Big Oil and LBJ

The "Seven Sisters" was a term coined in the 1950s by Italian businessman Enrico Mattei to describe the seven oil companies which formed the "Consortium for Iran" and dominated the global petroleum industry from the mid-1940s to the 1970s. The group comprised Standard Oil of New Jersey and Standard Oil Company of New York (now ExxonMobil); Standard Oil of California, Gulf Oil and Texaco (now Chevron); Royal Dutch Shell; and Anglo-Persian Oil Company (now BP).

In 1973 the members of the Seven Sisters controlled 85% of the world's petroleum reserves but in recent decades the dominance of them and their successor companies has been challenged by the increasing influence of the OPEC cartel and of state-owned oil companies in emerging-market economies.

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Oil and Texas: A Cultural History

For Texans, the 20th century did not begin on January 1, 1901, as it did for everyone else. It began nine days later, on Jan. 10, when, spurting drilling pipe, mud, gas and oil, the Lucas No. 1 well blew in at Spindletop near Beaumont.

The gusher spewed oil more than 100 feet into the air until it was capped nine days later. With that dramatic fanfare, Texas' economy was wrenched from its rural, agricultural roots and flung headlong into the petroleum and industrial age.

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 (2004): "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 (1982): "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 LBJ became majority leader of the Senate. LBJ 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 LBJ 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 LBJ. 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.

LBJ responded by claiming that Case had himself come under pressure to make this statement by people who wanted to retain federal price controls. LBJ 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."

LBJ pushed on with the bill and it was eventually passed by 53 votes to 38. However, three days later, 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. LBJ 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 LBJ and the oil industry. Pearson claimed that LBJ was the "real godfather of the bill". Pearson explored LBJ'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,LBJ had helped them win several contracts including one to build air-naval bases in Spain."

LBJ 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."

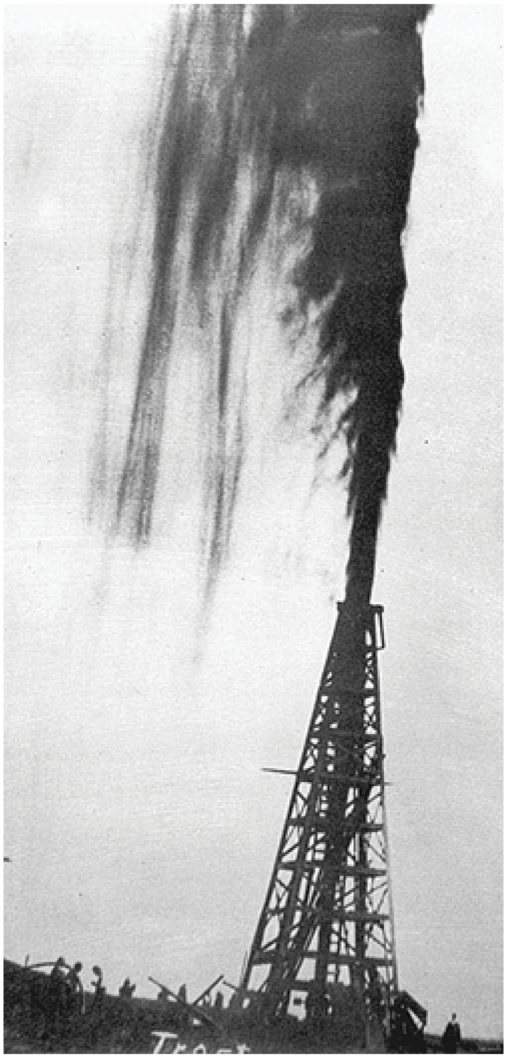
The decision by Eisenhower to veto this bill angered the oil industry. Once again Sid Richardson and Clint Murchison began negotiations with Eisenhower. In June, 1957, Eisenhower agreed to appoint their man, Robert Anderson, as his Secretary of the Treasury. According to Robert Sherrill in his book, The Accidental President (1967): "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 JFK 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, JFK decided to take on the oil industry. On 16th October, 1962, JFK 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, JFK 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 JFK, LBJ 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.



Spindletop blows in. Dallas Morning News file photo.

In the last two decades of the 19th century, railroads had made sweeping changes in the lives of many of Texas' mostly rural, mostly agrarian citizens and forever altered the face of the state. Settlements formed around temporary railroad-workers' camps. Speculators created brand-new towns out of virgin prairie beside the gleaming rails. And existing communities that were bypassed by the tracks often curled up their municipal toes and died unless they were willing to pick up businesses, homes and churches and move to the rails.

The arrival of railroad transportation expanded Texas farmers' and ranchers' markets by providing faster and cheaper shipping of products. Cattle raisers were no longer forced to trail their herds long miles to railheads in the Midwest. In their classic Texas history text, Texas, the Lone Star State, Rupert Richardson, Ernest Wallace and Adrian Anderson summarized it this way: "... railroads were the key to progress and prosperity at the end of the 19th century."

