Crude Politics

The California Oil Market, 1900–1940

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Contents

List of Illustrations xi
Preface xiii
Acknowledgments xvii

Introduction: Structuring the Oil Market 1

PART ONE · Federal Property
1. The End of the Old Property Regime 25
2. The Politics of the 1920 Mineral Leasing Act 33

PART TWO · State Property
3. Beaches versus Oil in Southern California 53
4. “The Same Unsavory Smell of Teapot Dome” 79

PART THREE · Regulation
5. The Struggle to Control California Oil Production 111
6. Federalism and the Unruly California Oil Market 134
PART FOUR · Consumption

7. “Transportation by Taxation”

8. Defending the User-Financing System

Conclusion: The Politics of Petroleum Prices

Notes 211

Bibliography 275

Index 297

Illustrations

MAPS

1. Major California oil fields, 1940 xxi
2. Major paved and unpaved roads in California, 1931 xxii

FIGURES

1. Oil prospector en route to lease 18
2. Oil prospector’s camp, San Joaquin Valley 27
3. James N. Gillett 33
4. Buena Vista Hills naval oil reserve 47
5. Albert B. Fall and Edward Doheny 48
6. Summerland oil field 55
7. Oil derricks behind houses in Venice 63
8. Huntington Beach 65
9. Santa Monica Beach 96
10. Culbert L. Olson 102
11. Huntington Beach oil field 114
12. Onlookers watch Signal Hill oil field fire 115
13. Grading an earthen storage reservoir 116
14. Ralph Lloyd 139
15. General taxes versus user taxes in California, 1940–1945 162
16. Rudimentary road construction, San Luis Obispo County 163
STRUCTURING THE OIL MARKET

California’s landscape and culture today depend on petroleum. Millions of gasoline-powered cars and trucks daily roar along eight- to ten-lane highways. Gasoline-powered tractors plow agricultural lands, and petrochemical pesticides and fertilizers protect lucrative crops. Highways and automobiles link California’s cities with world-renowned park and recreation sites, ranging from lush, towering Yosemite National Park in the north to the roller coasters and fantasy attractions of Disneyland in the south.

When Californians cruise the Pacific Coast Highway, pull on nylon stockings, or savor a strawberry, they reap the benefits of petroleum. Stuck in traffic, breathing polluted air, or struggling with pesticide contamination and oil spills, they confront the oil economy’s darker side.

Close ties to oil similarly bind other states. Houston and Atlanta residents rely as heavily on their cars as do Los Angelesians. Oil spills have hit Alaska and the Atlantic coastline; community activists struggle against refinery pollution in New Jersey and Louisiana; and recreational skiers and hikers drive to the mountains of New England and Colorado. The economies of Texas, Oklahoma, Louisiana, and Alaska depend heavily on petroleum production, and Michigan relies equally on the automobile industry. California, as both a major producer and consumer of oil, thus offers a case history for the impact of oil on individual states and a microcosm of its penetration of the United States as a whole.
How did California, and the United States more generally, become so wedded to petroleum? The fuel's versatility and its natural abundance are certainly key factors. Petroleum is fluid, combustible, and an excellent source of hydrocarbons for petrochemical innovation. Technological advances by scientists and engineers have enabled private industry to extract oil miles beneath the ocean, to increase the energy drawn from each barrel of oil, and to devise thousands of ways to use petroleum's valuable hydrocarbons. But most of all, oil is a relatively inexpensive way to make things go. The question we have rarely thought to ask is, why is oil so cheap?

Generations of historians have viewed the United States' abundant natural resources as a key contributor to its prosperity and democratic institutions. In the 1890s, Frederick Jackson Turner credited "free land"; in the 1930s, David Potter described how a "people of plenty" built American democracy on a foundation of abundance; and in the 1990s, Gavin Wright used the nation's natural resource base to explain the "origins of American industrial advantage."1 Plentiful and well-situated agricultural land, fish, furs, forests, coal, and gold all have been seen as essential to our development. At first blush, the United States' petroleum history appears to fit this story line. At different moments in the past 150 years, oil gikers around the country, from Pennsylvania to Alaska, have flooded the market with oil. Observing the 1920s California oil craze, the economist John Ise described "growing stocks, overflowing tanks, and declining prices, frantic efforts to stimulate more low and unimportant uses...dozens of new wells, and more oil, more oil."2

Yet this abundance was made as much as discovered. In pre-World War II California, fragmented property rights in oil spurred an orgy of competition and production that rapidly depleted Los Angeles-area oil fields. Public land policies along the coast and in the San Joaquin Valley, enacted after fierce national and state-level lobbying, pushed more oil onto the market on terms generous to oil operators. Government regulation managed surplus production and contained the worst competitive excesses. A successful fight to protect highway funding helped spur the rapid expansion of major roads, creating a market for gasoline-powered vehicles. These are just some of the ways oil's abundance has been made.

Politics and policy determined how rapidly oil moved onto the market in California and how avidly it was consumed.3 By shaping both oil supply and demand, politicians, bureaucrats, and judges influenced the price of oil. State, federal, and local governments decided who would benefit from the oil boom and what share of oil production the government would retain for the public treasury. Politicians and judges weighed oil's threat to the quality of the environment and to other local businesses against benefits for oil operators, workers, and consumers. These petroleum politics disrupted earlier patterns of public land disposal and government promotion of canals, railroads, and streetscars. Yet new oil land leasing programs and the highway projects also resembled their predecessors, particularly in the way they promoted rapid resource extraction and channelled economic development toward a dominant mode of transportation. Petroleum politics ultimately changed the map of California in the twentieth century, and the housing, employment, and recreational expectations of its residents and visitors.

In studying the volatile politics of the oil economy, this book carries forward into the twentieth century the research of historians who have written about nineteenth-century economic development, federalism, and infrastructure like canals and railroads. Post-World War II scholars like Oscar and Mary Handlin and Louis Hartz found the roots of Franklin D. Roosevelt's New Deal in the activities of nineteenth-century state governments.4 They discovered an "American System," in which state governments planned, promoted, and regulated economic development.5

James Willard Hurst's magisterial 1964 study of the Wisconsin lumber industry, Law and Economic Growth, carried to new heights this investigation of how government relates to the economy. Hurst divided the legal history of the lumber industry into component parts. He examined in extraordinary detail the distribution of public lands, awarding of transport franchises, taxation of timber production, establishment of a framework of contract, and absence of regional planning. Hurst explained how short-sighted political leaders had created a system that encouraged the Wisconsin lumber industry to clear-cut the northern forests, leaving behind a trail of social and ecological devastation.6

My book about the California oil economy follows Hurst's long-overgrown trail into the thicket of public land policy, business regulation, transportation development, and public finance. Rather than take the market structure for granted and merely study how firms competed within it or, alternatively, apply a simple ethical grid of corporate conspiracy to a complex history, the book examines how the California oil market changed over time in response to the interplay of political, legal, and economic developments. Sometimes corruption and greed drove
the policy process. But in other instances, particularly in the Great Depression, differing conceptions of the public good, fairness, and equity also underlay political struggles and institutional innovations. The conflict between small-scale local operators and the corporate behemoth Standard Oil at Huntington Beach, for instance, was complicated by a parallel split over beach protection and oil drilling in California's coastal waters. Standard Oil managed to stand for beach protection and conservation while also signifying monopoly and corporate influence over the legislature.

As Hurst suggested in his pathbreaking work, economic activity, regardless of the sector, is structured by certain key institutional building blocks. I explore four of these building blocks of the California oil economy in the thematic chapters that follow: property rights, federalism, regulatory rules, and tax policies and investment.

The allocation of property rights by the national government underlay all further development of the oil economy. Some of the richest oil reserves in United States history lay beneath federal public lands in California's San Joaquin Valley. As a regional oil boom heated up in the first decade of the twentieth century, the federal government generously distributed lands according to nineteenth-century laws designed to thwart monopoly and encourage economic development. Small, interlocked landholdings intensified competition for common underground oil pools and resulted in the rapid depletion of oil reserves. When the federal government responded to political pressures by trying to change its oil-land policies, sympathetic western judges and politicians undercut federal initiatives on behalf of industry allies. The conflict laid bare characteristic patterns in litigation and lobbying in United States politics and law.

Because political power is dispersed in American federalism, the state government also made critical decisions about how to allocate oil lands. California's control of rich coastal mineral deposits gave it considerable discretion over how its oil resources would be developed and by whom. California quickly demonstrated the enduring significance of federalism. As real estate interests and oil developers battled over the future of the coast, the state politics of coastal oil deviated sharply from national struggles over oil fields in the dry, sparsely populated San Joaquin Valley.

Meanwhile, regulatory rules governing the oil business became the subject of a complicated political struggle. Oil's wild production cycles drove down prices, ruined investments, and bankrupted companies.
During the pivotal years of the Great Depression, when California’s government and railroads and streetcars limped along financially, the state highway budget grew steadily, protected by a semiautonomous institutional and financial structure. Railroad and streetcar networks stalled and staggered, while California spun an intricate web of highways. In the post–World War II period, however, the state found itself caught. Many Californians agreed by the late 1960s that the state had overbuilt its highway system. Even Governor Ronald Reagan, generally hostile to environmental regulation, called for action against automobile-related smog. The state had trapped itself in an automobile landscape of its own making, one that bolstered the market for petroleum through the remainder of the twentieth century.

The four key building blocks examined here—property politics, federalism, regulatory rules, and public investment in highways—demonstrate the extensive and ongoing role government played in the oil economy. There are, of course, other political factors beyond the scope of this book. The laws governing employer-employee relations helped determine the cost of labor to the industry. United States foreign policy, combined with agile political negotiating by corporate lawyers, influenced how much companies like Standard Oil of California invested in overseas concessions. And tax subsidies for drilling directly influenced oil company profits.

SEARCHING FOR THE CAUSES OF ENVIRONMENTAL CHANGE

We live in a petroleum landscape. We know well the environmental effects of the Santa Barbara and Exxon Valdez oil spills, the implications of smog and freeways, and the threat of global climate change. But do we know the causes? My analysis of the California oil economy focuses on subjects like highway tax policy, which may seem quite removed from environmental politics and history. Environment and ecology are typically associated with trees, rivers, animals, and minerals—the stuff of nonhuman nature. Why focus on economic politics and law in a project that seeks above all to contribute to our understanding of environmental problems and solutions?

The California environmental movement after World War II coalesced in the fiery politics of oil spills, air pollution, and sprawling freeways. Environment activists have attributed these diverse problems to the production and use of oil. Yet blaming the oil economy begs a further question: how have we become so dependent upon oil and the automobile? To answer this question, we must turn from petroleum’s well-known environmental impacts toward the institutional and political factors that shaped the California petroleum economy. The origins of the oil economy, and the forces continuing to influence its development, do not lie in exhaust and oil spills, which are the primary targets of our attention and regulatory efforts. We have our greatest impact on the natural world through what we make and buy, even though we do not label these activities “environmental” or “ecological.” Our decisions to build, consume, create, and destroy are often driven by factors remote from our direct relationship with the natural world.

Politics, economics, and geology transgress near boundaries. Issues that we commonly separate and label as environmental are inextricably linked to nonenvironmental political and economic developments. Philosophical differences about the proper balance between government and private business in the economy, for instance, shaped the decade-long controversy over access to California oil lands that culminated in the Mineral Leasing Act of 1920. During the Great Depression, petroleum policies were directly balanced against other public priorities in the context of a severe budgetary shortfall. The growing burden of unemployment illustrated this link by spurring political interest in coastal oil revenues. Motorist advocates and oil companies also demonstrated that they recognized the connection between petroleum policy and other political issues when they supported a state sales tax to safeguard highway funds and avoid further taxes on oil production. We can understand the factors shaping petroleum development, and environmental change more generally, only in the same broad political and economic context.

In its focus on the political economy of oil, this book builds on recent developments in environmental history that highlight intricate connections between environment and economy. By the late 1970s and early 1980s, leading environmental historians had departed from an earlier emphasis on conservation politics and ideas of nature and instead began to trace changing material relations between nature and society. “Intellectual and political history may be environmental history’s parents,” wrote the historian Richard White, “but they are, by themselves, unable to nurture it.” The new environmental history explored the “transformation of the land” and examined the “reciprocal influences of a changing nature and a changing society.”

Yet even as this new approach attracted followers in the emerging discipline of environmental history, the difficulty of explaining the
causes of environmental and social transformation sparked further methodological change. Hewing close to the intersection of nature and society produced rich accounts of how people exploited natural resources and altered the land, and how nature itself constrains and shapes society. But these accounts raised further questions about causality. How did expanding European economies incorporate and transform their colonial hinterlands? Was it enough to assert, as Donald Worster did in his prize-winning Dust Bowl (1979), that the 1930s dust storms had been caused by a peculiarly American form of capitalism whose “drives and motives” were “overrunning a fragile earth”? Dissecting the workings of metropolitan expansion and capitalism required a more subtle analysis of human institutions and economies. Worster’s Rivers of Empire (1985) demonstrated greater complexity by articulating a theory of the state and exploring how the exploitation of water resources was linked to the exploitation of people.

Increasingly sophisticated analysis by Worster and other environmental historians set the stage for fresh dialogue about the causes of environmental transformation. The new questions cannot, however, be answered simply through additional stories about the transformation of the land. William Cronon’s Nature’s Metropolis (1991), for instance, a compelling study of Chicago’s economic and ecological relationship with its hinterland, introduces profound questions about American political economy and environmental change taken up here. Do competition among producers and changes in consumption patterns explain American economic development, or does the explanation lie with political conflict over market institutions, such as property rights, taxes, public investment, and regulation? Did Americans drift slowly and inevitably into transforming the North American economy and ecology, or did they make discernible public choices that determined the continent’s fate? Where Cronon argues that largely uncoordinated economic decisions by producers, merchants, and consumers drove market expansion and ecological change, my book takes an alternate approach and explores the political dimensions of environmental change.

THE RELATIONSHIP BETWEEN BUSINESS AND GOVERNMENT

Taking this perspective to environmental history, this book goes beyond traditional environmental concerns to contribute to a larger discussion about the role of government in the United States economy. We commonly ask: How much should government intervene in our economic life? How much should we rein in or unleash the market? The common conceptual division of government from market institutions, revealed by the ubiquitous image of government intervention, stems from a deeply flawed understanding of our economic history and the nature of American capitalism. In fact, governments constructed the legal framework for the market, they enabled market institutions to shift with new developments, and they bankrolled many of the newest, unexpected additions. By doing things like allocating the broadcast spectrum, governments continue to create and distribute new property rights. With tax policies that reward home ownership or charitable giving, governments channel economic activity. Through public investment, they nurture new industries like the Internet. By necessity, governments continually balance competing interests. Public officials have to choose: among types of taxation (income versus sales versus wealth); between antitrust enforcement and property rights that might yield monopoly; and between favoring some enterprises with government largesse over others, as in the transportation sector. Governments have not built the market alone. But without government there could be no market as we know it today.

Public policy decisions on issues of finance, regulation, and access to resources have enormous implications for business success and failure in every portion of the economy. Consequently, throughout the forty-year period covered here, individuals and corporations in the oil and transportation sectors struggled constantly to reshape the legal regimes that governed their operations. Businessmen knew that laws and politics determined their access to resources, the speed at which they would develop oil reserves, and the extent of highway infrastructure. They felt deeply the cut of taxes and royalties that they owed the state. Grasping the importance of public policies to their corporate success, California’s oil operators, highway contractors, and real estate developers made politics a central part of their business operations.

In the California oil economy, businesses competed within a market that the firms themselves helped structure. In addition to the traditional business regulation that historians tend to emphasize, firms influenced tax policy, public investment, and laws determining access to resources. Corporate leaders at Standard Oil of California as well as independent businessmen like Ralph B. Lloyd, a Ventura landowner and oil man, understood that they could not disentangle business from economic politics. When surplus production undermined crude oil prices, industry
leaders worked with public officials to tame a wildly fluctuating oil market. California highway boosters similarly struggled to bolster and protect state highway funding. Since highways were publicly financed and operated, politics and the transportation business were inseparable. The political coalitions that formed around energy issues reveal that oil producers and consumers saw their interests as closely allied. The oil industry lobbied for measures that built demand for their product. This commitment led the industry to support, or at least accept, the collection of state gasoline taxes earmarked for highway construction. The oil industry also used these gasoline taxes paid by motorists as an effective rhetorical means to deflect efforts to institute a per-barrel production tax on California oil. In a further twist, the main players in California’s petroleum politics came together to produce the state’s vaunted state park system. A broad-based highway coalition that included oil companies became a force for building the parks. State oil royalties also emerged as California’s primary source of beach and park funding.

