Institutional Change and Electric Power in the City of Chicago

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and
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The people and businesses of Chicago have for decades depended on a privately owned utility for electricity. The utility, Commonwealth Edison (Edison), operates under a franchise from the city that grants it the right to provide power to Chicago. This particular institutional arrangement for the provision of electric power is, of course, common throughout the United States. But in recent years, Chicago and a number of other cities have begun to explore alternative arrangements as their franchises with the private utilities expire [Rudolph and Ridley 1986; Romo 1989]. These alternative institutional arrangements under consideration have included municipalization of the local distribution system with city purchase of electric power from several utilities on the wholesale market, municipalization of all the utility's operations in the city and acquisition of sufficient generating capacity to serve the city's needs, introduction of competition in electric supply by permitting more than one utility to place its facilities on public property or rights of way within the city, opening up the franchise to competitive bidding instead of simply negotiating with the existing supplier, or simply extraction of concessions from the utility as a condition for franchise renewal.

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Over the past five years, as the expiration of Edison's Chicago franchise approached, a major controversy over electric power alternatives has been joined by the city itself, citizen organizations, business groups, and of course Edison. The debate is, in large part, over an issue that is fundamentally economic—the cost of electric power—though the issue of the safety of nuclear power plays an important role [U.S. Office of Technology Assessment 1984]. What interests us is that the public discussion is not just about the fairest or least cost way of producing and distributing power, given the existing institutional environment. It is instead a debate over the institutional structure itself. It thus provides us with a rich case study of how institutional change gets on the public agenda, how the terms of debate are framed, and the conditions under which institutional adjustment occurs.

In Chicago, the institutional (legal) environment defines how individual citizens and ratepayers relate to certain organizations (Commonwealth Edison, the City of Chicago, the Illinois Commerce Commission, citizen groups) and how these organizations relate to one another. There is a set of "working rules" that defines the rights, duties and liabilities of these individuals and organizations with respect to the determination of electric power rates and certain other power decisions; a broader set of rules (including the U.S. Constitution) defines how institutional change can come about. The purpose of this paper is to address these questions: Why were some citizens of Chicago no longer content to work within the given rules of the game and the given institutional arrangement, and why did they instead seek change in the institutional arrangements themselves? To what extent were they successful, and what factors appeared to facilitate or obstruct institutional change? What is (and can be) the role of institutional economics and economists in understanding or contributing to similar debates about institutional change?

Institutional Economics and Institutional Adjustment

We will employ a definition of the term "institution" that derives largely from the works of Atkinson and Reed [1990], Bromley [1989], Commons [1934], Neale [1987], and Schmid [1978]. It can be stated as follows:
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An institution is a set of working rules governing transactions among individuals. An institution is effective for a particular "community"—a set of individuals whose behavior falls under the jurisdiction of the institution (such as residents and businesses in Chicago)—and for a particular set of interdependencies among the citizens of that community (such as the production and consumption of electricity). For this community and for these particular interdependencies, the institutional rules then specify certain rights, exposures to the rights of others, privileges, and responsibilities of the members of the community. An institution establishes, in other words, the rules by which decisions are made, bargains are struck, claims are granted legitimacy and adjudicated, sanctions are applied, and resources are managed and distributed.

The behavior of individuals as members of various communities or "going concerns" is regulated not only by laws, but also by commonly (but not always universally) held beliefs, norms, mores, values, and ethics that may govern or influence relations of interdependence. In the case of custom, the sanction may be the approbation of the community; as customs become institutionalized, the sanctions may be economic, and an individual or organization may ultimately be able to invoke the sanction of sovereignty—the state's monopoly on legal violence.

Walter Neale [1987] has made the important point that institutions can be identified not only by a set of rules, but also by associated *folkviews*. "The folkviews justify the activities or explain why they are going on, how they are related, what is thought important and what unimportant..." [p. 1183]. At the broadest level, Neale's "folkviews" are more usually referred to as ideology; the idea that profits are a reward for socially beneficial risk-taking, for example, is part of the folkview or ideology rationalizing capitalism. To the extent that a folkview succeeds in legitimizing an institution, it helps to engender voluntary compliance with the rules and so to perpetuate the institution with minimal resort to sanctions.

Our definition of institution adds the idea that the institution must also define the relevant community. Schmid [1978] asserts that a community must exist prior to establishment of an institution:
Where do bonds of community come from? Kenneth Boulding [1970] notes that "the theory of public goods cannot simply assume that there is a public. Why the publics are what they are is part of the problem, not part of the assumptions . . . A public requires some sort of organization, an organization implies community, a community implies some kind of clustering of the benevolence function . . . which denies the assumption of independent utilities." It is beyond the scope of this book to explore fully the hypothesis that long-term maintenance of systems of peaceful bargaining, administrative, and status-grant transactions require a widespread, but not universal, antecedent bond, covenant, benevolence, and, yes, even love. Such transactions are not alone a product of interdependence, propinquity, potential for mutual benefit, or fear (pp. 28-29).

Perhaps the best way of viewing this issue is to see institutions (and the rhetoric that their members speak) as a means by which communities re-create themselves. Some sort of community is a prerequisite to establishing an institution or to institutionalizing a custom. But the institution itself helps to define and perpetuate the community. Thus, through the establishment and reform of institutions, a community decides what kind of a community it is to become.¹ An institutionalist theory of institutional change recognizes the importance of the process of socialization—how individual values and beliefs are formed and changed through social interaction, and the fact that community goals are not to be found just by summing the desires of a collection of individualistic, hedonistic, self-seeking "economic men." If anything, communities, not individuals, are the starting point of analysis—the primary datum.

What, then, is the institutionalist theory of institutional adjustment or evolution? Institutionalists in the Veblen-Ayres tradition have tended to emphasize the "past-binding" and ceremonial aspects of institutions and to regard technology as inherently progressive and as the engine of change. Institutions become "out of joint," inappropriate for the technology of the day, but resist change. This view can be criticized on several points: (1) institutions serve instrumental purposes, reduce transactions costs, and are essential to social stability and peace; and (2) technology does not arise in a vacuum, but rather within institutions, and these institutions greatly influence the kinds of technologies that are
developed and adopted, and to what ends, so that technology can be used to exploit, to preserve positions of status and power, and to liberate and expand choice.

Nonetheless, changes in technology can alter the efficacy of certain institutional arrangements, undermine the credibility of the associated folkviews, or change the transactions costs associated with political mobilization that could bring about institutional change. In electric power, for example, the risks associated with the technology of nuclear power have influenced the public’s view of the benevolence of privately owned utilities and the proper role of government, while other technological changes have altered the pattern of economies of scale and undermined the economic basis of natural monopoly [Jones 1988; Kahn 1988]. Kling [1988] has argued that changes in technology have increased the availability of information to the public and reduced the transactions costs of mobilizing citizen groups; this in turn has significantly affected the politics of public utility regulation.

In addition to changes in technology, the economic environment may influence institutional change. Recession, inflation, changes in the distribution of income, or increased economic insecurity can cause groups to question the efficacy of existing institutions in addressing their needs. Kling [1988] argues that it is no accident that a host of new regulatory efforts came out of the depression, an experience that altered the public’s view regarding the proper role of government in the economy.

