

Monopoly Man: Samuel Insull

"There was nothing cheap about anything that Sammy Insull did."

Carl Edward Hedstrom, Jr., South Shore Line Motorman ¹

And it was true, of course. Samuel Insull did not have to do anything on the cheap. But there was a caveat: Insull knew well how to manipulate a weak banking system. In the end, Insull's lavish spending cost the nation dearly.

Samuel Insull may not be a well-known titan of business in the way that Morgan or Carnegie are still known today. If you bank with J.P. Morgan Chase, you may well know that J.P. Morgan was a banker. If you live in a town that has a Carnegie Library, you likely think of Andrew Carnegie as a philanthropist. There is nothing with the Insull name that endures, although his image does. But Samuel Insull is a significant person in your past (and in your present) as the person who created the business models that made electricity inexpensive and Thomas Edison's electric inventions universal.² Every person in America who switches on a light, plugs in an electric device, or surfs the internet, has benefitted from Insull's skill in organizing the systems of electric power generation and consumption.³



British-born Samuel Insull began work in America in 1881 as the personal secretary to Thomas Edison, but was soon managing Edison's manufacturing and electric distribution networks.⁴ From Insull's work with Edison on the experiments at the Pearl Street central station, Insull developed the business model for electric central station power production and demand metering that

became the industry standard.⁵

In 1892, Insull left the General Electric Company that he and Edison had founded and headed to Chicago to take up the presidency of the tiny Chicago Edison Company.⁶ Once he arrived in Chicago, Insull set out to monopolize the utility markets, first in the city itself, and later in the rural countryside of Northern

¹ Passengers Use Light at Night (Iris Productions 1979).

² Robert L. Bradley, Jr., *Edison to Enron: Energy Markets and Political Strategies* 19 (2011).

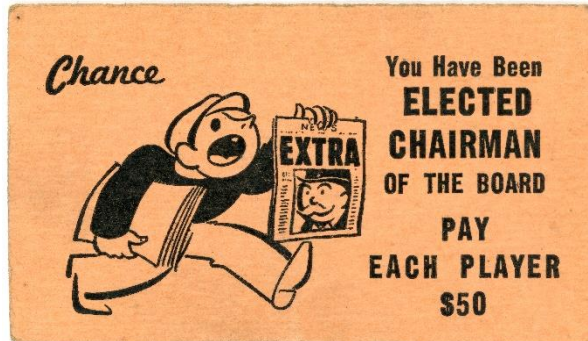
³ John F. Wasik, *The Merchant of Power: Sam Insull, Thomas Edison, and the Creation of the Modern Metropolis* 4 (2006).

⁴ Bradley, *supra* note 2, at 19.

⁵ *Id.* at 76.

⁶ Forrest MacDonald, *Insull* 52-4 (1962).

Illinois.⁷ To capture the suburbs and farms surrounding the city, Insull pioneered the electrification of rural communities through experiments he conducted in Lake County, Illinois. Insull's rural electrification model was universally adopted, thus changing the lives of rural families all across America forever.⁸



By 1913, Insull had become chairman of most of the electric utilities in Chicagoland. That year, Insull became chairman of People's Gas, Light & Coke.⁹ In Chicago, Insull's utility monopoly was nearly complete, but Insull was not finished. By 1917, Insull's electric companies controlled 15% of the national electricity market and served customers in 32 states.¹⁰ At its peak in 1929, the

Insull business empire was worth \$2.5 billion (\$38 billion in 2021 when adjusted for inflation).¹¹

Electricity is a unique product: it is produced, sold, delivered, and consumed in an instant.¹² As there is no storage, systems must deliver the maximum load at all times.¹³ Insull devised the economic solutions to this conundrum which he described as "massing production."¹⁴ ¹⁵ One of the critical success factors was Insull's rate-making system which was unique and is enduring: rates vary by the time of day and the size of the customer. Insull's rate structure and far-reaching grid system allowed the system load to be balanced throughout the day and over the course of a year.¹⁶ As a result, Insull's base residential electric utility rates in Chicago dropped from 20¢ per kilowatt in 1892, to 10¢ in 1897, and to 2.5¢ in 1909.¹⁷ Insull's rate structure made electricity cheap for the masses. Without

⁷ *Id.* at 58.

