Spartacus Educational
www.spartacus.schoolnet.co.uk

Oil Depletion Allowance

v **Primary Sources** v

The first significant discovery of oil in Texas took place in Navarro County in 1894. By 1900 the Corsicana oilfield was producing more than 839,000 barrels of oil a year. This success prompted exploration in other parts of Navarro County. This led to the discovery of the Powell oilfield and by 1906 it was producing 673,221 barrels a year. Other discoveries took place at Sour Lake (1902), Humble (1905) and Goose Creek (1908). Some of those who became extremely wealthy as a result of these discoveries included Ross Sterling, Hugh R. Cullen, Sid Richardson and Clint Murchison.

The most prolific oil reserves in the United States was not discovered until October, 1930. The East Texas Oilfield included Rusk, Upshur, Gregg and Smith counties. The first small company to find oil in East Texas was Deep Rock Oil Company. The first investor to take advantage of the discovery was Haroldson L. Hunt. He bought 5,000 acres of leases and an eighty-acre tract for $1,335,000. Hunt soon owned 500 wells in East Texas.

The discovery of oil in Texas made a small group of men a great deal of money. They decided to join together in order to maintain their profits. This included strategies for keeping the price of oil as high as possible. The rich East Texas field caused problems as it initially caused the price of oil to fall.

Ross Sterling, the former owner of Humble Oil, was elected governor of Texas and took office on 20th January, 1931. The Texas Railroad Commission, under the control of the large oil producers, attempted to limit the production of oil (prorationing) in the new fields of East Texas. On 31st July, 1931, the federal court in Houston sided with a group of independent oil producers and ruled that the Texas Railroad Commission had no right to impose prorationing.

Large oil companies in Texas such as Humble Oil were in favour of prorationing and Sterling came under great pressure to intervene. On 16th August, 1931, Sterling declared martial law in Rusk, Upshur, Gregg and Smith counties. In his proclamation Sterling declared that the independent oil producers in these counties were "in a state of insurrection" and that the "reckless and illegal exploitation of (oil) must be stopped until such time as the said resources may be properly conserved and developed under the protection of the civil authorities".

Sterling now ordered the commander of the Texas National Guard, Jacob F. Wolters, to "without delay shut down each and every producing crude oil well and/or producing well of natural gas". Wolters who was the chief lobbyist of several major oil companies in Texas, readily agreed to this action. Wolters used more than a thousand troops to make sure that the oil wells in East Texas ceased production. The Texas Railroad Commission was now in firm control of the world's most prolific oil fields. It now controlled the supply of the oil in the United States. As a result, the price of oil began to increase.

The courts ruled that Sterling had exceeded his authority by the declaration of martial law and he was easily defeated by Miriam A. Ferguson when he attempted to be elected for a second term as governor.

When Franklin D. Roosevelt gained power he attempted to push a bill through Congress that would give his Secretary of the Interior, Harold Ickes, the authority to regulate domestic oil production. However, Sam Rayburn, a politician from Texas, as chairman of the House Committee on Interstate and Foreign Commerce, was able to kill the bill. It was left to another powerful Texan, Tom Connally, to sponsor the Connally Hot Oil Act. This gave the

Texas Railroad Commission the authority to proration oil.

Texas oil millionaires also fought hard to maintain its tax concessions. The most important of these was the oil depletion allowance. It was first introduced in 1913 and allowed producers to use the depletion allowed to deduct just 5 per cent of their income and the deduction was limited to the original cost of their property. However, in 1926 the depletion allowance was increased to 27.5 per cent.

As Robert Bryce pointed out in his book, *Cronies: Oil, the Bushes, and the Rise of Texas, America's Superstate*: "Numerous studies showed that the oilmen were getting a tax break that was unprecedented in American business. While other businessmen had to pay taxes on their income regardless of what they sold, the oilmen got special treatment."

Bryce gives an example in his book how the oil depreciation allowance works. "An oilman drills a well that costs $100,000. He finds a reservoir containing $10,000,000 worth of oil. The well produces $1 million worth of oil per year for ten years. In the very first year, thanks to the depletion allowance, the oilman could deduct 27.5 per cent, or $275,000, of that $1 million in income from his taxable income. Thus, in just one year, he's deducted nearly three times his initial investment. But the depletion allowance continues to pay off. For each of the next nine years, he gets to continue taking the $275,000 depletion deduction. By the end of the tenth year, the oilman has deducted $2.75 million from his taxable income, even though his initial investment was only $100,000."

