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The TVA Idea

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EDITOR'S NOTE

DEAN RUSSELL is a member of the staff of The Foundation for Economic Education. His background includes graduate study at Harvard and Columbia Universities, and the ownership and operation of a small business enterprise. He has earned recognition as a lucid writer. His most recent publication is "The Bill of Rights," an earnest plea for individual liberty.

Future government actions should be guided by a critical analysis of past government actions. Dean Russell's evaluation of TVA since its beginning is here summarized for those who wish to use it for testing the soundness of such government projects, present and future.

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CHAPTER 1

Introduction

The issue of government ownership of the means of production is no longer open to discussion in Russia. That issue was decisively settled by revolution.

The issue of government ownership of the means of production is still open to discussion here in America. This study is dedicated to that discussion.

Obviously, in a short study, one cannot examine all forms of government ownership in America. Thus it becomes necessary to select a specific example of government in business. Since this is the case, why not choose an industry that is in great danger of complete nationalization – the electrical industry? And within the electrical industry, why not concentrate on the government project that enjoys the highest degree of popular support – the Tennessee Valley Authority?

This study of TVA logically falls into two parts. First, what is the monetary cost of TVA? Second, what are the social, political and economic consequences of the TVA idea?

In examining the cost of TVA, however, we must do more than add the figures recorded in the TVA financial statements. We must consider *what is not recorded* as well as what is recorded. Why this is so may be best illustrated by the following story:

A young hoodlum threw a rock through the plate glass window of a bakery. A crowd gathered. One man said: "Well, this misfortune isn't without its brighter side. The baker will buy a new window. This will mean more work for the glass makers. Thus employment will be increased. The glass makers will have more money to spend. They will buy more products, including more of the baker's bread. This, in turn, will mean more prosperity for him and for everyone."

As far as it went, that explanation is sound economics. But what the speaker didn't understand is this: He was speaking only of the things that could be seen. He completely ignored another side of the picture. The baker was planning on buying, for instance, a new suit from the tailor across the street. But instead, he had to buy a new window. Thus the work and prosperity created by the purchase of the new window were canceled out by the work and prosperity *not* created because the suit was not purchased. The suit was *not* permitted to come into being. Just as much work and prosperity would have been created by the purchase of the suit as by the purchase of the window. Thus the community, and wage earners as a group, were no better off.

True, the glass workers got more work. But for every new glass worker hired, the same number of tailors were fired or *not* hired. And in addition, the baker did not get his new suit. All he got was a window to replace the window that he already had.

It is this hidden loss that many people forget when TVA is being discussed. They can actually see the TVA dams, and can count the persons hired to build them. Pictures and glowing descriptions of TVA can be sent all over the world. But when one tries to explain that TVA actually *prevented* an equal or greater amount of products and services from being created, he is apt to be greeted with a blank stare. This is because we can't see the eggs, hats, shoes and haircuts that the taxpayers never bought due to the fact

that hundreds of millions of dollars were taken from them in taxes to pay for TVA. We can't see the number of new factories and jobs that would have come into existence if the government had allowed the taxpayers to spend their money as they wished. We can't see it because it was never permitted to happen. Thus there are no pictures and no publicity. Yet, the fact of the matter is that the taxpayers' money that was used to build TVA would have created just as much work – and *more* happiness – if the individual taxpayers had been permitted to spend the money. If they had not been forced to pay for TVA, the taxpayers would have spent their money on something they preferred, instead of on TVA navigation, TVA fertilizer, TVA electricity and other TVA products that the buyers did not want badly enough to voluntarily pay the cost of producing them.

* * *

The TVA project as a whole was reasoned to be within the authority of the federal government because the Constitution gives the federal government power "To regulate commerce . . . among the several states. . . ." The Supreme Court has ruled that this federal power covers all navigable streams; that the control of floods is a necessary part of keeping the streams navigable; that government navigation and flood control dams may be used incidentally to generate electricity as a by-product of these primary purposes; that government may sell this incidental electric power.

Logically, then, this study should begin with an examination of the TVA flood control and navigation programs, which are its professed and constitutional reasons for existence.

CHAPTER 2

Flood Control

The various estimates of the total cost of TVA to the taxpayers range from the TVA acknowledged $884 million on up to $1200 million.[1] This higher figure includes the interest and tax costs of TVA production (discussed in chapters 5 and 6) that are not paid by TVA.

Although TVA officials have claimed in the past that the entire cost of TVA could be repaid out of income, they usually confine these self-liquidating claims to the supposed costs of power production — without interest or federal taxes. The costs of navigation, flood control and other projects are charged to the taxpayers on the assumption that the taxpayers receive benefits equal to, or greater than, the cost to them. Let us examine the correctness of this assumption.

In 1938 TVA made an estimate of flood damage in the Tennessee Valley. Then it estimated its own value in stopping this flood damage. The estimate was based on the dollar value of yearly flood damage before the TVA flood control project. TVA decided that $1½ million was a fair estimate of the average yearly flood damage that it would stop in the Tennessee Valley. Then

[1] The source of this reference, as well as all other numerical references, is found on page 101ff.

TVA arbitrarily increased this estimated value by 50% to cover "intangible benefits."

The vital part of this TVA estimate is quoted here: "The estimate of gross annual benefits in the Tennessee Valley thus becomes $2,250,000. If these benefits be capitalized at 4 per cent, the value of complete protection is determined at $56,250,000. However, the Authority's storage reservoirs will not furnish such complete control as to eliminate all the damage. It will be necessary for Chattanooga and other communities to invest considerable sums in local flood-protection works in order to gain full protection. Such local works will cost on the order of $20,000,000. If this be deducted from the above total figure, the remaining $36,250,000 may be said to represent the contribution of the Authority's development toward flood benefits."[2]

Thus TVA estimated the capital value of its total contribution to flood control in the Tennessee Valley at $36¼ million. But by July of 1947, TVA had allocated $153 million in construction costs to flood control.[3] The yearly interest cost to the taxpayers on this amount is at least $3½ million. Yet TVA estimated the average yearly flood damage it would prevent in the Tennessee Valley at only $1½ million.

TVA has since materially increased this estimated flood protection value. But this increase is due primarily to increased prices and to economic growth in the Tennessee Valley. Thus this TVA claim of additional flood protection value is misleading. The existence of TVA has resulted in some sections of the natural flood plain of the Tennessee River being used as sites for new homes and factories that would otherwise have been built outside the flood plain. TVA now adds a large part of the value of this property to its flood protection figures. By this same logic, TVA could add many of its own structures to the property it now prevents from being flooded. TVA is on firm ground when it claims that it has

stopped a portion of the flood damage that occurred before TVA was built. But it is on questionable ground indeed when it adds to that figure the value of industries that would have been located elsewhere had not the bargain rates of TVA electricity and other inducements caused the investors to build in the Tennessee Valley.

Let us examine this flood control picture from another angle: According to a report by the Corps of Engineers of the United States Army, a flood that would cover 666,154 acres of land may be expected in the Tennessee Valley once in 500 years.[4] Yet, in the name of flood control and navigation, TVA has acquired 1,131,-286 acres of land.[5] This is an area 1½ times the size of the entire State of Rhode Island. Not counting the normal river channel, 463,000 acres of this land are now submerged below the normal level of the man-made lakes that TVA has created as a part of its flood control program.[6] An additional 128,000 acres are held for flooding when the reservoirs are full.[6]

In other words, once every 500 years the Tennessee River *might* flood as much land in Tennessee as TVA has permanently flooded or set aside for flooding in its flood control program. As the Chairman of the House Committee on Flood Control Projects said: ". . . careful estimates aver that substantially all the lands that were [formerly] overflowed [by flood waters] are now condemned as bottoms for reservoirs."[7]

Was this land which TVA took out of cultivation merely wasteland — marshes and swamps, or barren hillsides?

On the contrary, much of it was rich valley land, among the best and most productive in Tennessee. A committee of Tennessee Farm Bureau presidents, for example, in 1941 estimated the annual crop loss due to TVA flooding of bottom lands along the Tennessee River at $13⅖ million.[8] This was at prewar prices for agricultural commodities. The President of the University of Tennessee estimated the annual crop loss at $1¼ million for the area flooded by

Douglas Dam alone.[9] Dr. W. V. Howard, in his penetrating analysis, *Authority in TVA Land,* concludes that the average annual loss of farm products for the entire TVA holdings should be placed at $27 million – prewar prices.[10]

This loss, plus the capital investment of $150 million and the annual costs of operation, interest, depreciation and maintenance, are to be compared with the original TVA estimate of an average yearly preventable flood damage of $1½ million. And TVA did not claim that it could prevent more than a part even of this. For instance, in discussing the flood problems of the Tennessee River, a study by the Army Corps of Engineers reports that "The greater part of the average annual damages . . . is caused by floods at Chattanooga."[11] As pointed out before, TVA itself concluded that it would be "necessary for Chattanooga and other communities to invest considerable sums in local flood-protection works. . . . Such local works will cost on the order of $20,000,000." Mr. E. N. Munns of the United States Forest Service recently stated before a congressional committee that ". . . there have been numerous floods in the tributaries in the Tennessee Valley. Such cities as Asheville, for example, have experienced quite often serious floods because the flood protection works in the main stem do not provide flood protection to the higher elevations or the tributary areas. The TVA has asked us in times past to help them out in some of their flood problems in such rivers as the Flint in Alabama and the French Broad [in North Carolina-Tennessee]."[12] By and large, many of those tributary sections will shift for themselves during flood seasons just as they did before TVA arrived on the scene.

At this point, however, defenders of TVA claim that TVA flood control is worth many millions of dollars in flood control benefits in the Ohio and Mississippi valleys. TVA estimates, for example, that under certain conditions its flood control works could reduce the flood height on sections of the Ohio and Mississippi as much

as two feet. But even if this claim is correct, the "certain conditions" are not always present. The tributaries of the Ohio, Missouri and Mississippi are not necessarily all in flood stage at the same time. There can be destructive floods on the Mississippi even when the flow of the Tennessee River is relatively normal. And it is also possible for the Tennessee River to be in flood without causing any appreciable damage along the Mississippi. Even if the Tennessee River drained east into the Atlantic, destructive floods on the Mississippi would still continue.

On the other hand, as TVA claims it did for Cairo, Illinois, in the spring of 1945, the holding back of the Tennessee could mean the difference between extensive damage and relatively minor damage. During that flood, TVA estimates that its flood control efforts reduced the flood gauge at Cairo by 0.7 to 1.7 feet.[13] Since the river at Cairo rose to within six inches of the top of the levees, TVA claims that it kept the flood waters out of the city. But how much credit should go to TVA for reducing by some 9 or 10 inches a flood that gauges from 50 to 60 feet? Would it not be both safer and cheaper for the residents to raise the levees another foot?

On this subject of TVA flood control value to the Mississippi Valley, the United States General Accounting Office in its 1948 report to Congress stated: "We believe that there is considerable question as to the ability of the Authority to reduce effectively all the floods and thus increase the land values in the lower Mississippi River Valley, and that, as a result, it has not conclusively substantiated the flood control benefits."[14]

So, while TVA does contribute in some degree to flood control on the Mississippi, it is doubtful that the total property saved will ever equal the estimated annual loss from lands which TVA has permanently flooded and withdrawn from production.

Nevertheless, it is this flood control program that TVA uses as its main excuse for expanding. And much of the cost of its electricity

production is charged off to the supposed gains from its flood control program. TVA already has complete ownership and control of an area 1½ times as large as Rhode Island. That is merely the amount *so far*. The law does not prevent TVA from taking, in the name of flood control, as much land as it deems necessary for its various other projects.

Furthermore, besides flooding large areas of productive land in the name of flood control, TVA has been known to sacrifice flood protection in favor of electricity production.

For instance, consider the implications behind this quotation from a TVA annual report: "During the period of emergency war power demand, Cherokee, Chatuge, Nottely and Douglas, although multiple-use dams, were considered separately from the remainder of the system, and their costs were assigned entirely to power purposes. Since February 1, 1945, the entire system has been operating in conformity with its normal multipurpose functions, and the costs of these dams have been allocated accordingly."[15]

This means that for a considerable period of time those four dams were used exclusively for the production of electricity. They were of little or no value for flood control purposes. But TVA still maintains the fiction — necessary to keep within the United States Constitution — that its power program is incidental to flood control which, in turn, is secondary to navigation.

As industry expands and the demand for TVA power increases, it becomes more and more likely that the reservoirs will be kept filled for extra power production. Then, if TVA misjudges the flood season, or if there should be an unexpected flood, or if any of the multipurpose dams are ever again used exclusively for the production of electricity, the results could be disastrous.