When oil came gushing into Texas early in the 20th century, the changes were even more profound. Petroleum began to displace agriculture as the principal engine driving the economy of the state, and Texans' lives were even more drastically affected than they had been by railroads.

The impact of oil on Texas and Texans is often analyzed in terms of corporate development, personal and corporate wealth, and the overall economy of the state and politics. Oil also dramatically affected the lives of those who owned the land from which oil was produced, or who were directly involved in oil exploration, extraction and processing. The discoveries of oil fields led to the founding and flourishing of numerous Texas towns, to the establishment of companies that have become multinational conglomerates, and to the amassing of vast personal fortunes.

Conversely, the playing out of pumped-out oil fields led to the death of any number of those once-flourishing towns. Betting fortunes on what turned out to be dusters resulted in the bankruptcies of companies and individuals.

However, Texas oil has affected the lives of millions of Texans not directly involved in the oil business – Texans who receive neither a paycheck nor a royalty check based on petroleum. Oil has profoundly changed the culture of the state, and it continues to affect most Texans' lives in ways that may not be obvious to the casual observer.

Early Oil Discoveries

The presence of natural oil seeps in Texas had been known for hundreds of years before Europeans arrived in the area. Indians in Texas are said to have told European explorers that the substance had medicinal uses. In July 1543, the remnants of Spanish explorer Hernando de Soto's expedition, led by Luis de Moscoso Alvarado, were forced ashore along the Texas coast between Sabine Pass and High Island. Moscoso reported that the group found oil floating on the surface of the water and used it to caulk their boats.

Lyne T. Barret drilled Texas' first producing oil well in 1866 at Melrose in Nacogdoches County. The following year, Amory Reily Starr and Peyton F. Edwards brought in a well at nearby Oil Springs. Other wells followed, making Nacogdoches County the site of Texas' first commercial oil field, first pipeline and first effort to refine crude. Several thousand barrels of oil were produced, but the price of oil was not high enough to justify further efforts at development. While drilling for water in 1886, Bexar County rancher George Dullnig found a small quantity of oil, but he did not attempt commercial production.

City crews in Corsicana were also drilling for water in 1894, when they made the first economically significant oil discovery in Texas. That well was abandoned because the drillers needed to find water, not oil. But several producing oil wells were drilled in 1895 by Joseph S. Cullinan, who later helped found the Texas Company, which became Texaco. The first well-equipped refinery in Texas was built at this field, and despite the early efforts at Nacogdoches, it is usually called Texas' first refinery.

Spindletop

The oil discovery that jump-started Texas' transformation into a major petroleum producer and industrial power was Spindletop. Exploration in the area of the upper Gulf Coast near Beaumont had begun in 1892. After drilling several dry holes, Louisiana mining engineer and oil prospector Capt. Anthony F. Lucas drilled the discovery well of the Spindletop field. Initially, the Lucas No. 1 produced more than an estimated 75,000 barrels of oil a day. Peak annual production was 17.5 million barrels in 1902.

Spindletop, which was also the first salt-dome oil discovery, triggered a flood of speculation in the area, resulting in several other significant discoveries. The boom included an influx of hundreds of eager wildcatters – including former Governor James Stephen Hogg – lusting after a piece of the action, as well as thousands of workers looking for jobs. Right behind them came a tidal wave of related service, supply and manufacturing firms, such as refineries, pipelines and oil-field equipment manufacturers and dealers. It was California's fabled Gold Rush of 50 years earlier repeated on the Texas Gulf Coast with rotary drill bits and derricks instead of pick axes and gold pans.

The boom turned into a feeding frenzy of human sharks: scores of speculators sniffing out a quick buck; scam artists peddling worthless leases; and prostitutes, gamblers and liquor dealers, all looking for a chunk of the workers' paychecks.

Within three years, several additional major fields were developed within a 150-mile radius of Spindletop; Sour Lake, Batson and Humble were among them.

Companies were soon established to develop the Gulf Coast oil fields. Many of them became the industry giants of today: Gulf Oil; Sun Oil Company; Magnolia Petroleum Company; the Texas Company; and Humble Oil, which later affiliated with Standard Oil of New Jersey and became Esso, then today's Exxon. Refineries, pipelines and export facilities became the nucleus of the major industrial region that began to form along the Texas coast around Port Arthur and Beaumont. The New Handbook of Texas summarizes the effect of Spindletop in this way: "The discovery of the Spindletop oil field had an almost incalculable effect on world history, as well as Texas history. Eager to find similar deposits, investors spent billions of dollars throughout the Lone Star State in search of oil and natural gas. The cheap fuel they found helped to revolutionize American transportation and industry."

Texas oil production was 836,039 barrels in 1900. In 1902, Spindletop alone produced more than 17 million barrels, or 94 percent of the state's production. As a result of the glut, oil prices dropped to an all-time low of 3 cents a barrel, while water in some boom towns sold for 5 cents a cup.