate electric power service."

Crushing Criminal Activity

Before we consider the oligarchy's attacks on these measures, we look at the way that a positive method to set prices was activated. This method is very much like the "parity price" in agriculture, and reflects the way that sound economic pricing has been done in the United States.

The Federal Power Act established the grounds for the Federal Power Commission to set wholesale prices for electricity "at reasonable rates." The power to set *retail prices* for electricity at reasonable rates, was always vested in the states. However, the states could never adequately carry out that function, because the raw power of the Morgan-led utility holding companies was too great. The tandem of the PUCHA and the FPA, by knocking out some of the power of the utility holding companies, and establishing Federal regulation over wholesale prices, shifted the balance of power to the states so that they could carry out their vested function.

Both the Federal government in determining the wholesale price, and the state governments in determining the retail price, use a broadly similar approach. According to regulatory authorities, they employ this standard formula: The utility company states a required level of revenues from the sale of electricity that it needs for the year to cover operating expenses, depreciation of plant and equipment, and a fair rate of return. If the regulatory body finds that the revenue request is justified, and approves it, the utility will divide the dollar

revenues it anticipates it will take in, by the volume level of kilowatts of electricity it plans to sell, to determine what price per kilowatt hour of electricity it will charge its customers. So, total revenue should equal the utility's total cost of production (inclusive of the necessary provision for technological improvement) plus a fair rate of return (though not stated, often in the range of 3-6% per annum).

In a very similar manner, the parity price for agricultural products is determined.

In his four years as Governor of New York State (1928-32), Franklin Roosevelt had worked arduously to get state and international agreement to build dams with turbine generators on the St. Lawrence River, and then to transmit the electricity to New York State. He worked with several engineers and scientists on this. In his calculation for what the price of electricity should be, Roosevelt came up with a method which he called "actual cost of service," very similar to the method outlined above.

Bankers' Rage

Roosevelt had drawn a line in the sand: Either the Wall Street-run utility companies would stop their criminal looting of their underlying operating companies, their giant run-up of the utility company stock prices, their pyramiding of holding company upon holding company, etc., and accept the setting of fair electricity prices and the development of the physical capacity of the utility industry, or they would be dismantled.

Faced with this choice, the Morgan-led Wall Street forces snarled, "No," they would not give up their criminal looting. They would not accept Roosevelt's offer, because that entailed giving up their power, and adopting a perspective of industrial development that was alien to them.

Roosevelt knew the J.P. Morgan Bank well. In January 1933, before he took office as President, and while he was forming his cabinet, Roosevelt wrote to an acquaintance, "There will be no one in [the cabinet] who knows the way to 23 Wall Street. No one who is linked in any way with the power trust or with the international bankers." Roosevelt's contempt for Morgan was so complete, that he referred to them only by 23 Wall Street, their street address.

On March 12, 1935, Roosevelt introduced the Public Utility Holding Company Act, sponsored by Senator Wheeler and Representative Rayburn. The Wall Street financiers, led by Morgan Bank, fumed with rage. John W. Davis, the general counsel of Morgan Bank, stated before the American Bar Association that the PUHCA was the "gravest threat to the liberties of the American citizen that has emanated from the halls of Congress in my time." In September 1935, Davis was the lawyer for the Edison Electric Institute, the lobbying arm for the electric utility industry, when it joined with one of its members, the American States Public Service Co., in the first suit against the PUHCA.

S.R. Inch, president of the Morgan-controlled Electric Bond and Share, said that the bill "would be the nationalization of the industry."

Slander Campaign vs. FDR

A slander campaign concerning President Roosevelt's mental health was coordinated at the highest levels, and uttered publicly. In May 1935, at a conference of bankers, Thomas McCarter, president of the Edison Electric Institute, stated about Roosevelt's ardent advocacy of the PUHCA: "The President has an obsession on this subject. It is a condition of mind that even many of his closest associates in Washington do not understand." A few weeks later, before 1,200 utility executives at the Institute's annual meeting, he repeated this crack. Privately, this rumor was being circulated in Wall Street circles. Then, the July 8 issue of Henry Luce's *Time* magazine gave it wide circulation, writing that Washington correspondents were being hit with queries from their home newspaper asking whether the President was on the verge of a mental collapse. Said *Time,* "He had, according to the tales roaring through the country in whispers, grown mentally irresponsible. Hadn't you heard that during a press conference he had a fit of laughter, had to be hurriedly wheeled out of the room? Why, his intimates were taking the greatest care not to have him make a spectacle of himself. And when he heard the Supreme Court's NRA verdict, he was supposed to have succumbed to a violent fit of hysterics."

Wall Street and the power industry spent $1.5 million attempting to defeat the PUHCA, a significant sum in those days. They flooded congressmen with telegrams against the bill. It was discovered, however, that tens of thousands of those telegrams were forged. A Western Union manager from Warren, Pennsylvania testified before a Senate committee authorized to investigate the matter, that he had collaborated with a utility industry executive, in forging the names of 1,000 people from the city directory onto telegrams, which were sent to members of Congress opposing PUHCA.

The financier oligarchy left no stone unturned, turning this into one of the fiercest fights in American history.

On June 11, the Senate voted up the PUHCA by a vote of 56-32. But in the House, a rump group, calling itself "conservative Democrats," some of whom were in active contact with the utility holding companies, refused to support the bill. To get the legislation passed, the terms of the "death sentence" provision were altered: In its amended form, it required the SEC to abolish by Jan. 1, 1940, utilities systems having *more than three layers* of holding companies, permitting either one or two extra layers of holding companies, above the level permitted in the original bill, depending on how the bill was read. The death sentence alteration added an opening for Wall Street, but even in altered form, it eliminated the condition, which had been prevalent, by which 5 up to even 20 holding companies were piled on top of the utility structure, each demanding its own loot. All the other original provisions of the bill remained intact. The bill passed