⁸ *Id.* at 137-42.

⁹ Wasik, *supra* note 3, at 105.

¹⁰ Bradley, *supra* note 2, at 127.

¹¹ *Id.* at 84.

¹² *Id.* at 75.

¹³ *Id.* at 10.

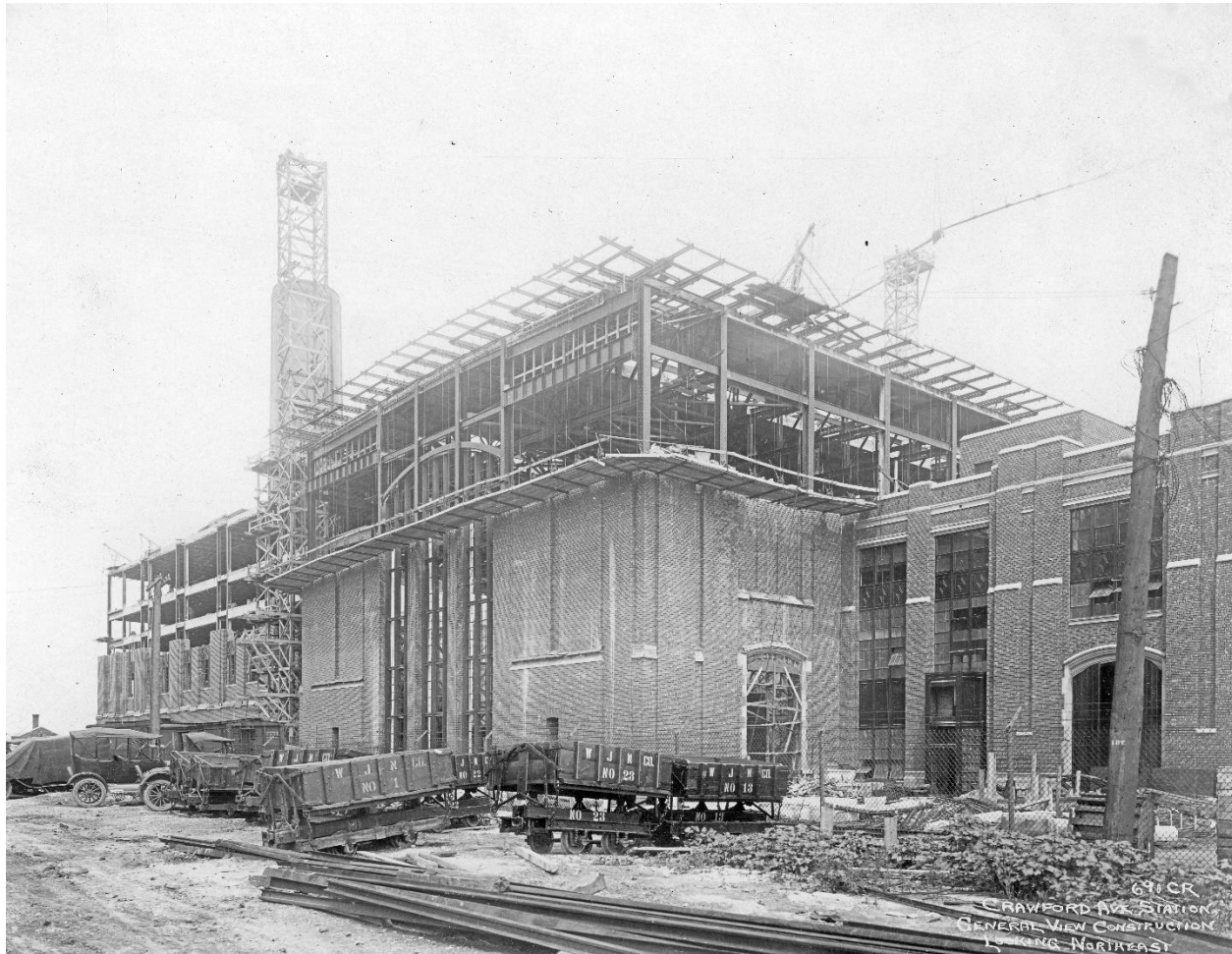
¹⁴ Gretchen Bakke, Ph.D., *The Grid: The Fraying Wires Between Americans and Our Energy Future* 63 (2016).