A positive institutionalist theory of institutional change would give primacy to changes in technology and to the economic, social, and political environment in explaining the sources of pressure or organization for change. A normative theory would recognize that value comes from communities, not individuals, and that "efficiency and optimality are dependent on the status quo institutional structure, which defines what is a cost and for whom" [Bromley 1989, 40]. We will return to these issues after examining the existing institutions of electric power in Chicago and after recounting the city’s exploration of institutional alternatives.

**The Existing Institutional Arrangement for Electric Power in Chicago**

The Commonwealth Edison Company, which happens to be the nation’s third largest, investor-owned, electric utility, owns and

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operates the electric power generation, transmission, and distribution system that serves the northern one-third of Illinois, including Chicago. It serves Chicago businesses and residents pursuant to a franchise agreement that was initially adopted in 1907, renewed in 1948, and scheduled to expire in December 1990 unless jointly renewed by Edison and the city.²

Though it owns the system, Edison cannot act unilaterally. Since 1913, the Illinois Commerce Commission (ICC) has been empowered and required to review and approve any changes in Edison's prices (rates) and plans for construction of new facilities before they can take effect.³ The institutional arrangement for providing electric power to Chicago can, therefore, be characterized as one of "franchise-limited, regulated, natural monopoly."

The notion of regulated natural monopoly has traditionally implied a "regulatory bargain" that imposes a set of rights and obligations on utilities like Edison. Phillips [1984, 105-108] identifies four obligations and five rights, as shown in Table 1.

"Reasonable" is the key word in this set of rights and obligations. In order to establish rates that are "just and reasonable" in the context of this traditional "regulatory bargain," Edison has to file a request for a rate increase with the ICC. Given such a request, the ICC must first determine the revenues that Edison requires in order to provide adequate and reliable service. It then must set the overall level of revenues at a point where the utility's shareholders and bondholders can earn a "fair" return on the capital they invest. And, finally, it must apportion the costs of service among customers [Phillips 1984]. According to this traditional view of rate regulation, specification of "reasonable" rates is a balancing act: the commission must balance the interests of Edison's owners, who seek a "fair" return on their investment, and its consumers, who seek rates that are affordable [Gormley 1983].

There are no objective standards for determining whether this balancing act has produced "reasonable" rates. Rather, the reasonableness of the balance hinges on the "due process" procedures built into the commission's deliberations. According to traditional rate making, the commission ensures due process by following a clear path of decision making. Thus, the commission assigns the case to a hearing examiner, who then conducts evidentiary hearings to determine whether a requested rate increase is justified. Intervenors (interested parties) submit responses to the rate request. After hearing direct testimony, cross-examination,
Table 1. Rights and Obligations of a Regulated Natural Monopoly

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<th>Obligations</th>
<th>Rights</th>
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<td>• Edison must serve all who apply for service.</td>
<td>• Edison has the right to legal protection of its private property.</td>
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<tr>
<td>• Edison must render safe and adequate service (which implies instantaneous service on demand).</td>
<td>• Edison has the right to charge a reasonable price for (but not necessarily a reasonable return on) its service.</td>
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<tr>
<td>• Edison must serve all customers on equal terms (within reason).</td>
<td>• When it furnishes adequate service at reasonable rates, Edison has the right of protection from competition from an enterprise offering the same service in the same area.</td>
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<tr>
<td>• Edison must charge a &quot;just and reasonable&quot; price for the services it renders.</td>
<td>• Edison has the right to condemn private property and take it for &quot;public use&quot; in return for payment of just compensation.</td>
</tr>
<tr>
<td>• Edison has the right to render service subject to reasonable rates and regulations.</td>
<td>• Edison has the right to render service subject to reasonable rates and regulations.</td>
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and rebuttal testimony, and after reading briefs and reply briefs, the hearing examiner writes a proposed order for the full commission. The commissioners then adopt (by majority vote) a formal order that accepts, amends, or revises the hearing examiner's proposed order. Any dissatisfied participant can appeal the order to a circuit court, then to the Illinois Appellate Court, and then to the Illinois Supreme Court. Once the order is adopted, the utility files its new rates with the commission and begins billing customers.

So long as due process is followed, the precise nature of that delicate balance of investor and consumer interests is left to the
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discretion of the commission. Whether the ICC has, in fact, struck a "fair balance" in its many recent Edison rate cases has been a matter of considerable controversy. Edison has complained that it has not been allowed to receive a fair return on its investment, whereas consumers have often expressed bitter outrage at being exposed to unjustified rate increases. The difficulty and expense of participating effectively in the ICC's quasi-judicial rate making process contributes further to the controversy over the fairness of Edison's rates. Through its cost, technical requirements, and alienating language (Hyman refers to it as "a jargon that baffles outsiders and obscures simple concepts behind a fog of specialized verbiage" (1988, 3)), that process can systematically disenfranchise all but the most committed, most stubborn, or most wealthy intervenors, contributing to the widespread belief that the overall process is biased in Edison's favor.

This "fog of specialized verbiage" suggests that Edison, intervenors, and the ICC can all be seen as part of an "interpretive community" [Fish 1979] that shapes how they communicate with one another. Engaged in the "normal discourse" of that community, Edison and the others argue in a context of shared understandings, prior experiences with one another, and a common language. They know the prior ICC and court decisions that bound the commissioners' discretion, and they talk in terms of rate base, rate of return, present value revenue requirements, excess capacity, prudence reviews, and used and useful determinations. Though opponents, they speak a common language and share a common culture. They all try to persuade the ICC commissioners in the face of anticipated objections and in terms of the "agreed-upon conventions" of public utility planning and regulation.

The Origins of the Movement for Institutional Change, 1975-1985

Chicago and its environs are a region of sharp racial and economic divisions, divisions which have grown sharper over time. Though the region as a whole remains economically vital and dynamic, the city itself has experienced a significant loss of jobs and residents over the past 20 years. Job losses have been particularly acute on the predominantly black West Side and South Side and in the steel communities of the southeast part of the city. Conversely, the Loop area in downtown Chicago, Dupage County
to the west, and the northwestern part of Cook County (in which Chicago is located) have grown dramatically. While the city has become poorer, it has also become more black, more Hispanic, and more segregated: in 1960, Chicago was the home of 812,000 blacks and 2.7 million whites; 20 years later, it was the home of 1.2 million blacks and 1.3 million whites [Kleppner 1985].

These racial and economic divisions have had significant political consequences. Prior to 1983, the city had been dominated by a predominantly white Democratic political machine and a "growth coalition" (consisting primarily of large corporations and downtown Chicago business interests), which stressed the importance of economic growth guided by private investment [Kleppner 1985; Squires et al. 1987]. In April 1983, that dominance seemed to have been overthrown. Supported by a mobilized, largely black, constituency, Harold Washington narrowly defeated former Mayor Jane Byrne and former Mayor Daley's son, Richard M. Daley.

Mayor Washington came to office seeking to redistribute the city's resources more fairly, emphasize neighborhood economic development, challenge politically powerful businesses, and establish a more open, participatory decision-making process [Moberg 1988]. Washington's opponents controlled the city council, however, and initially thwarted many of the new mayor's reform initiatives.