Such a system was clearly unfair and only benefited a small group of businessmen in Texas. It seemed only a matter of time before Congress removed this tax loophole. However, these oilmen used some of their great wealth to manipulate the politicians in Washington.

1932 several politicians from Texas assumed important positions of power in Washington. John Nance Garner became Speaker of the House of Representatives. Texans also became the chairmen of some very important committees. This included Samuel Rayburn (Interstate and Foreign Commerce), Joseph J. Mansfield (Rivers and Harbors Committee), Hatton W. Sumners (Judiciary Committee), Marvin Jones (Agriculture Committee) and Fritz Lanham (Public Buildings and Grounds Committee).

As the historian, Robert A. Caro has pointed out in *Lyndon Johnson: The Path to Power*: "Texans were elected on December 7, 1931, not only to the Speakership of the House but to the chairmanship of five of its most influential committees, Lyndon Johnson's first day in the Capitol was the day Texas came to power in it - a power that the state was to hold, with only the briefest interruptions, for more than thirty years."

Sam Rayburn as chairman of the Interstate and Foreign Commerce Committee, played an important role in the establishing the and the Federal Communications Commission. In 1937 Rayburn became majority leader and held the post for the next three years.

Several of these Texas politicians became involved in the Suite 8F Group, a collection of right-wing political and businessmen. The name comes from the room in the Lamar Hotel in Houston where they held their meetings. Members of the group included George Brown and Herman Brown (Brown & Root), Jesse H. Jones (multimillionaire investor in a large number of organizations and chairman of the Reconstruction Finance Corporation), Gus Wortham (American General Insurance Company), James Abercrombie (Cameron Iron Works), William Hobby (Governor of Texas and owner of *The Houston Post*), William Vinson (Great Southern Life Insurance), James Elkins (American General Insurance and Pure Oil Pipe Line), Albert Thomas (chairman of the House Appropriations Committee), Lyndon B. Johnson (Majority Leader of the Senate) and John Connally (Governor of Texas). Alvin Wirtz and Edward Clark, were two lawyers who were also members of the Suite 8F Group.

Suite 8F helped to coordinate the political activities of other right-wing politicians and businessmen based in the South. In this way they were able to prevent the oil depletion allowance removed. This sometimes meant that they supported the Republican Party in elections. For example, Dwight D. Eisenhower received considerable funds from Texas oilmen in the 1952 presidential elections.

Soon after being elected, Eisenhower stopped a grand jury investigation into the “International Petroleum Cartel” citing reasons of “national security”. Eisenhower had already starting paying back the generous support he had received from the oil industry.

In 1954 Paul Douglas began making speeches in the Senate about the need for tax reforms in order to eliminate special privileges such as the oil depletion allowance. Douglas attempted to join the important Finance Committee. He held seniority priority and should have been given one of the two available seats on the committee. Johnson had to apply considerable pressure on Harry Byrd, the chairman of the Finance Committee, to stop this happening.

In 1955 Lyndon B. Johnson became majority leader of the Senate. Johnson and Richard Russell now had complete control over all the important Senate committees. This was proving to be an expensive business. The money used to bribe these politicians came from Russell's network of businessmen. These were men usually involved in the oil and armaments industries.

According to John Connally, large sums of money was given to Johnson throughout the 1950s for distribution to his political friends. "I handled inordinate amounts of cash". A great deal of this came from oilmen. Cornel Wilde worked for the Gulf Oil Corporation. In 1959 he took over from David Searls as chief paymaster to Johnson. He testified that he made regular payments of $10,000 to Walter Jenkins.

In 1956 there was another attempt to end all federal price control over natural gas. Sam Rayburn played an important role in getting it through the House of Representatives. This is not surprising as according to Connally, he alone had been responsible for a million and a half dollars of lobbying.

Paul Douglas and William Langer led the fight against the bill. Their campaigned was helped by an amazing speech by Francis Case of South Dakota. Up until this time Case had been a supporter of the bill. However, he announced that he had been offered a $25,000 bribe by the Superior Oil Company to guarantee his vote. As a man of principal, he thought he should announce this fact to the Senate.

Lyndon B. Johnson responded by claiming that Case had himself come under pressure to make this statement by people who wanted to retain federal price controls. Johnson argued: "In all my twenty-five years in Washington I have never seen a campaign of intimidation equal to the campaign put on by the opponents of this bill."