¹⁵ William D. Middleton, *North Shore: America's Fastest Interurban* 10 (1964) (crediting Insull with the term "mass production" before Henry Ford became associated with it in Ford's reference to automobile production).

¹⁶ Bradley, *supra* note 2, at 107.

¹⁷ Bakke, *supra* note 14, at 67.

Insull, the work of Edison and Tesla would have been available only to the rich.¹⁸



Massing Production: Insull built the largest central station generating plants of their day by pushing his engineer, Frederick Sargent, and General Electric to design and build ever larger machines. Crawford Avenue Station under construction, Chicago, 24 July 1924.

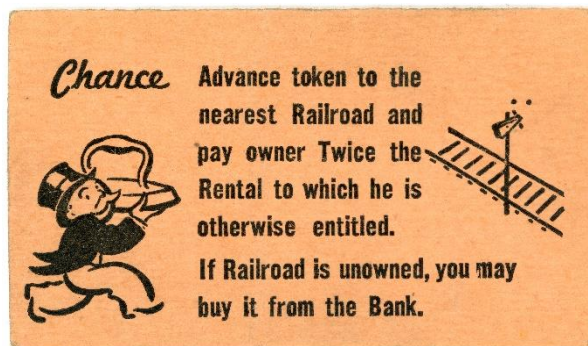
Part of Insull's solution to balancing electric loads and reducing rates was to convince electric transportation companies to convert from self-generation to Insull's central station power.¹⁹ By 1908, 47% of the demand load at Insull's Commonwealth Edison was for electric urban and suburban



¹⁸ *Id.* at 82-3

¹⁹ Harold L. Platt, *The Electric City: Energy and the Growth of the Chicago Area – 1880 to 1930* 112 (1991).

transit, up from 6% in 1902.²⁰ Streetcar, rapid transit, and interurban operations provided demand for electricity in the early a.m. and evening p.m. rush hours.²¹ The transportation demand bracketed commercial and industrial mid-day demand, as well as residential evening demand. So-called “owl service” kept transit service running nearly all night providing a demand load when there was nearly no other.²²



To insure that the transportation companies had adequate working capital, Insull bought what had become his largest customers: the Chicago ‘L’s and all of the interurbans radiating out of the city including The Chicago, Lake Shore and South Bend Railway.²³ Insull continued this pattern of purchasing and improving transportation properties in his other service territories. Insull came

to own sixty-six companies providing rapid transit, street railway, and interurban service in fifteen states and the provinces of Ontario and Manitoba. Two steam railroads formed by Insull delivered coal to his power plants in Illinois.²⁴

The significance of electric transportation generally, and the South Shore Line in particular, to Insull’s business model was that a material amount of the electricity generated by Insull’s companies was consumed by Insull’s transportation properties. Without the South Shore Line and its sister transportation companies, Insull’s economic system of generating electric power would have been unworkable.

Even at this point in this discussion, if a clear picture of Insull has not emerged in your mind, you are not alone. Despite the high profile of Insull in political circles during the turbulence of the Great Depression, outside the small circle of business historians, he remained largely forgotten. Historian Forrest McDonald wrote his biography, simply titled *Insull*, in 1962. Business journalist John Wasik wrote a second biography of Insull, *The Merchant of Power*, published in 2006. PBS has a webpage dedicated to Insull in the *Who Made America?* series.²⁵

Insull also appears in American popular culture. Insull is believed to be the

²⁰ Samuel Insull, *Public Utilities in Modern Life* 127 (1924).