Given Mayor Washington's reform orientation, it comes as no surprise that he focused some attention on the effect that the increasing cost of Edison's electricity had on the city's economy. The cost increases were closely tied to a massive nuclear power capacity expansion plan that Edison had initiated in 1965. Projecting (and counting on) a steady increase in the demand for electric power, the company announced—with the ICC's approval—plans to build 12 or more large nuclear units. These were ambitious plans. As time passed, they also proved to be highly controversial and difficult to carry out completely or on time. Edison's last six nuclear units (LaSalle, Byron, and Braidwood) would have cost $2.51 billion and would have been finished by 1982 if the company's original estimates had been correct. However, by 1985, Edison was estimating that they would cost at least $10.78 billion. And the last three units were still under construction!

To pay for those plants, Edison had to ask the ICC to approve a steady stream of rate increases. In 1982, the ICC approved a 17.1
percent increase, the fifth increase in nine years. With five more plants under construction, it looked as though the stream of hefty rate increases would continue for several more years. In 1984, the ICC approved another 6.6 percent increase. Shortly thereafter, Edison applied for another 12.2 percent increase for its Byron 1 plant. And there were signs that the company would have to ask for a 30-40 percent increase to cover the costs of its last three plants.

Consumer groups strongly opposed each of these rate increases, but without much success. Many of Edison's largest, most mobile customers began threatening to leave Edison's territory (and the Chicago area) unless the utility lowered their rates. One such customer, at least potentially, was the city of Chicago itself. With the power granted to it by the 1948 franchise agreement, the city apparently had the ability to abandon Edison's system (or at least to use the leverage provided by the franchise's impending expiration to negotiate more favorable rates and terms). This leverage was enhanced by the fact that city agencies and other Edison customers located within the city limits collectively purchased roughly one-third of Edison's power output at a cost of $2 billion annually.

It was in this context that the city began exploring options to remaining on Edison's system.

The Debate over Public Power Options in Chicago, 1985-1991

On October 10, 1985, Mayor Washington directed his newly formed Commission on Energy to consider "various mechanisms for the city and other Chicago customers to drop off Edison's system and avoid its soaring costs" [Biddle 1985a]. Expecting his action to "send a strong signal" that the city was deeply concerned about the utility's rising rates, he told the commission to look at four options: a municipal power purchasing authority, a municipal authority, wheeling, and a municipal distribution network. Edison quickly responded by threatening to move its corporate headquarters and $140 million in annual tax revenues out of Chicago. "The city is broke," said Vice President Donald Petkus. "Where do they intend to get the money to buy a new system?" [Biddle 1985a].

Within weeks after the mayor's declaration, Edison and the ICC gave the city even greater incentive to abandon the utility; in late October, the ICC granted Edison an 11.0 percent rate increase...
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for the Byron 1 plant. Then, in early 1986, the company announced that it might have to apply for another 35 percent rate increase to pay for its last three nuclear plants. The latter announcement led the mayor to restate the city's intent to explore alternative sources of electricity and to declare that a 35 percent increase would "deliver a crippling blow to the economic health of Chicago" [Schneidman 1986].

How crippling would the blow be? In April, the mayor could not answer that question. Three months later, however, the city's planning department released a $15,000 study prepared by Chase Econometrics Inc., which estimated that the Chicago area would lose 85,000 to 112,000 jobs over the next 20 years if the ICC approved Edison's requested rate increase [Ziemba 1986]. The city's manufacturing sector and its low income residents would be especially hard hit. Edison quickly criticized the study for double-counting inflation and claimed that its conclusions were "questionable" and "inaccurate" [Strong and Ziemba 1986]. Even so, backed by these data, the mayor once again announced that the city was funding a study of options "so that we can get out from under this untenable situation" [Ziemba 1986]. He appointed a new Electric Power Options Task Force.

A long period of apparent inactivity followed during a hotly contested election, which returned Washington to power and increased his support on the city council. During the campaign, the planning department staff moved ahead with its plans to conduct a study of the city's options and worked with consumer groups to defeat Edison's proposed rate increase request. In the fall of 1986, it hired R. W. Beck Inc., a public, power-oriented consulting firm, to conduct the study. Relying in part on Beck's research, the department joined with several consumer groups to successfully persuade the ICC to reject what Edison called a "negotiated settlement" that would have given the utility a 12.9 percent rate increase plus nontraditional benefits. But in August, just one month after that defeat, Edison applied for a traditional 27 percent rate increase. The threat of economic harm continued to loom over the city.

In October 1987, The Chicago Tribune disclosed that "an unreleased report under scrutiny at City Hall," which reportedly cost $75,000, estimated that Chicagoans could save $10 to $18 billion at a cost of $1 to $7 billion over a 20-year period if the city bought and operated some of Edison's facilities [Dold 1987a]. Emphasis-
ing that the city’s franchise with Edison provided legal authority for the city to acquire those facilities, the Beck study focused on three optional ways of “municipalizing” the company’s system.

The Tribune’s disclosure of the Beck report caused a flurry of negative commentary about the wisdom of “municipalizing” Edison’s system, and it quickly became clear that the city had made a major mistake in allowing R. W. Beck to focus on such a narrow range of options. That focus made it much easier to eliminate the municipalization option as a “bargaining chip” in any future franchise negotiations. Conversely, if the city was serious about wanting to explore options, then it learned very little from the Beck study. Rather than exploring the benefits, costs, risks, and technical feasibility of innovative options, Beck had limited its study to a few variants of one tired, old option. Finally, by authorizing Beck to focus on municipalization, the city opened itself to the charge that it was trying to expand its patronage system and to continue the game of Chicago politics.

By the time the mayor formally released the Beck study on November 4, he and his staff seemed defensive. “Six rate hikes in 10 years and a proposed 27 percent rate hike represent a tidal wave that threatens to wash the city’s economic base out to sea,” Mayor Washington declared [Dold 1987c]. But, frustrated by accusations that the city was just trying to add 8,000 more jobs to the patronage system, he also stressed that additional studies were needed before the city could decide whether to purchase Edison’s facilities.

Stop the Bureaucrats and Activists Now!

Commonwealth Edison responded to the Beck report with technical critiques, political maneuvers, and advertisements in the news media. The political response actually preceded the mayor’s public announcement by several weeks, when the U.S. House Ways and Means Committee approved legislation to prevent the city from using tax-exempt bonds to fund the purchase of Edison equipment. Introduced by Chairman Daniel Rostenkowski, a Democratic congressman from Chicago, this legislation dramatically increased the cost of acquiring Edison’s facilities (see Note 14).

The mayor’s supporters quickly accused Edison of pulling strings. Rostenkowski, they charged, had introduced this legislation at the request of James J. O’Connor, Edison’s chairman and
Rostenkowski’s long-time friend [Moberg 1989]. Rostenkowski, of course, denied the charge. The city’s supporters tried to persuade Congress not to retain Rostenkowski’s provision [Galvan 1987; Dold 1987c] but failed.