A recent incident showed that this doubt of the infallibility of bureaucratic authority is not unfounded. This incident was the 1948 Columbia River flood disaster. Many of our politicians refer to

this disaster as a further argument for applying the TVA idea in other regions. But before accepting this solution, it might be an excellent idea to see who was responsible for building Vanport City, Oregon on a flood plain. The following extracts are taken from a summary story by reporter Sam Stavisky in *The Washington Post* of June 13, 1948: "Early in 1942, Henry Kaiser began to seek housing for his expanding shipyards. . . . In September of 1942, the Federal Public Housing Authority signed a contract whereby Kaiser was to build the houses and Uncle Sam finance them. . . . Within 30 days all interested governmental agencies – Federal, State, county and city – had agreed on the site [Peninsula Drainage District No. 1, or Vanport City]. . . . The advantages of the site were overwhelming, despite the recognition that the low-lying tract – bounded and criss-crossed by rivers, sloughs and lakes – was ever in danger of seasonal floods. Still, the site was girdled by four walls of earth, and the authorities, Federal and local alike, agreed the dikes would hold back the anticipated floodwaters. . . . In 1940, United States Army Engineers had rebuilt the north and south dikes. . . . When the U. S. Army Engineers completed their levee project, the dikes were turned over for management to Peninsular Drainage District No. 1, . . . (a local administrative unit). . . . After the war . . . some 18,000 persons were living there. . . . On May 20, the Columbia was running at the 15-foot flood stage level. . . . The danger was now at hand. . . . An emergency council was formed in Vanport to plan for any eventuality. Engineers of the housing project, drainage district, railroad, etc., kept in constant communication. The Army Engineer Corps assigned two officers to the area. Heads of the Portland Housing Authority, a local body which managed Vanport City for the Federal Government, joined in the 24-hour vigil and consultations. Close watch was kept for leakages, seepages, and sandboils as the water steadily rose about a foot a day around the ring of dikes. . . . The emergency

council met Saturday, and decided that if anything the situation appeared favorable. It was agreed, nonetheless, to issue a bulletin. . . . 'The flood situation has not changed since the prediction made last Thursday that highest water would come next Tuesday, that the dikes were high enough and strong enough to withstand the crest, and that barring unforeseen developments, Vanport is safe.' . . . Within two hours after the breakthrough, Vanport City was drowned in story-high flood waters. . . ."

So there we have it. In the final analysis, Vanport City was primarily planned and managed by government – federal, state, county and city. All of them approved the flood-plain site for the government housing project. The dikes and levees to control the floods were built or approved by government. The government subsidized new industries to move onto the flood plain. The government supplied these industries with "cheap" government produced electricity. From beginning to end, the whole project was planned and built by government; or was built under government supervision; or was approved by government – and paid for by the taxpayers.

Then the floods came – earlier, bigger and of longer duration than the government planners had expected. A railroad fill that the government had approved as adequate flood protection gave way under pressure from the flood waters. The government-built multipurpose dams were of no value whatever in controlling the floods. The government-planned city that was built on a flood plain was inundated. The government-approved housing projects were washed away. The government-subsidized industries were flooded. Property damage ran into the millions. Lives were lost.

Many of the survivors appealed to government to "save and protect" them from "this disaster that was caused by free enterprise"! Apparently they were completely unaware of the fact that government planning was primarily and directly responsible for

getting them there in the first place. As a result of that disaster, there is increased pressure for a complete Federal Authority on the Columbia River as on the Tennessee River to control floods and to bring the "blessings" of government planning and authority to an entire region. Thus more government planning is proposed as a remedy for the mistakes of government planning.

Now it is true that disasters have also occurred because of the failure of dams built and operated by private enterprise. But these failures have never been used as reasons for repudiating government. So why should government's mistakes and failures be used as excuses for repudiating freedom? Why doesn't government admit its blunders instead of blaming them on innocent parties?

Most Americans are compassionate and charitable persons. These are excellent virtues in themselves. But under improper leadership, these virtues could be used to mislead us into embracing destructive socialism in the guise of beneficent flood control.

CHAPTER 3

Navigation

So far, the total construction cost that TVA has allocated to its navigation program is $149 million.[16] The operating expense charged to navigation in 1947 was almost $3 million.[17] This does not include the yearly War Department, Coast Guard and dredging expenses for operating and maintaining the TVA locks and related services. In 1947, this additional cost was about $900,000.[18]

Are these the proper amounts that should be charged to navigation? TVA claims that they are. But TVA decides how much cost it wishes to allocate to what.

One method of arriving at the true cost of TVA navigation is to use the test of *alternatives*. That is, how much would it cost to build a complete navigation system *all by itself?* It would seem that the portion of total cost which TVA now allocates to navigation should be less than the cost of a separate navigation project.

Fortunately, for purposes of rough comparison, the Army Engineers made an estimate of the cost of a separate navigation project for the Tennessee River in 1930. This report to Congress concerned a contemplated project to do for navigation on the Tennessee River just what TVA later did. The estimate for the total project was $75 million.[19] Yet, in a period of much lower construction costs, TVA allocated $149 million for the project. This correspondingly

reduces the costs charged to power production, permits lower electricity rates to TVA customers, and puts a larger share of the load on the taxpayers.

TVA is exceedingly proud of the many new river terminals it has built or helped pay for along its 9-foot deep, 650-mile long water-road. But the main selling point used by TVA to induce shippers to use the Tennessee River water-road is the claim that it is "free." The fact that the cost of operating this water-road is paid by the taxpayers is not so well advertised.

The total cost of maintaining navigation on the Tennessee in 1944 was about $7 million. In 1947 it was about $8⅗ million. This includes the actual annual maintenance expenditures by TVA and the Army – plus the estimated interest on both maintenance expenditures and capital investment.[20] Using these figures for total costs, let us see how this works out as a cost per ton-mile of freight actually handled on the river. The following table shows this cost. It also shows the average cost of freight handled by the railways in that area.

Ton-miles of freight on Tennessee River[21]		Estimated cost per ton-mile	Average rate per ton-mile on railroads in the Southern region[22]
1944	159,495,634	4.37 cents	0.976 cents
1945	258,465,193	2.88 "	0.993 "
1946	192,805,241	4.13 "	1.000 "
1947	350,000,000	2.45 "	1.094 "

According to these figures, it would have cost shippers about one cent per ton-mile to ship by rail. Therefore, from 1944 to 1947 it cost taxpayers from 2.45 cents to 4.37 cents per ton-mile to make a gift of one cent per ton-mile to shippers using the TVA water-road.

TVA states that its "savings" – in reality, subsidies – to shippers on grain shipments "average $1.75 per ton, as measured by

the difference between charges for barge-rail and alternative all-rail movements."[23] But how much did it cost the taxpayers to give this "saving" to the shippers? On this point, one thorough study concludes with these words: "And it cost $149 million – plus some $4.00 in expenses in 1946 for every dollar of estimated savings, plus some terminals that covered 'out-of-pocket expenses of operation' except for a loss of $1.50 on every ton of freight handled, exclusive of depreciation, plus whatever it costs to maintain the illusion that the region is greatly benefited by the improvements of navigation on the Tennessee."[24]

In its 1948 report to Congress – after conducting a thorough study of the "savings" produced by the TVA navigation project – the United States General Accounting Office states: "On the basis of the foregoing determination, the benefits are not sufficient to cover the out-of-pocket expenses."[25]

Admittedly, these TVA navigation improvements and services do give a few merchants and barge owners lower shipping costs than they could get in a free market. But these "savings" could have been provided at about one-third the present cost to the taxpayers merely by paying the full freight cost to these favored merchants for shipping by rail instead of by the "free" TVA water-road.

If these merchants wish to use the Tennessee River water-road, why shouldn't they pay the cost themselves? Why should the taxpayers' money be taken and used to subsidize an automobile dealer or a grain merchant in Tennessee? TVA has an answer for that. It says that the automobile dealer – and all other merchants who save on shipping charges by using the tax-supported TVA water-road – should pass that saving along to the consumers. But why should the taxpayers be forced to subsidize the consumers any more than the shippers?

If the shippers had been willing to pay the cost, they could have – and would have – had these navigation improvements long before TVA stepped in with government funds. But if the shippers don't consider the improved service to be worth its full cost, why should other people be forced to bear the burden of giving it to them at a fraction of its cost?

If the shippers or carriers using the Tennessee River had to pay the cost of the navigation improvements, there would be little, if any, freight left on the Tennessee.

Even with rates at a fraction of the cost, the *tonnage* of freight on the Tennessee was greater three years before TVA began its navigation project than it was after 13 years of TVA improvements. A TVA chart shows 2.5 million tons of freight on the Tennessee in 1930.[26] The same chart shows 2.2 million tons in 1940 – a *decrease* of 300,000 tons *after* TVA had poured millions of our tax dollars into its super waterway.

In 1938 TVA estimated: "It is reasonable to base the present computations on an assumed movement of 8 million tons, a figure which should be reached in 1946. . . ."[27] In 1946 the amount of freight was 2.4 million tons.[28] This was less freight than in 1930 when TVA navigation was still a dream instead of a government project to "increase the amount of freight on the Tennessee."

Suppose that such a mistake had been made by a privately owned business? What would happen in a free economy if a large transportation company missed its estimated volume of business by almost three-fourths? The owners of that company would lose their capital and go out of business. In a free market, they would automatically be replaced by persons capable of supplying the consumers with the goods and services they want at a price they are willing to pay. But when TVA makes a bad estimate or mistake, the government merely collects additional amounts of tax money from the private railroads, electric companies and the gen-

eral taxpayers. This money is then turned over to TVA to continue its mistake indefinitely.

Meanwhile, this uneconomic policy enables TVA to charge off a large part of its total costs to "navigation" – really to the taxpayers. This in turn helps TVA to show a "profit" on its electricity program.

CHAPTER 4

National Defense

One of the announced purposes of TVA is to contribute to national defense. The following statement by a columnist in *The Washington Post* of March 31, 1948, is typical of the many such claims about TVA's contribution to the war effort: "Without TVA power, the aluminum to build 50,000 airplanes a year during the war could never have been produced. If TVA had not been built, the war might have lasted two or three years longer. These are demonstrable facts."

Thus it would appear that TVA was primarily responsible for the production of about 200,000 airplanes! And since TVA might have shortened the war by "two or three years," it would appear that TVA deserves full and exclusive credit for saving two or three million American lives and hundreds of billions of American dollars.

It is impossible to make an accurate comparison between the war effort of TVA and, for instance, the United States Steel Corporation. But one might argue that if it hadn't been for United States Steel, the resulting shortage of ships, tanks and landing barges would have caused the war to last five to ten years longer. Thus the United States Steel Corporation, like TVA, would appear to deserve full and exclusive credit for saving the lives of possibly ten million American soldiers. And the number of dollars thus saved by United States Steel would exceed the limits of imagina-

tion. At least that seems to be the reasoning used by the above-mentioned TVA enthusiast.

The probable truth of the matter is that if there had been no United States Steel Corporation the war would not have lasted one minute longer. There would have been other steel companies. Or the existing steel companies that now compete with United States Steel would have been considerably larger.

That idea also applies to TVA. But many people seem to believe that TVA brought the first electricity into Tennessee; that TVA was the inventor of the hydroelectric dam. Of course, there were hydroelectric dams – and electric lights in Tennessee homes – long before TVA arrived on the scene. TVA took over the hydro dams and the electrical facilities that had been built by private enterprise. Naturally, TVA expanded those existing facilities and built new facilities. Would private electric companies in Tennessee have done otherwise? Private companies have doubled and trebled their production in many other sections of this nation before – and after – TVA came into existence. Can it be logically assumed that they would not also have continued to meet the full demand for electricity in Tennessee if government had not forced them out of business?

Naturally, TVA did contribute a part of its facilities to the war effort. But so did other private and public agencies. A little thought on the matter should cause one to realize that TVA's contribution to the war effort was at most only a tiny fraction of one per cent of the total war effort. This includes whatever electricity TVA may have sold to the private company that contracted to produce the atomic bomb. Since this particular subject is still concealed by censorship, the amount of electricity used in the process is not known. But we do know that a 238,000 kilowatt steam plant was installed at Oak Ridge when the atomic plant was built.[29] As the Vice Chairman of the Joint Congressional Committee on Atomic

Energy recently said: ". . . in order to make sure that the Commission's activities at Oak Ridge would not be completely dependent upon TVA power during slack periods, it has constructed and is operating a steam generating plant, and . . . in times past has sold its surplus power back to TVA. So the answer is that if the Atomic Energy Commission needs additional power, and there is some indication that it does, the way to get it is not to rely on TVA, but simply to expand its presently operated steam-generating plant at Oak Ridge, which I understand can be done by the installation of one additional boiler."[30]

If there had been no TVA, we would have produced the atomic bomb just the same. If there had been no TVA, there seems to be no logical reason whatever to assume that the war would have lasted any longer than it did last.

Finally, it is true that the production of electricity – like the production of many other products – necessarily has a vital part in any discussion or plan for national security. This may include types and sizes of generating stations, transmitting and switching facilities, and reserve capacities. It may include additional interconnections among the existing privately owned power stations, even though the immediate expense in some cases may be greater than the resulting economies. It may include adequate consultation among federal and state regulatory agencies, the armed forces, the electrical equipment industry, and the power producing companies themselves.

Necessarily, since government is charged with the primary responsibility for adequate national defense, government must play an important role in these discussions and plans. But none of these measures indicates any necessity whatever for government to take over the electrical industry "for reasons of security." If uneconomic, peace-time reserves and locations are deemed necessary, is there any logical reason why government can't pay pri-

vate industry to build them and to maintain them on a stand-by schedule?