As the many references to state gasoline taxes, parks, and budgets indicate, the relationship of business to state government is far more intimate and often more significant than what takes place at the national level. The state government dominated the major transformations occurring in California’s oil economy in the first four decades of the twentieth century. From coastal oil development to the regulation of petroleum production to the construction of the highways, statewide politics, more than national maneuvering, structured California’s oil economy until at least World War II. Sometimes they did so independent of federal policy, sometimes in dynamic relationship with it. Studies of United States energy and transportation policy typically overlook the critical role of state policy, particularly in the pre-World War II period when the states established the institutional framework for a national society fueled by oil. Recent histories of the oil industry, preoccupied by the 1970s oil crisis and a more general federal bias among researchers, focus almost exclusively on national and international energy policy, giving short shrift to the impact of regional politics. A similar omission prevails in transportation history. Yet state-level politics and economics played a critical role in the national embrace of motor vehicles, predating and laying the groundwork for the well-known federal funding of interstate highways after 1956.

Studying past developments in the California oil economy opens the door to a wide-ranging exploration of United States history. Truths about the oil economy are insights into our entire society, as virtually every economic activity in the United States is connected in some way to petroleum. Many of the nation’s largest companies in the twentieth century were those oil, chemical, automobile, and aircraft firms directly dependent on petroleum production and consumption. Petroleum also fueled the modern environmental movement through the widespread pollution of air and water, and the habitat-consumed sprawl that oil made possible. A petroleum-oriented foreign policy drew the United States into two wars against Iraq and into a Persian Gulf military presence that helped provoke the rise of Islamic militancy. Global warming, caused in great part by releasing carbon dioxide through oil consumption, may prove the twentieth century’s most lasting and devastating legacy.

With energy concerns at the top of our national political agenda, we must understand more fully the origins of our petroleum society. Oil’s utility contributed enormously to its rapid adoption and consumption. Yet incessant political and legal wrangling also powerfully shaped the oil economy. It determined which fields were exploited and how fast, who got the oil, how much it cost, and where and how it would be used. As Californians—and their counterparts in other states and nations—fought over economic and environmental policy, they made choices about the structure of the oil market. We live with those choices today. How we come to terms with this historical legacy is a critical challenge that Americans, and indeed the world, will face in the coming generation.
PART ONE

Federal Property
CHAPTER I

The End of the Old Property Regime

Basic property rights provided the framework for oil production in the early-twentieth-century California petroleum market. In settled areas such as Los Angeles, Huntington Beach, and Ventura, private landowners competed with their neighbors to claim subsurface oil deposits. On federal and state lands in the San Joaquin Valley and along the Pacific Coast, oil companies maneuvered for access. Their struggle with each other and with the government determined how oil moved from the land onto the market. Who would reap the benefits of that which nature and time had bequeathed? How fast would Americans extract this oil, under what constraints, and at what cost? The answer to these basic questions, and the development of billions of barrels of California oil worth tens of billions of dollars, turned on the contours of oil fights.

The California oil sector began the twentieth century governed by nineteenth-century land laws that emphasized individual, private ownership of land and mineral resources. Owners of subdivisions in Huntington Beach or Los Angeles, for instance, owned the oil rights to whatever lay beneath their small domains. Similarly, on the federal public lands, property laws allowed private individuals and associations to prospect and claim mineral rights. Private ownership meant that the "rule of capture" dominated extraction. The courts declared oil to be analogous to a wild animal, reduced to property only when captured by an oil well. Yet unlike a wild animal, oil resources were available to all neighbors simultaneously. Private ownership and the rule of capture
together forced neighboring producers into a drilling race simply to protect their share of common oil pools. If one producer decided to abstain from production because of low prices, limited capital, or legal restrictions on development of a certain piece of land, that person's neighbor might simply take all the oil.

The American property regime governing petroleum emerged from a broader set of public policies designed to spur economic activity. During the nineteenth century, federal, state, and local governments actively promoted economic development, principally by giving away natural resources and legal privileges. The governments distributed land, corporate charters, tax exemptions, rights to levy tolls and dam streams, and other benefits. Public lands served as inventory and currency for cash-strapped state and federal governments. The sale of public lands generated considerable federal revenue; the federal government also granted public lands to spur development by state governments and private enterprises, such as railroad companies. At the same time, the federal government opened the public domain to homesteaders and land speculators.

Within this broader use of land and natural resources to promote development, United States mineral policy remained unsettled until the late nineteenth century. The federal government conveyed agricultural lands with full subsurface mineral rights in the first half of the nineteenth century. At the same time, it experimented with public control over mineral resource development. For forty years the federal government administered a leasing program in the upper Mississippi River valley for lead ore, which was valued for making bullets and other products. The U.S. Supreme Court firmly upheld congressional power to lease, as well as the principle that unauthorized mining on the public lands constituted trespass. Congress abandoned the lead-leasing program in 1846, however, due to poor administration, a proliferation of false agricultural land claims, and prolonged litigation over whether miners required federal permits to enter the public domain. Following the demise of the lead-leasing program, the national government retained no ownership rights or royalty share to gold deposits discovered in California beginning in 1848 or to lucrative silver mines found in Nevada soon afterward.

The financial demands of the Civil War prompted renewed but only short-lived congressional interest in mineral resources as a possible source of federal revenue. Congressional proposals for a national mineral law in the early 1860s ranged from taxes on mineral production to the seizure of gold mines by the national government. Following the war, the Republican-dominated Congress opened the public mineral lands to prospectors without any revenue-raising provisions. The new mineral law granted prospectors full “fee simple” rights to mineral property, retaining no mineral rights for the public. An 1872 act limited the acreage of claims and required that claimants spend one hundred dollars annually to develop their claims. The 1872 mining law codified a national policy of free mining on federal lands, as well as the requirement that claimants develop their holdings. Congress specifically extended these mineral laws to petroleum in 1897. Upon discovery of oil, a person could acquire public petroleum lands virtually free. This generous distribution policy helped spur the rapid development of petroleum and other minerals in the federal public domain.

During the first two decades of the twentieth century, government geologists, leading conservationists, and national political and military leaders launched a sustained assault on this nineteenth-century property regime. Across several natural resource industries, including forestry, ranching, and mineral development, the federal government acted boldly to increase its authority over common resources and to slow the rapid deterioration or depletion of valuable lands. The nation’s forests were being cut too quickly, its rangelands degraded by overuse, and its mineral resources furiously extracted, all with little compensation to the nation. President Theodore Roosevelt, chief forester Gifford Pinchot, and like-minded allies believed that strong federal administrative agencies could manage these common public resources more efficiently than private owners or state governments, and to greater public benefit. The Roosevelt administration increased the number of acres of protected national forests from 46 million to 150 million acres between 1903 and 1907. The administration also withdrew 50 million acres of the public domain to inspect for coal deposits in order to prevent further agricultural entries on public coal lands and to begin pricing land according to its mineral value. Roosevelt declared to Congress in 1907 that the United States should “retain its title to its fuel resources, and its right to supervise their development in the interest of the public as a whole.”

Government scientists at the United States Geological Survey (USGS) began to argue publicly in 1908 that petroleum lands should receive similar protection, particularly in California. USGS director George Otis Smith warned the secretary of the interior in February of that year that the United States verged on complete loss of control of its Pacific Coast fuel supply, critically important to the navy’s new petroleum-powered
Figure 1. An oil prospector hauls equipment to an oil lease in the San Joaquin Valley in 1911. (Courtesy of the Bancroft Library, University of California, Berkeley.)

ships. At the rapid speed that private parties were claiming California oil lands, Smith noted with alarm, the government would soon be “obliged to repurchase the very oil that it has practically given away.”

The geologists also lamented the inefficient system of property rights governing public oil lands, and the fraudulent practices of many companies rapidly claiming those lands. They complained that the need to preserve the petroleum supply resulted not from the “popularity of petroleum” but rather from the “character of the production.” Property rights, not market demand, drove competitive production practices. Oil operators typically rushed to extract petroleum contained in a lease in order to prevent an adjoining leaseholder from pumping the oil. In proposing reforms to national petroleum land policy, the government geologists sought to realign and rationalize the system’s incentives by lessening competition between neighboring landowners.8

They also wanted to bring an end to oil company manipulation of the General Land Office in claiming California oil lands. Oil companies increasingly obtained oil lands in California through fraudulent agricultural or gypsum claims. Some of the biggest companies nominally claimed to seek gypsum for use in plaster and other construction materials but “admit[ted] they want[ed] the land for oil.” The USGS mining geologist Ralph Arnold, a prominent conservative Republican who joined the Stanford Board of Trustees in 1913 and boosted Herbert Hoover for president in 1920, called the “gypsum ruse” one of the “biggest steals that has ever been tried in this part of the country.” Outraged at the unethical behavior, Arnold begged of his supervisor, “Cannot something be done now to stop this sort of thing?”

To safeguard fuel supplies for the navy, to make California oil production more efficient, and to stop fraudulent land claims, USGS director George Otis Smith, with the support of petroleum geologists like Arnold working in California, pressed for a temporary withdrawal of federal oil lands from private claims. The first federal response to these complaints occurred in September 1909, when the administration of William Howard Taft by executive order withdrew millions of acres of potential petroleum land in the American West from public entry and mineral claims. Secretary of the Interior Richard Ballinger had informed President Taft that disposing of the public petroleum lands at “nominal prices” simply encouraged overproduction. Current oil production already exceeded the “legitimate demands of the trade.” Ballinger urged legislation to provide “for the same development of this important resource.” The conservation of petroleum “demands a law,” Ballinger wrote Taft, a law that would liberate the public oil lands from the rule of capture. To protect the government’s own energy supply, as well as to rationalize the development of California’s valuable oil lands, the administration had to find a way to develop the petroleum reserves more efficiently.9 In 1912, Taft identified parcels in the Elk Hills and Buena Vista Hills of the southern San Joaquin Valley, measuring roughly thirty thousand acres each, to set aside as petroleum reserves for the navy.

Taft’s executive order was weaker than a law and proved to be only a temporary and ineffectual federal intervention. The 1909 oil land withdrawal, which temporarily barred further private claims on the petroleum lands, raised questions about access to federal mineral resources in California that would be debated for another decade. How vigorously would the government assert its claims? Would the government address the competitive market structure that the nineteenth-century property regime created for oil? How quickly and carefully would the government develop its oil reserves and with what financial return to the public treasury?

The decade-long struggle to resolve these questions, culminating in the 1920 Mineral Leasing Act, revealed the legal and political difficulties inherent in reversing a long-standing generous public policy in the United States. The battle over California petroleum lands took place in the courts, in Congress, and in the executive branch. The largely...
sectional battle pitted western judges, elected politicians, and appointed heads of agencies against their southern and northeastern counterparts. At issue was the national government's proper role in resource management, as well as the deference, accommodation, and generosity due private companies and individuals who claimed public petroleum lands. Previous public largesse plagued the effort to retain federal control over California oil lands, as western judges viewed private land claims sympathetically and showed little enthusiasm for the new federal public land policy. Congress helped undermine the new federal policy by introducing exemptions and qualifications that undercut Taft's executive order without directly challenging it. Within the Taft and Woodrow Wilson administrations, influential conservationists like George Otis Smith and Gifford Pinchot, ant corpore Trustees in the Department of Justice, and Wilson's navy secretary, Josephus Daniels, urged protection of national rights to the petroleum deposits and struggled internally with western appointees in the Department of the Interior.

THE FEDERAL STRUGGLE TO RETAIN CONTROL OF PUBLIC OIL LANDS

The difficulty of changing the federal property regime became evident in the course of the Justice Department's legal struggles to recover title to lands granted to the Southern Pacific Railroad Company during the period 1894 to 1904. The government found that it could retrieve oil lands it had granted only if it demonstrated fraud or another technical weakness in the land patent, or claim of private ownership. Federal lawyers achieved a major victory on these grounds in their 1910 suit against Southern Pacific to regain land in the Elk Hills. Yet when the Justice Department broadened its legal strategy to challenge the railroad's ownership of a huge swath of the San Joaquin Valley, its lawyers founndered on past legislation.

In the epic legal battle over Southern Pacific holdings in the Elk Hills, Judge Robert S. Bean of the U.S. District Court, and subsequently a unanimous U.S. Supreme Court in 1919, ruled in favor of the government and reinstated its title. The courts concluded that the railroad company had obtained its Elk Hills mineral lands through fraud in 1904. The national railroad land grant policy of the nineteenth century had given Southern Pacific the right to select alternate sections along each side of its right of way—as long as the railroad company did not select known mineral lands (other than those containing coal and iron). Alternatively, the railroad could substitute unoccupied agricultural lands, subject to the same no-minerals restrictions, within twenty miles of the railroad line. Southern Pacific had substituted the now-contested land in the Elk Hills for known oil land along its railroad line in the San Joaquin Valley. The legal case turned on whether the company knew in 1904 that the substituted lands also contained petroleum.

The government's case against Southern Pacific had some advantages, since the Elk Hills were an odd choice for agriculture. The U.S. Supreme Court described them as "rough, semi-arid, and unfit for cultivation[,]... devoid of timber, springs or running water." In fact, the Court believed it "beyond dispute" that the lands had "no substantial value unless for oil mining." At the same time, the company's geologists had "systematically" examined the region for oil and its desire to patent the lands had been "wholly disproportionate" to any other purpose. Justice Department lawyers buttressed their case against Southern Pacific with evidence that the company land agent Charles Eberlein had concealed from the General Land Office the company's plans to lease lands adjoining the Elk Hills to the Southern Pacific's subsidiary fuel company. Should the existence of that petroleum lease become known, Eberlein told his supervisor, Southern Pacific could not successfully resist a government effort to declare the area mineral land "after we have practically established the mineral character." Eberlein's superiors recognized the "very ambiguous position in which we would be placed." They instructed Eberlein to delay the lease and to hide all papers relating to it in a separate and private file.

Still, federal prosecutors faced significant obstacles in their efforts to recover these Elk Hills oil lands. Even with internal correspondence documenting fraud by Southern Pacific agents, Judge Bean of the district court had difficulty determining whether the lands were "known oil lands" barred under the railroad land grant. Bean ultimately decided that the topography, proximity to oil development, and oil seepages on or near the lands sufficiently proximated that this was known petroleum land.

The Ninth Circuit Court of Appeals overturned Bean's decision. The appellate court echoed Southern Pacific, arguing that the lands had been suspected oil territory but did not meet the higher standard of being conclusively "known." Conditions in the Elk Hills "suggested" the probability that they contained some oil, at some depth, but nothing to point persuasively to its quality, extent, or value. The court approvingly quoted
the oil man Frank Barrett: “The true expert is the drill. You couldn’t say that a territory is known oil ground till you put a drill in it.”

The appellate court contended that testimony had been colored by recent developments in the region. The price of oil had risen, a railroad had been extended into the Midway Valley, and the government had issued a bulletin commenting favorably on the petroleum potential of the Elk Hills. Even more important, the Honolulu Consolidated Oil Company had struck oil in the nearby Buena Vista Hills. Back in 1904, the promise of the Elk Hills had not been clear. The appellate court scoffed at the government’s effort to revisit the issue more than a decade later in order to recover the land.

The U.S. Supreme Court handed the Justice Department a valuable victory when it unanimously overturned the appellate court opinion in 1919. The Court concluded that the “officers of the railroad company were not acting in good faith” when they patented the Elk Hills oil land.

The government recovered land worth millions of dollars lying at the heart of a new Elk Hills naval oil reserve. The Navy and Interior Departments now could realistically expect to manage the Elk Hills oil field. Without government control of the lands in question, the checkerboard holdings would have quickly forced competitive drilling throughout the reserve. With the court victory, the government had retained the oil located in land claimed by the Southern Pacific and enhanced its ability to control oil development on surrounding government lands.

Yet the Ninth Circuit’s Elk Hills ruling temporarily set a high standard for proving fraud and indicated trouble ahead for the Justice Department’s sweeping attack on Southern Pacific’s title to land in the San Joaquin Valley. While the Elk Hills case was still on appeal at the Supreme Court, the Justice Department filed a suit challenging sixteen patents issued to Southern Pacific between 1894 and 1902. The government valued the 165,000 acres of land, located between Coalinga and the Midway-Sunset oil field near Taft, at more than $400 million. The government relied on its successful Elk Hills strategy, contending that the railroad company had fraudulently misrepresented the oil lands as containing no valuable minerals. But federal lawyers lacked a sufficient legal basis for their suit. Most lands had not been acquired through obvious fraud, and their mineral character had been more ambiguous at the time of transfer.