Johnson pushed on with the bill and it was eventually passed by 53 votes to 38. However, three days later, Dwight D. Eisenhower, vetoed the bill on grounds of immoral lobbying. Eisenhower confided in his diary that this had been "the most flagrant kind of lobbying that has been brought to my attention". He added that there was a "great stench around the passing of this bill" and the people involved were "so arrogant and so much in defiance of acceptable standards of propriety as to risk creating doubt among the American people concerning the integrity of governmental processes".

Senators called for an investigation into the lobbying of the oil industry by Thomas Hennings, the chairman of the subcommittee on Privileges and Elections. Johnson was unwilling to allow a senator not under his control to look into the matter. Instead he set up a select committee chaired by Walter F. George of Georgia, a member of the Southern Caucus. Johnson had again exposed himself as being in the pay of the oil industry.

Drew Pearson of *The Washington Post* picked up on this story and wrote a series of articles about Lyndon B. Johnson and the oil industry. Pearson claimed that Johnson was the "real godfather of the bill". Pearson explored Johnson's relationship with George Brown and Herman Brown. He reported on the large sums of money that had been flowing from Brown & Root, the "big gas pipeline company" to Johnson. He also referred to the large government contracts that the company had obtained during the Second World War. Pearson also quoted a Senate report that pointed out there was "no room for a general contractor like Brown & Root on Federal projects". Nevertheless, Johnson had helped them win several contracts including one to build air-naval bases in Spain."

Johnson was now in serious trouble and sought a private meeting with Pearson. He offered the journalist a deal, if Pearson dropped the investigation, he would support Estes Kefauver, in the forthcoming primaries. Pearson surprisingly accepted this deal. He wrote in his diary: "I figured I might do that much for Estes (Kefauver). This is the first time I've ever made a deal like this, and I feel unhappy about it. With the Presidency of the United States at stake, maybe it's justified, maybe not – I don't know."

The decision by Dwight D. Eisenhower to veto this bill angered the oil industry. Once again Sid Richardson and Clint Murchison began negotiations with Eisenhower. In June, 1957, Eisenhower agreed to appoint their man, Robert Anderson, as his Secretary of the Treasury. According to Robert Sherrill in his book, *The Accidental President*: "A few weeks later Anderson was appointed to a cabinet committee to "study" the oil import situation;

out of this study came the present-day program which benefits the major oil companies, the international oil giants primarily, by about one billion dollars a year."

During the 1960 presidential election John F. Kennedy gave his support for the oil depletion allowance. In October, 1960, he said that he appreciated "the value and importance of the oil-depletion allowance. I realize its purpose and value... The oil-depletion allowance has served us well."

However, two years later, Kennedy decided to take on the oil industry. On 16th October, 1962, Kennedy was able to persuade Congress to pass an act that removed the distinction between repatriated profits and profits reinvested abroad. While this law applied to industry as a whole, it especially affected the oil companies. It was estimated that as a result of this legislation, wealthy oilmen saw a fall in their earnings on foreign investment from 30 per cent to 15 per cent.

On 17th January, 1963, President Kennedy presented his proposals for tax reform. This included relieving the tax burdens of low-income and elderly citizens. Kennedy also claimed he wanted to remove special privileges and loopholes. He even said he wanted to do away with the oil depletion allowance. It is estimated that the proposed removal of the oil depletion allowance would result in a loss of around $300 million a year to Texas oilmen.

After the assassination of Kennedy, President Lyndon B. Johnson dropped the government plans to remove the oil depletion allowance. Richard Nixon followed his example and it was not until the arrival of Jimmy Carter that the oil depletion allowance was removed.

Primary Sources

^ Main Article ^

(1) Robert Sherrill, *The Accidental President* (1967)

Anderson's powerful influence over Lyndon Johnson, and the position Anderson was marked to play in directing the financial policies of the Johnson administration, were both known and predictable from the beginning. They have been intimate allies for thirty years of politics in Texas and Washington. They were especially intimate in the creation of an oil program which, without much public awareness, had developed to a controversial crisis that was effectively quashed only by Kennedy's death.

The seed of that program was really planted, more than a quarter of a century ago, on a passenger train clacking through the night. There are several accounts of what happened, but one goes this way: oil millionaire Sid Richardson, and President Roosevelt's son Elliott, and Bill Kittrell, a kind of protegy of Sam Rayburn's and a well-known man about Texas, were keeping each other company on a trip to Washington. But the conversation was beginning to droop, so Richardson sent Kittrell into the chair car to scout for a fourth for a round of bridge. By and by Kittrell came back with a young Army colonel in tow, an open-faced fellow by the name of Dwight Eisenhower.