Is there any more reason why government should use military security as an excuse for nationalizing the electrical industry than there would be for nationalizing the steel or transportation industries? In truth, our experience in winning two world wars shows that the best possible national security lies in the encouragement of private industry to make more automobiles, nylon hosiery, and aluminum pots and pans *for a profit*. This automatically insures the building of more electrical capacity – at no cost to the taxpayers. It also insures adequate reserve capacities for building tanks, uniforms, guns and airplanes when the need arises.

CHAPTER 5

Interest

With one minor exception, TVA accounting ignores the interest cost on the money invested in this project. As a result of this policy, the cost of about $120 million of accumulated interest from 1933 to 1947 on the total TVA project was borne by the taxpayers.

The technicalities of this question of interest are discussed at length in the Appendix, page 95. But the following quotation from a recent report to Congress by the United States General Accounting Office recognizes the fact that interest is a cost of TVA production. After a thorough investigation of TVA financial practices, the General Accounting Office reported: "The fact that no interest is currently being charged or paid results in failure to reflect the total cost to government." (That is, to the taxpayers.) Then the General Accounting Office recommended: "Therefore, the interest rate on the amount of the investment [in the power program] . . . should be calculated by the Treasury Department so as to reimburse . . . the Treasury for its costs."[31]

The fact that the TVA electricity rates do not include interest and other inescapable costs of doing business, does not mean that these costs are thereby avoided. It means only that these costs are borne by the taxpayers instead of by the TVA customers.

Probably everyone who ever heard of TVA is familiar with the original claim that TVA was to be a "yardstick" to measure the

rates charged by private power companies. For this purpose, it was announced that TVA was to operate financially as much like a private power company as possible. But on this matter of interest cost, the TVA "yardstick" seems less than the customary three feet long.

This estimate of an interest cost of $120 million on the total TVA project is based on low government interest rates. Thus, even if TVA paid interest, the rate would still not be an accurate yardstick because government forces down its own interest rates below the true value of capital in production. It does this by inflating the national currency and credit, and by taxation. First, by its monopoly of money and control of banking, government can make its own bonds convertible into currency. Thus it can and does print the money or create the bank credit used by purchasers to buy government bonds. Second, government can and does meet the losses on its own undertakings by taxing the profits of successful private enterprises. Thus it eliminates the risk factor, not from enterprise, but from government interest rates. It does this not by superior efficiency in production, but by shifting its losses to private industry.

Therefore, if a yardstick to measure *operating efficiency* is wanted, either one of two procedures could be used. First, one might use the costs of privately produced electricity if private power companies had the privileged interest rates of government. Second, one might figure TVA costs at free market rates. Obviously the second method is much simpler and more consistent with the facts of a free economy. Applying it, TVA total interest costs from 1933 to 1947 at free market rates would be, not $120 million, but almost $200 million.

In addition to this $120 to $200 million interest cost, another large capital and interest cost was involved in the transfer of the government-owned Muscle Shoals project to TVA. When Wilson

Dam (the hydroelectric part of Muscle Shoals) was transferred to TVA in 1933, the government had directly invested $47 million in it.[32] When interest at low government rates – and other unrecorded costs actually paid by the taxpayers in one form or another – are added to this figure, the total cost of Wilson Dam to the taxpayers becomes $86.3 million.[33] But TVA took it over for $31.3 million.[34]

How much of the total cost of Wilson Dam should have been recorded against TVA? The total cost less depreciation? The direct investment of $47 million less depreciation? None of it? Since Wilson Dam belonged to the government both before and after the transfer and write-down (purely a bookkeeping transaction) there is no accurate method to determine its value. Like any other productive enterprise, this value could be determined by submitting it to the impartial test of a free market. But the government decided against this procedure. TVA was given the privilege of setting its own value on Wilson Dam. It decided that this particular government-built and operated hydroelectric project that cost the taxpayers a total of $86.3 million was in fact worth only $31.3 million. TVA may have been correct in its estimate. But that estimate would seem to cast considerable doubt on the argument that government – which includes TVA – can build hydroelectric dams cheaper and more efficiently than private enterprise can build them.

It is true that government has sold – and is still selling – many properties to individuals and to private companies at far less than the cost of the properties. But this does not mean that the cost is thereby avoided. It means only that the difference between the cost and the value of this government production is paid by the taxpayers. This procedure cannot be advanced as proof that government is a superior productive agent.

CHAPTER 6

Taxes

As it now stands, TVA pays no federal taxes. TVA claims that it should pay no federal taxes because TVA *is* the federal government. Yet, for purposes of comparing its electricity rates with private power companies, it is claimed that TVA operates just like a private business. Again, these tax and interest subsidies would appear to cast considerable doubt on the claim that TVA can be used as a "yardstick" for measuring the rates charged by private power companies.

TVA financial records do show a cost item called "payments in lieu of taxes" to local governments. The reasoning behind these payments is as follows: TVA has taken over many tax-paying industries, and it has taken many thousands of acres of productive land off the tax rolls. The tax load on the remaining privately owned land and businesses would have to be increased to make up the original amount. Therefore TVA pays money to local governments to make up part of the local tax losses caused by the TVA project.

Why doesn't TVA use the same logic in respect to federal taxes that it uses in respect to local taxes? The same conditions apply to federal taxation as apply to local taxation. Federal taxes that resulted from the private ownership of land and businesses in the Tennessee Valley were also reduced by the TVA project. The taxpayers had to make up that loss in federal taxes. And they still

do. Yet TVA makes no payment in lieu of taxes to the federal government.

Like interest, taxes are a cost of production. From the over-all viewpoint, this fact cannot be avoided. It is true that government can – and sometimes does – neglect to collect taxes from certain favored productive enterprises. But this means only that the less favored corporations and individual taxpayers are forced to make up the difference. Even if government were to assume complete ownership and operation of all the means of production, taxes would still be a cost of this production. This cost of production might then be given another name, but the fact still remains that even under government ownership a portion of current production would necessarily be used to support such government functions as courts, police forces, naval and military forces, diplomatic services and others. For purposes of simplicity, these may be called the "government overhead" costs of all business – paid by taxes on production.

Someone pays these "government overhead" costs – taxes – on TVA production. These costs can be included in the TVA electricity rates – and charges for other services rendered by TVA – or they can be shifted to the taxpayers, directly or partially deferred by government borrowing. There is no other choice.

Senator Norris, "the father of TVA," once said: "A proposal from a great association of Tennessee says, in effect, 'Let TVA property be subject to taxation the same as everybody else's property.' . . . If we go to that extreme, Senators can see that the TVA would be out of business in three months."[35] In order to keep TVA in business, therefore, the remaining privately owned electric companies must keep their own rates high enough to pay their share of the taxes needed to subsidize low rates for TVA customers. For example, in 1947 TVA paid in lieu of local taxes 3.93% of its total revenues received.[36] Private electric companies paid in total taxes

– federal, state and local – an average of 18.9% of total revenues received.[37] These figures do not take into account the other special tax privileges enjoyed by TVA – but not by private utilities – such as the franking privilege in the use of the mails, tax-free gasoline, exemption from various license fees, and so on.

In defense of these tax exemptions, TVA says that private companies pay only a certain percentage of their profits as taxes to the federal government. TVA claims that it pays *all* its profits to the federal government, call it taxes or whatever you wish. But this TVA claim begs the question of its costs as compared to the costs of private companies. It assumes that TVA makes a profit. But how can a profit be determined until *all* costs are calculated and fully met?

The issue involved in a true comparison between rates charged by TVA and the rates charged by private electric companies includes more than unpaid interest and taxes. It includes a detailed and technical analysis of TVA's questionable method of dividing its total costs among the flood control, navigation and electricity programs. It requires the inclusion of many TVA expenses now borne by other departments of government – for instance, the compensation insurance that TVA carries on its 15,233 employees but does not pay for.

A recently published study, *An Analysis of the Real Cost of TVA Power*, by C. J. Green, undertakes to make this difficult comparison.[38] Mr. Green is a professional engineer-accountant who recently retired from the Federal Power Commission after twenty years of service. In his detailed and thorough accounting-study on the TVA electricity program, he reaches the conclusion that the present TVA rates would have to be about doubled if TVA had to compete on an equal basis with private utilities. Thus, instead of TVA supplying "cheap" power, its rates would be higher than the rates of private power companies in the same region.

On this same point, here is a summary extract from the results of an investigation of federal power projects authorized by the House Appropriations Committee in 1947. In his report of December 20, 1948 to the Chairman of this Committee, the chief of the investigating staff, Robert E. Lee, wrote: "In general, federal power is not cheap, but can be made to appear so by allocating substantial portions of the investment and expenses to other than power. Also, our studies indicate that if the federal projects pay taxes at the levels paid by the privately-owned utilities, the federal rates would, in general, be higher than the rates of the privately-owned utilities in the contiguous areas."

Here is a comparative tax picture between private utilities and TVA for the past three years:

	1945	*1946*	*1947*
TVA payments in lieu of taxes as per cent of revenue	5.40%	5.85%	3.93%[36]
Private utility taxes as per cent of revenue	21.7%	20.4%	18.9%[37]

If one wishes to add the payments in lieu of taxes made by the TVA municipal and cooperative distributors, this would make the total TVA payments in lieu of taxes 5.5% of revenues for 1947.[39]

At this point, it may be argued: "Well, suppose that, as you claim, taxes from all the people *are* used to benefit TVA customers. What of it? Eventually all of us will get our money back in cheap electricity when the federal government builds a TVA or some similar project in every community."

This view ignores an undeniable fact: Of the money thus taken and spent by the federal government, only a part can come back to the people who earned it. The government's cost of handling must be taken out. These charges are often a large fraction of the total. As Carl J. Faist says in a *Saturday Evening Post* editorial, November 20, 1948: "When we need a new bridge, or an additional health nurse, or an addition to the airport, we go down to

Washington for the money. It is called a 'Federal grant,' but it looks like some of our own tax money coming back to us, with a great many restrictions as to its use. For every dollar we get back this way, I'll venture to guess that another dollar is eaten up in Federal administrative expense – collecting it from us in the first place, telling us how, when and where we may spend it, then compiling voluminous statistics about it afterward. Certainly it is not a gratuity, as some might think. . . ."

It seems to be axiomatic that the spending of money that has not been earned by the person who spends it, usually results in inefficiency and waste. In addition, the tremendous political power over others that goes with this spending is an open invitation to corruption, greed and favoritism. That is what Lord Acton had in mind when he said: "All power corrupts, and absolute power corrupts absolutely."

For these reasons, a taxpayer in any state is on questionable ground when he imagines that he can get back the cost to him of a government project in another state by voting to have the government tax the people of that state to build a project in his own state.

CHAPTER 7

The TVA "Idea"

In previous chapters a summary of certain TVA statistical facts and figures has been given. But no advocate of TVA will accept the figures alone. Invariably he will say: "TVA is more than a mathematical operating statement – it is an 'idea.' And this 'idea' must be grasped before you can fully appreciate TVA." That is fair enough. But what is this "idea" and where can it be found?

Many persons, when asked that question, recommend Mr. David Lilienthal's book, *TVA: Democracy On The March.*[40] Mr. Lilienthal has been closely associated with TVA since it came into existence. He was chairman of the TVA Board from 1941 to 1947. Probably that explains why so many people praise his book as the most authoritative story ever written about TVA and the "idea." It would be almost impossible to examine this "idea" – the philosophy behind TVA – without quoting the man who has written the leading defense of it. But let it be clearly understood that this review is a discussion of *ideas,* and not of persons.

To begin with, we should note that Mr. Lilienthal claims not to advocate a strong central government which might endanger the people's liberty. Quite the contrary. On page 149 of his book he writes: "The shortcomings of highly centralized administration of national policies are not due simply to the stupidity or wrongheadedness of particular individuals. Naming a scapegoat when-

ever a mess is uncovered – a favorite editorial and lay custom – is of little help; it usually misses the mark. We need perspective about such things, lest we foolishly take out our anger and frustration for ineptitudes upon this man and that, this party or that, instead of turning our attention where it usually belongs, *viz.*, upon the limitations and dangers of centralization."

On page 151 he continues: "Centralization is a threat to the human spirit everywhere, and its control is a concern of all men who love freedom."

Mr. Lilienthal also takes a strong stand against "politics." On page 184, he says: "Once politics enters, the entire edifice of an enterprise built upon expert skills becomes unsafe."

On page 185, Mr. Lilienthal speculates on what would happen if politics should ever enter TVA: "TVA, if it were politically managed, could become a curse to this valley. Just what would it mean if politics had been injected into TVA's selection of personnel, or into detailed administration of funds by which the job is carried out? It would mean that the thousands of miles of transmission lines built by TVA's forces might have been located not for economic and engineering reasons, but upon a political basis. A city that votes 'right,' a county that delivers the 'right' number of votes for a particular organization or candidate, an industry that 'comes through,' could be rewarded by advantages in the location of transmission lines, though such a location was not justified by the business facts. A city and its industries that do not vote 'right' might find that its electric sub-stations were not adequately maintained, that service was poor, that its industrial growth had stopped."

Thus Mr. Lilienthal shows that he is well aware of the inherent dangers of centralization and politics. This makes it all the more surprising to read his statement on page 48: "The TVA Act was nothing inadvertent or impromptu. It was rather the deliberate

and well-considered creation of a new national policy." This same thought is found on page 58: "It was the methods of the past which the Act creating the TVA deliberately repudiated. For in this major characteristic – the unified approach – TVA was a definite break with government tradition."