District Judge Benjamin Bledsoe ridiculed the government’s position. Bledsoe effectively mocked the idea that California’s “most prominent, most forceful, most far-seeing” business leaders, railroad titans like Leland Stanford, Charles Crocker, Collis Huntington, and Mark Hopkins, had carried out “one of the greatest frauds of the age.” How could the men who allegedly conspired to acquire rich oil lands have regularly sold some of those mineral lands at cheap agricultural prices and neglected to take individual possession of “a single foot of producing or probable oil territory”? Their failure to act in their individual economic interest and the company’s sale of valuable oil lands at nominal prices were accountable except as demonstrations of “honesty” rather than “fraud and chicanery.” Bledsoe dismissed the government’s claim as “hardly within the realm of possibility” and affirmed Southern Pacific’s title to the valuable oil lands.

Bledsoe based his ruling partly on the Ninth Circuit Court’s negative attitude in the earlier Elk Hills suit, since the U.S. Supreme Court had not yet affirmed the government’s position in that case. Yet even after the Supreme Court overruled the Ninth Circuit in the Elk Hills case three months later, the Justice Department did not appeal Bledsoe’s district court ruling. Southern Pacific acquired friends in the department when A. Mitchell Palmer, the probusiness attorney general appointed in 1919, pushed out Francis J. Kearful, the assistant attorney general supervising the California litigation. Palmer abandoned the suit, arguing that the appeal was doomed. Gifford Pinchot, Josephus Daniels, and other progressives attacked “Palmer’s surrender.” Daniels called Southern Pacific’s victory “the greatest crime I ever heard of.” But the attorney general stood his ground. “There may have been more unfaithful public servants than Mitchell Palmer,” Pinchot commented bitterly, “but not many.”

By abandoning the suit, Palmer ensured that loose nineteenth-century land policies would deeply compromise any future federal management of California oil lands. The railroad company’s checkerboard holdings spread over the Buena Vista Hills naval oil reserve, over part of the Elk Hills reserve, and up the San Joaquin Valley over the area’s other major oil fields, including those in Kettleman Hills, Coalinga, and along the Kern River. The “rule of capture” problems faced in oil fields meant that Southern Pacific and then its successor, Standard Oil of California, would jointly control with the federal government the valuable oil in the San Joaquin Valley.

While the effort was under way to regain former railroad land grants, President Woodrow Wilson’s attorney general, Thomas Gregory, A.
Mitchell Palmer's predecessor, simultaneously sued to recover oil lands elsewhere in California's San Joaquin Valley. Where the railroad cases hinged on the specifics of the railroad grant, the department's other oil litigation turned more directly on the terms of the Taft administration's 1909 land withdrawal. The cases ranged from fraudulent gypsum claims, whereby companies evaded mineral laws by saying that they were looking for gypsum rather than oil, to insufficient development work by prospecting oil companies. The course of the litigation illustrated once again how difficult it was for the federal government to recover public rights once given away. The story also revealed the intimate relationship between courtroom conflict and political struggles occurring outside the courtroom.

When in 1915 the U.S. Supreme Court upheld the constitutionality of the Taft land withdrawal, it declared that "nothing was more natural than to retain what the Government already owned." The Court's decision in United States v. Midwest Oil Company—which overturned lower court decisions by western district judges—pitted five eastern justices against dissenters from Ohio, Wyoming, and California and reflected a profound sectional split over the proper limits to national and executive power in natural resource management. For the trust-busting attorney general Thomas Gregory, a Texan who made his name driving Standard Oil's subsidiary out of that state, the Midwest decision was "one of the greatest victories won by the Department of Justice in the last 20 years." A jubilant legal team at the Justice Department hoped to reclaim for the nation hundreds of millions of dollars worth of oil lands so that the federal government could develop them efficiently and in the public interest. Within six months of the Court's decision in February 1915, the Justice Department's lead lawyer, the aptly named progressive lawyer F. J. Justice, filed twenty-five new suits to recover lands within the withdrawn area of California that private companies continued to claim. And the department planned more litigation as well.

Back in California, however, western jurists continued to express skepticism about the executive intrusion into western resource management. Repeatedly, the judges told federal lawyers that claimants had entered the public domain under nineteenth-century laws established for the very purpose of encouraging such efforts. Congress's policy had "always been to encourage the exploration of the public lands and the discovery and development of such minerals as may be found in them." The government had sought "to encourage the development of its mineral resources and to offer every facility for that purpose." District court judge Benjamin Bledsoe, who heard many of the lower court cases, understood intimately the cost of federal disruption of San Joaquin Valley oil development; he had lost his $150 investment in a small and unsuccessful oil company largely as a result. Even without such direct connections to the oil economy, the other western judges shared Bledsoe's skepticism of the federal government's new initiatives. Sympathetic lower court judges in California delivered numerous defeats to the Justice Department. In the western judiciary's eyes, Congress had weakened the withdrawal order substantially with its 1910 Pickett Act. The Pickett Act gave congressional support for Taft's withdrawal order but also sought to shield many oil operators who had only just begun to drill in 1909. Before the Pickett Act passed, operators had to strike oil before they could claim land securely; by contrast, the Pickett Act gave additional recognition to development efforts begun before 1909 that led to discovery several years later, well after the land had been withdrawn. Now even if claimants had not achieved legal discovery of oil under the old rules, the judges often granted them title nonetheless.

Federal lawyers had exacerbated the government's legal predicament by waiting to sue individual companies until the U.S. Supreme Court upheld Taft's withdrawal order. Activities on the ground moved more quickly than the law. At the time of the 1909 withdrawal order, the North American Consolidated Oil Company and its predecessors had spent only ten thousand dollars on development of their property and had not discovered any oil. By the time of the district court's decision in 1917, however, the oil companies had spent an additional half million dollars to develop several producing wells. In this case, as in others, the companies had moved swiftly forward after the withdrawal order, establishing themselves on the land with heavy investments and producing wells. Judge Bean concluded that the government would have imposed a "great hardship" if it had taken the land back from claimants working toward discovery, even though the mineral land laws granted no private ownership rights until oil had been discovered. Bean argued that the Pickett Act had acknowledged the government's "moral obligation" to protect the investors' interests. "It is now too late for the government to question the defendants' right to the possession and the oil contents," Bean concluded.

In other instances, even the strong stench of fraud could not dislocate a private claim. L. B. McMurtry was a speculator and investor who became interested in the Midway field in 1900. In 1903, in an unusual maneuver, he secured the power of attorney from thirty-two laborers in the Chicago
stockyards. Then in 1907, McMurry used these names to make separate mineral claims in the southern San Joaquin Valley. In the fall of 1908, he began selling these claims. By all accounts, including McMurry's own, the Chicago laborers typified a common creature of nineteenth-century land fraud, the dummy entrant. The Chicago claims were "mere paper" filings, the Court later determined. McMurry recognized how tenuous these claims were. In January 1909, he re-claimed the lands under the names of thirty-two new individuals, this time from New York. According to the notes of Department of Justice investigators, McMurry then used this power of attorney to locate, or file upon, the lands; enter agreements, leases, and contracts; and give options and sell portions of land—all without the "locators having any knowledge, whatever, that they were even located." McMurry thus used the powers of attorney "for his own use and benefit, and as his own individual property." 29

The federal government could not recover even these lands. Judge Bean discerned a plausible "good faith" explanation for McMurry's behavior toward the New York principals. Bean sketched an implausible narrative about how the New York locators had trusted McMurry's capabilities in the oil industry. Only late in the process, Bean argued, had McMurry realized how much money he could make off the property and only then had he betrayed the trust of his New York principals. Bean's decision converted a story about two sets of fraudulent dummy entrants into a scenario in which McMurry made valid claims for the New York individuals and then subsequently violated their trust in him. The tale had some weaknesses, Bean conceded. For instance, McMurry's conduct did not fit Bean's story line. And the New York locators knew nothing about the mining laws and made no inquiry into them. But Bean attributed these incongruities to the locators' "confidence" in McMurry. Apparently all that mattered for Bean and the Ninth Circuit Court of Appeals, which upheld his ruling, was that McMurry had covered his tracks sufficiently by paying the New York locators enough to make his deal look credible. As a result, further valuable oil lands passed into the hands of the Associated Oil Company, California Midway Company, and others that had purchased McMurry's claims. 30

The federal courts in California thus set a high bar for the Department of Justice in the Taft land withdrawal cases. The McMurry decisions showed how hard it was to prove fraud. The Pickett Act further loosened the discovery requirements for establishing a claim on the oil lands. Consequently, the federal government prevailed principally when claimants had not advanced their development work sufficiently to find protection under the Pickett Act's broad relief provisions. In the 1916 United States v. Midway Northern Oil Company, for example, Judge Bean held that the defendants had acted "with full knowledge of the withdrawal order" and were therefore to be considered "trespassers." 31

When parties had performed some development work on the property prior to the withdrawal order, however, they were entitled to relief. 32

Even when favoring the federal government in certain instances, however, the federal judges criticized it for deceiving the companies by allowing them to sink money into oil development that they would not realize the benefits of. "Irrespective of what else the government may have done after the making of the withdrawal order," Bledsoe wrote indignantly in United States v. McCutchen, "it sat by and permitted wells to be sunk upon this property and permitted the oil to be produced, and permitted it to be sold, without saying a word or raising a hand in opposition until at least October, 1913." Although Bledsoe forced the companies to surrender their land claims, he refused to judge them guilty of willful trespass and allowed them to recover their expenses out of the value of the oil produced. 33 Bean similarly wrote that the oil companies were "not willful looters of the public domain, nor reckless trespassers." The oil companies had transformed a "barren arid waste," raising its value from $2 or $3 per acre to $2,500 or $5,000. Bean refused to rule harshly against the trespassers. 34
These court rulings demonstrated the Justice Department’s legal difficulties. Once private parties managed to stoke claims on the public domain, however tenacious, the federal government could not easily break with its past public policy and the former property regime. Subsequent lower court decisions riddled with holes the Supreme Court’s 1915 Midwest ruling upholding Taft’s withdrawal order. A more generous policy that continued to favor the rapid development of mineral resources by private parties frequently prevailed. Oil operators continued to assume that they should have unfettered access to the publicly owned land. When the withdrawal order stood in the way of this access, they demanded relief from Congress and the courts, both of which protected the enterprise-individuals and companies that had pushed against the limits of the law.

The Justice Department’s effort to carry out the Taft withdrawal order, which intended to halt temporarily the development of oil on federal lands in California, was further undercut by the precarious financial position of many oil operators and the nature of oil production. Years of uncertainty and litigation battered the companies and left many financially vulnerable. Shutting down producing wells also posed special problems, since it risked letting water into the oil pool and losing natural gas pressure—crucial to lifting oil through the well—through slow leakage. To provide some financial relief and protect existing wells from water intrusion, the government continued to produce oil under court-appointed receiverships and under a special operating agreements act that authorized production during the litigation. This production directly undermined the campaign to save California’s oil for a wiser and more efficient oil production system and for possible future naval needs. Judge Bean described the predicament in his decision in the Midwest Northern case. Trespasses onto the California oil lands had forced the government’s hand and compelled it to produce oil. “The lands were included in the withdrawn area to preserve them intact and undeveloped,” he wrote. But it was “now necessary to continue to operate the wells and extract the oil.” Bean ruled out an injunction against production as causing “serious damage” to both the property and to the embattled companies. Consequently, with court-appointed receivers in place, the Midway oil field continued to produce through the years of protracted litigation. The San Francisco Chronicle thus asked rhetorically in January 1917, “Are not the deposits in question ‘conserved’ by this litigation and is not the Government’s fuel oil supply preserved? By no means is the answer.” The Chronicle, which outspokenly supported the

California oil operators, principally sought to undermine further the government’s “unrelenting proceedings.” Yet it accurately described how the federal land withdrawal had failed to yield a coherent or effective oil conservation plan.

CONCLUSION

As California companies went bankrupt or pleaded with Congress and the courts for relief, the Justice Department’s effort to implement Taft’s oil land withdrawal, however ineffectual, thoroughly shook the old property regime. The unsettled years that followed the withdrawal order highlighted the political nature of the oil market and the property rights that underlay the market as an institution. Oil operators came to understand that their business depended as much on the successful staking of a property claim as it did on the successful extraction of oil.

The oil lands at stake in the San Joaquin Valley constituted some of the most valuable petroleum properties in the United States. The Midway-Sunset field alone became one of the four largest producing fields in the country, yielding over 2.4 billion barrels of oil by 1997. Other oil fields covered by the Taft withdrawal order and the railroad land grants produced similarly stunning quantities of oil. The Elk Hills and Buena Vista Hills, the designated naval oil reserves, together yielded 1.75 billion barrels by 1997. Operators at the Coalinga, Kettleman North Dome, and Belridge fields produced over 400 million barrels each, either under federal leases or on former federal lands.

New development work on these valuable public oil lands stalled and production fell off when Taft called a halt to the nineteenth-century system of land distribution in the southern San Joaquin Valley. California production did not fall as steeply as it might have if the federal government had enforced its withdrawal order more aggressively and effectively. But regional production figures declined substantially when new wells did not come on line. Oil operators quickly complained about stagnating supply and an impending “oil shortage” caused by the government’s restrictions on development. The industry lobbyist Roy Bishop declared hyperbolically that the shortage would “practically eliminate oil as a fuel from the commercial life of the State.” During World War I, the oil market tightened and prices rose, allowing larger producing companies with extensive oil stocks to draw down their supplies. San Joaquin Valley development failed to replenish these supplies sufficiently. By significantly disrupting companies’ production plans,
the litigation and uncertainty surrounding San Joaquin Valley development helped set the stage for a severe gasoline famine in the spring and summer of 1920. The vast amount of oil at stake and the growing demand for crude oil intensified the pressure to resolve the drawn-out conflict by establishing a new property regime for California's federal oil lands.

Politics intervened between the forces of supply and demand to determine how oil companies developed California's rich oil lands. Politics structured property rights, which in turn shaped competitive relations among oil producers. Politics, then, played a key role in shaping the extent and nature of California oil production. The federal government under Taft and then Wilson embarked on a difficult effort to restructure property relations during the second decade of the twentieth century. But formidable political opposition by the oil operators, who made use of their political influence on congressional legislators and their shared interests with western judges, largely foiled any attempts to carry out an effective conservation policy. The largesse of the nineteenth century—represented by railroad and school land grants and a legacy of loose mineral laws—privatized and fragmented the public domain. Sympathetic federal judges in California weakened the Taft withdrawal order by upholding tenuous private claims on the public domain. Western legislators then led the effort to rewrite generously the withdrawal order to allow more of the public domain to slip into private hands. The shared nature and delicate workings of the oil pools forced the government to drill wells even in its naval reserves to offset neighboring producers. From the U.S. naval oil reserves in the Elk Hills and Buena Vista Hills to the lands more broadly opened up to leasing, the U.S. government largely surrendered control of how the petroleum lands would be developed. The government did not turn the land over to a private market governed by abstract laws of supply and demand. Competition with neighboring landowners or leaseholders—rather than fluctuating oil prices—would drive the production patterns on the resulting mixture of private holdings and public leases.

CHAPTER 2

The Politics of the 1920 Mineral Leasing Act

California's unsettled oil market increased the urgency for oil operators to establish a favorable new legal framework for oil development on public lands. While the Justice Department's suits proceeded through the courts during the second decade of the twentieth century, the companies sought to influence the new mineral legislation being developed by Congress. Following President Taft's withdrawal of public oil lands, congressional sentiment favored retaining national ownership of these lands and leasing them to private companies who would develop them. Oil prospectors and companies already had laid claim to the most valuable petroleum territory in the San Joaquin Valley. Now they focused their lobbying effort on getting "relief" from the general leasing bill—that is, on getting provisions that gave them private title, or at least leases, to the valuable oil lands that they claimed, with favorable terms of operation and royalty payments to the government. The national campaign for favorable treatment of the California oil companies, which culminated in the Mineral Leasing Act of 1920 and in the 1920s Teapot Dome scandal over bribery and oil leases, revealed many familiar aspects of American politics and business—the characteristic revolving door for politicians and businessmen, the writing of bills by industry lobbyists, and the maneuvering for personal gain under the new property laws.