²¹ *Id.* at 128.

²² Bradley, *supra* note 2, at 66.

²³ *Id.* at 110.

²⁴ Arthur R. Taylor, *Losses to the Public in the Insull Collapse: 1932-1946*, 36 *Harv. Bus. Hist. Rev.* 188, 201-04 (1962) (listing all of the Insull utility and railroad holdings).

²⁵ http://www.pbs.org/wgbh/theymadeamerica/whomade/insull_lo.html, (last visited Mar. 24, 2017).

inspiration for part of the story of *Citizen Kane*.²⁶ Both authors of *Citizen Kane*, Orson Welles and Herman J. Mankiewicz, admitted as much.²⁷ And Insull's ability to buy acting roles for his rather amateurish wife appears in reality in Insull's life and in the *Citizen Kane* story with striking similarity. Insull's pop culture "stock" rose with the release of motion picture *The Current War* in 1919. Insull was played by actor Tom Holland in this film about the War of the Currents (Benedict Cumberbatch, *The Imitation Game*, *Hawking*, *12 Years A Slave*, plays Edison).²⁸



Insull's interest in the arts was anything but pop culture – he had enjoyed opera in childhood. In Chicago, Insull developed the financing scheme for a grand opera house to be unlike any other. And it was unlike any other as it had no prominent boxes. The entire scheme seated all the patrons as if they were all in the sixpenny gallery where Insull sat as a penniless working boy in London.²⁹ For the masses,

the Chicago Civic Opera House was irreverently declared to be Insull's throne.

²⁶ John F. Wasik, *supra* note 3, at 3.

²⁷ Samuel Insull, https://en.wikipedia.org/wiki/Samuel_Insull, (last visited Mar. 21, 2017).

²⁸ *The Current War*, <http://www.imdb.com/title/tt2140507/>, (last visited Mar. 31, 2017).

²⁹ MacDonald, *supra* note 6, at 242-44.



Chicago Civic Opera House, 5 November 1929, the day after opening night. Insull had gone from an audience regular to a patron of the arts by organizing the financing of what was dubbed "Insull's Throne" at Madison and Wacker Drive on the east bank of the Chicago River. (Photographer credit: International Newsreel Photo).

Opera house design was not Insull's strong suit – business was. Edison once called Insull “one of the greatest business men in the United States.”³⁰ A contemporary of Insull, newsman Marion Livingston Ramsey, favorably compared the impact of the business methods Insull applied to electrical energy to the impact of the business methods that John D. Rockefeller applied to crude oil.³¹ Historians in recent years seem better attuned to the significance of Insull and his work in developing the electric grid and the energy markets as we know them today. Energy scholar and author Robert L. Bradley, Jr. summed it up:

In electricity, inventor Thomas Edison and businessman Samuel Insull fathered a new industry that they would still recognize today. Their complementary genius was unique: Edison was foremost in his field, and Insull's deft development and implementation of the central station/massing model rivaled John D. Rockefeller's rationalization of the petroleum industry. Electricity came in one brand and oil products many, but both men seized upon scale economies and other managerial innovations to reduce costs and expand markets to benefit the masses.³²

Insull's story may be lesser known than that of Thomas Edison, but Samuel Insull made the inventor's success story possible in a business sense that Edison the inventor was not capable of doing on his own.

There is a dark side to the story of Insull that was uncovered only as the banking records of the 20th Century were released in the 21st. Through the Central Trust Company of Illinois, the banking concern of then federal Comptroller of the Currency Charles Dawes (who as comptroller was both an owner and a regulator of his bank), and Chicago National Bank (once owned by convicted banking felon John Walsh), Insull regularly exceeded the statutory lending limits allowed a single borrower. By creating new holding companies, and pledging their assets as collateral, Insull borrowed many times what the banks' financial stress levels could tolerate.³³

³⁰ Bradley, *supra* note 2, at 128.

³¹ Marion Livingston Ramsay, *Pyramids of Power* 51 (1937).

³² Bradley, *supra* note 2, at 481.