As it used to be taught, government tradition in America was based on common law and states' rights, with strictly limited powers to the federal government and its agencies. Even that limited responsibility was to be hedged by the use of checks and balances and eternal vigilance to prevent our officials from abusing or exceeding the powers delegated to them by the Constitution.

But on page 169, Mr. Lilienthal calls this a "negative" concept of government: "The reasons why the laws creating bureaus, commissions and departments have, by almost invariable custom, failed to follow modern principles of management are not too difficult to understand. The policies of law-making in the immediate past have been largely regulatory and negative: 'This shall *not* be done.' The atmosphere of the legislature has therefore been heavy with this regulatory spirit, expressed in carefully limited responsibility, lack of trust, and forever setting one man to watch and checkmate another."

Mr. Lilienthal believes that this "negative" approach is outmoded. He recommends that the new approach by government be: "This *is* to be done." The only puzzling element in that statement is why Mr. Lilienthal chooses to call it a new approach. Actually, it is as old as government itself. In fact, the United States government apparently is the only government in known history that *was not* established to force positive action on its citizens. The Federal Constitution was specifically designed to define and limit positive action by a federal government *that was yet to be set up.*

Thus far, two of Mr. Lilienthal's approaches to the TVA "idea" have been examined. On the one hand, he shows awareness of the

inherent danger in centralized government, and he readily admits that politics could – and probably would – turn TVA into a valley of evil. But on the other hand, he advocates that the federal government keep TVA and set up the eight other similar Authorities that would completely cover the United States. That does not seem to indicate any great fear of centralization and political control. Thus, obviously, the TVA "idea" must mean to him something other than the basic issues of states' rights versus federal control, or private ownership versus government ownership. This "idea" must be something entirely new. Apparently its advocates consider it neither private ownership nor "old-fashioned" federal control or ownership.

Mr. Lilienthal divides his definition of the TVA "idea" into two parts. He calls the first part "A Seamless Web – the unity of land and water and men." Beginning on page 58 he discusses some of the present activities included in the TVA web: "A single agency, instead of half a dozen, was to design and build the dams, buy the land, construct transmission lines, and market the power the river produced. One agency was to 'envision in its entirety' the potentialities of the whole river system, for navigation, for power, for flood control, and for recreation. . . . The TVA should directly select, hire, train and supervise the workmen and be responsible for the policies governing wages and conditions of work. . . . The job of providing adequate housing for the workers at dams built at isolated points was undertaken by the TVA itself . . . library service . . . public health facilities . . . 'family readjustment' . . . geology, agronomy, forestry, chemistry . . . wild life, fish culture . . . recreation . . . public parks and playgrounds . . . malaria control . . . archeology . . . public finance."

In addition, the TVA "seamless web" includes horticulture; the manufacture and distribution of fertilizer; the invention of a new type refrigerator; experimental farms; teaching teachers the TVA

"idea"; bringing schools, colleges and universities into the program; organizing cooperatives of various types; exporting the "idea" to other states; training Russian experts to build similar "plants that will produce power on streams 'somewhere beyond the Urals' "; furnishing technical advice and help to private industry; planning and building terminals to connect highways, railroads and waterways; administering TVA demonstration farm activities in twenty-one other states of the Union; reforestation; control of soil erosion; and a host of other tasks.

Nor is TVA the only federal agency involved. On page 37, one finds: "Moreover, scores of federal agencies cooperated. . . ." Then Mr. Lilienthal lists nineteen of those federal agencies and departments by name. But since the complete listing would be several pages long, he stops with this comment: ". . . and so on; the list, if complete, would include most national agencies."*

At this point, one might be tempted to ask if there is anything *not* included in this TVA idea of a "seamless web." Certainly every person living in the Tennessee Valley is included. And just as certainly every taxpayer in the United States is included, whether he wishes to be or not. Which leads to the second — and most important — half of the TVA "idea." Since all of us are included in it, where does the *authority* for all this rest? Does it reside with the federal government? State governments? The 3-man TVA Board? One man? Or with whom?

On page 145, Mr. Lilienthal approaches this "authority" issue with commendable modesty: "We face a dilemma; there is no reason to conceal its proportions. I do not minimize the complexities and difficulties it presents. We need a strong central government.

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* Here is a statement from the April 3, 1939, minority report of the Joint Congressional Committee investigating TVA: "Millions of dollars have been spent by other government agencies on behalf of TVA, which sums have not been included on TVA's books nor in its financial statements to Congress."

This is plain to everyone who sees the changed nature of our modern world. But I have deep apprehension for the future unless we learn how many of these central powers can be decentralized in their administration."

The TVA "idea" of authority, found on page 143, logically belongs after that introduction: *"The problem is to divorce the two ideas of authority and administration of authority."* Mr. Lilienthal also phrases it another way: ". . . an effective combination of the advantages of the *decentralized administration of centralized authority.*"

Do you suppose that Mr. Lilienthal ever considered this obvious solution to his problem: Why not avoid the admitted dangers of centralized authority by *beginning* with the decentralized state and local governments? For all practical purposes, the state and local governments already possessed all the powers granted TVA. And, right or wrong, they could have done the job if they had wanted to.

There are three possible reasons why the Tennessee Valley states did not choose to do the job themselves: Either they just didn't want to, or they considered the cost greater than the benefits, or they were led to expect that the federal government would do it for them. Probably it was a combination of all three.

But since the TVA "idea" has been defined as the *decentralized administration of centralized authority,* let's take a look at how that purpose was to be accomplished. First of all, TVA is a federal agency, with all the powers of the federal government behind it. TVA supersedes state and local governments just as much as the federal government supersedes them. TVA has been given the power to *force* state and local officials to conform to its decrees and decisions.

The defenders of TVA, while admitting that such power exists, maintain that it has seldom been used. In fact, a vital part of the

TVA "idea" is to secure the voluntary cooperation of state and local officials, and of all the residents within the region. What if they don't volunteer? Mr. Lilienthal gives us the answer on page 119: "Of course there are clashes which as of any given moment cannot be harmonized. The private interest must then be subordinated." But as Mr. Lilienthal points out, the majority of the people in the TVA region — along with their state and local representatives — generally have cooperated voluntarily.

There were, however, a few exceptions — the farmers who didn't want to be moved, the landowners who didn't want to sell their land, the private electric companies that wished to stay in business, all persons who were opposed to government ownership of the means of producing electricity, everyone who objected to the use of federal taxes for local projects, and a few others — especially those who believed that Congress should have direct control over every project that is claimed to be for the general welfare.

The advocates of TVA maintain that Congress does have some control over it because the Senate must approve the President's selection of TVA board members, and the House of Representatives must make yearly appropriations of additional money to make up the TVA annual deficits.

That is all true, but with the possible exception of the Atomic Energy Commission, TVA is still probably less responsible to Congress and to the people than any other administrative branch of government. And the advocates of TVA are in favor of that arrangement. They call it the TVA "idea" of decentralized administration. It was carried to the extreme of no Civil Service control of TVA personnel.

While granting that Civil Service is no guarantee of efficiency in government, it is still probably better than the old "spoils system" or the new TVA "idea" of hiring whom it pleases according to its own standards.

The TVA advocates answer that by claiming that there is no politics in TVA. As Mr. Lilienthal puts it: "Who was to be employed and how selected were not written into our charter, but employment, it was stipulated, must be solely upon merit and without political considerations."

Has any politician, in writing a bill, ever stipulated it any other way? Will any politician ever admit that he has hired his friends and relatives for any reason other than merit? In truth, is the requirement that TVA officials be loyal to the TVA idea any less political than party loyalty?

Thus we have a quick review of the advantages and dangers of the TVA "idea" according to Mr. Lilienthal. He says that the advantage lies in federal ownership and its power to get things done. But the danger is that the holders of that coercive power — officials of the federal government — will misuse it. His solution is to retain the federal power, but to place that power in *appointed* officials who are not directly responsible to the representatives *elected* by the people.

Is this "democracy on the march"? On the one hand, the people are to be allowed to govern themselves through elected representatives. But on the other hand, the elected representatives are not to be trusted. Are our elected officials any less honest and able than the officials they appoint?

If it is agreed that *authority* is a dangerous thing, why not restrict the *authority* itself instead of placing it in other hands? If the *authority* is not to be restricted, then our elected representatives in Congress are just as capable of handling it as are the appointed officials on the TVA Board.

It is true that the people might elect a dishonest or inefficient representative. But that danger cannot be averted by appointing him instead of having him elected. Mr. Lilienthal himself once wrote a report to President Roosevelt indicating that the first ap-

pointed chairman of the TVA Board, Mr. Arthur Morgan, was not the right man for the job.[41] A little later, Mr. Morgan was dismissed for "contumacy" (defiance of authority), and Mr. Lilienthal was eventually appointed chairman.

Who was right and who was wrong? For the purposes of this review, the answer is relatively unimportant. The point is that the TVA "idea" tends toward a government of permanently appointed men instead of a government of elected representatives limited by *specific* law and subject to periodic tests at the polls. Thus the TVA "idea" tends toward the exact reverse of the principle on which this government was founded.

Relatively few people even know who was appointed successor to Mr. Lilienthal as chairman of the TVA Board. Is the new chairman honest? Is he capable? Doubtless he is both. But sooner or later there will be a chairman who will be corrupted by the tremendous power he has at his disposal. We should remember that financial dishonesty is not the only or chief temptation of men in authority. Political aggrandizement, or lust for power, is a more frequent failing than economic greed. As Mr. Lilienthal so aptly phrases it: "There is a limit to the energy and wisdom of the best; the ancient lust for power for its own sake burns in the worst."

That is why the Founding Fathers set up a constitutional government of checks and balances, divided authority and specified limitations to political power. TVA is a distinct departure from this concept of government. It has almost none of these customary safeguards. It is government by so-called experts. Through the device of federal administrative agencies, the experts are given coercive authority over the people, an authority which in many cases is frequently beyond the control of courts or Congress.

The meaning of this trend toward administrative agencies, such as TVA, is discussed in greater detail in the following chapter.

CHAPTER 8

Administrative Agencies and Authorities

Today, whether we are aware of it or not, our country is largely dominated by government administrative agencies.* TVA is one example in the field of electricity production. There are also administrative agencies for housing, banking, labor, insurance, farming, communications, shipping, railroads, and a host of others covering almost any phase of our economy that you care to mention.

The daily decisions made by these administrative agencies directly affect the well-being of everyone. This is due to the fact that the operating rules and regulations decided on by the officials of administrative agencies have as much weight and influence as do laws passed by Congress and state legislatures. And generally speaking, the decisions of these administrative agencies are not subject to the customary checks and balances – and judicial review – that are a fundamental part of our form of government. Most persons of moderate means just don't have the money necessary to test an administrative decision in the courts. Even if they did, the

* This chapter is based in part on the thought-provoking article written by Roscoe Pound, Dean of Harvard Law School for twenty years, in the April, 1946 issue of *American Affairs*. In his article, *What is Happening to the Law*, Dr. Pound develops this same theme by contrasting the operating methods of administrative agencies and the courts.

courts generally do not decide whether the administrative decision, in itself, is just or unjust. The courts can – and on rare occasions do – decide that an administrative agency is unconstitutional; that legislative, judicial and executive powers are mutually independent and are not to be combined under one agency. But usually the courts confine themselves only to deciding whether the administrative agency has, or has not, exceeded the broad and vaguely defined powers usually given it.

As Dr. Roscoe Pound said in discussing this subject: "We have been coming in practice to a condition of what may well be called administrative absolutism." According to Webster, the definition of absolutism is: "The doctrine of unconditional power vested in an autocrat; despotism." Thus it behooves us to take a close look at just what an administrative agency or authority is.

To repeat a point of utmost importance, administrative rule-making and regulations have the force of law. In practice they *are* law. Administrative rules and regulations often affect interests of vital importance to the persons concerned. For instance, TVA has the legal right to approve or disapprove all drainage projects and plans within its area. And that area covers parts of seven states. Theoretically, at least, all property owners must have TVA's permission before building a pond, cutting a ditch, terracing a field, or doing any other project that affects "drainage." No unit of local government within the TVA area can build a road, change the course of a stream, or even build a culvert if TVA decides against the project under its "drainage and flood control powers." Of course, TVA does not always exercise its legal rights in these matters, but it has them to use as its officials think proper. In addition, these administrative decisions by TVA officials directly or indirectly affect farming, shipping by rail and water, soil conservation, sawmills, and a host of other persons and jobs already mentioned in the preceding chapter.

Usually, because of the nature of administrative rule-making, the first knowledge that a person has of a new administrative rule is *after* it is in operation. In practice, his first opportunity to object to this new administrative regulation is likely to come *after* the agency officials try to enforce their decision against him. Then the person affected by the decision of the administrative agency may ask for the opportunity to question it in court. But by then, serious injury may have been done to him and his livelihood.

The advocates of administrative agencies and authorities claim that "simplicity of procedure and nontechnical methods" result from this new type of administrative "justice." Admittedly this "justice" is simple and nontechnical. The authority issues an order, and you must obey – or raise the money for a long court battle. And as an additional trap for the citizen who is honestly trying to obey the law, the administrative decisions that represent law may be changed from day to day, or even from hour to hour. In practice, all that is necessary to bring this about is for an administrative agency official to decide to issue a new regulation. For purposes of "simple nontechnical procedure," *the official has been given what amounts to the right to make up laws as he goes along.* That is the equivalent of saying that what government does *is* law. In that case, we would be perfectly correct in referring to policemen as "the law."

