

# H-Net Reviews

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**Charles David Jacobson.** *Ties That Bind: Economic and Political Dilemmas of Urban Utility Networks, 1800-1990.* Pittsburgh: University of Pittsburgh Press, 2000. xi + 282 pp. \$35.00 (cloth), ISBN 978-0-8229-4133-0.

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## **Networks in Flux: Historical Reflections on the Creation of the Water, Electric Utility, and Cable-TV Service Industries**

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Competition between companies offering services is the hallmark of classical economic thinking. And yet, competition is nonexistent in some industries, and American society seems sanguine about it. In *Ties that Bind*, Charles David Jacobson, a research associate at a public policy consulting firm, explains the often-tortuous process by which companies that provide water, electrical, and cable-TV services won the right to operate with exclusive customer franchises. In some cases, arrangements made by governments appeared to make good economic and political sense. In other cases, customers still feel shortchanged by public officials who made deals for these services when the industries were in their infancy.

Jacobson focuses on the political and economic tensions that resulted (and still exist) from the installation of capital-intensive service networks. Since the nineteenth century, the author notes, American political and economic ideology favored free markets to provide goods and services to the populace. But the economics of large-scale networks did not always allow for competition to take place. When companies installed water pipes, electrical conduits, and coaxial cables, they often made large and long-term investments that did not seem conducive with competition. Though towns and

cities originally offered nonexclusive franchises to companies, potential competitors refused to enter the same parts of town and install duplicate facilities. Instead, companies often bought out each other and became de facto (and unregulated) monopolies. Political economists explained this type of business behavior by suggesting that capital-intensive industries such as water supply, railroads, and electrical service constituted “natural monopolies”—industries that could provide service less expensively and more efficiently in the absence of competition.

Despite the naturalness of these monopolies, politicians and consumers did not always love them. Here is where the tension builds in Jacobson’s stories. Using case studies of how water, electricity, and cable-TV systems developed in several cities, he describes efforts toward municipalization of all three services. In other words, city governments often sought to buy out privately owned utility networks or build competing networks. In the water supply business, for example, the municipal model became victorious. In the electric and cable-TV businesses, however, private owners fought municipal operation and remained dominant, though some form of government regulation ensued. Jacobson points out, however, that regulation often remained benign. In fact, as has been documented elsewhere (though it is still not terribly well understood), regulation of electric utilities became accepted after 1907 partly because

electric utility managers saw advantages to being overseen by state officials. As it turned out, they enjoyed almost 70 years of uninspired oversight by regulators who had few resources compared to the utility firms. Nevertheless, the technological and managerial success of the utility industry until the 1970s helped keep government officials and the public at bay. Electricity prices declined dramatically during much of the twentieth century, and few people caught on that regulation had little impact on utility management.

While the tensions and dilemmas of the water and electrical systems have been described before, I am unaware of the literature dealing with similar tensions and dilemmas in the cable-TV industry. (At first, I was surprised to see a section on cable TV in such a book. After all, cable TV does not share characteristics as essential public services as water and electrical service. But Jacobson makes a good case for including the discussion of this industry.) In fact, this part of the book held the most interest to me, perhaps because I always felt antipathy toward cable-TV companies, largely from the perspective of a consumer rather than as an academic. I always disliked the firms, which seemed to hold a monopoly on service while appearing immune from effective forms of government regulation.

As Jacobson points out, my animosity seems merited. Cable-TV companies came into cities in the 1970s and 1980s and promised municipal governments good service, cheap rates, and free public services in exchange for exclusive customer franchises. Though the managements of the companies may have had good intentions, they often failed to deliver on their promises. When cities sought to fine or disenfranchise the companies for their failures to perform adequately under their contracts, the firms often had enough leverage to escape censure. Gov-

ernment oversight of cable companies proved useless, especially after federal legislation buttressed their position by removing some regulation when competition (defined as the existence of a few channels of open-air transmission) existed.

*Ties that Bind* concludes with ruminations on the history and future of fixed networks. Jacobson aptly points out that technological change has played major roles in the establishment of these three networks in the past and that such change may offer options for future changes. While water services will likely remain the same in the future, electric power may depend on new technologies, such as small-scale wind turbines instead of the huge-scale utility-owned power plants. However, he still foresees an interconnected network and does not discuss the possibility of distributed and disconnected systems that even newer technologies (such as fuel cells) may make possible. Likewise, he briefly discusses the possibility of digital services provided on telephone lines and from satellite broadcast TV services as possible competition for the existing cable TV services. Unfortunately, the book (though published in 2000) does not discuss the Telecommunications Act of 1996 and some more recent events that have eviscerated hopes for increased competition to existing cable TV. (For example, several local telephone companies have recently backed away from their plans to provide competitive TV service.)

Overall, *Ties that Bind* successfully weaves elements from economics, politics, technology, and ideology into a satisfying historical account of the regulation of three American service industries. Though I would have liked to have seen more discussion of recent events, the book nevertheless delivers on its promise to provide useful insights on regulatory policy until about 1990.

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