Edison’s second response to the Beck gaffe was technical. An hour after the mayor formally released the Beck study, Edison officials held their own press conference at which their consultant, Harold Axelrod of Planmetrics Inc., condemned the study for being "riddled with faulty thinking and highly improbable assumptions" [Dold 1987c]. A few days later, Edison told reporters that the Beck study had drastically underestimated the cost of its power grid and generators in Chicago, and that these facilities would cost roughly $2.8 billion rather than the $1.3 billion estimated in the Beck study.

Edison’s third response was to conduct an expensive and aggressive advertising campaign. For at least 18 months following the mayor’s press conference, Edison advertised its case—on radio, television, newspapers, and through a series of neighborhood meetings—against the city’s effort to "take over" the company’s facilities. In these advertisements, Edison consistently portrayed itself as a model citizen of a world-class metropolis whose growth and progress vitally depended on a steady supply of safe, clean, reliable, and reasonably priced electric power. It further portrayed itself as an experienced, skillfully managed corporation that was trying to protect and advance the interests of its consumers and shareholders and of the Chicago region as a whole. At the same time, the company tried to de-legitimize any challenges to its expertise and disparagingly portrayed the city’s planning staff and many of its citizens.

Edison also began distributing to its consumers a four-page flyer that warned of impending doom in the event of a city takeover [Edison 1988]. Claiming that "a few bureaucrats and activists" are trying to convince Chicagoans that the city should take over Edison's system, the flyer charged that such a "takeover" was a "seriously flawed bad idea" that would result in an inefficient, politicized electric power system that would dole out favors "at the whim of the City Council." It is time to "STOP THE BUREAUCRATS AND ACTIVISTS NOW!," the flyer said, and let political representatives "know about your opposition to a City takeover of your electric system."
The Death of the Mayor and a Cautious Renewal of the City's Exploration

By mid-November 1987, it was clear that the city had made a serious mistake with the Beck study. Even so, there was little reason to believe that it could not rebound and regain the initiative. Mayor Washington had already asked the city council to include $500,000 in the 1988 budget for continuation of the city's exploration. The likelihood that the city would regain the initiative was thrown into doubt, however, by the sudden and completely unexpected death of Mayor Washington on November 25.

Mayor Washington's death had a dramatic effect on the city's exploration of options. The acting mayor, Eugene Sawyer, who would soon have to campaign in a special mayoral election and who lacked Washington's firm base of political support, acted cautiously. He supported the original request that $500,000 be included in the 1988 budget for additional studies, but he did so in the face of strong opposition from Edison and its supporters. Two days before the council was to vote, the Chicago Association of Commerce and Industry (CACI) released a survey of Chicago businesses that found that nearly 30 percent of the 454 firms surveyed would relocate outside of Chicago if the city became the sole provider of electricity, which would cost the city 250,000 jobs.11

The new mayor's weak electoral position induced caution, but his planning department slowly began the new study of options. In June 1988, it sponsored a "Supply Options Workshop" that solicited advice from energy experts from around the country, including Ralph Cavanagh of the Natural Resources Defense Council and Charles Komanoff of Komanoff Energy Associates (KEA).

While the city was quietly moving ahead in private, in public it was defending itself against Edison's very successful effort to frighten people with the specter of precinct captains running nuclear power plants. In mid-October, for example, Mayor Sawyer explicitly rejected any possibility that the city might buy and operate Edison's nuclear facilities. "Our goal is lower, long-term electric costs and greater competitiveness in the energy markets," said one of the mayor's staff. "Not even in our wildest dreams do we think about running nuclear plants" [Dold 1988]. But the mayor kept alive the option of buying Edison's transmission and coal-fired generating systems in the city.

Any purchase option would be feasible, however, only if the city could find a way to circumvent the Rostenkowski obstacle. Help
came in the fall when the privately sponsored Chicago Energy Commission suggested a creative (but complicated) purchasing scheme involving city purchase of a portion of Edison's system, followed by the sale of the portion to a group of private investors, and then a lease back to a public corporation [Mayor's Energy Task Force 1989].

Was such a scheme feasible? How would it compare with the city's other options? To what extent would energy conservation help? To help it answer those questions, the city hired a team headed by Komanoff Energy Associates (KEA) to conduct a series of studies. The team did not begin its work until early 1989. In the meantime, Edison continued to advertise heavily against the city's "takeover" effort. It also sponsored another poll, which reported that two out of three registered voters in Chicago opposed a city takeover. The Tribune characterized Edison's poll as a "pre-emptive strike" against referenda that were scheduled to be on the November 8 ballot.

The referenda were the result of efforts by the Chicago Electric Options Campaign (CEOC). A coalition of 12 organizations, the CEOC had been formed in late 1987 to "promote public education and involvement" and to ensure that all electric power options were considered in an open planning process. The November 8 referenda asked, "Should the City of Chicago seek lower electric rates by taking actions such as purchasing power from the lowest-priced sources available, acquiring power sources in the City, and/or joining with other communities to initiate a Northern Illinois Power Authority?" The referendum was placed on the ballot in 15 wards and was approved by a majority of roughly 110,000 to 18,000 [Hellwig 1989].

The degree of support registered for the city's exploration in this referendum suggested that the city's relationship with Edison might be a key issue in the spring 1989 mayoral election. In November 1988, David Fremon of the Chicago 1992 Committee charged that Edison was "a utility octopus whose main concern is providing its stockholders maximum profits" and that "Com Ed scaremongers" and "peddlers of panic" are trying to maintain the company's "stranglehold" and "smoke screen the other options available to the city short of complete takeover."

Despite the efforts of Fremon and others, none of the candidates made the franchise a major issue [Moberg 1989], and only occasionally did any of them speak about it. A major reason for
this lack of attention was that the 35 percent rate increase originally feared back in 1985 never materialized. In December 1988, the ICC authorized Edison to increase its rates by approximately 8 percent in two steps [Throgmorton 1992a].

Even so, Edison’s rates were still high relative to others in the Midwest, and the city still had good reasons to explore its options. But because he felt politically insecure, Mayor Sawyer needed to proceed cautiously. Apparently sensitive to claims that Washington’s Electric Power Options Task Force was too radical, he appointed a new Energy Task Force in late January 1989. Just as the task force was beginning to meet, however, and just when the city’s consultants were preparing to submit the first of their technical reports to the planning department, another event took place that would have a dramatic effect on the city’s exploration.

A New Mayor Holds His Cards Close to His Vest

In the spring of 1989, Richard Daley was elected mayor by a decisive margin. Daley had said little about the franchise issue in his campaign other than promising a policy of “Four C’s”—competition, conservation, cogeneration, and cooperation between the city and its supplier on a “least cost energy plan” [Moberg 1989].

Mayor Sawyer’s Energy Task Force (ETF) held several public meetings shortly before Daley assumed office. They heard Edison denounced by consumer and community groups [Energy Task Force, May 2, 1989]. Frank Rosen of the Labor Coalition on Public Utilities cut to the heart of the matter: “I think if there is not a viable option to Commonwealth Edison . . . Commonwealth will do what it’s been doing all along, which is talk, talk, talk, until it’s too late, then to use its friends in the courts and in the Congress and everywhere else where it buys influence and will again take us down the garden path to higher and higher rates.”

They also heard proposals for substantial savings through energy efficiency from the hired consultants. They outlined a scenario in which "the city would grow in its residential and commercial sectors, as it now expects to do, for 30 years and yet at the end of that time end up using, for those two sectors, a third less electricity than current consumption levels” [Energy Task Force, June 28, 1989].