From the train trip developed a strong friendship between Eisenhower and Richardson; after the war, when Eisenhower was being rushed by both political parties, his Texas oil pal showed up in Paris to tell him that if he ever did get into politics he could count on plenty of Richardson money.

Exactly what generosity Richardson showed has never been more than wildly hinted at, but it apparently was enough to make Eisenhower moderately grateful. When Richardson and other Texas oil men recommended Robert Anderson, Eisenhower named him Secretary of the Navy. The importance of this to Texas oil men is a matter of almost comical stress. Anderson, a resident of landlocked Fort Worth, knew nothing of naval affairs before he got the post, but that hardly matters; all he needed to know was that Texas is the largest oil-producing state and that the Navy is the largest consumer of oil as well as leaser of valuable lands to favored oil firms. From this producer-consumer relationship things work out rather naturally, and it was this elementary knowledge that later made John Connally (who had for several years, through the good offices of his mentor Lyndon Johnson, been serving as Sid Richardson's attorney and who later became executor of the Richardson estate) and Fred Korth, also residents of Fort Worth, such able secretaries of the Navy, by Texas standards...

Eisenhower, on the urging of Richardson and Lyndon Johnson, named him to the office of Secretary of Treasury, and on June 21 (1957), ten days after selling his gift oil property, Anderson was free and clear to tell the Senate Finance Committee that he held no property that would conflict with his interest in the cabinet post.

A few weeks later Anderson was appointed to a cabinet committee to "study" the oil import situation; out of this study came the present-day program which benefits the major oil companies, the international oil giants primarily, by about one billion dollars a year.

Although Standard of Indiana, one of the companies involved in Anderson's million-dollar windfall, used the resulting import program to great success, moving in a few years from a company with no foreign holdings to one of the largest overseas oil explorers, there was nothing illegal in this mutual benefit. Anderson could be charged with nothing more than poor taste.

Nor was Anderson held solely responsible for the oil import program's formula; not at all. Industry insiders believed-and their beliefs were printed in industry publications-that equally influential in the shaping of the program were Lyndon Johnson and his ally in all things pertaining to oil industry legislation, the late Senator Robert Kerr of Oklahoma. Kerr, an owner of the Kerr-McGee Oil Company, did very well under the new oil program, but his attitude toward conflict of interest was singularly easygoing. "Hell," he once remarked, "if everyone abstained on grounds of personal interest, I doubt if you could get a quorum in the U.S. Senate on any subject."

(2) **Drew Pearson** & **Jack Anderson**, The Case Against Congress (1968)

Fletcher Knebel in the *Des Moines Register* carefully listed the numerous gifts presented to the Eisenhower farm, including a John Deere tractor with a radio in it, a completely equipped electric kitchen, landscaping improvements and ponies and Black Angus steers-worth, all together, more than half a million dollars. Compare this outpouring to the $1,200 deep freeze-and the resulting uproar over it - given to President Truman by a Milwaukee friend of General Harry Vaughn. But no newspaper dug into the highly compromising fact that the upkeep of the Eisenhower farm was paid for by three oilmen - W. Alton Jones, chairman of the executive committee of Cities Service; B. B. (Billy) Byars of Tyler, Texas, and George E. Allen, director of some 20 corporations and a heavy investor in oil with Major Louey Kung, nephew of Chiang Kai-shek. They signed a strictly private lease agreement, under which they were supposed to pay the farm costs and collect the profits. Internal Revenue, after checking into the deal, could find no evidence that the oilmen had attempted to operate the farm as a profitable venture. Internal Revenue concluded that the money the oilmen poured into the farm could not be deducted as a business expense but had to be reported as an outright gift. Thus, by official ruling of the Internal Revenue Service, three oilmen gave Ike more than $500,000 at the same time he was making decisions favorable to the oil industry. The money went for such capital improvements as: construction of a show barn, $30,000; three smaller barns, about $22,000; remodeling of a schoolhouse as a home for John Eisenhower, $10,000; remodeling of the main house, $110,000; landscaping of 10 acres around the Eisenhower home, $6,000; plus substantial outlays for the staff including a $10,000-ayear farm manager.