³³ Raymond Vickers, *Panic in the Loop: Chicago's Banking Crisis of 1932* 28 (2011).



Even as the collapse of the Insull empire was imminent in early 1932, the practice of borrowing continued. Insull borrowed \$550,000 at Dawes's bank against the insolvent Chicago, North Shore and Milwaukee Railroad in January, this in the face of banking regulations that did not support the loan. The Illinois Banking Code restricted banks from loaning more than 15% of a bank's

unimpaired capital and surplus to a single borrower. But Insull, as the single borrower through his web of holding companies had borrowed nearly 50% of the assets of Dawes's bank by 16 April 1932.³⁴

The Continental Illinois Bank made a \$3,125,000 loan to Midland United, the Insull company that controlled the South Shore Line, Gary Railways, Indiana Railroad, Interstate Public Service, Northern Indiana Power, and Northern Indiana Public Service in January 1932. Two more loans totaling \$5,000,000 were made by Continental Illinois Bank in February 1932 to Middle West Utilities (MWU). MWU owned water, ice, light, power, street railway, and interurban properties from Texas and throughout the Midwest to Ontario. When the collapse came, investors in MWU lost \$135,255,400 in real value; some 91% of their investment in the holdings.³⁵

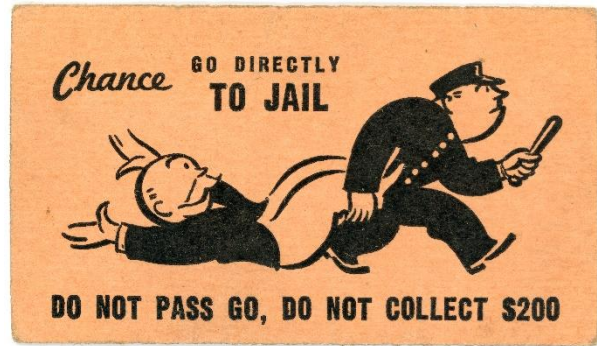
The effect of Insull's reckless borrowing was to cause a panic in the Chicago banking community and deepen the Great Depression.³⁶ But before the financial collapse, when all was well, the Insull Group spent on lavish improvements to street railway, rapid transit, and interurban properties where Insull felt that spending was warranted. Aside from the South Shore Line, lavish spending was not warranted anywhere on the interurban network as all the investments were in reorganization by 1933 and wiped away over the next three decades.

³⁴ *Id.* at 56.

³⁵ *Id.* at 53-4.

³⁶ *Id.* at ix.

Insull's downfall was spectacular and at the time was considered by many to have deepened the effects of the stock market crash of 1929. Franklin Delano Roosevelt specifically called out Insull in his famous address to the Commonwealth Club in San Francisco, California, on September 23, 1932.³⁷ Once Roosevelt was elected, the federal prosecutor for Chicago, Dwight H. Green, pursued indictments against Insull. While living in an apartment hotel in Paris, the indictments came down in February and May of 1933.³⁸ Because Greece had no extradition treaty with the U.S., Insull then fled to Athens.³⁹ A year-long legal cat and mouse game then ensued in the Greek courts and on the Mediterranean on a steam freighter. When Insull's vessel was provisioned at Istanbul, Insull found himself in a Turkish jail.⁴⁰ Nearly two years after Insull left Chicago, he returned to Chicago and was jailed again, this time at 27th and California in the hospital ward at the Cook County Jail.