Apparently that is what the advocates of government ownership mean by "a decentralized administration of centralized authority [TVA]." In the case of TVA and many other administrative agencies and authorities, it simply means that some persons are given the power to tell other persons what they *must* do. That is a high price to pay for the alleged efficiency of administrative agencies and authorities. That concept of government is the exact opposite of a Republic where the law is as binding upon government as upon anyone else.

For instance, when an administrative agency – FCC, TVA, FTC, ICC, or what you will – receives or instigates a complaint against a person who has allegedly violated one of its decrees, this procedure is often followed: The agency officials begin an investigation. In effect, this often amounts to a prosecution of the accused *even before he hears about the investigation.* The administrative agency allows its own investigators to act as prosecutors. And quite frequently, the officers of the agency make their decision in secret conference with these same investigators.

This procedure is contrary to the most elemental principle of justice. An American court summed it up in these words: "One of the rights secured to an accused person by the law of the land is that his accuser shall not at the same time be his judge; that is a principle of law that is fundamental; it is the first requisite to a fair and impartial trial; it is a privilege that the law of the land guarantees to every man when his life or liberty, good name, fame or property is involved."[42]

It is claimed that an administrative agency, by its very nature, cannot separate its investigating and judicial duties. That is true. The key words are "by its very nature." When our forefathers rebelled against the administrative agents of George III, they did so because they knew that justice could not exist when one person or one agency was investigator, prosecutor and judge. Thus they rejected that concept of government. They set up a representative government with distinct divisions of authority. Were they wrong? Should we have regional authorities that have been granted the right to make up their own rules and regulations, and to enforce them upon unwilling citizens? Presuming for the moment that these regional authorities really accomplish their aims, is flood control or navigation or cheap electricity worth this price of administrative absolutism? If so, it might be a good idea to have more TVA's. If not, what about the TVA we already have?

CHAPTER 9

TVA: Yardstick or Birch Rod?

Probably there would have been no TVA if popular opinion had strongly opposed it. The persons who wanted government ownership and operation of the means of producing electricity were well aware of this. So they set out to create popular opinion favorable to TVA.

A re-reading of the newspapers of the early 1930's reveals that two basic approaches were used to accomplish this purpose. First, the owners of private electric companies were accused of "growing fat" on the savings of "the little people." That type of demagoguery is still alive. A representative on the floor of the House recently declaimed about ". . . private power companies . . . with their exorbitant and unconscionable rates, with their discriminatory tactics, with their utter disregard for human welfare, and with their eyes single to profits and dividends."[43]

The second approach was to suggest that the federal government should set up *just one* "pilot plant" to prove how cheaply electricity could be produced when it was taken from those "bloated capitalists" and turned over to a "benevolent government." This pilot plant (TVA) was sometimes referred to as a "yardstick," and sometimes as a "birch rod in the cupboard." This "birch rod" — subsidized government competition — was to be used to "whip" the private power companies into obedience.

It is difficult to determine which had the greater popular appeal, the "yardstick" approach or the "birch rod" approach. Let us first briefly summarize TVA as a "yardstick."

Comparing TVA to a private electric company is something like comparing a giraffe to a frog. There are certain similarities but there are also certain basic and inherent differences. And so it is with TVA and any private electric company. Both produce electricity.

Both use capital. But the private company must secure its capital by voluntary agreement in the open market. TVA has the U.S. Treasury backing it – with the taxpayers' money.

Both TVA and private companies pay taxes, or "in lieu of taxes." But the private company pays federal taxes. TVA does not.

The private company is subject to all local, state and federal laws. In effect, TVA often makes up its own laws as it goes along. And so on. . . .

In short, TVA *is* the federal government. How can the government possibly be compared to an electric company? They are two completely different agencies. And any attempt to combine them must necessarily result in confusion because each was designed to perform specific and different functions.

This "yardstick" idea is often used by TVA officials in another way. They point out that, percentagewise, the average advances in wages, industrial activity, savings, and so on have been greater in Tennessee than in the nation as a whole. The implication is that these relative gains are an economic justification for TVA.

Of course, one might expect that the spending of hundreds of millions of the taxpayers' dollars for subsidized electricity, for the Oak Ridge Atomic Plant, and for other government projects in Tennessee might have some effect in booming industry and raising the demand for labor in that region at the expense of the general taxpayers from whom the money was taken.

As it turns out, however, comparable statistics for other areas — Texas, Alabama, Mississippi, the west coast states and other regions — show greater economic improvement, both total and percentage-wise, than Tennessee.

This study does not presume to inquire into the constitutionality of TVA. In the final analysis, if a sufficient number of American citizens want a TVA, they can get it. If they want any other "new" idea in government, they can get it. If the Constitution interferes, it can be amended or interpreted. Nevertheless, it is of interest to note the arguments used before the Supreme Court to justify TVA in the beginning. It is even more interesting to compare what was then said to what has since happened, and to wonder if TVA would have been declared constitutional if its ultimate purpose had been fully understood at that time.

In arguments before the Supreme Court, it was claimed that the primary purpose of TVA was navigation and flood control. It was claimed that the production of electricity was purely secondary and incidental to this primary purpose.

Presumably, this argument was believed then. But surely there is no person who believes it today. Yet, in effect, TVA was declared constitutional on the supposition that its electricity would be produced merely as a by-product of navigation and flood control.

TVA was so anxious to prove that it had no intention of going into the power business *as such* that it had the TVA counsel make this statement before the Supreme Court:

MR. O'BRIAN. "[The Muscle Shoals steam generating plant] has never been used. It stands idle. Much is made in my opponents' brief of the danger of the Government selling power from the steam plant. That steam plant is not in this case — it has never been used. . . . There is nothing in this record to show that the Authority ever intends to use it for the purpose of generating power for sale, and I disavow any such intention at this time."[44]

A similar statement was made by TVA counsel before a United States Circuit Court of Appeals: ". . . the defendants [the top TVA officials] allege that the said steam electric generating plant has not been and is not being operated and that there is no plan or intention to operate said steam plant now or in the future, or to construct or operate any other steam electric generating plants."[45]

These statements, and others of a similar nature, convinced our highest courts that TVA electricity was to be only a by-product of its flood control and navigation programs, and could thus be considered constitutional. But on page 1285 of the proposed Budget of the United States Government for 1949, we find this statement: "In addition, initiation of work on a $54 million steam generating plant [for TVA] is recommended." (!) The initial appropriation to get things started would be only $4 million. This new steam generating plant would be located at New Johnsonville, Tennessee. It would contain three 125,000 kilowatt units.

In the congressional debate on this proposal, the advocates of TVA argued that there is not enough hydroelectric power in the Tennessee Valley to supply the needs of TVA customers. And since there are no private electric companies in that region, they said, TVA is obligated to build steam plants to produce electricity to sell to the persons who wish to buy it.[46]

What happened to the private electric companies? TVA, in the name of the federal government, bought up or otherwise eliminated practically all of the private electric companies in the Tennessee Valley. Now TVA says, in effect, "Well, if private enterprise won't produce electricity for the people in Tennessee, then TVA must do it."

This proposal for a steam plant was defeated in Congress, and the initial $4 million appropriation was dropped from the proposed allocation of government funds to TVA. But is that likely to be the end of the issue? More likely they will be back next year and the

year after that.* Unless their plans are rejected by each succeeding Congress, they will eventually secure passage of the pending legislation for the creation of eight other TVA's.[47]

This passage from one of the reports recently prepared by the Hoover Commission on government reorganization shows what happens to private industry when government moves into a productive field: "Private utility companies are virtually precluded from developing new sites in major portions of the Nation because of Federal competition. The Federal Power Commission has demonstrated a reluctance to issue licenses for private companies to build at sites in areas where Federal agencies are contemplating construction, and private capital has demonstrated a reluctance to make heavy investments in areas where the Federal Government may establish a competitive project."[48]

Most advocates of TVA deny that they wish to see the socialization of the entire electrical industry. But that denial is not logical. The persons who favor TVA, but deny that they favor more TVA's, are not thinking clearly.

For instance, if a person truly believes that TVA is superior to private ownership, obviously he must believe that the same type of agency can, and should, be put into operation elsewhere. Those who believe that government ownership and operation of the means of production is preferable to private ownership and operation should have the courage to face the issue squarely instead of trying to slip it in by the back door.

As the perfect example of what happens under this "back door technique," let us take a look at the figures on the production of electricity since TVA and other federal power projects were built for "navigation, irrigation and flood control."

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* A $2½ million appropriation to begin construction of this TVA steam plant was passed by the House in early 1949. This measure is now (April 1) before the Senate for action.

In 1934, the federal government was producing *less than one-half of one per cent* of all the electricity produced in the United States.[49] At the end of 1946, the federal government was producing *more than twelve per cent.*[49] This figure does not include the output of state and local electricity projects.

A story on page 48 of *U. S. News and World Report* of December 10, 1948 throws further light on the expansion of government into the production of electricity: "Expansion programs on the books now will add about 15,000,000 kilowatts of new capacity . . . by the end of 1951. A $5,000,000,000 expansion by private utilities accounts for about two-thirds of the total. The remainder is to be installed at municipal and Federal Government projects." Thus it is estimated that government is to own and operate at least 33% of the added generating capacity.

But that is only for the next two years. Here is an estimate from a recent report to Congress by the Senate Chairman of our national committee for long-range future government public works:[50]

"The grand total cost of comprehensive plans for conservation and use of the water resources of the United States, including work completed and under way, may be divided among the various functions of the plan approximately as follows:

Flood control	$12,295,200,000
Navigation	6,233,100,000
Hydroelectric power	*24,086,900,000*
Irrigation	8,681,600,000
Drainage	375,400,000
Watershed treatment	4,012,000,000
Pollution control	1,365,800,000
Preservation of fish and wildlife and recreation	456,200,000
	$57,506,200,000."

This is more than $24 *billion* for government production of electricity! And remember that, according to the Constitution,

government production of electricity is supposed to be merely an incidental, by-product of navigation.

Is TVA a "yardstick" or a "nightstick"? And after the electrical industry is 100% government owned and operated, what will be the next industry to be taken over by the TVA idea? Housing? Steel? Railroads? Banks? Coal mines? Medicine? Is any industry, occupation, profession or trade safe from attack by this "idea"? Is there any end to this idea of a "seamless web" of land, water and *persons* under government control?

CHAPTER 10

Private Enterprise and River Development

One of the main arguments advanced for river development by government is that private enterprise cannot or will not do the job. Demonstrably, this is not true. For example, the Southern California Edison Company's Big Creek development shows what private power companies have done – and are doing – on many rivers in various parts of the United States.

In the High Sierras, Southern California Edison Company has constructed a $100 million project. Beginning 36 years ago, this company (and its predecessor companies) built access railways and highways, a 13-mile tunnel, hydroelectric power houses and dams. In addition to furnishing a steadier water flow for power production, these dams also provide valuable flood control for the lower San Joaquin River. They flood no good or tillable land. They store water to be released for power production during the dry season. This water is then also automatically available for irrigation in the valley below. Not only do the taxpayers make no contribution to this project but also they receive contributions from all these improvements through taxes paid on them by Southern California Edison. Contrasted to the tax-supported TVA project, this job is taxed while the people get the resulting incidental flood control and irrigation benefits without charge.

Many other similar comprehensive hydroelectric projects—some dating back to the beginning of this century – have been financed and built by private citizens on the West Coast as well as elsewhere in the United States. But probably the best known example of private enterprise effecting a comprehensive development of a large river is found in the development of the Wisconsin River by the privately owned Wisconsin Valley Improvement Company. In 1905, several businessmen in the Wisconsin Valley drew up a plan for comprehensive development of the 430-mile long Wisconsin River. In 1907, the State Legislature issued them a charter.

Today there are 21 privately built storage reservoirs for water control on the tributaries of the river. They can impound more than 17 billion feet of flood water. In addition to these 21 water control reservoirs, there are 24 hydroelectric and hydromechanical power plants built as separate projects lower down on the main stream. These plants are owned by several different private companies. They have a capacity of 119,000 electrical kilowatts and 28,000 mechanical horsepower. *The purpose of these power dams is to produce power.* They are of little, if any, value for flood control. That problem is handled by the non-power producing reservoirs on the tributaries. The number of reservoirs and power dams is to be increased as fast as there is economic justification for doing so.

The reservoirs and dams are integrated into one privately controlled system to provide flood control and steadier water flow for power production. The basic needs for navigation, fish, elimination of water pollution, and other services are also provided – at no cost to the taxpayers.

The essential points of this story are well told by the following extracts from an article entitled "One Less River to Boss" printed in the *Electrical World,* August 14, 1948:

"The man who says that only the Federal Government can do

a complete river development job doesn't know whereof he speaks. They've been doing it otherwise on the Wisconsin since the turn of the century. Here's how:

"The Wisconsin Valley Improvement Company is to the Wisconsin River what TVA is to the Tennessee. It would be hard to point out two agencies doing jobs so similar which are so different.