How the money was paid is revealed in a letter dated January 28, 1958, and written from Gettysburg by General Arthur S. Nevins, Ike's farm manager. Addressed to George E. Allen in Washington and B. B. Byars in Tyler, Texas, it began, "Dear George and Billy" and discussed the operation of the farm in some detail. It said, in part:

"New subject - The funds for the farm operation are getting low. So would each of you also let me have your check in the usual amount of $2,500. A similar amount will be transferred to the partnership account from W. Alton Jones's funds."

In the left-hand corner of the letter is the notation that a carbon copy was being sent to W. Alton Jones.

During his eight years in the White House, Dwight Eisenhower did more for the nation's private oil and gas interests than any other President. He encouraged and signed legislation overruling a Supreme Court decision giving offshore oil to the Federal Government. He gave office space inside the White House to a committee of oil and gas men who wrote a report recommending legislation that would have removed natural-gas pipelines from control by the Federal Power Commission. In his appointments to the FPC, every commissioner Ike named except one, William Connole, was a pro-industry man. When Connole objected to gas price increases, Eisenhower eased him out of the commission at the expiration of his term.

On January 19, 1961, one day before he left the White House, Eisenhower signed a procedural instruction on the importation of residual oil that required all importers to move over and sacrifice 15 percent of their quotas to newcomers who wanted a share of the action. One of the major beneficiaries of this last-minute executive order happened to be Cities Service, which had had no residual quota till that time but which under Ike's new order was allotted about 3,000 barrels a day. The chief executive of Cities Service was W. Alton Jones, one of the three faithful contributors to the upkeep of the Eisenhower farm.

Three months later, Jones was flying to Palm Springs to visit the retired President of the United States when his plane crashed and Jones was killed. In his briefcase was found $61,000 in cash and travelers' checks. No explanation was ever offered - in fact none was ever asked for by the complacent American press - as to why the head of one of the leading oil companies of America was flying to see the ex-President of the United States with $61,000 in his briefcase. (438-440)

(3) Jonathan Kwitny, Endless Enemies (1984)

In 1961 John Foster Dulles was dead. Allen Dulles had been reappointed to head the CIA as the very first decision announced by President-elect Kennedy. And President Eisenhower retired to a 576-acre farm near Gettysburg, Pennsylvania.

The farm, smaller then, had been bought by General and Mrs. Eisenhower in 1950 for $24,000, but by 1960 it was worth about $1 million. Most of the difference represented the gifts of Texas oil executives connected to Rockefeller oil interests. The oilmen acquired surrounding land for Eisenhower under dummy names, filled it with livestock and big, modern barns, paid for extensive renovations to the Eisenhower house, and even wrote out checks to pay the hired help.

These oil executives were associates of Sid Richardson and Clint Murchison, billionaire Texas oilmen who were working with Rockefeller interests on some Texas and Louisiana properties and on efforts to hold up the price of oil. From 1955 to 1963, the Richardson, Murchison, and Rockefeller interests (including Standard Oil Company of Indiana, which was 11-36 percent Rockefeller-held at the time of the Senate figures referred to earlier, and International Basic Economy Corporation, which was 100 percent Rockefeller-owned and of which Nelson Rockefeller was president) managed to give away a $900,000 slice of their Texas-Louisiana oil property to Robert B. Anderson, Eisenhower's secretary of the treasury.

In the Eisenhower cabinet, Anderson led the team that devised a system under which quotas were mandated by law on how much oil each company could bring into the U.S. from cheap foreign sources. This bonanza for entrenched power was enacted in 1958 and lasted fourteen years. Officially, it was done because of the "national interest" in preventing a reliance on foreign oil.

In effect, the import limits held U.S. oil prices artificially high, depleted domestic reserves, and reduced demand for oil overseas, thereby lowering foreign oil prices so that European and Japanese manufacturers could compete better with their U.S. rivals. It is difficult, of course, for a layman to understand how any of these things is in the national interest.

Meanwhile, President Kennedy turned the State Department over to Dean Rusk, who had held various high positions in the department under President Truman. For nine years - the entire Eisenhower interregnum for the Democrats and then some - Rusk had been occupied as president of the Rockefeller Foundation.

Has anybody stopped to think that from 1953 until 1977, the man in charge of U.S. foreign policy had been on the Rockefeller family payroll? And that from 1961 until 1977, he (meaning Rusk and Kissinger) was beholden to the Rockefellers for his very solvency?