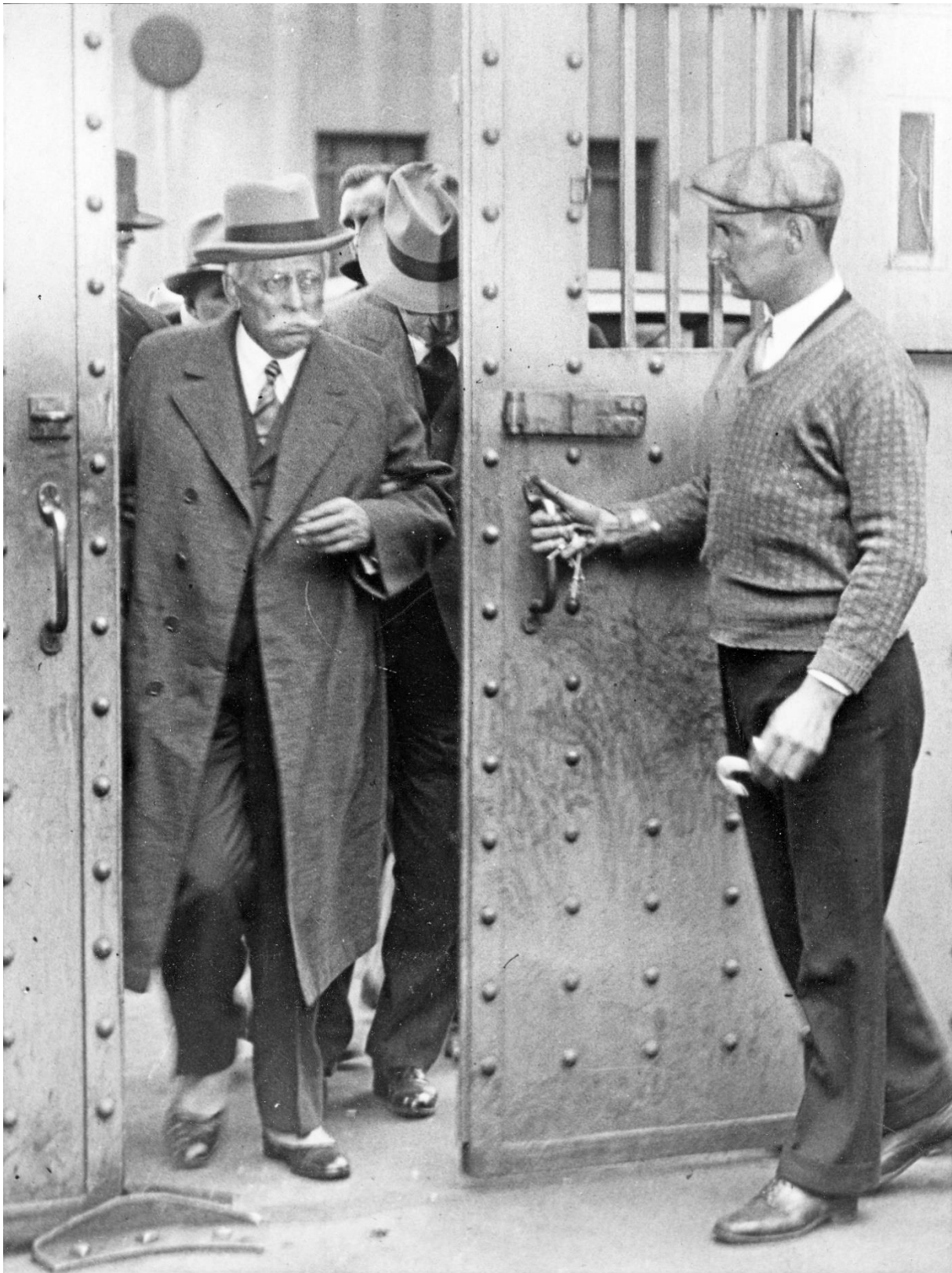


³⁷ Franklin Delano Roosevelt, Commonwealth Club Address, in San Francisco, Calif., (1932) <http://www.americanrhetoric.com/speeches/fdrcommonwealth.htm> ("Whenever in the pursuit of this objective the lone wolf, the unethical competitor, the reckless promoter, the Ishmael or *Insull* whose hand is against every man's, declines to join in achieving an end recognized as being for the public welfare, and threatens to drag the industry back to a state of anarchy, the government may properly be asked to apply restraint" (Roosevelt was paraphrasing Genesis 16:12, emphasis added; last visited March 30, 2017).

³⁸ MacDonald, *supra* note 6, at 307.