"WVIC is a privately owned stock company. Its reasons for existence are three:

"1. To develop and control the water resources of the river as an agent of the State of Wisconsin, operating under a revocable charter;

"2. So to manipulate the river flow, under all legal restrictions, as to permit member companies to get the greatest amount of power they can or will use;

"3. To earn money.

"WVIC is a 40-man organization with headquarters at Wausau, about mid-way on the 430-mile river. . . ."

"The WVIC works hard and it works effectively. It serves those who live and work near it. This it has done for 40 years. And it's paying its own way.

"The WVIC boasts a comprehensive, integrated, substantially complete, privately financed and controlled development of a river.

"Every year, the WVIC pays complete taxes — local taxes, state taxes, federal taxes.

"Every year, the Wisconsin River stays where it belongs — and maintains a remarkably even rate of flow while doing it.

"Every year, the Wisconsin River provides recreation and fine fishing.

"Every year, the Wisconsin River provides a generous flow of dependable, economical kilowatt hours to the industries and homes along its banks.

"Every year, the Wisconsin River does a sewage disposal job, which, under other conditions, would require many expensive sewage disposal plants. . . ."

"Every year, then, the Wisconsin River does about what the Tennessee River does – on a much smaller scale, to be sure. But the Wisconsin River does it under private auspices. The Wisconsin uses venture capital, not taxes. . . ."

"The state has not recalled or even threatened seriously the original grant. . . . So, similar grants might pay off elsewhere today, yielding proper development of undeveloped water resources to other states which want development and see no sin in permitting private capital and initiative to do the job.

"By statute, Wisconsin assigned the Wisconsin Valley Improvement Company several rights. These include:

"1. The right to build or buy a reservoir system and waterways for diversion of flood waters to or from the river. . . ."

"4. The right to charge and collect reasonable and uniform tolls – for the navigation service it renders boats and other floatables, and for the stored water it makes available to power plants below its reservoirs. Tolls for the stored water may not exceed those sufficient to pay all reasonable operating and maintenance costs, including taxes, working capital and depreciation, and a net return not to exceed 7% on invested capital. Tolls are fixed 'in proportion to the benefits conferred' on water powers. . . ."

"7. The right to issue, with Public Service Commission approval, bonds or other obligations. Also, the right to issue common stock to the extent WVIC debt is retired. WVIC has a program in existence whereunder debt is retired regularly to maintain credit. . . ."

"To those who automatically fear abuse of the public trust by any private developer, WVIC has a reassuring story to tell. It is

permitted a rate of return not to exceed 7%. It is taking a fraction less than 4.4% today and has done so for some years now. . . ."

"Any attempt to assay the value of the Wisconsin Plan, as exemplified by WVIC, must start with the recognition that WVIC isn't trying to save the world. It isn't even trying to save the Wisconsin River Valley – except from floods, low stream flow and improper management of the stream's water resources. This may or may not be a backward way to tackle river development, but it's the way Wisconsin has chosen.

"So WVIC is unconcerned with water-fowl development, malaria control, fertilizer research, soil development and all the other programs. Quite possibly, the strongest political argument which could be made against the application of the Wisconsin Plan on other undeveloped rivers is that it fails to provide as much spending within a river basin as a valley authority would assure.

"At the same time, depending upon the political climate, this argument might be one of the strongest that could be made for the Wisconsin Plan against a new series of valley authorities. There's pretty broad agreement that strong demands will continue to be made for river development and control. The voters like flood control and are insisting that it be performed. Where flood control and power potentialities exist in the same site, the chances are that the power will be developed. If, at the same time, a strong demand exists for federal economy, the Wisconsin Plan then would possess real attractions which federal plans don't have. For instance, TVA cost the U. S. Government $13,099 per cubic second foot of mean annual flow past the Paducah gage. WVIC cost private investors $175 per cubic second foot of mean annual flow past the Muscoda gage. Without making any attempt to adjust these loose figures for the differences in the benefits derived from the two streams, they point up the fact that the one type of river development is intrinsically a lot more expensive than the other. . . ."

This discussion of private enterprise and river development is not to be taken to mean that private enterprise would build a TVA. In fact, it is reasonably certain that there would be no such grandiose project as TVA today if it had been left to the free choice of the people. The evidence indicates quite clearly that the total TVA project was – and is – economically unjustified. The people living in the TVA area were not – and are not – willing to pay the full costs of the project.

They would not voluntarily pay four cents per ton-mile to ship freight by water when they can ship it by rail for one cent per ton-mile.

They would not voluntarily pay millions of dollars for a flood control project that has permanently flooded about as much land as it partially protects from occasional flooding in the Tennessee Valley.

They would not voluntarily pay the high price for electricity that would result from including these "other TVA services" – plus interest and taxes – in the electricity bill.

Nor would the people living in other areas have invested their savings in this TVA project that Mr. Lilienthal estimates to be "more than twelve times the bulk of the seven great pyramids of Egypt."

In short, private enterprise – that is, voluntary cooperation among free persons – would build neither the pyramids in Egypt nor TVA in Tennessee.

The only reason that either of those economically unjustified projects was built is because government used its power to force persons to do that which they would not do by free choice.

CHAPTER 11

The Power Lobby

Actually there are three power lobbies. There are, of course, the public power lobby and the private power lobby. But the third lobby is not so well known because it is informal and unorganized. Possibly it should be called an "attitude" instead of a lobby. It is composed of certain private interests – including private power companies – and government officials who want the government to produce electricity to be distributed by private companies.

The most powerful of these three lobbies – the public power lobby – includes federal agencies such as the Federal Power Commission, the Rural Electrification Administration, the Corps of Engineers, the Bureau of Reclamation, TVA, and the Department of the Interior, as well as many elected and appointed officials of the federal and state governments who are exerting continuous pressure for the widening of government power activities. This public power lobby includes the powerful National Rural Electric Cooperative Association. This lobby is also supported by various government and private organizations that believe in the superiority of government ownership and operation of the means of production. The effectiveness of this public power lobby is amply demonstrated by the encroachment of government into power production over the last twenty years.

The lobby for private enterprise in power is composed of paid representatives of the private electric companies that wish to produce and distribute electricity. This lobby examines – and usually opposes – the various congressional bills that are designed to increase government power production or to increase government controls over private power production. Sometimes this lobby is successful. For instance, the private power lobby had a great deal to do with defeating the proposed TVA steam generating plant in 1948. But by and large the record shows that this private power lobby is running a poor second to the public power lobby.

The position of the third power lobby can be best described by the word, "compromise." It is indicated by the following extracts from an article by Richard H. Syring in the *Wall Street Journal* of May 13, 1948: ". . . private utilities have gone all-out for expansion of federal hydroelectric projects in the [Pacific] northwest. Until recently, they fought public power ownership tooth-and-nail, but the need now is so great they believe expansion of federal projects is the only solution.

"This compromise, however, has not affected their battle to retain the right to distribute federally-generated power. Any additional energy, they maintain, should be sold to private utilities for transmission over their lines. They also want five-year contracts with the government, 'so we'll know where we stand in the future,' instead of the year-to-year contracts which the Bonneville administration insists on writing.

"Another gripe of private utility men here is lack of a unified government power policy. They blame Congress for purse-pinching on power funds. . . ."

"One utility executive asked: 'Is the government going ahead and develop hydroelectric power to take care of the load growth of this area, or is it going to piddle along with token appropriations?'

"They fear, for example, that Congress will trim the Bonneville appropriation for the next fiscal year downward from the $36 million requested. . . . In the current fiscal year Bonneville is operating on a slim budget of less than $16 million. . . ."

Nor is this attitude of compromise confined merely to the Pacific Northwest. It is supported by various persons throughout the industry. For instance, the *New York World-Telegram* of June 1, 1948 carried this story on the annual meeting of the Edison Electric Institute: "He [the president of the E. E. I.] . . . advocated federal development of water resources. . . . But there, he said, the government's part in such projects should end. 'Our utilities,' he declared, 'should absorb and market power from new government dams. . . .'"

This desire to secure "cheap" government power is not confined to just a few private power companies that wish to sell the electricity. The owners of many other types of private businesses also appear anxious to have their electricity bills subsidized by the taxpayers. The most dramatic example of this is found in a half-page advertisement in *The Chattanooga Times* of May 30, 1948. This advertisement is headlined: YOU MUST DO YOUR PART TO KEEP YOUR *cheap* ELECTRICITY. It is sub-headed: DON'T LOSE *cheap* TVA POWER. This advertisement urges all persons everywhere to write their senators, and demand that the government build a TVA steam generating plant. *It is signed by 95 private companies in various lines of industry!*

There is much evidence — including conversations with 28 private utility executives — to indicate that many owners of private electric companies are not completely opposed to government ownership and operation of the means of producing hydroelectricity. As a result of this attitude, we now have the peculiar situation of the owners of private power companies split into factions — the larger faction devoted to *preventing* government ownership

and operation of the means of producing electricity; the lesser faction devoted to *increasing* government ownership and operation of the means of producing electricity!

The first group, for example, seeks to prevent government construction of a TVA steam generating plant. It dwells at length on the evils of government ownership and operation of the means of production.

The goal of the second group is to speed up government construction of hydroelectric dams in various sections of the country. This group includes several private electric company executives who now seem quite willing to have the government use the taxpayers' money to subsidize them through government-built hydroelectric dams!

It is doubtful that many private electric company officials were ever deceived by the navigation and flood control arguments of TVA. Most of them have always been aware that TVA was designed for the primary purpose of producing electricity. Nor are the private power officials deceived by the navigation and flood control arguments advanced by government on behalf of its dams on other rivers in other sections of the country. Again, most of them are well aware that the primary purpose is generally the production of electricity. As nearly as can be determined, some of these private electric company officials now oppose TVA — but favor Bonneville and other government hydroelectric projects — primarily because in the first case the government itself controls the distribution of the electricity, while in the second case the private companies are frequently permitted to distribute it.

Here follows the essence of an actual example of the confusion caused by this attitude of expediency: An electric company executive asked this question in a private conversation: "How can we stop the government from taking over the electrical industry? The situation is getting desperate."

"Are you in favor of the government-built Grand Coulee hydro-electric dam?" he was asked.

"Why, yes," he answered, seemingly surprised at such a question.

"Why are you in favor of it?"

"Because private enterprise couldn't build a dam that big and expensive," he said.

"Couldn't or wouldn't?" he was asked. "Private industry has sufficient money and materials. The engineers and construction men would have worked just as well for a private company as for the government. Now did private industry not build the dam because it couldn't do it, or because it wouldn't do it?"

The electric company executive then admitted that private industry could have built Grand Coulee if it had wanted to.

"Then why didn't private industry build it?"

Finally he admitted that in his opinion the dam wasn't worth what it cost to build. He said that at least he would never have bought stock in any private company that decided to build it. He agreed that probably it would never have been built unless the government had used the taxpayers' money to make up the difference between value and cost. He admitted that such a procedure is socialism – as costly and inefficient and destructive as socialism always finally ends up to be. Yet he does not oppose Grand Coulee nor, with the exception of TVA, any of the other government hydro-electric projects, *so long as the government permits his and other private companies to buy and distribute the electricity.*

If government *can* efficiently produce electricity, why can't it efficiently distribute it? If government *should* own and operate the means of producing electricity, why should it not also own and operate the means of distributing it? Is there any difference in principle?

Thus we have one of the main reasons why government owner-

ship of the means of production is increasing in America. *Many of the leaders of private industry themselves are either in favor of it, or have given up all hope of stopping it.* Many of them are now saying: "But we've got to be practical about this matter. The interests of our stockholders and employees demand that we compromise on certain issues in order to keep any business at all."

But what does this compromise mean? When it consists of abandoning another sector of private industry to government, is it not surrender rather than compromise? It is impossible for a project to be owned by both government and private interests at the same time. Either it is socialistic or it is not. Private enterprise, therefore, cannot "compromise" with socialism. It can only surrender to it or fight it whenever and wherever it appears. Literally, there is no other choice. Now which procedure is the practical one?

Admittedly many private producers of electricity have been maneuvered – or have maneuvered themselves – into a position where they now feel that they must either sell out to government, bow to government control, or face bankruptcy. Since this study is concerned with the future of private enterprise, it seems pointless here to excuse or condemn the past actions of power companies that now find themselves in this awkward position. But if freedom of enterprise is to survive in America, this much is certain: As harsh as it may sound – and as tempting and expedient as compromise or surrender may seem – private utilities everywhere must continue to resist both the threats and promises of the advocates of government power production. This must be done *if freedom is to survive in America.*

In the final analysis, this study concerns *persons,* and not *things.* When we speak of the socialization of the electrical industry, we are, of course, referring to persons. Electricity doesn't care who or what produces it. In a like manner, when we speak of controlled production or controlled prices, we really mean controlled persons.

Under a controlled economy, it is *persons* – not *things* – who are told by government what they must or must not do. This coercion of individual citizens is the vital issue. And in the long run the individual consumers of electricity have just as much at stake in this matter as do the private producers of electricity.

CHAPTER 12

Monopoly or Competition

The advocates of government ownership and operation of the means of production generally place the power industry at the top of their list. They offer various reasons for this. First, it is claimed that the power industry is "clothed with the public interest." True. But so is the baking industry and the shoe industry. In fact, it would be difficult to find any industry that is not "clothed with the public interest."