Recognizing the essentially political nature of their problem, the Oil Industry Association of California, a lobbying group created to influence
new federal oil land policies, and individual companies recruited former politicians to make their case in Washington, D.C. Former California governor and U.S. representative James N. Gillett coordinated the Washington lobbying effort after 1916. A lawyer born in Wisconsin in 1860, Gillett had moved to Northern California in his twenties to start a legal and political career. Part of the conservative wing of the California Republican Party, he was elected governor in 1906 with the formidable backing of the Southern Pacific Railroad’s political machine. Gillett left public service after one term as governor, reportedly eager to make more money in the private sector. Now as a lobbyist for the oil interests, Gillett was paid handsomely for his efforts; for example, he received fifty thousand dollars from the Honolulu Consolidated Oil Company for helping protect its claims in the Buena Vista Hills naval oil reserve.

Many other former politicians from California and the West joined the advocacy effort. Judge Frank Short, a conservative Republican ally of Gillett and a prominent corporate lawyer and local judge from Fresno, carried out the Oil Industry Association work before Gillett’s arrival in Washington. A delegate to the Republican National Conventions in 1896 and 1904, Short had represented irrigation and power companies in Sacramento and Washington, D.C., opposing new state and federal conservation initiatives and seeking to gain access to public water resources for companies at minimal charge, particularly from within the new national forests. The Standard Oil Company of California also employed former assistant secretary of state F.B. Loomis and former lieutenant governor John Eshleman of California, as well as past members of Congress. The oil industry association joined western potash interests in employing Charles Towne, a former senator. Towne helped shore up connections with Democrats, spending two days a week in the Senate in the spring of 1916 lobbying for oil relief. Although Towne had served only two months as an appointee, his Senate credentials made him particularly helpful. F.B. Loomis reported that Towne “has access to the floor and cloak rooms of the Senate at all times and can go in and see men when they have leisure and are willing to hear the merits of our case discussed.”

Other industry allies still in Congress, such as Nevada senator Key Pittman, a former Klondike miner, invested in the oil boom themselves, at times in partnership with lobbyists like Gillett.

The industry’s frenzied national lobbying efforts are reflected in Gillett’s private correspondence. The former governor recorded ongoing discussions of what different elected officials should do on the industry’s behalf, including when they should present legislation, which meetings they should attend, and whom they should contact and lobby in Washington. “Cannot [Senators James] Phelan and Pittman get [Navy Secretary Josephus] Daniels and [Attorney General Thomas] Gregory to approve?” Gillett’s boss Roy Bishop demanded in 1917, frustrated by a stalled relief bill. A former mining engineer from Illinois who had spent two years in Russia and Mexico on behalf of California mining companies, Bishop had returned to the United States and married into a prominent Standard Oil family from New York. Entering into the oil business in California, he had spearheaded the formation of the Oil Industry Association of California in 1915. Now Bishop offered to help raise money for Democratic politicians if necessary, even if they
were not favored by the largely Republican industry: “If you all concur that success depends upon [California politician Isadore] Dockweiler, I will disregard our beliefs and endeavor to raise money among associates.” Gillett and Frank Short similarly recruited retired California senator George C. Perkins, former chairman of the Naval Committee, to contact his colleagues to tell them that the oil relief legislation was “fair, just and equitable and should be granted.” Lieutenant Governor Eshleman and Senator Phelan worked on Secretary of the Interior Franklin Lane, a “life-long friend” of Phelan. According to F. B. Loomis, Eshleman proved “of great service[,] . . . the best man to deal with the Interior Department by far.” Short marveled at Eshleman’s “energy and aggressiveness” in pressing the case “laid before him.” Eshleman’s death in 1916 was viewed as a serious blow to their campaign.

Industry lobbyists and political representatives worked closely on these nuts and bolts of American politics. In 1916, for example, Roy Bishop instructed Gillett by telegram on how to guide Senator Phelan’s introduction of a legislative amendment: “Whether as a tactical move it would be better to have Senator Phelan offer it as a concession in debate or whether it should be put at once in to substitute depends on [the] nature of [the] opposition . . . You and your friends are on [the] ground and must judge.” Louis Titus, representing investors with holdings in the Elk Hills naval oil reserve, similarly informed Gillett, “Have just learned that [the] executive committee of [the] Navy League meets tomorrow to consider [the] Phelan bill. Senators [John] Weeks and Phelan are both members. Senator Weeks especially ought to be present to prevent adverse action.” Frank Short described to his boss at Standard Oil, Oscar Sutro, how Senator Phelan had amended the bill at their request, and Short outlined the next steps for guiding it through the House and Senate. Sutro told F. B. Loomis in Washington regarding the conference committee for the bill, “We would like to see, in addition to Senator [Henry] Myers and Senator [Reed] Smoot, Senator Smith and Senator Pittman.” Gillett reported to Sutro that the clerk of the Senate Committee on Public Lands “requested me to prepare separately the amendments that we desired to offer to the House bill and give them to Senator Myers, the Chairman of the Committee, so that he could offer them.” At times, the oil lobbyists seemed to be on the very floor of Congress, introducing legislation they had written, mustering votes, and directing bills through committees.

Despite its money and influence, however, the oil lobby was not all-powerful, as the long, drawn-out struggle over the oil lands illustrates. After the 1916 elections, Gillett reported “a big mistake” in neglecting to muster support for Senator Clarence Clark of Wyoming, who was defeated. “He is a member of the Public Lands committee of the Senate and for two years has been our warmest and strongest supporter. I feel a little delicate and ashamed now to go and talk to him.” Conservationists within the Taft and Wilson administrations constrained industry allies like Franklin Lane. Personality also factored into the oil lobby’s limitations as well as its success. According to one account, F. B. Loomis was “so cold” and unpopular with the Wilson administration that his political efforts were “not overly helpful.”

The major oil company leaders in California tended to ally with the Republican Party, and they considered the national Democratic victory in 1916 a disaster for their struggle to control San Joaquin Valley oil lands. But because California had been an important electoral state, they attempted to turn the debacle to their advantage, reminding Democratic politicians that they owed California a political debt. Gillett, for example, urged the Democratic governor of Kentucky to lobby in Washington on behalf of the California oil industry and to persuade his state’s Democratic senator to “take an active interest” in the industry’s problems. “After what California did for the old Democratic Party it seems to me there should be reciprocity somewhere,” Gillett wrote.

In addition to undertaking these political strategies, industry leaders worked closely with major California newspapers to influence public opinion. Harrison Gray Otis, president of the Times-Mirror Company in Los Angeles, decried “ill[egitimate] raids by the administration” and assured Gillett of his support. “The [Los Angeles] Times has printed a good deal of matter on the subject,” Otis wrote Gillett suggestively, “and is ready to print more when it can receive the facts from authoritative sources.” The San Francisco Chronicle similarly spoke for the industry, blasting the “obstinance” of the federal officials who persecuted small operators and investors with suits “based on trivial technicalities.” The newspaper editorialized in 1916 on behalf of a proposed leasing bill and claimed credit for legislative progress stimulated by “the force of public opinion, created almost entirely by this journal.” In March 1916, the Chronicle declared that the Department of Justice might be “legally justified” in its lawsuits but was “morally unjustified.” The paper warned of the “ruin of hundreds of honest men.”

The Chronicle’s sympathies extended from the editorial to the news pages. In December 1916, the publisher Michael deYoung telegraphed Gillett in Washington regarding the Chronicle’s fifty-second annual
edition. In exchange for "generous support from larger interests and their attorneys," deYoung offered to print an article "which we will agree to write from such suggestions as you may give us. . . . You know the stand [the] Chronicle has taken editorially [on] this matter," deYoung assured Gillett. "Let us have your data or suggestion for [the] article early . . . so [the] article may have your approval before publication."

Although Gillett declined deYoung's request for money and editorial copy, the January 1917 annual edition predictably favored the California oil industry's views. The articles liberally quoted John Estleman, Roy Bishop, and the Chronicle's own pro-industry editorialists. Land withdrawal and the ensuing litigation had dealt California "the greatest blow" in years.24 The government's lawsuits caused production to fail to keep up with consumption.25 Many operators faced "financial ruin" or had suffered "irreparable loss." Over $17 million had been expended on wells and improvements, the newspaper estimated, and wells in question had produced over 76 million barrels of oil.26 The Chronicle complained that the litigation threatened title to approximately one-quarter of the state's oil lands.27 If the federal government wanted more oil land for the navy, the Chronicle argued, it should purchase the land or condemn it. "Sooner or later [the land] must go back to the individual, unless the Government is to go into the oil business." The government should not "cheat" its citizens.28

Not everyone agreed that this strident advocacy by the California press, or even the public airing of the oil controversy, aided their cause. A.J. Pollak of the Miocene Oil Company thought that "the fewer statements regarding the oil men's side of the story that appear in the papers, the better will the eventual result be."29 Gillett similarly favored backroom bargaining to public exposure, which he thought would spur eastern opposition to an advantageous bill. As the mineral leasing bill neared final passage in 1920, industry lobbyists worked hard to prevent further public hearings and push the bill swiftly through Congress. "The Committee is very friendly," Gillett reported to William Herrer of Associated Oil, who was also the longtime political boss for the Southern Pacific Railroad Company. In accordance with the oil lobbyists' request, the House Committee on Public Lands had "decided not to have any hearings on the Oil Leasing Bill." Gillett explained, "There are a number of people here who are anxious to nationalize the oil and coal industries of the country, and the President himself has some leanings in that direction. . . . If we had hearings, these people would appear before the Committee and would take up considerable time in agitating this question." Sentiment in favor of national ownership had grown in the East, Gillett wrote to A.C. Diericx, head of the Honolulu Consolidated Oil Company. "It is not strong enough yet to defeat the passage of our Bill, though it might be if our Bill is delayed very long. Hence our anxiety to get it through as quickly as possible." Gillett thought that the bill was in "splendid shape," and that President Wilson would sign the bill if it were "passed before a strong propaganda grows for the public ownership and operation of the oil and coal industry."30 Gillett particularly feared public attacks on the industry by eastern conservationists and navy loyalists. "The fight is a hard one" Gillett acknowledged. The eastern newspapers, unlike their California counterparts, did not help the industry's cause, reporting that the proposed leasing bill, with its generous relief provisions for California claimants, was "a big oil steal."31

World War I complicated political negotiations over the withdrawn oil lands and over the management of the naval oil reserves. The war allowed the oil companies to demand that the government open the public lands for increased private oil production in the name of patriotism. But the war also stimulated a countermovement to have the navy operate the naval oil reserves itself and retain greater public ownership of oil lands.32 Secretary of the Navy Josephus Daniels, with President Wilson's support, strongly opposed private intrusions on the naval reserves, and World War I strengthened his hand. Daniels used his leverage to aid allies in the Justice Department and conservation movement.33 Alarmed by the waste described by government geologists working in California, Daniels and his allies sought to conserve oil in the ground for the navy and to make California oil production more efficient generally. They also sought greater royalties for the government, with some calling for outright government ownership and oil well operation.34

After Daniels and his allies blocked a leasing bill in 1916, the prospects for satisfactory relief for the California oil land claimants looked bleak. Then the end of the war in 1918 and Republican victories in that year's midterm elections sharply changed the situation. As Gillett observed, the danger "that the Government would take over our oil properties and operate them vanished when the war closed; that is no longer a club held over our heads. Mr. Daniels could not get an order of that kind made now." Gillett likewise thought that the Democrats would fear responsibility for tying up Western resources for over six years and leaving the oil issue for the new Republican Congress. "For these political reasons, I believe we will get some action soon, and if we
don't I know the Republican Party will give it to us promptly." Only a few short months before the elections, Gillett had expected only leases on existing wells in the naval reserves, with the idea that the president might subsequently extend the right to drill to the rest of the claim.\(^3\)

Now he hoped that his clients would soon gain permission to drill new wells.\(^3\)

As promising legislation developed in Congress in 1919, California oil lobbyists sought to shape the final leasing bill as much as possible. A. J. Pollak, president of the Miocene Oil Company, wrote Gillett to suggest favorable clauses. He recommended that the royalty be "fixed at one-eighth on all existing wells." If royalties could be calculated on net production, he added, subtracting development and operating costs from gross production, "it would be a very fortuitous saving for all of the companies."\(^3\)

The most important provisions of the new leasing bill concerned relief for oil operators who claimed land withdrawn by President Taft. These often involved narrow amendments to the bill that dealt with the unique aspects of each case. Pollak, for example, asked Gillett for a "personal favor" that would give him a special edge:

As you probably recollect, I am a veteran of the Spanish-American War, with an honorable discharge. I therefore suggest that when Congress passes a land bill for the benefit of veteran soldiers ... that you arrange it with some influential member so that a veteran who has lived on and asserted claim to any public land for a specified period, will be given a patent to the land which he claim[s], whether it is agricultural or mineral in character. ... You can easily have it worded so that it would be applicable to my rights and claims with the Miocene.

In this instance, Pollak then quickly reconsidered his boldness. "Upon second thought," he continued, "I believe that the acreage should be limited to 160 acres, which would eliminate any suspicion."\(^3\)

William F. Herrin of the Associated Oil Company urged Gillett to push back the date before which substantial development work had to have been done in order to qualify for the bill's relief provisions. Associated had acquired valuable properties from L.B. McMurry and wanted to hold on to them. But the company had not begun development until after the withdrawal orders. Herrin also urged Gillett to insert propurchaser provisions dealing with the purchase of properties originally acquired through fraud.\(^3\)

In addition to assisting his clients and associates, Gillett sought a quick return for himself in the passage of the mineral leasing bill. As its passage approached, he wrote his associates to alert them that he had introduced a provision that might "enable us to pick up something upon good terms, if we can get at it quickly." Gillett instructed them to look for lands that might fit a little-known section of the law, lands filed upon or "located" prior to September 27, 1909, but upon which no well had been drilled or oil discovered.\(^3\) "I may be mistaken, and no such locations may exist," Gillett noted. "But I had the bill prepared to take care of them if there are any, and of course this fact is not known by anyone in California, and will not leak out for some little time yet."\(^3\)

Gillett was not the only one rushing to lay claim to the newly opened federal domain. One of Gillett's associates, Rudolph Pollak, sped out to patent some land only to find others staking out the same territory.\(^3\) Senator Albert Fall's secretary Charles Safford played an inside game similar to that of Gillett, with a different set of associates in New Mexico. Safford kept his associates apprised of Washington developments. Immediately after the leasing bill passed, he alerted them with a carefully worded telegram intended to avoid leaks.\(^3\) In exchange for Safford's efforts, he was told, there was a "little acreage reserved for you which possibly may sometime repay you for your trouble." With Safford's boss soon to take over the Department of the Interior, Safford's personal involvement in oil development on the public domain boded poorly for future federal management. A New Mexico colleague wrote Safford plainly that the "value of these locations" would depend on the negotiations issued by the Department.\(^3\) Loosening federal leasing regulations would be one of Albert Fall's top priorities in the Interior Department.