By early August, the task force had made considerable progress toward developing an internal consensus about what the city
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should do. But it still did not know whether the mayor and his aides would pay any attention to them or their recommendations. Furthermore, the new administration had put a tight lid on information coming out of the planning department. None of KEA's draft reports and memos had been released to the task force or to the public. The administration had also stalled plans for a public information campaign. Edison was reportedly "breathing a little easier with Daley in City Hall" [Dold 1989a].

Breathing easier, but still not breathing easy. Though Mayor Daley was not being very open about his intentions, he still was pursuing the possibility of terminating Edison's franchise. By late November, it looked as though he would ask the city council to notify Edison (by December 31, 1989) of the city's intent to terminate the franchise and to acquire utility property under the favorable terms specified in the franchise [Dold 1989b].

In December, the Mayor's Energy Task Force submitted its report to Mayor Daley [Mayor's Task Force on Energy 1989]. It urged the mayor to issue both notices in order to preserve the city's options in negotiations, and it advised the mayor to give serious consideration to the Chicago Energy Commission's innovative purchase/lease back proposal. The task force also stressed the importance of energy efficiency, a short-term franchise (if renewed), competition in supply (including reasonable wheeling charges), special attention to low income residents, and local fabrication of energy-efficient products.

Mayor Daley finally responded publicly to the task force's report by saying that he had an "open mind" about the possibility of city acquisition coupled with professional management [Dold 1989c]. But by this time, the proponents of exploring options were deeply frustrated. They were underfunded, had no strong political allies, and were hindered by Daley's "close to the vest" approach to decision making [Moberg 1989]. They feared that "the decisions will be made in closed-door meetings, with little public involvement and heavy-handed influence by Com Ed, just as there was with Rostenkowski's legislation" [Moberg 1989].

City staff close to the issue were also reportedly frustrated and demoralized and did not know where the administration was headed. The new administration had canceled all of the energy task force's plans for public participation and education and downplayed any news about the task force or the franchise issue. While massive public pressure might have forced Daley to con-
front Edison on the issue, that pressure was not forthcoming. Neither CUB nor IPAC had made the franchise a major issue; the Chicago Electric Options Campaign was not advocating any particular alternative; and no strong political leader had emerged to galvanize the community groups' cause. "Our assumption is when we lost Harold, we lost the battle," said John Cameron of IPAC [Moberg 1989]. The company, on the other hand, was wealthy, confident, and well connected, and it had successfully made it appear that the city was on trial, not Edison.

Despite Edison's confidence and the community groups' pessimism, the city council and the mayor notified Edison on December 28 that the city was terminating the franchise and would seek to purchase the utility's facilities. This did not mean, of course, that the city would actually acquire a portion of Edison's facilities, nor did it mean that the city would follow the Chicago Energy Commission's sale/leaseback strategy. Rather, it simply meant that the city was in a position to take those actions if it wanted to. Conversely, it could negotiate a new, but scarcely modified, franchise with the company. It all depended on the mayor and the way he played his cards.

The Mayor's Hand Turns up Empty

By May 1990, negotiations between Edison and the Daley administration had begun in earnest. Edison initially proposed to extend the franchise another 42 years, reduce the franchise fee from 4 percent to 0.5 percent, and eliminate the buy-out option contained in the current agreement. It also cited numerous court decisions that would, in its judgment, force the city to buy all or none of Edison's facilities. Conversely, Edison offered to consider lower rates for low-income and fixed-income customers who use small amounts of electricity, new conservation and energy efficiency measures, and a few other minor items, including planting trees along its rights-of-way. "Everything is negotiable," said Vice President Petkus. "We have not closed any doors" [Dold 1990].

For the city's part, Mayor Daley announced that any new franchise would have to include a better deal for Chicago consumers. With his hand strengthened by Edison's April 1990 application to the ICC for an 18 percent rate increase and by information provided in the KEA report, Mayor Daley indicated that he was "seriously" considering taking over part of the utility,
then leasing those newly acquired facilities to another private company. As marks of the seriousness of his intentions, the city engaged the services of major accounting, financial consulting, and law firms, and it appointed Robert Helman to lead the city's negotiations and to head a new Electricity Working Group. "I'm the head of this very large law firm, and I've done a lot of very large transactions," Helman said. "I take this very seriously" [Dold 1990]. However, when the mayor was asked whether he was serious about having city employees operate nuclear power plants and other electric facilities, Daley said: "No way. That would be a disaster. . . . One little mistake and we'd be done. It would be 'lights out'" [Davis 1990a].

"Lights out" was an ironically prophetic phrase. Beginning in late July, as the negotiators appeared to be moving toward agreement, the largely black and Hispanic low-income West Side of Chicago was hit with a series of major power outages. On the night of July 28, an estimated 40,000 homes and businesses lost power when a fire severely damaged one of Edison's switch houses. Blacked out for two to three days and forced to bear the costs of spoiled food and random looting, West Side residents were reportedly angry, frustrated, and looking for someone to blame. Roughly one week later, the West Side was hit by a second black-out—this one lasting for about eight hours and affecting 25,000 residents and businesses. Publicly referring to the blackouts as an "outrage," Mayor Daley proclaimed that Edison should reimburse its customers for their losses, and he appointed a task force to investigate how utilities could increase their reliability of service. Consumer groups argued that the blackouts were a consequence of Edison's skewed investment priorities over the preceding 10 years. "Something had to give," said a CUB spokesman, "and over the last few years, Edison has shortchanged its maintenance and upgrade budgets for its transmission and distribution system" [Karwath and Barnum 1990]. Edison's chief executive officer downplayed the outages as "unfortunate, isolated incidents."

These two electric power outages would appear to have strengthened the city's hand dramatically. However, the mayor seemed to have thought otherwise. In early September, he announced that the outages had disrupted the negotiating process and indicated that he would offer Edison a one-year extension on the franchise. "We can't continue to negotiate until we have a clear picture of Edison's reliability," he said [Davis 1990b]. Many
observers suggested that the mayor was less interested in strengthening his hand in the negotiations than he was in defusing the franchise as an issue in the mayoral primary scheduled for February 1991. As a Chicago Tribune editorial put it, if Daley agreed to a new franchise, supporters of a city takeover might charge that he was "a craven tool of corporate interests." Alternately, if he tried to create a municipal power company, others would charge that he "had gone bananas." Edison agreed to the proposed one-year extension. Negotiations continued, but in a context of ebbing passions.

At the beginning of 1991, the city initiated a $400,000 study on the reliability of Edison's transmission and distribution system. Critics of the utility hoped that the study would find that Edison's service was inadequately reliable—a conclusion that would increase the city's bargaining power. Unbothered by the franchise issue, Daley easily won the Democratic primary in late February and then was reelected mayor in early April with 71 percent of the vote. He seemed to be in a very strong position to negotiate a new franchise agreement.