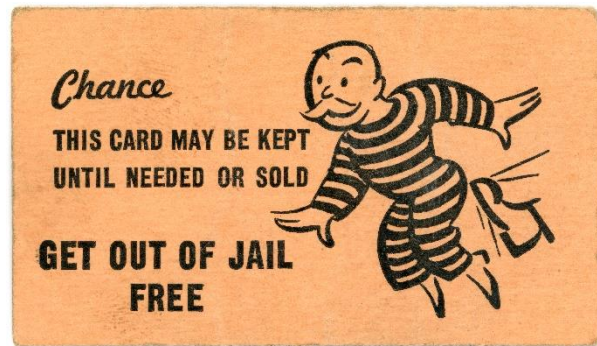
³⁹ Vickers, *supra* note 33, at 241.

⁴⁰ *Old Man Comes Home*, Time, May 13, 1934, at 12.



Unable to post \$250,000 bond, Insull was placed at the Cook County Jail, 8 May 1934. (Photographer credit: Acme Newspictures, Inc.).

Insull was tried on a federal charges of mail fraud and bankruptcy fraud, and state charges of embezzlement. Many of these charges were also brought against Insull's brother Martin, his son Sam, Jr., and fifteen others, all managers of Insull's companies.⁴¹ The defense strategy was simple – put Insull on the stand as a defense witness to tell how he too was a victim of the Depression.⁴² Acquittals came quickly, the last on 14 June 1935.



⁴¹ MacDonald, *supra* note 6, at 315.

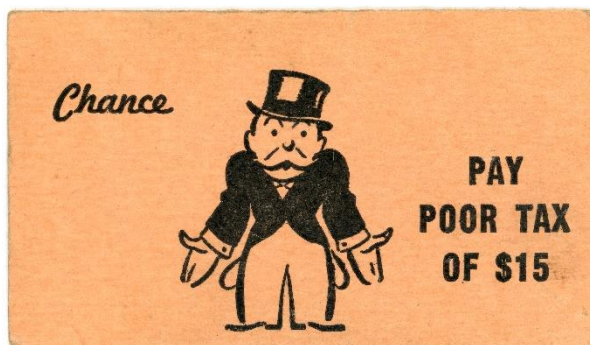
⁴² Vickers, *supra* note 33, at 240, 243.



Samuel Insull on the steps of the Federal Building in Chicago after being acquitted of violating the Bankruptcy Act, 14 June 1935. (Photographer credit: Associated Press).

The failure of Insull's business model for utility holding companies led to the enactment of the Public Utility Holding Company Act of 1935,⁴³ as well as the acts forming the Tennessee Valley Authority, the Rural Electrification Administration and the Securities and Exchange Commission.^{44 45} Significant portions of the Glass-Steagall Banking Act, the Corporation Bankruptcy Act, and the Wagner-Connery Labor Act were enacted in direct response to Insull's business sins, real or imagined.⁴⁶

If you are still not clear about the impact of Insull on American life and culture, consider this: Parker Brothers first published the board game Monopoly on 5 November 1935 just five months after Insull's last trial for embezzlement ended in a directed verdict of acquittal.⁴⁷



Just over three years after he was last acquitted, on 16 July 1938, Samuel Insull lay dying in a Paris subway station. Insull is said to have left his apartment carrying as much as \$2,000 in his wallet. The gendarmerie who arrived on scene reported neither money nor wallet. Insull was penniless once again.⁴⁸

⁴³ Ramsay, *supra* note 31, at 258 (quoting Sen. Sam Rayburn that the Public Utility Holding Company Act “was drafted for the purpose of precluding in the future such growths as the *Insull* empire” (emphasis added)).

⁴⁴ Bradley, *supra* note 2, at 16, 512.

⁴⁵ McDonald, *supra* note 3, at 335.

⁴⁶ *Id.*

⁴⁷ Associated Press Photo, June 14, 1935.

⁴⁸ McDonald, *supra* note 6, at 339.



Samuel Insull, Monopoly Man, 1921.