Gillett labored to insure that the mineral leasing bill did not lose momentum before passage. "The hardest thing I have to do today," he reported to his Honolulu employers in September 1919, "is to keep track of people who come here and want to 'but in' and amend the Bill in many ways. So far, I have succeeded very well."\(^3\) When one lawyer proposed a number of amendments that would "prove ruinous" to the bill, Gillett provided damaging information about him "to our friends on the Committee." He hoped to "sidetrack the whole matter quietly and without any trouble."\(^3\) When a group of Wyoming interests seemed bent on derailing the bill in the process of making it more advantageous to them, Gillett "read [them] the riot act" in order to "settle their differences." He also helped smooth things out between the powerful representative Nicholas Sinnott from Oregon and Senator
Reed Smoot.\textsuperscript{46} The final version of the leasing bill pleased Gillett considerably, and he boasted to A.J. Pollak about his successes and influence. Sending Pollak a copy of the bill with “our provision” underlined in the text, Gillett crowed that they had gotten the “bill in pretty good shape.” “When I come home, Al,” wrote Gillett, “it will be up to you to give a good dinner to several of us, and help celebrate the occasion.” \textsuperscript{47} Roy Bishop of the Oil Industry Association congratulated Gillett, saying, “It would not have occurred if you had not hung on like a bull dog.” \textsuperscript{48}

As passage grew more certain, Gillett turned his attention to the leasing bill’s implementation. “When the Bill becomes law,” he informed Herrin at Associated Oil, “the Secretary of the Interior will commence preparing rules and regulations to carry out its provisions. These rules and regulations are going to be very important[,] as much so as the Bill itself.” Gillett offered to stay in Washington to assist, and he urged Herrin to provide oil experts from California.\textsuperscript{49}

The Mineral Leasing Act passed in 1920, and Gillett followed up with further efforts to influence federal policies for his clients. His work in Washington revealed both the continuing centrality of property rights and the ongoing political maneuvering that lay behind the adoption and protection of an oil-friendly regime. Following Albert Fall’s resignation in 1923, Gillett solicited guidance from his associate L. L. Aitken in Denver: “Have you any one in mind yet for Secretary of the Interior? If so I wish you would let me know so that I can help to put it over.”\textsuperscript{50} Gillett recalled that the Honolulu Consolidated Oil Company had retained one candidate, Senator Frank Kellogg, prior to his joining the Senate. Gillett also persisted in shaping congressional policy development, recruiting sympathetic western senators to serve on the Committee on Public Lands.\textsuperscript{51} In addition, he developed a lucrative consulting business helping companies convert contested claims into leases. He advised clients on how to acquire prospecting permits, incorporate their enterprise, and sort out the complex web of land titles.\textsuperscript{52} Overlapping claims created a legal mess. “Yours conflict with a homestead entry, three stockraising entries and lieu selection,” Gillett observed in one letter to a client.\textsuperscript{53} Gillett lobbied the commissioner of the General Land Office, William Spry, to allow for group development of permitted areas and the extension of permits.\textsuperscript{54} When Herbert Hoover’s secretary of the interior called a temporary moratorium on the issuance of oil prospecting permits in 1929, Gillett helped lead the California opposition to the new policy, becoming vice president of the

California Oil and Gas Permittees and Lessees’ Association.\textsuperscript{55} Gillett also joined an effort by oil operators, including the Standard Oil Company of California, to prevent the Interior Department from reviewing federal grants of mineral land to the states. Gillett and others pushed for congressional legislation to protect those who had “relied upon the title coming from the state.”\textsuperscript{56}

Gillett’s political connections, legal acumen, and strategic approach to influencing legislators and agency administrators had little to do with the technology of extraction or refining. Nor was he a businessman marketing a product. Yet he and his political compatriots played a role in the California oil business as fundamental as that of any engineer or entrepreneur. They established and maintained the property regime within which the geologists, engineers, and businessmen would work profitably. From the Taft land withdrawal in 1909 to the passage of the Mineral Leasing Act in 1920, these political representatives of the oil industry—elected officials and lobbyists—struggled to open Southern California oil lands for immediate development. Their political efforts yielded a new leasing law, which would govern mineral development on the public domain through the rest of the twentieth century.

\textit{“PATENT IS NOW ONLY A MEMORY”}

“No one will ever know how much time, work and money” went into the drafting of the Mineral Leasing Act, Oscar Sutro, chief lawyer for Standard Oil of California, wrote James Gillett in 1920.\textsuperscript{57} F.B. Loomis concurred, telling Sutro that “I do not believe a bill has ever had more work done for it and more persistent effort brought to bear upon it than the Oil Leasing Bill.”\textsuperscript{58} Disadvantageous proposals for government oil development, steep royalty rates, and sharp restrictions on extraction had been aired during the decade-long struggle. But years of lobbying by Sutro, Gillett, Loomis, Short, and others paid off for the oil companies. They had prevented any fundamental reorganization of land and development rights and protected most corporate claims to the public oil lands.

While the Mineral Leasing Act ended the patent system for mineral lands established in the 1860s and 1870s, the law replaced it with a leasing system that resembled nineteenth-century land disposal practices. The act also settled claims related to the 1909 Taft land withdrawal, dealing generously with long-standing claimants to oil lands outside the naval oil reserves in California and the Midwest. Oil operators who
could not gain outright patents for their claims received preferential leases on the same properties. The bill created a powerful incentive for claimants to settle for a lease: if a claimant held out for a patent for more than six months after the act's passage, he would lose his preferential rights to lease. Although smaller oil operators had made many land claims originally, during the years of litigation and following the passage of the leasing act, larger oil companies purchased these claims and consequently received the preferential leases. The lease agreements charged the oil companies a light, one-eighth royalty on the oil production of the previous ten years. This set a low minimum threshold for subsequent royalty payments. Observers like the former attorney general Thomas Gregory thought the leases could command at least twice that, in addition to large initial bonus payments. To sweeten the deal, 52.5 percent of the royalties went to the national reclamation fund for water management, 37.5 percent to the producing state in which the oil was found, and 10 percent to the general treasury of the federal government. Over the ensuing years, hundreds of millions of dollars in royalties built dams in the West, funded schools and roads in the oil-producing states, and paid for general federal expenses.

Although the leasing act disallowed fraudulent claims, the restriction applied only to those lands that remained in the hands of the original claimant. Since speculators like L.B. McMurtry had rapidly passed on their claims in the California fields, the fraud provision applied to few claimants in 1920. So long as a company "had no knowledge" of the original fraud, it qualified as a "bona fide" claimant. By granting preferential leases to claimants, overlooking fraud, and charging a low royalty on past production, the Mineral Leasing Act thus confirmed bold actions taken by oil operators in disregard of the Taft land withdrawal. The bill rewarded those who aggressively staked their claims, developed their wells, and moved to production as quickly as possible, despite a government land policy ostensibly intended to temporarily halt such activities.

As with any compromise, the new leasing law did not meet all the oil operators' goals. Within the naval reserves, the leasing act provided little relief, granting claimants only rights to the producing wells. Standard Oil of California and other companies complained bitterly of "unjust" discrimination. The strict ruling perversely rewarded bold defiance of withdrawal by an enterprising firm: the more wells one drilled, the more generous the settlement was. Although claimants within the naval reserve did not acquire full leases, the act did hold out the prospect of future relief by allowing the president to approve further development within the reserves. Existing claimants would receive preferential treatment. In the hands of the incoming administration of Warren Harding, elected in 1920, this discretion would greatly reward patient oil operators.

The terms for new oil exploration also did not entirely satisfy the major oil companies. The leasing act increased the acreage of prospecting permits and leases to improve production efficiency by reducing competition in new territory. Two-year prospecting permits covered 2,560 acres outside known petroleum structures; within known petroleum areas, the act provided for 640-acre leases. Companies could obtain these new leases through competitive bidding. Although the increased permit and lease sizes lessened the fragmentation of the oil fields, the acreage restrictions continued to disappoint many larger oil operators. They sought much larger lease tracts that would encompass large portions of oil fields, or even entire fields, and allow them to manage the holdings efficiently. But smaller operators fought such monopolistic control of the oil fields. The chairman of the House Public Lands Committee spoke for many in 1918 when he asked sarcastically if Standard Oil should get all the government's oil fields "at one bite of the cherry." In 1916, Gillett wrote similarly to his associate Frank Short that many people in California had written Senator Phelan to argue against a lease size of 2,560 acres because the amount was "entirely too large and all wrong." Gillett and his colleagues successfully persuaded Congress to approve the 2,560-acre size, but they could not increase the lease parcels further.

What had the long and bitter struggle over California's oil lands achieved? Standard Oil of California denounced the "carnival of litigation" and declared that "nothing of value" had resulted from it. The company itself certainly had gained little in comparison to what it had acquired under the previous land patent system that gave companies private ownership. Although the bill favored oil producers, it was a compromise measure that also reserved important revenues and powers for federal and state governments. In addition to the one-eighth minimum royalty interest, ownership gave the federal government considerably greater discretionary power to determine the future of the public lands. Of course, the government always retains the power to regulate private land uses in the public interest, but this general "police power"
is limited by constitutional restrictions—the Fifth Amendment’s takings clause—and political constraints. With the new leasing regime, the federal government had the full authority of a proprietor. In its contracts with lessees, the government could easily regulate drilling practices, for example. The government also could stipulate that wells be set back from the lease boundaries, require the filing of reports, and demand the construction of waste pits and procedures for well abandonment.61

Federal ownership also gave the government a clearer stake in labor relations. During the lengthy and bitter 1921 labor strike among oil workers in the San Joaquin Valley oil fields, the Interior Department held the key to the strike’s outcome. The department, which managed the federal oil lands and the royalty payments, had the power to intervene between the strikers and their employers. As Albert Fall’s subordinates informed their boss, if the Interior Department took control of certain properties to “prevent damage by water,” it would necessarily have to get involved with employment relations, either guaranteeing “certain wages to union men or else protection to nonunion men.”62

Either decision would involve the government in the strike. What position would the government take in this important postwar labor conflict?63 Would the government side with the unions, continuing its mediating role from the war years? Or would it step back and let the employers break the union? Some officials in the Departments of Labor and the Interior urged the Harding administration to mediate on the grounds that the strike threatened government oil interests.64 But Secretary of the Interior Albert Fall sided decisively with the employers by staying out of the protracted conflict, thereby withdrawing the government from its mediating role.65 Fall recognized that the government as landowner possessed sufficient power to shape labor relations in the oil fields, but he denied its “right” to do so.66 Lacking federal support and faced with the united opposition of the oil operators, the strike ultimately collapsed.

During the two decades following the 1920 leasing act, oil land ownership provided the sole means for the federal government to achieve conservation. When competitive practices resulted in severe overproduction in the late 1920s, the government used its leverage as proprietor to institute California’s only effective conservation program. Under federal leadership, the operators of the Kettleman Hills oil field managed the area as a unit and allocated production among the numerous companies involved. Elsewhere, the state and federal governments lacked the ease of action that ownership provided, and were stymied.

Federal and state oil conservation initiatives in areas not owned by the federal government were incomplete or were ruled unconstitutional. Voluntary efforts by the oil companies repeatedly failed.

Ownership of the public domain also allowed the government to change its mineral development policy more swiftly and effectively than the 1909 Taft land withdrawal had allowed. Near the end of the 1920s, when oil prices again plummeted as they had around 1909 and the oil market again seemed saturated, President Herbert Hoover was able to cancel thousands of federal oil permits, vowing “complete conservation of government oil.”67

Hoover’s secretary of the interior, Ray Lyman Wilbur, proposed to lease only the minimum required by the Mineral Leasing Act. Wilbur criticized the low oil prices and warned against wasting the nation’s petroleum resources. He perceived a government obligation to “reserve as much oil as possible against the time—unfortunately not far distant—when our national supplies diminish.”68 Land ownership thus enabled the secretary of the interior to implement his oil conservation plan. Conversely, of course, this enhanced control over the petroleum properties also could give the secretary discretion to open up the petroleum lands to more drilling, should it seem desirable.69

Despite these limited successes, however, the federal government’s relative failure to recover oil lands claimed before the 1909 Taft land withdrawal severely impaired its control over production from the land that it did own. The new property regime failed to address satisfactorily the basic problem of competitive production. A large number of oil operators in California in the early 1920s now owned lands formerly controlled by the federal government. Operators who worked under the leasing act had to compete with neighbors on private lands. New leases granted under the 1920 act spurred development by mandating that prospecting permits drill within six months. Within one year after receipt of the permit, they had to have drilled to at least five hundred feet; barring discovery of oil, within two years they had to have reached two thousand feet. These drilling rules—designed to prevent companies from unproductively tying up the public domain and to safeguard the government’s royalty interest with respect to neighboring private landowners—forcefully pushed operators toward discovery and production.

Even in the naval petroleum reserves, competitive forces compelled the federal government to develop its property. With the government’s defeat at the hands of Judge Benjamin F. Bledsoe, the Southern Pacific Company retained title to checkerboard sections within the Buena Vista
naval oil reserve. "It is sheer folly for anyone to contend that the oil and gas may be held in reserve," commented C. Naramore of the Sinclair Exploration Company. Production by the Southern Pacific and other private operators would inevitably bring water encroachment, the exhaustion of gas pressure, and the depletion of oil. Fragmented ownership had irreparably damaged the Buena Vista Reserve. As Naramore noted, the government could protect its share "only by drilling as many wells as the Southern Pacific Company."77 At the same time, although the federal government had recovered most of the Southern Pacific's claims in the nearby Elk Hills, rival holdings also compromised that naval reserve. By 1922, Standard Oil had forty-four wells on the eastern edge of the reserve. The wells drained the same oil pool, and they extracted oil quickly—22 million barrels by September 1921. By 1922, the wells had already earned Standard a phenomenal $27 million on its $6-million investment.78 Standard's actions forced the government to offset this production with new wells. On a section in the heart of the reserve, acquired from the state of California, Standard Oil also embarked on an aggressive drilling campaign. The federal government ultimately recovered the latter section after decades of expensive and controversial litigation, but not before Standard's development work forced a drilling campaign.77

By failing to address the underlying competitive situation, the leasing act failed to establish a property regime that effectively controlled California oil production. The federal government, like all other landowners in the California fields, lacked the power to match its oil production to market conditions. Unlike other landowners, however, who found themselves in a situation not of their own making, the federal government had given away this discretion.

Even as the government struggled with competition, executive authority over California's rich oil lands created fresh management issues. A spate of generous deals made by the Harding administration culminated with the notorious Teapot Dome scandal. Secretary of the Interior Albert Fall stood at the center of this controversy. A former senator from New Mexico, Fall believed that the government should open the western public domain for rapid development. The natural resource interests who backed Warren Harding's election in 1920 specifically backed Senator Fall as their candidate for Interior Secretary. The oil man Harry Sinclair reportedly spent six hundred thousand dollars ensuring Harding's election. Fall in particular had been, in the phrase of one historian, "bought like a steer."79 In his brief tenure in the cabinet, Fall sought to reverse conservation policies adopted by the Roosevelt,

Taft, and Wilson administrations.79 As a senator, Fall had pushed for oil-friendly mineral leasing provisions and full recognition of private claims in California.80 As Interior Secretary, he loosened federal regulations for oil and gas leasing, making lease terms more generous and operating conditions more flexible. Fall expanded the acreage and number of claims allowed to oil companies under the leasing act and enhanced the rights of permit applicants to gain lower prospecting royalty rates if the government declared an oil field "known" while processing the permit application.81

Fall's crusade against oil conservation particularly targeted the naval oil reserves. Soon after he joined Harding's cabinet, he negotiated generous deals with the Honolulu Consolidated Oil Company for production within the Buena Vista Hills reserve. His decision to reopen the case and then grant the Honolulu leases poked further holes in the already riddled reserve. Fall claimed that experts advised early development to prevent water damage to the oil structure, but his obvious
eagerness to side with the company suggested ulterior motives.\textsuperscript{83} Fall's announcement of the Honolulu leases made clear that he would have preferred to award patents, had these not been barred by law. Fall praised Honolulu's pioneering efforts, which "created and gave value to . . . the Buena Vista field at a time when that region was apparently worthless for any purpose."\textsuperscript{84} To compensate the company for its unjust treatment at the hands of the Wilson administration, Fall granted it generous terms on all its producing wells, as well as seventeen additional claims. He set the royalties charged for thirteen of these claims at the prescribed minimum.\textsuperscript{84}

But Fall's dealing went too far: in the Elk Hills reserve, Fall similarly used the pretext of drainage or damage to the oil structure to lease the entire reserve to his associate, Edward Doheny. The scandal surrounding this lease and a similar agreement for the Teapot Dome naval oil reserve in Wyoming ultimately toppled Fall from power. Rival oil companies forced the Teapot Dome affair to light, outraged that they had been unable to bid for the lucrative leases.\textsuperscript{85} Senator Robert M. LaFollette, still smarting over the McMurtry frauds in California, doggedly pursued the naval reserve leasing story. A longtime Wisconsin progressive who ran for president in 1924 on the Progressive Party ticket, LaFollette favored greater public control and ownership of natural resources. Few of Fall's opponents expected anything as outrageous as emerged, with Doheny's "little black bag" full of one hundred thousand dollars cash for Fall, and Sinclair's gifts of over three hundred thousand dollars.\textsuperscript{86} This corruption ultimately derailed the Harding administration's concerted assault on the tenuous gains of the 1920 Mineral Leasing Act.\textsuperscript{87} The storm over the leases and corruption also undermined the administration's broader effort to overturn decades of conservation policy. Paradoxically, by using his discretion as secretary of the interior to favor oil companies on everything from labor relations to drilling conditions to leases on the naval reserves, Fall also highlighted the government's power under its new public land policy.\textsuperscript{88}

CONCLUSION

The politics that shaped the new property regime for mineral lands in California and the nation drew heavily on the political traditions of the nineteenth-century American system, distributing access to resources among private parties and generally promoting rapid development on the public domain. Money and special interests deeply corrupted the decision making. Albert Fall, with his acceptance of four hundred million-dollar leases on the naval reserves, merely topped the long list of government officials who mixed their personal financial interests with lobbying on behalf of the oil industry. Many of those charged with creating and administering the petroleum property regime combined prominent public service with financial rewards in the oil business. Public office thus frequently provided a springboard for lucrative business opportunities. This was the case, for example, when a large portion of Wilson's Interior Department took up employment in the oil industry following the 1920 election. Unlike Albert Fall, these men apparently all worked within the bounds of the law. Yet the case with which they, and figures like James Gillett, moved from public office to oil company employment casts shadows over their political maneuvering and the legal regime that they helped to create.\textsuperscript{89}
PART TWO

State Property
In the midst of the legislative conflict over federal oil lands in California, oil lobbyists frustrated by congressional inaction and hostility longed for the more hospitable climate of the California statehouse. “In any state the individuals or officials responsible . . . would be very expeditiously removed from power if they undertook to perpetrate such an injustice,” the oil lobbyist Frank Short complained privately to Republican senator John Weeks of Massachusetts in 1917.1 The oil companies got a leasing bill they mostly liked from Congress in 1920, but only after ten long years of intensive work. Frank Short, James Gillett, and their fellow lobbyists feared at times that the national government would provide no relief for the companies’ San Joaquin Valley claims, and that the Wilson administration might nationalize the oil fields for the navy.