In mid-June 1991, the city council's Energy, Environmental Protection and Public Utilities Committee began holding hearings on a new franchise. The committee sought to hear comments about two key options: (1) acquisition and leaseback of part of Edison's system, and (2) a renegotiated agreement that would reduce rates for low-income households, promote electric power conservation, enhance the reliability and safety of Edison's system, and have a much shorter term than the current 42-year agreement. Robert Helman told the committee that the acquisition option would probably result in protracted litigation, which decreased the acquisition option's appeal. On the other hand, he thought that an acceptable agreement on a revised franchise was within reach. Helman and the energy committee members appeared, however, to have been caught off guard by the very hard line that the utility's chief negotiator took during the hearings. The company wanted a nonnegotiable, 40-year extension on the franchise, and it thought that the 4 percent franchise fee should be eliminated. "In other words, you want the franchise for free?" asked one of the committee members. "I just want to show that we have some leverage power, too," Susan Getzendanner, the negotiator, said. She also made it clear that, since the city would have to buy all of Edison's
system, the utility's managers did not take the threat of a city takeover seriously [Kass and Davis 1991a].

A pompous and arrogant bluff on Edison's part? Perhaps. But the next day's hearings gave Edison's arrogance greater credibility. Expecting its $400,000 consultant to report that Edison had neglected to maintain its distribution system adequately, the Daley administration appeared to be embarrassed when William Snowden from Failure Analysis Associates told the committee that Edison had provided highly reliable service to Chicago residents. Snowden's dry lecture about advanced technologies dismayed the aldermen, and the content of his lecture irritated some administration officials. "We're in negotiations and this is a public event, and the focus wasn't what we wanted," said one official. "You're looking for 30 seconds of television time, a headline, and the phrase 'Edison is highly reliable' wasn't the one I wanted to see." Told there would not be enough time for them to testify, several community group spokespersons left the meeting outraged. "The city's already wimped out," said a spokeswoman for the CEOC. "All they want to do is bore everybody to death and cut a deal in secret" [Kass 1991a].

"I am not a wimp," Mayor Daley declared the following day [Kass 1991b]. But the damage had been done. From that point on, the acquisition and leaseback option simply lost all credibility. Aides to the mayor tried to diffuse responsibility. "We're doing what we can," one said. "The ICC sets the rates; they're ultimately responsible for reliability. Chicago's government can't step outside its framework" [Kass 1991c].

Despite the unsupportive conclusions of the reliability study, the mayor continued to state his support for the buyout option. But his words rang hollow. The city could do little more than seek marginally better terms, whereas Edison had one more card to play. In August, Getzendanner warned the city that Edison would stop paying the existing franchise fee after December 31, 1991, if no new agreement had been reached.

The cards had been played, and the mayor's hand had, whether intentionally or not, come up empty. On October 22, Daley announced an agreement that would allow Edison to provide the city with power for another 29 years. In return, Edison agreed to take several specific actions: it would extend rate reductions to elderly and low-income residents; it would spend $1 billion over the next 10 years to improve its transmission and distribution system in
the city; it would continue to pay the 4 percent franchise fee and make its payments monthly instead of annually; it would not charge customers their monthly service charge whenever they suffered power outages exceeding 12 hours; and it would bury underground a new transmission line serving downtown Chicago. The mayor insisted that the city had been in no position to exercise the takeover clause in the expired contract: "Acquisition would trigger a very costly and bitter legal battle . . . something neither the City nor Edison is eager to undertake" [Kass and Davis 1991b]. It was also clear that the mayor did not want to lose the franchise fee during a time of significant budget deficit. Consumer groups denounced the agreement, calling it "29 years more servitude to Commonwealth Edison" [Kass and Davis 1991b]. The general impression was that the new franchise looked much like the old one.

Though the mayor's hand turned up empty, the game did not end for another two months. A majority of the city council initially blocked the proposed agreement, arguing that the franchise should require Edison to award at least 25 percent of its purchasing contracts to minority-owned firms and 5 percent to female-owned firms. But, constrained by financial weakness, a rapidly approaching franchise expiration date, the disappearance of bargaining strength, and Mayor Daley's warning that loss of the franchise fee would force the city to lay off 1,900 employees (many of them in police and fire), the council narrowly approved--with one minor modification--the new franchise agreement on December 11. Edison would continue to have the exclusive right to supply electric power within the city for the next 29 years.

After all the brouhaha of earlier years, the threats and bombast, and the studies and counter-studies, it turned out that Edison held all the high cards.

Conclusion

In the opening section of this paper, we asked three key questions about institutional change. Having just recounted the Chicago experience, let us now return to those questions and see how we should answer them.

Our first question was, "Why were the citizens of Chicago no longer content to work within the rules of the game and the given institutional arrangement, and why did they seek to change that arrangement instead?" Our answer is economic, political, and tech-
nological. Economically, many citizens observed that Edison had initiated (with the ICC’s approval) a massive nuclear power construction program that caused electric power rates to rise dramatically and in turn exacerbated the economic hardship already being experienced by Chicago businesses and residents. They also observed that Edison and the ICC would not curtail that building program in spite of major reductions in the rate of growth in demand and the resulting increases in unused or excess capacity.

Technologically, many citizens observed that Edison’s nuclear construction program locked northern Illinois into a large-scale and potentially hazardous technology just when advances in electric power conservation and cogeneration were creating an opportunity to base the electric power system (at the margin at least) on small-scale, diverse, and more efficient technologies. As public awareness of the technological alternatives increased, it seemed to many that Edison’s choice of technology was based less on a concern for efficient and reliable provision of power and more on a desire to maintain ownership and control over the assets involved in production and distribution of electricity and hence to preserve the opportunity to earn profits on an expanded rate base. Conservation, in contrast, would have met a portion of people’s energy needs through decentralized decisions and small-scale customer investments, which would have reduced their dependency on the utility. Technological change helped to call into question the prevailing folkview rationalizing the institutional arrangement that left the public totally dependent on the private monopoly provider of electric power.

Politically, many citizens observed that Edison’s return on investment was rising dramatically just as its rates were becoming more burdensome, particularly to Chicago’s large low-income population. They concluded that the rules of the game were biased in favor of Commonwealth Edison and that those rules and the institution that fostered them needed to be changed. In particular, the rules of rate making under regulated natural monopoly granted considerable advantages to the utility: Edison could use its considerable resources and permanent staff of attorneys, accountants, and public relations experts to mount extensive and effective advertising campaigns, to garner political favors at all levels of government, and to sustain long and complicated rate cases before the ICC. To play the part of adversary in the rate
proceedings game required a huge and continuing commitment of time and money on the part of community groups. These groups began to feel that this system was not capable of responding to their interests, given the high stakes involved and the company's enormous investment in the status quo. The desire on the part of some citizens to change the rules of the game, in turn, fit nicely into Mayor Washington's progressive political and economic reform agenda.

To what extent were those citizens successful in their efforts to change that structure, and what factors appeared to facilitate or obstruct their efforts? In the end, they did not succeed; indeed, the city's exploration of options and subsequent effort to negotiate a new franchise ultimately reproduced the existing franchise with a slightly kinder and gentler face. We can say, however, that those citizens did succeed in putting the idea of institutional change on the city's political agenda, that they diligently kept that issue alive in mayoral campaigns, and that—largely because of those citizen-based efforts—the mayor and city council had terminated the existing franchise and tried "though with uncertain commitment and ultimately with little success" to negotiate a new franchise agreement more favorable to the city.