The second – and most effective – weapon being used to socialize the electrical industry is the idea that the production of electrical energy is a "natural monopoly." Let us begin the examination of this idea by trying to identify the factors that are generally thought to constitute a monopoly.

Did the old village blacksmith have a monopoly? It is a fact that his was often the only shop for miles around. But his apparent monopoly was always limited by the freedom of others to compete with him. If his price got too high, one or all of several things happened. A rival shop opened across the street. Or the farmers shod their own horses. Or they took their business to a nearby town. Thus exclusive physical possession of a site or a service does not in itself destroy competition. This holds true as long as competition – actual or possible – is not *legally* forbidden by government or *criminally* suppressed by the strong-arm methods of a

rival company. Government itself holds the final responsibility for both of these disastrous possibilities.

Now is there something about electricity that automatically frees it from the primary competitive factors that control other industries? The advocates of government power production say yes. So let us examine some of their arguments.

First comes the assumption that all electric companies have exclusive franchises. That is not true. Few, if any, of them have exclusive or perpetual franchises.

This situation was attested to in a rather dramatic manner when fourteen private power companies sued TVA. The power companies, in effect, claimed that direct competition was illegal and contrary to the charters and local franchises that the various states and communities had granted to the private companies. The Supreme Court ruled:

". . . neither their charters nor their local franchises involve the grant of a monopoly or render competition illegal. The franchise to exist as a corporation, and to function as a public utility, in the absence of a specific charter contract on the subject, creates no right to be free of competition, and affords the corporation no legal cause of complaint by reason of the state's subsequently authorizing another to enter and operate in the same field."[51]

Thus, because of the TVA threat to use the taxpayers' money to build competing lines – and to sell subsidized electricity at lower rates – the private companies were forced to sell out at terms suitable to TVA.

Prior to TVA, the electric companies in the Tennessee Valley were not automatically and forever free from direct competition among themselves and from outsiders. They had no exclusive or perpetual franchises. Then the federal government moved in with its discriminatory rates; its subsidized program; its threats and promises. That meant the end of the possibility of regulation by

direct competition because, short of a revolution, the state and local governments cannot very well throw the federal government out. Thus a single seller has taken over an entire region. It is called "TVA: the decentralized administration of centralized authority." And the degree of monopoly is far greater than ever before!

All private electric companies now get from state and local governments the right to exist and to do business. They also secure specific permission from government to use the streets and highways to deliver their product to their customers. Usually they have the right of eminent domain. In these respects they do not differ from many other types of business.

Every corporation must secure a charter or franchise from government before it can exist and do business. This alone can hardly make any corporation a monopoly.

Most companies and persons who use the streets and highways to serve their customers must, in one form or another, receive permission from government to do so. The monopoly feature in this procedure is government's power to deny permission to a competitor to use the streets. Unfortunately, government has generally chosen to exercise this power in the electrical energy field. Thus the accusation of monopoly should be directed against the agency that refuses to permit a competitor to enter the field. *Government, and not private enterprise, is the culprit.*

And as for eminent domain, that right is also given to many other types of business. They include railroads, ferries, universities, housing projects, parks, mines, hospitals and a host of others.

It is true that usually only one power company serves a given area or community. But this is not always the case. And even when there is only one power company, the extent of actual and potential competition is far greater than appears on the surface. First of all, according to Federal Power Commission data, in 1944 there were over 100 cities with populations of more than 2,500

where two or more power producers were in a position to compete directly. Seattle, Washington is probably the best example of this. There, two power producers directly compete throughout the city. In most of the other cases the direct competition usually occurs in a smaller area or on a smaller scale.

Then there are certain forms of direct competition that *all* power companies must meet. For instance, manufacturing plants, apartment houses, stores, hotels, farms and many other types of business can *and frequently do* install and operate their own electric generating equipment. For instance: "Of the 143.2 billion kilowatt-hours generated and purchased by manufacturing and extracting establishments in 1945, . . . 31.1 per cent . . . came from [their own] generating plants."[52] And there is nothing to prevent them from generating all their electricity. They would do just that if it were not for the fact that power companies generally sell electricity at such low rates.

In addition, all power companies — including TVA — must meet direct competition from substitute forms of heat and energy. For instance, electricity, gas, oil, coal, wood, bottled gas and waste steam are competing ways of cooking, heating water, and heating houses and plants. Electricity, gas and oil are alternate methods for refrigeration and air conditioning. Steam, gas and Diesel engines under many circumstances are alternates for electric power.

And, finally, there remains the most effective competition of all. *The electric companies must compete with everyone else for the consumer's dollar.* If the price of electricity is low enough, the consumer may, for instance, buy that new electric stove, electric blanket, or electric clock. But if he considers the price of electricity too high, he will buy something else with his money. The electric companies know that, within obvious limits, they can make more profits by offering lower and lower prices. And they have been

following that principle from the day that the first generating plant was built in America.

That is one of the main reasons why the average revenue per kilowatt hour of residential electricity has dropped from eleven cents in 1906 to about three cents in 1947.[53] Since 1939, according to the United States Bureau of Labor Statistics, electricity and commercial gas are the only consumer items which have gone down in price. Government power commissions in approving rate reductions for electricity have merely followed market trends. That is, they have approved and decreed what the power companies would have done voluntarily to increase revenues and profits if left alone.

If, as is frequently claimed, government control is responsible for this decline in rates for electricity, why did not the same sort of government control reduce rates in the railroad and other transportation industries? If government can protect the consumers against rising costs, why has the cost of all government services been rising? The truth is that government regulation is only one factor in determining costs and prices, and over a period of time it is an open question as to whether government regulation does not do more to maintain and raise rates than to lower them.

If *any* private company produces a desired product or service at a price the consumer is willing to pay, there is no reason why it shouldn't prosper and make a profit. Most private electric companies meet this test. But if *any* company can't meet this test, it should fail. If the present limited competition among private power companies were made complete by throwing the field open to all comers, private enterprise itself would supply the yardstick for measuring efficiency of operation and fairness of rates in any locality and for any consumer. *This decision of monopoly or competition rests squarely with government. The only reason why there is not*

more direct competition throughout this nation is because government has decided that one power company under government regulation gives better service and lower prices than would competing companies. That decision by government is subject to serious questioning. For instance, why should a competing company move in unless it could offer a better service at a lower rate? Would that not be to the advantage of the consumer? It is true that the least efficient of the two competing companies might go out of business. That would be of small importance if the consumer thereby got a superior product. Thus, again, it is government that creates the monopoly features of private power companies, not the companies themselves.

TVA represents a step backward instead of forward. It means reduced competition as one giant arm of the state replaces many private companies. It means that an agency of government, with an exclusive and perpetual franchise, replaces voluntary associations with non-exclusive and limited franchises. It means that instead of private companies conforming to competitive markets and economic trends, there is an agency that sets its own course, fixes its own rates, and makes up its losses by compulsory levies on the taxpayers.

Only government can stop competition in the electric utility field. It is government alone that can grant and lawfully enforce special and exclusive privileges for any producer in any field. Surely the remedy for the present extent of monopoly and special privileges in the utility field is not *more* monopoly and special privileges, like TVA, with the charges put into the tax bill instead of the electricity bill! The logical course would seem to be the withdrawal of government protection and special privileges which is responsible for creating the present extent of private monopoly in the first place.

In reply, it is commonly argued that directly competing com-

panies would cause unnecessary inconvenience to the public. There would be traffic interruption while extra cables were put in.

The government-owned and privately-owned gas companies in the England of 1880 made much use of this argument to prevent electricity from entering their territories as a competitor. As a result, the newly-formed private electric companies resorted to the tactic of running their lines over the roof tops of the houses. Then the gas companies advanced the "ugliness" argument. This vested interest opposition – resulting in the stringent regulations contained in the Electric Lighting Act passed by Parliament in 1882 – almost killed the new industry in England. "At the close of 1888, there were in operation in the United Kingdom twelve central electric stations. . . ."[54] At the same time in the United States *because of direct competition and practically no government regulation,* "there were . . . a grand total of 574 central electric stations in operation at the close of 1888."[55] And this superior development occurred despite the fact of abundant capital and technical knowledge in England.

In 1888, the English Parliament relaxed some of its rigid controls over the new industry. But the remaining controls by government were still rigid enough to keep the electrical industry in England far behind that of the United States, which had direct competition and few government regulations. This was the period when the United States became the industrial leader of the world. The inconvenience of traffic interruptions, and the ugliness of two sets of electric light poles, were a small price to pay for this progress with its resulting rise in real wages and levels of living.

Maybe Karl Marx was correct in assuming that socialism must necessarily be deferred until competitive capitalism has built up a flourishing industry. Otherwise there would be little to socialize.

CHAPTER 13

TVA and Freedom

There seems to be no doubt but that, at the present time, most Americans who have expressed an opinion on the subject are in favor of TVA — and more TVA's. This situation is well represented by the opinions of editors, publishers and educators on this issue.

As David Lilienthal said: ". . . the application of the TVA idea to the great Missouri Valley and other regions receives the editorial approval of both the 'conservative' *New York Times* and the 'radical' *PM*, of *Collier's* as well as the *New Republic*, of both Joseph Patterson's New York *Daily News* and Marshall Field's *Chicago Sun.*"[56]

A survey by Opinion Research Corporation in January, 1947 similarly showed that the "influence group" (editors and teachers) overwhelmingly approve of TVA. Here are three of the questions with their answers:

QUESTION: "In general, do you approve or disapprove of TVA?"

82% of the influence group approved of it. Only 7% disapproved. The others expressed no opinion.

QUESTION: "Well, it has been suggested that the government put more TVA's along some of the other big rivers in this country. Do you think this would be a good idea, or not?"

74% in the influence group said: "A good idea." 11% were opposed.

QUESTION: "If the Federal Government owned and operated all electric power production in this country, do you think this would be socialistic, or not?"

70% of the persons in the influence group answered: "Yes, socialistic." 23% answered: "No."

Apparently, then, it is beyond question that most American editors and teachers are in favor of TVA. This sampling shows that *only 7%* are positively opposed to it.

Nor was this survey merely a "one shot" affair. It was also made in 1943 and 1945. All three surveys showed the influence group mostly in favor of TVA. That approval has increased.

Fortunately, this same survey also holds out a note of encouragement to those who oppose government ownership of the means of production. In answer to another question, 69% of the influence group wanted *less* government regulation of the means of production. This, together with the fact that 23% denied that TVA is socialism, indicates that a confusion of terms may be involved. This possibility is also suggested by the fact that most of the influence group say they favor private ownership of utilities, while at the same time they also say they favor TVA and more TVA's. Logically, though, a person cannot be both for TVA and for private ownership of utilities at the same time. That would be a positive contradiction in aims.

But instead of arguing definitions, let us examine the probable results of a continuation of TVA approval by the influence group.

If most editors and publishers of newspapers and magazines continue to support TVA – and to advocate more TVA's – it will doubtless mean that in due time this nation will be covered with valley authorities. There will be no more private ownership and operation of the means of producing electricity. In that respect, at least, the United States will not differ greatly from socialistic England and communistic Russia.

Thus, if private ownership and operation of the means of production are to be preserved, it is of vital importance that this trend be reversed. But how to do it? It seems logical to begin by defining freedom itself.

Freedom may be defined as the *absence* of coercion or restraint of man by man. If there are no man-made restrictions of any kind on any person, then every person has absolute freedom.

If there were no evil persons or evil ideas in the world, the resulting complete freedom from overt restraint would be most desirable and logical. There would then be no need for rules and regulations. But, unfortunately, no person now living on this earth is considered completely free of evil ideas, thoughts and actions. And worse still, many persons wish to *force* their ideas – good or bad – upon others. Apparently some of them wish to make mankind over in their own images. They are not willing to leave people free to accept or reject their theories on a voluntary basis. Instead, they wish to force persons to conform to *their* ideas of what is right and what is wrong. It is for this reason that some form of government – essentially an organized police force – is necessary. These dictatorially inclined persons who would use force, fraud and predatory practices must be stopped – by voluntary methods and logic if possible, but by government counter-force if required.

Alexander Hamilton, in the 15th paper of *The Federalist,* put it this way: "Why has government been instituted at all? Because the passions of men will not conform to the dictates of reason and justice, without constraint."

In deciding what form and scope of government is best, we should first decide what we want. Let us assume that most Americans want freedom – personal freedom, the right to be free from the use of force or coercion by one person against another person, freedom to decide for himself where and how he wishes to live, work, worship and spend his earnings.

If those individual freedoms are representative of what we want, then the required form of government needed to secure them is obvious. Essentially, we require a government dedicated to the principle of defending liberty and justice by preventing any person from using force against any person, or cheating any person, or libeling any person, or robbing any person. In short, freedom means a government that guarantees equality under the law; a government limited to the necessary use of force *only* against those who use force to impose their ideas and desires – good or bad – upon other persons.

We cannot force a person to be free. We can only *leave* a person free, because freedom is the absence of compulsions and restrictions. Thus every government action should be dedicated to the securing of freedom by preventing the use of force or compulsion by any person against any other person. Then every person would automatically be *left free* to follow his own inclinations to the best of his ability and conscience.