State governments, Short believed, often hewed closer to policies favored by constituents and major industries. In 1921, the California legislature confirmed Short’s faith by swiftly passing a mineral leasing act modeled on the 1920 federal bill. Previously, no legislation had governed oil and gas development from state lands. The measure allowed petroleum prospectors to lease state lands at a low 3 percent royalty rate. The speed and ease of state approval demonstrated the oil industry’s influence in Sacramento.2

But ultimately California state politics proved far tougher on the oil industry than Frank Short and others anticipated. Divided economic interests made extractive industry increasingly vulnerable in California,
and the 1921 state bill opened the door for further conflict over state and municipal oil lands. In particular, wealthy coastal landowners and real estate developers, seeking to preserve ocean views and transform Southern California into a recreational and residential playground, fought industrial encroachment on the coast. “Save the Beaches” groups, particularly powerful near Santa Barbara, denounced oil pollution and the ugliness of coastal oil operations. Environmental issues thus became far more salient along the rapidly developing coast than in the dry, sparsely populated San Joaquin Valley.

As with federal oil lands in the San Joaquin Valley in the second decade of the twentieth century, geology and past policy framed the political struggle over state petroleum properties. Nineteenth-century federal land grants to the states for educational purposes, for instance, specifically excluded mineral lands from the grants. California received several parcels with significant oil deposits by chance and error, including a portion of the Elk Hills naval oil reserve, but had sold these promising oil properties. As a result, the federal government or private landowners controlled virtually all onshore oil fields in California by the 1920s.3

Along the Pacific Coast, however, rich pools of oil totaling over 5 billion barrels stretched from Huntington Beach to north of Santa Barbara. The Wilmington field, one of the four largest oil fields in the United States, contained 1.5 billion barrels under tidelands in the Long Beach and Los Angeles harbors. Major petroleum deposits also abutted the coastal towns of Huntington Beach, Santa Barbara, and Ventura. California’s offshore fields would encompass 19 percent of the state’s total petroleum reserves as of the late 1990s.4 Ownership of the tidelands and offshore waters remained ambiguous until the 1947 Supreme Court decision United States v. California, which asserted federal jurisdiction, and the 1953 Submerged Lands Act, which returned the first three miles of navigable tidal waters to state control.5 In the face of the legal uncertainties, which emerged during the 1930s, the California government claimed jurisdiction over the coastal tidelands. California granted some tidelands to city governments for the purposes of harbor and municipal development and retained control of the remainder.

Mounting pressure in the 1920s to develop these promising coastal fields forced California’s state and local governments to confront questions similar to those that previously had preoccupied national lawmakers: Who would gain the right to profit from the state’s natural resources? How fast would oil operators and the state develop state-owned petroleum deposits? How would the production revenues be spent? There also was a new set of questions: Would beaches trump oil in a struggle for political dominance? What kind of environmental protections would state and local lawmakers enact to protect California’s valuable coastal beaches? Control over the oil deposits also turned on questions of state and federal law: Where did coastal “tidelands” begin, and who owned them?

Aggressive targeting of the state-owned coastal petroleum lands began in earnest in 1927. Since the 1890s, small-scale operations had flourished at the Summerland field near Santa Barbara, but these early efforts had produced little oil and had not adequately tested the potential of the coastal fields. Now oil operators demanded prospecting permits under the 1921 mineral leasing act. As oil operations moved toward the Pacific near Santa Barbara, Venice, Huntington Beach, and Long Beach, public attention turned to state management of the coast. The controversy over coastal drilling moved in waves along the shore. It first crashed fiercely in Santa Barbara County in the late 1920s. Then,
in the key 1928 decision of *K.E. Boone v. W.S. Kingsbury*, the California Supreme Court undermined the political success of beach conservationists by forcing the state government to issue oil drilling permits for coastal lands. After the legislature responded by banning further coastal oil development, a high-stakes political clash broke at Huntington Beach in the mid-1930s. Finally, in the late-1930s, the coastal controversy peaked with the discovery of the Wilmington field beneath harbor lands that California had granted to Long Beach. The Huntington Beach leasing scandal and the need to establish state claims to the riches of Wilmington ultimately forced California to adopt the 1938 state leasing bill. These conditions also prompted the federal government to investigate its own rights to California’s offshore oil. Throughout the protracted conflict, the oil industry's relationship with beachfront recreation, home ownership, and tourism remained central.

**BATTLING THE DRILLING FRONT AT SANTA BARBARA, VENICE, AND HUNTINGTON BEACH**

When oil operators began rushing to the coast of Santa Barbara and Ventura in 1927, post-World War I prosperity had already attracted residential and commercial interests to the area’s beautiful coastline. Two competing economies in the state clashed over the use of coastal resources. Was the Pacific coastline a site for the extraction of raw materials and harbor shipping or a serene place of relaxation, recreation, and realty? This simple polarity breaks down, to be sure, since oil development itself enabled the beachfront economy by fueling the sprawling automobile-dependent settlements of the Los Angeles Basin and the state’s increasing automobile tourism. But on the coast itself, the two sets of interests clashed.

The California surveyor general William Kingsbury at first granted coastal prospecting permits as requested. For reasons that are unclear, Kingsbury then reversed course and sought to block the oil development, declaring that oil would ruin California’s spectacular coastline. He contended that 1923 amendments to the state leasing law gave him discretion to block the permitting process. In addition to denying prospecting permits, in September 1928 Kingsbury further restricted oil development in the Ellwood field northwest of Santa Barbara. He broadly defined the Ellwood field's geologic boundaries, declaring that it stretched twenty-four miles along the coast, beginning one mile west of Santa Barbara and extending three miles out to sea. Once a field was legally demarcated in this fashion, Kingsbury gained additional legal grounds to refuse new prospecting permits because it was a known oil territory under the state mineral leasing law. Kingsbury had little time to spare. Oil operators shortly afterward filed permit applications to drill along the entire Santa Barbara County coastline. As upland wells yielded substantial petroleum, thwarted tidelands oil operators and sympathetic observers attacked Kingsbury as an obstructionist. Following several oil strikes at Sealcliff near Santa Barbara on private lands, Howard Kegley, petroleum correspondent for the *Los Angeles Times*, criticized naive “petroleum experts” who had stopped issuing drilling permits for the public tidelands. In addition to blocking important new development, California was forfeiting valuable oil royalties, Kegley argued. The state could now only “sit idly by and watch private land owners drain the oil from under State lands.” The Ventura County Chamber of Commerce sponsored local speakers to build support for tidelands oil development and the business activity associated with it. According to the *Los Angeles Times*, the chamber was “disseminating the truth” about the safety and importance of beach drilling. The Times forcefully advocated coastal oil development in its editorial and news coverage—except when oil operations threatened coastal recreation and real estate development in the Los Angeles Basin. The local Oil Workers' Union in Ventura similarly passed a resolution calling for beach oil development, as did the Ventura County Building Trades Council and the Merchants' Credit Association of Ventura.

Frustrated oil operators also mounted a legal offensive by suing under the 1921 leasing law to compel the state to issue permits and leases. Yet Republican governor Clement C. Young firmly supported Kingsbury. Governor Young, who had won office in 1927 after serving eight years as lieutenant governor, and who had previously been speaker of the California State Assembly, was a former high school English teacher and real estate developer in Northern California. An active member of the Sierra Club, Young favored conservation of scenic areas and natural resources. In 1927, he had signed legislation creating the California State Parks Commission, to which voters would allocate $6 million in bond funding in June 1928.

Like Governor Young, the California attorney general Ulysses S. Webb also aggressively defended Kingsbury's cautious, discretionary approach to coastal drilling. An avid hunter and fisherman, Webb served as attorney general of California for an extraordinary thirty-six and a half years, from 1902 until 1939. Webb believed passionately that
public trust doctrine protected the California coast for public navigation, fisheries, and recreation, and he sued to protect the public's rights. In 1913, the California Supreme Court had upheld Webb's vigorous efforts to assert continued state control over tidelands in Wilmington Bay near Los Angeles. In the early 1920s, Webb opposed the naturalization of Japanese immigrants to California and fought to uphold the Alien Land Law of California, which restricted agricultural land ownership by noncitizens. Although an immigrant from West Virginia himself, Webb believed that protecting the public interest in his adopted state meant fighting both the encroachment of industry and nonwhite immigrants on the state's land and resources.

Now in 1928, Webb questioned the constitutionality of California's oil leasing laws. For more than a thousand years, argued Webb in the key case *Boone v. Kingsbury*, "all civilized governments" had recognized an enduring public interest in tidelands: "Their destruction has been at different times and in[ ] devious ways attempted, but they have survived to this day against every attack." He called it "common knowledge" that the oil wells would pollute the water and make it uninhabitable for fish, and that a "forest of derricks" would make the coastline unattractive "except to the individual who is profiting." Responding to oil operators' criticism of these "aesthetic grounds" for blocking oil permits, Webb denounced their "spur of greed . . . to seize that which has been stored for years and kept and safeguarded as the people's right." Webb dismissed warnings that California would lose significant revenue if it failed to grant the leases, noting sarcastically that the state mineral leasing act stipulated a royalty of only 5 percent. Edward Doheny had obtained his preferential Elk Hills naval reserve lease from Albert Fall "through fraud, hypocrisy and deceit and crime;" Webb observed, yet even that lease retained for the federal government 37 percent of the oil. "Drawn, I do not know by whom, nor do I know at whose instance," California's mineral leasing bill had been "an incon siderate legislative act," stated Webb. Before the California Supreme Court he wondered plaintively, "Why did the legislature do this?"

But the California Supreme Court majority scoffed at Kingsbury and Webb's reasoning. In a major victory for the oil companies, the court ruled that the surveyor general lacked the legitimate power to reject permit applications. The court struck down on technical grounds amendments to the mineral leasing bill added in 1923 that granted discretion to the surveyor general. The court also dismissed Kingsbury and Webb's public trust arguments in language steeped in awe of oil's economic power. Like the federal court judges who decided the San Joaquin Valley cases in the second and third decades of the twentieth century, the California justices marveled at oil's "enormous" significance to the modern economy, its unsurpassed contribution to commerce, industry, and "the comfort of the race." The state legislature, the court said, "recognized the use of gasoline and oil to be practically indispensable to the needs of rapid, expanding industry and commerce." Allowing the state with what it regarded as prodevelopment federal policy, the court invoked the federal government's recent laws as providing "the most liberal terms" to induce its citizens to explore for mineral resources. "In fact," the court declared, "the development of the mineral resources, of which oil and gas are among the most important, is the settled policy of state and nation, and the courts should not hamper this manifest policy except upon the existence of most practical and substantial grounds." The California court's ruling in *Boone* swept aside administrative discretion and opened to prospecting all coastal lands not dedicated to public purposes. The high court had authorized a "tidelands oil hunt," according to the *San Francisco Chronicle*. Within a short time, operators who obtained permits under the ruling would erect piers and drilling islands off the coast of Santa Barbara County, between Goleta and Ventura.

The *Boone* case exposed complex tensions between differing conceptions of the public good, and between the different economic and political interests embraced by the state court and the legislature. *Boone* galvanized state politicians to contain the spreading oil front. In January 1929, one month after the court ruling, the legislature barred any new tidelands prospecting permits until September 1. This "emergency measure" allowed the legislature to craft a new tidelands oil policy. During the spring legislative session, an assemblyman from Carpinteria, a seaside town twelve miles south of Santa Barbara, pushed through a bill that explicitly prohibited further state oil permits for state beaches or tidelands. As he signed the bill in May, Governor Clement C. Young declared that the measure preserved for the people "the highest use that our beach lands can be put, namely—recreation." With the new law in hand, the Young administration cut off new access to coastal oil. The state rejected seventy-two out of seventy-three applications in the fall of 1929 to prospect for oil and gas on state lands at Huntington Beach. The state's Huntington Beach oil field would be preserved for the future, announced Finance Director Alexander R. Heron. At the same time, Surveyor General Kingsbury continued his campaign against beach
drilling and used legal technicalities to cancel as many as possible of the coastal permits that the Boone ruling had forced him to issue.18

The administration's restrictive policy appropriately matched market conditions in the state oil industry overall. The same day that he signed the coastal protection bill, Governor Young also approved a measure curtailing natural gas waste in the oil fields. This natural gas act provided a roundabout way to regulate oil production without violating federal and state antitrust laws. Competition among California oil operators for access to common pools had compelled the operators to extract oil rapidly during the 1920s, driving down crude oil prices and per-barrel profits. The day that Alexander Heron announced the seventy-two rejected Huntington Beach applications, Herbert MacMillan, president of the California Oil and Gas Association, declared overproduction "the most important problem confronting the oil industry."

The state's major oil companies, and many smaller enterprises, urged voluntary cutbacks in production by California oil operators to boost prices. By restricting development of the coastal oil fields and helping to curtail production from existing wells, the Young administration thus sought to tighten the spigot that continued to gush California oil in the face of low market prices.17

This administrative and legislative activity, together with the specter of a hemorrhaging flow of cheap oil, persuaded the California courts to adjust to the new legislative mandate in the years following Boone. Instead of emphasizing petroleum's overwhelming importance to modern society, an appellate court in 1933 upheld the 1929 restrictions in language that echoed Kingsbury and Webb's position. The ruling deferred to the state legislature's decision to preserve the scenic beauty of the beaches and waterfronts against "an unsightly forest of oil-well derricks" and the "obnoxious fumes from overflowing crude oil." The court observed that "the legislature has a right to assume that it is wise and profitable to preserve the valuable minerals of the public domain for the benefit of the state. It may be reasonably assumed it would be proliigate for the legislature to abandon valuable mineral resources of the state to the exploitation of private interests." These "reasonable" assumptions reversed the tone and premises of Boone, acknowledging the aesthetic disadvantages of coastal drilling as well as the potential economic loss of valuable natural resources. The appellate court also endorsed the "urgency" stipulation of the January 1929 prohibition on prospecting permits. Shortly following the Boone decision in December 1928, Kingsbury had received a flood of inquiries from oil operators eager to develop coastal lands. The appellate court concluded that only the legislature's speedy action had prevented a new round of prospecting permits.18

These political and legal developments, however, could not undo Boone's pro-oil impact. Development proceeded apace on the coastal permits that the California Supreme Court had forced Kingsbury to grant in Santa Barbara County. The San Francisco Chronicle soon described the Ellwood field as the "most spectacular tideland development to date." A "drilling race" ensued in the fall of 1929, with seven new producing wells built in the open ocean on state-controlled lands. The wells were prolific producers of high-quality oil, with low development and transportation costs. At Goleta, Carpinteria, and Capitan, oil operators also drilled twenty-six new wells, further promising to map out the Santa Barbara County region's oil pools. Reports from Ellwood described wells like that of the General Petroleum Company, which broke loose "roaring like a giant blast furnace," spouting nearly 1 billion cubic feet of gas daily, "enough to supply the need of nearly half the state." Pacific Western Oil Company brought in a well producing thirty-five thousand barrels per day of high gravity oil, from a point located about twelve hundred feet from shore.20 The single well produced seventy-six thousand dollars' worth of oil and gas in the last month and a half of 1929 alone.21 Eleven months later, in September 1930, the Barnsdall Oil Corporation brought in another Ellwood tidelands well that flowed thirteen thousand barrels per day, the largest in California at the time.