To achieve this limited success, the community activists and city staff supporting alternatives to the utility needed to go beyond commissioning technical studies by consultants and debating options in open public hearings. They needed to "translate" the technical components of the various electric power options into activities that were immediately recognizable by local business groups and to "enroll" those businesses and groups in the "project" by advancing their interests [see Latour 1987]. To accomplish these tasks of translation and enrollment, the city's staff and citizen groups needed to network, negotiate, create coalitions, and seek to build a consensus around the options revealed and tested in technical research [Benveniste 1989]. These processes of translation, enrollment, networking, and coalition building seem to have been accomplished during the Washington and Sawyer administrations, largely through the task forces of 1985-1989. The exploration of options was part of Washington's political agenda, and the coalition linked to that exploration was part of his political constituency.

The citizens' successes were sharply limited, however, particularly during the Daley years 1990-91. We suggest four reasons
why the efforts to change the institutional structure did not succeed. The most important factor was the death of Mayor Washington. Reelected in early November 1987 with adequate support in the city council, Washington was in a strong position to pursue whatever institutional option his advisors recommended. But his death led to fragmentation of the coalition that had backed him, to vacillation on the part of his immediate successor (Eugene Sawyer), and to the 1990 election of Richard Daley. Under Daley, the exploration of options was no longer part of a larger political agenda, and he looked to other constituencies for support. The utility, in turn, placed itself in a very strong negotiating position. Its political connections (especially through Congressman Rostenkowski) enabled it to weaken the city’s ability to purchase Edison’s system at a reasonable cost, and its financial resources enabled it to advertise its case widely and repeatedly. Who in Chicago (or points downwind) would want to have nuclear power plants run by precinct captains?

Thus, the progressive coalition fragmented, while Edison strengthened its position. This relative waning of the power of those who advocated institutional change was spurred on by the failure of rates to increase as dramatically as expected in 1985. Instead of rising by 32 percent, Edison’s rates had increased by only about 9 percent as of the end of 1989. The rate increase was not large enough to mobilize a powerful groundswell of opposition, but it was large enough to keep the heat on the new mayor.

The citizens advocating institutional change in Chicago had moderate success. In spite of the extremely powerful opposition that derives from the institution of regulated natural monopoly, they were able to induce the mayor and council to terminate the franchise with Commonwealth Edison, but they were not able to persuade or enable the mayor to restructure the institution or to negotiate a franchise that altered that institution significantly. What lessons can institutional economists learn from this experience? What is (and what can be) the role of institutional economics and economists in understanding or contributing to debates about institutional change in Chicago and in other contexts?

We propose a rhetorical answer to this question; that is, we suggest that institutional economists who want to contribute to debates about institutional change must learn how to direct their arguments toward specific audiences; that they must learn to see
their arguments as part of an already existing flow of utterances, replies, and counter-replies; that they must recognize that those utterances and replies have open meanings and are subject to contestable interpretations; and that they must understand that the rhetoric institutional economists and others use tends to constitute or reconstitute the institutions about which they speak.\textsuperscript{15}

To understand the significance of the first two points, it is useful to consider policy research conducted in the traditional mode by an academic economist. A not-so-hypothetical economist prepared an "objective" technical study that, he believed, would stand by itself. It was written for other economists, or perhaps for economically literate public officials. Since this economist was not a mere academic, he agreed to present his findings to a legislative task force. He prepared his remarks in the sanctity of his university office, walked into the legislative hearing room, presented his scientific findings, took a few polite questions, and then left. Because our economist’s findings were not prepared in full awareness of his audience's flow of utterances and replies, they were largely ignored by the legislators and wildly reconstructed by the press.\textsuperscript{16}

Three economic studies played a significant role in Chicago's exploration of options and were not ignored precisely because they were part of the relevant flow of utterances and replies: the Chase study signaled that Edison’s expected 32 percent rate increase would hurt the city’s economy in general and its low income residents in particular; the Beck study concluded that the city could municipalize part of Edison’s system at considerable savings to the city; and the KEA study reported that energy conservation would be a very attractive investment option. In each case, the city administration (or a task force appointed by the mayor) was the client and the primary audience, and each report was part of a flow of utterances and replies. The Chase study responded to Edison’s request for a rate increase; the Beck study responded to the mayor’s conclusion that the ICC would approve an extraordinarily large and economically harmful rate increase; the KEA study responded to Edison’s stinging criticism that "machine politics" was guiding the city’s exploration of options. Each report was open to contestable interpretation. Most importantly, Edison interpreted the Beck study as a hopelessly erroneous analysis that would "lead the city down the garden path" toward decay and economic harm, whereas citizen groups interpreted it as scientific documentation for the viability of municipalization.
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Finally, we note that the rhetoric used in these three reports and in other commentary about the city's exploration both reconstituted the institution of regulated natural monopoly and actively sought to constitute a new institution. Let us explain. Existing institutions constrain and shape the ways that institutional economists and others write and speak. To paraphrase E. E. Schattschneider [1960], institutions are the mobilization of rhetoric; they give members of the institutional community a language and conceptual framework. At the same time, repeated use of that language and framework continually reconstitutes or reproduces the institutions. The institution of regulated natural monopoly that has dominated the electric utility industry for almost 100 years, for example, leads its members to speak in terms of the agreed-upon conventions and normal discourse of public utility economics. That conventional discourse in turn presumes the continued existence of a regulated monopoly and serves as a reaffirmation of the legitimacy of that institution by the participants in the discussion.

The Chase, Beck, and KEA studies all reconstituted regulated natural monopoly in the sense just described. But, by exploring options to continued reliance on Edison, they also sought to constitute a new institution. While debates within the established rules of the game are carried on in normal discourse, as defined by the institution itself, debates about institutional change are necessarily carried on in abnormal discourse, and the conversation is shifted outside the normal institution and into an alternative forum. The entire conversation about electric power options in Chicago was, in this sense, abnormal. The problem is that the city and the citizen groups did not seem to understand this important aspect of their rhetoric; they were not particularly sensitive to the challenges of trying to persuade others in a context of abnormal discourse.

It is true that Mayor Washington set aside the agreed-upon conventions of regulated natural monopoly when he decided to explore alternatives to remaining on Edison's system. Creation of the first Mayor's Energy Committee and completion of the Beck study initiated that abnormal discourse. Edison responded by trying to manipulate the opinions of vast numbers of voters and consumers through an expensive barrage of advertising. That barrage led Edison's opponents to respond with their own passionate claims. The descent into "mere politics" then led the city to spon-
or KEA's research as a way of showing that decision making would not rest in the hands of precinct captains. But the lasting effect of the public relations battle between the city and the utility was probably to reinforce the public's perception that they faced a choice between an arrogant, powerful, private monopoly and a corrupt political machine. Each side successfully created a negative image of the other.