Unfortunately, this concept of freedom and government is not currently popular. The prevailing philosophy of government in the world today seems dedicated to the idea of *forcing* persons to be "free," to *making* the people do what someone else considers "best for them." This is a complete reversal of what government should be set up to do. Instead of confining itself to suppressing the individual dictators, government itself has become dictatorial! These dictatorial measures by government in many countries include government ownership or strict control of the means of communication (the press), as well as government ownership and operation of the means of producing electricity. And, in essence, are they not equally important to the general welfare?

In fact, many proponents of government ownership argue, logically enough, that the press is even more "clothed with the public interest" than is electricity. Thus, according to many, the govern-

ment should operate the newspapers and magazines and publishing houses "for the good of all the people" instead of "for the profit of just a few persons."

Yet probably 99% of the publishers and editors in this country are opposed to government ownership and operation of the press. In fact, as was shown by newspaper opposition to government attempts to regulate them through NRA codes and other schemes, most editors and publishers will bitterly fight even the appearance of government intervention into newspapers. In *The New York Times* of December 9, 1947, columnist Arthur Krock accurately summarized the reasons behind this editorial distrust of government ownership or control of the newspaper business:

"In the first place the government properly cannot go into originating journalism. . . . In that event, it would be adopting the practice of totalitarian states, it would be competing in an industry managed and supported by the citizens who have delegated authority to government and pay its costs; and the next logical steps would be an official newspaper and an official newscast. Should these steps be taken, the government would resemble those against which it has rallied the American people, and is now rallying them, as global threats to democracy, including our own. It might as properly enter any business as a rival of private ownership and management and as a bidder against industry for employees. The end would be state socialism, for clearly no industry could survive against the competition of government."

Well said! This applies to *all* industry, including the electrical industry as well as the publishing industry.

In the final analysis, however, nations, power companies and newspapers *as such* are neither free nor unfree. When we refer to a free country and a free press, we really mean a place where *individuals* have freedom to say and print what they believe, and to own what they have honestly acquired. If enough of those

persons – be they publishers or coal miners – want individual freedom and the private ownership of property, the nation as a whole will thereby grow and prosper. But if most of them believe that government ownership and operation of the means of production is superior to private ownership and operation, freedom and prosperity will be sorely tried.

Is it not naive to believe that there can continue to be a free press under a government that owns and operates the means of production? Can the press long remain free under socialism?

Is England an exception? The best that can be said for the English press is that it presently appears to be near the bottom on the nationalization list. But there is little to prevent it from being moved higher up the list. Already the socialist government in England controls the supply of newsprint, advertising space, manpower, machinery, buildings, prices, and the electricity to run the printing presses. By restrictions on the use of these factors, the government could hamstring or suppress any or every newspaper at will. Is an editor *really* free to criticize a government that controls his supply of newsprint and electricity?

In Parliament, there has already been severe censure of the English press for being critical of certain nationalization decisions by the government. And: "The activities of the British press will come under the public spotlight this year when the Royal Commission of Inquiry into Newspaper Ownership and Practices publishes its report, probably in the spring. This inquiry has been hotly pressed by the anti-press section of the Labor Party. In evidence, many of the critics have found their charges hard to substantiate. . . ."[57]

This indicates quite clearly that freedom of the press in England stands on a shaky foundation. This is always the case under government ownership of the means of production.

Will the English press ever be owned and operated by the

government "for the good of all the people," as the English electric plants are now operated "for the good of all the people"? There can be no sure answer to that question. But certainly this is a logical deduction: There would be no possibility of the English government now socializing the press if the government had not first secured the power to socialize the electrical industry.

Will anyone be so bold as to say that there can be freedom for persons in any country where all the means of production are owned and operated by the state? If the owners of newspapers continue to support the socializing of the electrical industry, what moral principle will they use to fight the inevitable attempts to socialize the publishing industry?

Woodrow Wilson, when he was a candidate for President, correctly weighed the fundamentals of this issue in these two quotations from his speeches as reported by *The New York Times* of September 9 and 10, 1912: "The history of liberty is the history of limitations of governmental powers, not the increase of it." And: "Has justice ever grown in the soil of absolute power? Has not justice always come from the . . . heart and spirit of men who resist power? Liberty has never come from the Government, but always from the subjects of it."

Is there not a thought here worthy of deep consideration by those American editors, publishers, teachers and others who favor TVA and more TVA's?

APPENDIX

Interest and Production

INTEREST: The accountants employed by both business and government agree that *all* the costs of production must be recorded if an accurate accounting is to be rendered. In all private corporations — and in most government corporations — it is agreed that interest is a cost of production. It is so recorded.

The United States General Accounting Office says: "It should be noted that the Bonneville Power Administration considers that interest on the investment, among other costs, is an essential element of cost, and calculates interest on the Government's investment in the power program at 2½ per cent per annum, a rate established by the Federal Power Commission as the approximate cost . . . to the Treasury of the United States."* The Federal Housing Authority, Hoover Dam, and other government corporations also record interest as an inescapable cost of their production.

In referring to the fact that TVA does not pay its interest costs, the General Accounting Office states: "Unless all the costs to the Government of the power operations are included in the Authority's statement of power operations, the relation between power gross revenues and costs cannot be completely established, and it cannot be conclusively shown that the power operations are self-supporting."*

* Government Corporations Appropriation Bill, 1949; p. 583; recommendations of General Accounting Office on Tennessee Valley Authority, April 6, 1948.

SUMMARY OF TVA PROFIT AND LOSS FIGURES (Add 000)

	Departmental Summaries[a]							
	Electricity	Navigation	Flood Control	Fertilizer	All Other	Total	Interest Cost[b]	Total Loss[c]
1934-37	$— *271*	$— *903*	$— *744*	$— *4,506*	$— *6,612*	$—*13,036*	$— *6,730*	$— *19,766*
1938	— *312*	— *432*	— *414*	— *1,862*	— *1,993*	— *5,013*	— *5,362*	— *10,375*
1939	1,478	— *656*	— *423*	— *2,202*	— *2,279*	— *4,082*	— *6,265*	— *10,347*
1940	4,299	— *856*	— *445*	— *2,473*	— *2,256*	— *1,731*	— *7,070*	— *8,801*
1941	6,991	— *993*	— *594*	— *2,250*	— *2,351*	803	— *8,262*	— *7,459*
1942	3,673	— *1,076*	— *633*	— *2,584*	— *2,522*	— *3,142*	— *9,891*	— *13,033*
1943	11,149[d]	— *1,249*	— *786*	— *3,344*	— *2,595*	3,175	— *11,186*	— *8,011*
1944	11,116[e]	— *1,589*	— *917*	— *412*	— *4,616*	3,582	— *12,921*	— *9,339*
1945	16,982[f]	— *2,115*	— *1,409*	— *859*	— *4,854*	7,745	— *14,147*	— *6,402*
1946	16,214	— *2,527*	— *2,116*	— *868*	— *5,864*	4,839	— *15,338*	— *10,499*
1947	21,248	— *2,956*	— *2,446*	— *1,431*	— *7,485*	6,930	— *16,192*	— *9,262*
Total	$ 92,567	$—*15,352*	$—*10,927*	$—*22,791*	$—*43,427*	$ 70	$—*113,364*	$—*113,294*

[a] As shown by TVA annual reports (interest not included).

[b] This rate of interest was determined by the average rate on outstanding United States bonds for the years indicated. This rate was then applied, compounded, to the "proprietary interest of the United States" in TVA as shown in the annual reports of the Secretary of the Treasury.

[c] This total loss does not include federal taxes and certain other customary costs of production that are not paid by TVA.

[d] After deduction of $2 million for additional amortization during 1943 of the electrical plant, acquisition adjustments shown on balance sheet; 1943 report, p. 57.

[e] After deduction of $3 million for the same item as (d); 1944 report, p. 67.

[f] After deduction of $1 million for the same item as (d); 1945 report, p. 87.

TVA itself correctly followed this principle when it charged an interest rate of 3½ per cent on the money that it loaned to its subsidiary cooperatives. And while TVA – with one minor exception – never has recorded interest against itself, this statement by TVA in 1938 indicates that TVA was aware of the fact that interest *is* a cost of production: "The present decision [not to record interest] does not preclude a later redetermination of this question nor a setting up for comparative or other purposes of *pro forma* statements which include interest during construction and other similar items."* The table on page 96 is one such *pro forma* statement of the interest cost on the total TVA project.

In addition to the interest cost shown by this table, there is another large cost not recorded by TVA. The U.S. Treasury now holds $56½ million in TVA bonds. (It was $65 million in 1939.) By "special agreement" TVA pays only one per cent interest on these bonds.† This interest cost to the Treasury in 1947 was about $1,130,000. TVA paid to the Treasury only one-half that amount. The other half of this interest cost – $565,000 – was borne by the taxpayers. When this yearly subsidy is compounded and totaled for the past nine years, the resulting figure shows that an additional interest cost of at least $7 million should be recorded against TVA. When this $7 million interest cost is added to the $113 million shown by the preceding table, we find that a minimum interest cost of $120 million on the total TVA project has been borne by the taxpayers instead of by TVA customers.

Since this subject of interest is such a vital issue among the TVA financial practices, let us consider what interest is. Interest is the payment offered to a person to persuade him not to spend his money – not to buy and consume goods and services – today; it is the promise of more goods and services tomorrow – or a year from

* Allocation Report of TVA, June 9, 1938, p. 17.
† TVA Annual Report, 1947, p. A-7.

now – for lending money for future production instead of spending it on immediate consumption. It may include an additional premium – profit – in order to persuade the investor to accept the risk that he may not get back even as much as he loans or invests.

Payment of interest is the method of inducing the saving and investing that is necessary for the production of goods and services under voluntary (private or free) enterprise. Without this inducement – interest and the chance of a profit – some other method of "persuasion" becomes necessary to get capital.

What this method must necessarily be can best be understood by looking at Soviet Russia. In that country, there is little voluntary saving for capital investment. The amount of current production in Russia that is saved to build machines for future production is determined by the government. Since there is no other place to get this necessary "saving," the Russian government takes it from the workers' current production. The workers themselves have no choice whatever in the matter. It is true that the Russian workers are promised great future returns – interest? – in the form of more government-produced clothing, radios, food, housing and electricity. They may or may not get this "interest" that has been promised to them in return for their present sacrifices. But in making this promise, the Soviet government shows its recognition of the fact that – whether in Russia, the United States or anywhere else – the cost of production always includes interest as a reward for saving or sacrificing today in order to increase tomorrow's production.

For instance: "The Soviet government . . . has certainly acquired a vast capital equipment. . . . For the most part, the capital has been provided by the people through savings, which they either did not know they were making, or which they could not avoid. Funds raised by taxation and goods acquired by governmental requisition are examples of compulsory savings. . . . But in connec-

tion with this matter it should be noted that this system has no power to alter the process of capital formation in its essentials. The accumulation of capital involves a sacrifice of consumable income by some individual or group in society. Neither socialism nor communism nor fascism can make saving burdenless; they can merely conceal the burden."*

In the final analysis, interest in one form or another is a cost of *all* investment of capital. This is just as true for government projects as for private enterprise. It is also just as true for capital raised by taxation as for capital raised by borrowing. Interest is a cost of all TVA production. This is true because persons were forced to "save" – pay taxes – in order that government could build TVA for future production. If the citizens had been permitted to keep their money, they could have spent and consumed the portion of their current production that was taken to pay for TVA, or they could have invested it at the rate of interest that was being voluntarily paid by persons in the free market who wanted to use the money to produce shoes, railroads, gasoline and similar products. Thus taxpayers were forced to give up funds they would have preferred to spend on current consumption, and they lost the interest on whatever portion of their savings that was taxed away to pay for TVA. And thus the customers of TVA continue to receive the benefits of these sacrifices and of this interest which TVA does not acknowledge as a cost of its production.

There is no choice about interest being a cost of TVA production. The only choice is whether we wish to have compulsory, government-decreed savings and production or voluntary savings and production. In the case of either voluntary production or compulsory production, the full cost – including the costs necessary for original construction, plant expansion, experimentation, mis-

* Fairchild, Furness and Buck, *Elementary Economics* (Macmillan, 1948), Vol. II, p. 670

takes and failures – must be paid. In the case of voluntary production, the costs for construction, expansion, mistakes, experiments and failures are mostly paid by the persons who have voluntarily invested or loaned their savings in the hope of receiving dividends – interest and profit. But in the case of compulsory, government production, these costs are charged – in part or in full – to persons who do not receive the benefits; to persons who would not voluntarily invest in the project.

The costs of the capital used by TVA, including the interest costs, are present whether recorded or not. But if these costs are not recorded, there is no way for the voters, the taxpayers, and the consumers to know whether or not TVA is an economical use of capital.

This confusion seems to be an inevitable result of government attempts to combine functions that *cannot* be provided by a free market, with services that *can* be supplied by a free market. When both are financed from the same source – the general tax funds – the confusion becomes complete. The taxpayer has no positive way of knowing whether his taxes are used to provide "cheap" electricity for persons who live in Tennessee, or whether his taxes are used to support the judicial system and the police force that equally protect all citizens. As government takes over more and more services that the citizens once performed for themselves, the distinction between who pays, and who receives the benefits, tends to disappear altogether.

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