Many observers thought these drilling successes made the case for opening the coastal oil fields more widely to development. Ever the enthusiast for the money that flowed from oil, Howard Kegley of the Los Angeles Times thought the money pouring in "likely to rebuke the politicians who steadfastly opposed further tideland drilling." Kegley wrote, "It is the impression of many an oil man that the State cheated itself out of vast fortunes in royalties by withdrawing the tidelands from drilling."22 Yet California had little need for a new source of oil in 1929 and 1930. The state scrambled to find ways to limit oil production in order to sustain oil prices, which had fallen sharply during the 1920s. The owners of the Barnsdall well, like the owners of other new producing wells along the Santa Barbara coast, immediately curtailed production to 30 percent of the well's potential, in accordance with a statewide curtailment program.23 If Kingsbury had prevailed in his opposition, oil operators would not have drilled tideland wells in
Santa Barbara County at all. And legislative restrictions on new coastal prospecting permits held firm in the face of the extraordinary petroleum wealth.

With the political conflict over state tidelands in Santa Barbara County temporarily resolved by Boone and the legislative ban on new leases, the coastal controversy shifted to municipal lands at Venice and Huntington Beach. The Los Angeles Playground Commission, which controlled the municipal beach, proposed to lease the Venice beachfront for oil operations in 1930. As oil operators drilled private lands nearby, development associations and chambers of commerce along the coast fought to save the beaches of Santa Monica Bay for swimming and other recreation. Beach improvement groups publicized the problems of industrialization as part of a coordinated strategy to prevent oil drilling. The preservation groups also successfully sought the legal support of Attorney General Webb, who criticized Los Angeles’ effort to lease the tidelands in Santa Monica Bay. A lawsuit by Lewis Stone, a popular movie actor whose residence on the Venice beach faced the ocean, ultimately blocked the beach development plan, in October 1930. The California appellate court concluded in Lewis Stone v. City of Los Angeles that the municipality could not issue oil leases on lands granted by the state for harbor purposes. A municipal oil lease necessarily resulted in the transfer of part of the property, contrary to the terms of the harbor grant. “Such a sale is expressly prohibited by the act granting the property to the city of Venice,” the court concluded. To the Los Angeles Times, which opposed tidelands drilling in the Los Angeles Basin even though it supported drilling in Santa Barbara and Ventura, the Stone decision was a hollow victory. The city council had granted city permits to drill private property immediately contiguous to the beach and on the beach itself, in some places right down to the high tide mark. Active drilling rigs hemmed the public beach on all three land sides. Given these incursions, it was a “fair question,” the Times declared, “whether the city should not accept the consequences and get the public something in return” by using oil royalties to purchase a new beach. Otherwise, the Times predicted, the city would lose the oil royalty revenue—earmarked by the Los Angeles Playground Commission to purchase another public beach elsewhere—see its own oil drained away by nearby private wells, and leave the public with only a ruined beach.

The complex forces of beach protection, oil development, and the public’s financial interest in oil—all driven by the rule of capture in common oil pools—would continue to clash throughout the 1930s as private oil operators encroached on the shoreline at Huntington Beach and Long Beach. The state government increasingly recognized oil royalties as a potential source of revenue, despite continuing restrictions on tidelands drilling and California’s low 5 percent royalty rate. The pursuit of revenues derived partly from two sources: the institutional interest of state employees in the capture of resources and the increasingly grim financial position of California as the Great Depression buffeted the state. To protect its financial interest and aid operators who had received leases, the state government intervened to ensure that permittees could gain access to the beach for development. In one instance, the state tried to use its power to condemn property to clear a right-of-way so that its permittees could open a road to the coastline. The idea was to drill new wells that would prevent private upland operators at Ellwood from draining oil from common pools that underlay state beaches and tidelands. The Division of State Lands also honed its operations to capture oil royalties more effectively.
At Huntington Beach, state financial interests heightened by the Great Depression came into sharp conflict with the government's mandate to protect the beaches and with California's complex political and business alliances. Development of the offshore field at Huntington Beach followed the rapid rise and fall of an onshore field in the city, which had occurred in the preceding decade. This town-lot field, which surged in production along with Long Beach's Signal Hill field and the nearby Santa Fe Springs field in the early 1920s, was situated principally under small, privately owned properties. The rule of capture had prompted an orgy of oil production as landowners and their lessees rushed to claim common subsurface petroleum deposits. Competing landowners had demanded aggressive development by lessees to offset neighboring producers. Where Standard Oil preferred to space wells one per every eight to ten acres on its larger holdings, oil operators at Huntington Beach, Signal Hill, and Santa Fe Springs often had crowded one well onto every one and a half to two acres on the small town lots. To raise the capital necessary for the flurry of drilling, oil promoters had flooded the market with stock certificates and royalty interests. These production methods had quickly depleted oil reserves and wasted capital. The town-lot development also had rapidly exhausted the gas pressure that lifted the oil naturally, leaving a large share of petroleum behind. As a result, the town-lot field at Huntington Beach was in permanent decline by the end of the 1920s. At the Signal Hill field, only the discovery of deeper oil strata prompted another oil rush to tap the new oil sands.

Huntington Beach thus seemed in 1928 to be moving toward the beach-based economy of recreation and real estate that lay in its future. The state had stepped in to control oil pollution resulting from haphazard production methods. The state Fish and Game Commission had successfully sued seventy oil operators to stop them from letting oil run through the Huntington Beach street gutters into the sea. The Los Angeles Times had begun to envision a more recreational and residential economy at Huntington Beach. Ocean bathers would "cavort and gambol in the breakers and come out glistening with drops of pure salt water instead of having their bodies smeared with oil."

Oil operators did not abandon Huntington Beach, but instead shifted their sights toward the beach and tidelands. In 1927, the Standard Oil Company of California purchased rights from the Pacific Electric Land Company to a narrow strip of land between the highway and the beach.

Standard Oil then built a fifteen-hundred-foot retaining wall parallel to the bluff along the beach, filling the space between the bluff and the wall to create a solid base on which to erect oil derricks. Many of the wells along this narrow strip drifted through an underground fault into the state-owned tidelands oil pool that started at the beach and went out into the ocean but did not actually lie directly beneath the Standard Oil property. As the town-lot field played out, other companies sought to follow Standard Oil onto the beach and tidelands, and Standard Oil maneuvered to protect its privileged access.

As they sought to develop the coastal oil fields, the companies ran into laws that barred tidelands drilling there. The 1921 state mineral leasing act specifically prohibited the leasing of state tidelands or submerged lands fronting on a city. In 1928, aspiring oil operators tried to circumvent the 1921 restrictions by arguing for an exemption for the Huntington Beach tidelands. Surveyor General Kingsbury rejected their argument, declaring the tideland area off-limits to oil development. As in the Santa Barbara region, oil operators sued Kingsbury to force him to
issue the coastal permits. Attorney General Webb continued his strong support of Kingsbury and personally appeared in the Orange County courthouse to oppose the petitions. Webb conceded that the city beach already had been "despoiled" by oil wells, instead arguing against a precedent-setting decision that might undermine the law against tideland drilling.35

The California appellate courts agreed with Kingsbury and Webb's position and rejected the permit demands.36 In contrast to the judicial reasoning in Boone, which described the legislature as eager to help industry tap state oil reserves, the courts' decisions identified a "trend of the legislative mind" toward beach protection. The legislative amendments passed in 1929 to bar oil and gas development along the entire California coast demonstrated that the legislature had hardened its stance. Judge Marks wrote in Arthur Carr v. W.S. Kingsbury.37

Defeated in court, the oil companies pursued a political solution in alliance with local governments that had close ties to oil operators and depended on the industry for tax revenues and commercial activity. If the state leasing act would not allow the oil operators to develop the offshore field, then the cities would fight alongside the operators to change the law. In the spring of 1931, their political allies in the legislature pushed a bill through to transfer to Huntington Beach all tidelands fronting on the coastal town. At first presented as a beach development measure, it quickly became clear that the bill's true aim was to spur oil development. The Huntington Beach city attorney declared that modern devices could prevent pollution and that the field's low gas pressure would prevent dangerous gushers. He attacked his opponents for being "despoilers" of Standard Oil, for protecting its exclusive access to the tideland oil pool from the beach bluff, and for generally bolstering its dominance of the California industry. The Santa Ana City Council, the Orange County Board of Supervisors, and the Los Angeles County Board of Supervisors passed resolutions urging Governor James Rolph, who succeeded Clement C. Young in 1930, to approve the bill.38 In this new political alignment, local governments saw themselves protecting the public interest against a state legislature that was under the sway of Standard Oil and was keeping revenues out of public coffers.

The public and private records of these proceedings display the opaque combinations of interests and principles in play. In private meetings in the state capitol, lawyers and lobbyists for Standard Oil of California quietly opposed the bill.39 William Randolph Hearst, said to be protecting his immense coastline estate as well as carrying the battle for Standard Oil, publicly denounced coastal oil development.40 At a contentious June hearing in Sacramento, private property owners along the beaches near Huntington Beach protested coastal oil drilling. Governor Rolph concluded the June hearing by warning against the "evil of oil drilling" on the tidelands. "I am opposed to drilling for oil on the beaches and I think the people of the entire State are opposed to it," Rolph said.41 Unlike Clement C. Young or Ulysses S. Webb, "Sunny Jim" Rolph had no clear track record favoring conservation and beach protection. Rolph had been in banking and shipping before he became San Francisco's mayor for the nineteen years prior to his election as governor in 1930. Where Young was a staunch moralistic "dry," Rolph favored an end to prohibition. Rumors circulated that Standard Oil paid for Rolph's veto. What is known is that the mayor and city attorney of Huntington Beach and Standard Oil's Sacramento lobbyist milled around the governor's office until midnight on June 19, the last day on which Rolph could sign the bill, and that the governor vetoed it.42 The coalition of those opposed to tidelands drilling had prevailed.

Governor Rolph's alliance with Standard Oil and the Southern California property owners forced the independent oil operators and their local political allies to go directly to California voters with a ballot referendum, hoping to strike down the legal obstacles to drilling the Huntington Beach oil lands. Into a routine 1931 description of the powers of state officers, a legislator had surreptitiously slipped a provision empowering the director of finance to lease state tidelands. When the provision was discovered the following day, the legislature immediately passed an amendment to remove it, thereby affirming once again the 1929 ban on tidelands leasing. Now Huntington Beach politicians and oil operators sought to reinstate that provision by a referendum vote. In a ballot information pamphlet circulated to voters, the mayor and city attorney of Huntington Beach denounced Standard Oil by implication and appealed in blunt terms to the public's interest in tax revenue and fairness:

If the State could lease the land from which this oil is being drained, millions of dollars would start flowing into the State Treasury. . . .

Private interests are opposed to the leasing of such State-owned land. They want to take oil from under State lands without paying the State anything for it.
These private interests are trying to create a smoke screen by yelling “protect our beaches.” These same companies are now producing millions of barrels of oil within a stone’s throw of such state-owned land. Where this has occurred the beach has already been ruined.45

But California voters rejected these appeals in May 1932 by a vote of 59 to 41 percent, embracing instead the counterargument that “the beaches should be preserved for the people of the State.”

Determined because of the money at stake, the Huntington Beach City Council tried again in November with Proposition 11, a proposed constitutional amendment to transfer the tidelands to the city for development purposes. At the same time, the Huntington Beach City Council also negotiated a number of leases with local operators whose successful wells would offset Standard Oil’s domination of the tidelands field. The council granted a thirty-year oceanfront lease to the Pacific Exploration Company, which promised to spend $2 million to offset seventeen upland Standard Oil Company wells by building fourteen piers and drilling fifteen new offshore wells. Leading Pacific Exploration were several prominent local oil operators, including Roy Maggart, whose previous tidelands permit application had been rejected by the courts.44 Maggart and his colleagues sought to reverse their legal defeat through further political maneuvering. The Huntington Beach City Council also worked with other rejected permit applicants to try to offset Standard Oil’s upland wells from the onshore side. To get as close as possible to Standard’s strip of land on the bluff above the beach, the city attempted to lease part of the coastal highway to the local Carr Oil Company. Like Roy Maggart, the Carr Oil Company’s president, Arthur Carr, had recently had his permit application rejected in state court.45 Carr proposed to dig large underground pits beneath the highway, to place all the producing machinery there once the wells had been drilled, and then to reinstate the highway above the pumping wells. The following spring, the city council similarly tried to give the Signal Oil and Gas Company access to twenty-four-foot strips down the center of beachfront streets in exchange for a 20 percent royalty. Tens of millions of dollars rode on the validity of the leases and the city’s control of the tidelands field. The city council demonstrated its determination to open the offshore field to local oil operators through its embrace of these unusual, and unsuccessful, highway deals.46

Local business and political leaders split on these efforts to develop Huntington Beach’s coastal oil. On the day that the city council granted the tidelands lease to the Pacific Oil Company, the Huntington Beach Chamber of Commerce adopted a resolution protesting the plan. The small businesses represented by the chamber wanted the city to control the coast for the benefit of recreational and commercial development, not oil.47 In the ballot arguments presented to voters, the Huntington Beach Chamber of Commerce and the local Beach Protective Association called the “spoilation of our beaches” a “tragic public sacrifice.” Other Southern California civic associations and business groups also organized a Save the Beaches movement to mobilize opposition statewide. In nearby Los Angeles, the city’s chamber of commerce declared that tidelands drilling would “desecrate the beaches,” potentially ruining the coast from San Pedro to San Diego.48

Governor Rolph and other statewide organizations strongly allied themselves with the beach protection groups. Before a gathering of the California Real Estate Association, Rolph blamed the oil industry and its precipitously low prices for the general economic demoralization of the state. “The oil industry has already prostituted itself,” Rolph said. “Let us not allow it to prostitute our beaches.” Following Rolph’s address, the California Real Estate Association joined the attack, arguing that coastal drilling “tends to destroy real estate values” and pollute beaches so that they could not be used for recreation. The association denounced this “opening wedge” that would extend oil drilling up and down the California coast.49 The Mineral Resources Section of San Francisco’s elite Commonwealth Club similarly opposed the November ballot proposition. In light of the general state of overproduction in the petroleum industry and considerable reserves available in the state’s other oil fields, the Commonwealth group urged the state to conserve the Huntington Beach petroleum. San Francisco mayor Angelo Rossi and the San Francisco Board of Supervisors agreed, and urged voters to reject the coastal drilling proposition.50

These appeals to protect coastal beaches from the “spoilers and oilers” resonated with California voters, who defeated the November 1932 proposition, again by a 60 to 40 percent vote.51 Once more, the broad beach protection alliance had denied oil operators access to the Huntington Beach offshore field. Despite enormous political pressure on the state government to allow tidelands drilling at Huntington Beach, the 1921 and 1929 prohibitions held firm, specifically barring prospecting leases on coastal lands fronting municipalities and more generally blocking new tidelands leases. The Huntington Beach tidelands field was to remain untapped except for drainage by Standard Oil Company wells on the beach bluff. But local oil operators would not let the oil lie.
Frustrated on the political front, Huntington Beach oil operators illegally bypassed state restrictions.32 Recent technological advances enabled oil operators to better control their drills underground. Pioneering operators located in Huntington Beach’s town-lot field, for example, could tilt their drilling shafts toward the Pacific, sending diagonal oil wells out through Standard Oil’s beach bluff property into the tidelands oil pool. The technology intensified the controversy around coastal drilling restrictions by giving small operators the capability to bend regulations in surprising ways. W.E. McCasin had confounded expectations in 1931 when he developed a commercial well seventy-seven hundred feet deep, three blocks from the ocean. A closely watched test well by Superior Oil several months earlier had produced only water, confirming for many that at Huntington Beach, unlike Signal Hill, no deep oil zone would replace the rapidly tapped higher oil strata. But McCasin’s well now suggested otherwise. Other Huntington Beach operators eagerly began to redrill and deepen old wells in the summer of 1932. Statistics indicate a steady decline in Huntington Beach production in the late 1920s and early 1930s and then a sharp increase in 1932: the operators had tapped a new source of oil. In the summer of 1933, Huntington Beach oil operators regularly reported major new producing wells, frequently drilled with the same derricks situated above diminished older wells. Wells that had been only “small strippers” from 1926 to 1930, and then abandoned, now produced a princely one thousand barrels per day.