The problem for the city and the citizen groups is that they were unable to develop a counter rhetoric that created a positive image of alternatives to Edison and that captured the public imagination. We have no counter-rhetoric to suggest, but we can turn to the city of St. Paul for an example of what we mean. When St. Paul was devising a new approach to local economic development that emphasized small, indigenous businesses and reduced dependency on absentee corporations and traditional energy sources, their consultant came up with the name "the homegrown economy project." In this case, the city officials had a clear vision of an alternative approach to development and were able to capture the essence of the idea in the name "homegrown economy." They created an idea and an image around which to rally the support of citizens. In the Chicago case, the alternative to dependence on Edison was not clearly determined, and this made it difficult to find appropriate figures of speech for that alternative. The CEOC, for example, avoided espousing any particular alternative and instead portrayed themselves as neutrals who were simply interested in investigating all of the options in a careful fashion. Edison's rhetoric created powerful negative images of the city's and citizen groups' alternatives; these groups failed to counter with an equally powerful positive image of their reform program.

Embedded in the institution of regulated natural monopoly is the modernist notion that science should replace politics. It presumes that conflicting values can be synthesized into an overarching public interest and that scientific techniques can—within a quantifiable range of uncertainty and when properly applied by experts—reveal the one best way to solve a problem or to resolve a dispute. The move away from the normal discourse of regulated natural monopoly into the abnormal discourse surrounding Chicago's exploration of options could be interpreted as just another retelling of the old story about how good planning and analysis always loses out to "politics." Such an interpretation would, we think, be precisely the wrong one to make. In the case of
institutional change, good planning and analysis are not simply a matter of good technique. They also include passionate argument over rights and political efficacy. Good planning and analysis concerning institutional change are always scientific, political, and normative.

What works, and what does not, when trying to persuade others to change an institution in a context of abnormal discourse? The "scientific" criteria of public utility economics no longer have privileged status. They remain relevant, but now should be thought of as parts of political arguments. Accordingly, institutional analysts who seek to persuade others to undertake recommended actions should do so with the following rhetorical principle in mind: their models, forecasts, surveys, and analyses are rhetorical tropes (figures of speech and argument) that reply to prior utterances, seek to persuade specific audiences, contain open meanings that are subject to diverse interpretations, and help to constitute (or reconstitute) institutions.

The difficult challenge confronting institutional analysts is to find a rhetoric that can sustain a public and democratic discourse about contestable views of what is good, right, and feasible in a context of abnormal discourse and institutional change.

Notes

1. The process by which such decisions are made, and the relative influence of various groups, is itself defined by the existing institutions, which is why institutional change is difficult and institutions are conservative. In Marxist terminology, the given pattern of social relations is constantly being reproduced.

2. In a franchise agreement, a municipal authority normally grants an investor-owned utility the right to use public property (e.g., streets) needed for placing electrical transmission and distribution equipment. In return, the utility usually pays the municipality a small fee or provides free electric service. See Romo [1989].

3. Edison is, of course, subject to many other forms of regulation. The Federal Energy Regulatory Commission (FERC) regulates interstate sales of electric power; the Security and Exchange Commission,
FRC, and the ICC regulate the financing of new capacity additions. FERC, the ICC, the U. S. Environmental Protection Agency, the Nuclear Regulatory Commission, the Occupational Safety and Health Administration, and a wide variety of state and local agencies regulate Edison’s operations with regard to service, environmental effects, and public health and safety.

4. Part of this normal discourse is the notion that consumers are simply economic agents (rational, self-interested, utility maximizing individuals) whose behavior can be monitored and controlled from an objective, scientific, decontextualized point of view that is "above" the political fray.

5. The number of manufacturing jobs declined from 668,000 in 1947 to 277,000 in 1982; the total number of private sector jobs dropped by 123,500 between 1972 and 1981; and the city’s population declined from 3.36 million in 1970 to 3.01 million 10 years later [Squires et al. 1987].

6. For details about this stream of rate increases, see Throgmorton [1992a].

7. In 1985, the Illinois General Assembly changed the "rules of the game" under which Edison was regulated. Consumer groups originally sought to limit the amount of excess capacity that could be included in Edison’s rate base, but—responding to intense pressure from the company—the legislature chose not to impose such a limit. The new law did, however, strengthen the ICC’s regulatory powers, create a new "least cost" electric utility planning process, give citizens standing in court to sue the commission for any breaches of its duty, and require the ICC to audit the construction costs of new plants before those costs could be included in the rate base [Platt 1987].

8. "Wheeling" refers to the use of the electric power transmission facilities of one system to transmit power produced by other entities.

9. Fremon [1988] reported that Edison spent $630,000 for advertisements in just three newspapers (the
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Tribune, the Sun-Times, and the Defender) during the last two months of 1987.

10. Edison’s unflattering portrait of the city council in this flyer stands in interesting juxtaposition to the portrait presented in Hogan’s [1986] friendly history of the utility. There Hogan implies that Edison’s executives expect politicians to bluster and posture in public (to obtain public support) but wheel and deal in private, all the time trying to enhance their personal wealth and power.

11. A reviewer of an earlier version of this paper argued that “accepting the position that facts are shot through with values does not absolve us from the need or responsibility of dealing with facts, nor does it validate a position that all interpretations of facts are equally valid.” Are we to define the “results” of CACI’s survey as “facts”? We would argue that technical studies such as Beck’s or CACI’s survey act as rhetorical tropes (figures of speech or argument) that gain meaning and power from the larger narratives of which they are a part, and that those larger narratives establish the contexts in which technical studies are used. See Throgmorton [1992a, 1992b].

12. Members of the CEOC included the Citizens Utility Board (CUB), the Center for Neighborhood Technology (CNT), the Illinois Public Action Council (IPAC), National Peoples Action (NPA), Nuclear Information Service (NEIS), the South Austin Coalition Community Council, Organization of the Northeast, the Logan Square Neighborhood Association, and seven other groups.

13. According to the KEA report, acquiring 26 percent of the utility’s system (equivalent to the proportion of Edison’s power that Chicagoans consume) would cost roughly $6 billion, whereas buying just the power plants and distribution lines within the city would cost about $2 billion [KEA 1990]. A buyout would not reduce rates sharply, as Mayor Washington originally hoped, partly because Rostenkowski’s 1987 amendment to the federal tax code prohibited the city from selling low-interest, tax-free bonds to raise money for
the buyout (thereby adding perhaps $3.8 billion in additional finance charges, bringing the total for 30-year bonds to about $12 billion in interest payments), partly because the city might not be able to choose what parts of Edison's system to buy (and Edison's overall system would cost $25-28 billion), and partly because excess capacity in the region had shrunk faster than originally expected.

14. Subsequent court appeals and a new ICC decision voided that 9 percent increase and instituted a new 14 percent increase in early 1991. But then in late 1991, the Illinois Supreme Court ordered the ICC to reconsider several aspects of the 14 percent increase. The key issue continued to be whether Edison's last three nuclear units should be considered "used and useful."

15. For details and additional references concerning the place of rhetoric in policy analysis, see Throgmorton [1991, 1992b].

16. This approach to public policy analysis is reminiscent of the fellow who enters a room full of people conversing at a dinner party, plunks himself down in the middle of the group, and launches into his observations on some issue of the day that he, at least, finds fascinating. He has not bothered even to be introduced, nor has he picked up on the conversation that he interrupted. Upon finishing the story, there is a brief silence; then the group resumes its previous conversation as if the interloper had never spoken. The legislative task force responded to our economist in a similar fashion.

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