Huntington Beach was enjoying a “real oil boom”—one that the combination of geology and California leasing laws did not allow for.33 A fault running along the coast sharply separated the declining offshore field from the tidelands pool, nearly preventing drainage into older Huntington Beach wells. In order to produce from the offshore pool, a well had to breach the fault. But except for Standard Oil’s wells perched directly above the fault on the beach bluff, and a lone permit north of the city limits that had been granted under Boone, no oil company could legally do so. The mineral leasing act of 1921 specifically prohibited the leasing of tidelands fronting on an incorporated municipality. The 1929 legislative changes further barred any tidal levees for the entire California coast.

The large sums of money generated by the drillings that defied restrictions impressed onlookers as much as did the environmental threat or the sheer illegality of the activity. Reports that operators were slanting wells in the summer of 1933 led William Kingsbury, now the chief of the new Division of State Lands in the Department of Finance, to send Arthur Alexander, a state petroleum production inspector, to investigate. Alexander rented binoculars from a local store and set up, at some distance away, to survey drilling activity. In subsequent litigation, he described how at 4 A.M. on August 1, 1933, he observed the Terro Oil Company preparing to drill a well in the town-lot area. At that time, the drilling rig was open so that “all operations could be clearly observed from the street.” But upon his return at 10 A.M., drilling had begun and “the rig was carefully covered for approximately eighteen feet from the ground.” Even so, above thecovered part of the rig Alexander could see that the drill pointed toward the tidelands. During the next two days, Alexander saw drill pipe placed and removed at an angle from the well. A veteran oil well driller named C.M. Potter confirmed Alexander’s observations, adding in an affidavit that he had “never seen or heard of” a deliberately angled well before working at Huntington Beach. Potter recalled that the operators had taken “unusual precautions . . . to conceal operations by carefully enclosing the derricks.”34

When the Huntington Beach story burst into full public view, the scandal focused on the economic losses to state coffers, rather than beach protection, since the new wells were not on the beach. “In the face of some denials and diplomatic silence elsewhere,” the San Francisco Chronicle reported in September 1933, “extreme perturbation exists in high State offices over oil drilling conditions at Huntington Beach.” Oil operators had extracted thousands of barrels per day from slanted wells. The state’s losses, which ran to millions, continued “to pile up.” Attorney General Webb vowed to restrain illegal production and to seek damages for the drainage of state oil.35 His office filed suits in Orange County Superior Court seeking court permission to determine whether operators had drilled diagonal shafts to extract oil from state-owned tidelands.

Governor Rolph’s director of finance, Rolland Vandegrift, initially joined this push to crack down on trespassers. Born in Pennsylvania in 1893, Vandegrift had served as a military officer in World War I and then moved to California, where he studied and taught California history and governmental affairs. A California booster who collected old California branding irons and early American pressed glass, Vandegrift bought a sixty-acre ranch south of Ventura in the 1920s. Around that
time, Vandegrift left his academic career to enter the political fray as director of research for the California Taxation Improvement Association and then the California Taxpayer's Association. Attracted to Vandegrift's reputation as a budget hawk and antiax conservative, Governor Rolph had appointed him as finance director.26

In response to growing publicity about the Huntington Beach situation, Vandegrift announced that the state would use "every legal means" to prosecute trespassers and recoup lost revenues.27 Vandegrift also asked the commissioner of corporations, Harry Daugherty, to scrutinize permit applications carefully to protect investors from buying shares of companies producing oil that "belongs to the State of California."28 Vandegrift called the state's oil litigation "the biggest suit in the United States," involving "$300,000,000 worth of oil." He said in early November 1933, "The interested operators are moving heaven and earth to stop us."29

As in the controversy over California's federal oil lands, however, Vandegrift's early positioning and brazen defiance soon turned to preferential legal treatment and political acquiescence. Vandegrift reversed his public position twelve days after his bold threats, announcing that California would settle with the operators who had begun drilling before November 13. His policy shift reflected heavy lobbying by associates of Governor Rolph and legislative leaders to persuade Vandegrift to settle. Trespassing operators formed the Huntington Beach Townsite Association and hired J.M. Jefferson, a lobbyist for small loan interests and a major supporter of Orange County assemblyman and speaker Edward Craig. Subsequently, any oil operators hoping to settle with the state government were forced to join the Townsite Association as a precondition. Another lobbyist, supposedly close to Governor Rolph and his son, allegedly contracted with Huntington Beach producers "to receive $100,000 for securing a contract with the State on a five or six percent royalty basis."30

Although eager to satisfy these powerful economic interests by letting them extract the state's oil, the Rolph administration still hungrily eyed oil royalties from the Huntington Beach field. California was mired in the Great Depression and chronically short of revenue. A major fight over how to deal with California's fiscal crisis had roiled the statehouse during the previous June. Legislators imposed a new sales tax, slashed property taxes, and debated a new income tax and the shift of highway revenues from road construction and maintenance to the general fund. Finance Director Vandegrift looked to royalties from the Huntington Beach trespassers to help make up the state budget shortfall. This financial imperative did not dominate Rolph administration policy. Vandegrift agreed to low royalty arrangements that benefited the Huntington Beach oil operators, who were lobbying the administration heavily. But his eagerness to obtain some royalties from the Huntington Beach field foreshadowed the fiscal arguments that liberal Democratic and Republican lawmakers would make, beginning in 1935, on behalf of much tougher royalty arrangements.31

Uncertain legal authority and the steadfast opposition of Attorney General Webb hampered Rolph and Vandegrift's plans to settle with the oil operators. The legal dispute centered on whether California could grant easements and arrange to get royalties from slanted wells that were illegal given the continuing ban on beach and offshore drilling. Webb contended that it could not. The state legislature had authorized agreements when adjacent wells drained oil from a common oil pool, he thought, but not when illegal wells tapped oil under state lands.32 The Huntington Beach oil operators worked closely with Vandegrift to challenge Webb's administrative ruling with a test case in Sacramento Superior Court. With Vandegrift's blessing, James B. Utt, an assemblyman from Orange County, sued Vandegrift to force him to settle with the oil operators. Judge Malcolm Glenn, who previously had ruled against Webb and Kingsbury's efforts to block coastal drilling, now concluded that the dire situation at Huntington Beach threatened California's ability to manage its petroleum resources. Without addressing Webb's concerns about accommodating illegal trespassers, Judge Glenn authorized Vandegrift to settle with the oil operators.33

Ruling in hand, Vandegrift proposed a royalty schedule for operators tapping the Huntington Beach offshore field. Under a sliding scale based on price and output, wells producing fifty barrels per day at a price of $5.50 per barrel would pay the minimum royalty of 5 percent. Those producing a high three thousand barrels per day at the unlikely price of $1.75 per barrel would pay a maximum royalty of 66 percent. Vandegrift predicted average royalties of 75 percent and annual net state revenues of around $7 million. He called the schedule "fair" and the state's "last word."34

California then sued to force unwilling Huntington Beach trespassers to sign the royalty agreements. The evidence was overwhelming—of ficials of the Termo Oil Company confessed—and the cases proceeded smoothly, resulting in royalty settlements.35 When some operators resisted royalty agreements, Vandegrift threatened "hard-boiled tactics." He
warned that trespassers who did not sign agreements by April 15 would face suits to close their wells and transfer all oil profits to the state. By March 1934, the State Lands Division reported that California had collected $340,000 from operators. At the same time, however, Vandegrift anticipated that low oil prices and a statewide program to lower oil production would halve anticipated royalties, yielding only $500,000 per year.\textsuperscript{66}

Orange County politicians urged the state government to leave the local oil operators alone. Lawyers for the city of Huntington Beach sued to stop California from pursuing its litigation, complaining that it undermined the local property tax base. The city argued that local operators were entitled to take the tidelands oil. Oil in the tideland pool was simply “free to anyone who can reduce it to possession, provided he commences to drill his well on his own land.”\textsuperscript{67} The real villain, Huntington Beach argued, was Standard Oil, which stood to benefit most from the state’s litigation. As early as 1927, the lawyers reminded the superior court, the Standard Oil Bulletin had printed pictures of company wells “actually drilled on the Beach.” Stopping the local oil operators would leave Standard Oil all the oil, with no obligation to compensate the state.\textsuperscript{68} The strategy of cracking down on the local oil operators thus was vulnerable to the charge of pandering to Standard Oil.

Local politicians tried to draw attention to California’s dealings with Standard Oil in order to shift the focus away from local oil operators. Orange County assemblyman and speaker Edward Craig demanded that Vandegrift investigate Standard Oil to determine whether its wells also tapped the state pool. And in the state’s suit against the Wilshire Oil Company, Huntington Beach filed a cross-complaint accusing Standard Oil of conspiring with the state to force royalty agreements on other companies in exchange for not signing one itself. Huntington Beach claimed that state officials had known for years that Standard and others had pumped state oil from coastal wells, extracting more than 6 million barrels without compensating the state. The city council’s aggressive counterattack, which sought to force the state to back away from its suits, dovetailed with the personal interest of at least one of its members. The city councilman John Marion’s Huntington Beach Oil Company faced suits over two wells that demanded $300,000 in damages.\textsuperscript{69}

California’s coupling of generous royalty terms with the threat of litigation persuaded the final independent operator, the W.K. Company of Los Angeles—the sixty-sixth company the state had sued—to settle in December 1934. Webb Shadle, attorney for the Division of State Lands, estimated that the agreements together would yield about $100,000 a month. The state also would receive an additional $850,000 for oil and gas extracted earlier by the trespassing companies.\textsuperscript{70} A calculation done several years later indicated that the royalties averaged a little below 12 percent, above the 5 percent minimum prospecting royalty rate stipulated in the state mineral leasing act but far below the 30 to 40 percent royalties proposed in the legislature soon afterward.\textsuperscript{71}

Even as the independent oil operators paid the state, their complaints drew Standard Oil into the controversy. An investigation of connections between the government and Standard Oil found no collusion but suggested that several beach-bluff wells did drain from the tidelands. Arlin Stockburger, Vandegrift’s successor in the Department of Finance, moved quickly to make royalty arrangements with Standard Oil on the same terms as with the independent operators at Huntington Beach. The oil companies “should all be treated alike,” Stockburger maintained, using egalitarian rhetoric to protect Standard Oil’s privileged position.\textsuperscript{72}

Being treated alike meant, at bottom, paying the state little. If California had been a private landowner, it never would have allowed the trespassers to keep most of what they stole. The state’s capitation underscored the mix of politics and law that shaped the management of publicly owned natural resources. The state gave the companies a sweetheart deal despite political and legal factors that weighed against accommodation. No industry consensus supported the companies that slanted their wells under the tidelands. Many members of the California oil industry vocally disapproved. Proposed revisions to an August 1933 document on regulating oil production in California, for example, distanced statewide oil industry committees from the unethical behavior of the Huntington Beach operators. One key subsection underscored the fundamental point that “subsurface equities are coincident in extent with surface ownerships and have the same inalienable and inviolable rights as property.” In other words, diagonal drilling violated clear property rights and constituted unlawful trespass. Another subsection specifically attacked the slanted drilling practices at Huntington Beach, declaring that the “abnormal and unconventional development of any field such as is now occurring in the Huntington Beach ocean front area ... is so contrary to any conceivable code of ethics or regulation as to merit the utmost condemnation.”\textsuperscript{73}
The California courts similarly rejected slanted drilling. In contemporaneous cases involving private parties, state courts protected landowners and lessees from trespassers who penetrated their land through slanted wells. When landowners filed suit to stop slanted-well trespass, they asked for monetary damages equal to the quantity of oil extracted from beneath their lands. Landowners like the Union Oil Company and Pacific Western Oil Company prevailed on virtually all accounts. The case against slanted drilling, in short, was an easy one to win in court.  

The courts' willingness to protect the rights of private landowners strongly indicates that the state government easily could have won injunctions to close the Huntington Beach slanted wells and collect damages equal to the value of the oil extracted. Nathan Newby, a losing defendant in a Union Oil case, complained bitterly that Standard Oil had not been held to the same 100 percent damages standard. Attorney General Ulysses S. Webb had brought criminal charges against the company that trespassed on Pacific Western's property. Yet Rolland Vandegrift sued Huntington Beach trespassers for full damages and an injunction only when they refused to pay low royalties, and he dropped the suits as soon as he won settlements.

Why did the Rolph administration settle for such low royalties? Vandegrift and Governor Rolph tread a fine line with their Huntington Beach policy. On the one hand, they favored the politically powerful operators and their political contributions, and wanted the state budget boost that oil royalties, though low, would bring. On the other hand, oil operators elsewhere in the state, as well as public officials, pointed out that Huntington Beach crude was contributing to the overproduction and low oil prices that plagued the state oil industry during the 1930s. Huntington Beach operators were among the "chief offenders" in disregarding state oil quotas, complained Ralph Lloyd, the head of the state conservation committee that sought to reduce output and boost prices. Vandegrift also could not completely ignore the 1921 prohibition on tidelands leasing near municipalities and the 1929 law barring leases along the coast. To allow some production, but not too much, Vandegrift struck deals with operators who had begun drilling wells illegally by November 1933. But Vandegrift would not negotiate with those who began trying to drill beneath the tidelands only after he had signaled, through the settlements, that it could be legal to do so. Vandegrift's solution rewarded oil operators guilty of trespass and theft while freezing out those who obeyed the law.

CONCLUSION

California's struggle over coastal oil drilling in the 1920s and early 1930s underscored the increasingly uneasy relationship between coastal extractive industry and the booming tourist, recreational, and residential economy. The controversy also deepened the conflict over who would reap the economic benefit of California's rich coastal oil fields—local oil operators, Standard Oil, or the state government—and when that development would occur. Surveyor General William Kingsbury and Attorney General Ulysses S. Webb favored beach protection and feared that widespread coastal drilling would imperil the recreational use of the beaches, the fishing industry, and other businesses dependent on the coast. Yet the California Supreme Court's 1929 decision in Boone v. Kingsbury scuttled legal and political efforts to prevent coastal drilling in the Santa Barbara region by denying discretionary power to the surveyor general to withhold state drilling permits from applicants.

Beach protection advocates in the legislature, spurred by coastal real estate developers and small business groups, needed only one month to overcome the court's Boone ruling. They passed an emergency moratorium on new coastal oil permits and followed it several months later with an outright ban. The popular majority signaled agreement by rejecting ballot referenda that would have opened the coast to drilling, though industry infighting and extravagant and misleading political campaigns also influenced the result. Still, the clear legislative mandate of 1929 failed to protect the beaches. The new legislation did not take away drilling permits that the California Supreme Court had already approved. As a result, Boone set off a coastal drilling spree in the Santa Barbara region in 1929 and 1930.

In the Los Angeles region, the 1929 statewide ban preceded a similar tidelands oil rush. Once rich coastal oil pools were discovered there, oil operators maneuvered to circumvent the law. At Venice, the judicial decision in Stone v. Los Angeles blocked drilling in Santa Monica Bay. At Huntington Beach, small oil companies and local government officials, who fumed as Standard Oil quietly established lucrative wells on the beach bluff, first fought in the state legislature and on the ballot to open the tidelands. Next they tried to compete with Standard's operations from the upland side by proposing to bury oil wells beneath the coastal highway. Rebuffed on these fronts, the independent oil operators finally tilted their drills toward the ocean and drained the state's valuable petroleum through slanted wells. These slanted wells violated
industry practice, legal norms, and the 1929 drilling ban. Yet Governor James Rolph's administration neither enforced the ban to protect the beach nor aggressively asserted the state's financial interest by demanding high royalties. Instead, the state administration gave the trespassers most of what they wanted in exchange for a small cut.

The outcome of these struggles to develop California's coastal oil was not determined by the market, but instead by fierce political struggle among competing interests. For a time, coastal oil producers found themselves at a surprising disadvantage. The governor's office under Clement C. Young sought to prevent coastal oil development; the legislature banned it; and voters repeatedly rejected it. And yet the producers succeeded in opening much of the Southern California coast to oil development in the late 1920s and early 1930s. Judges who supported the oil industry for ideological reasons prevented Governor Young from protecting the Santa Barbara and Ventura coast. Then Governor Rolph, whose administration also publicly opposed coastal drilling, embraced an extraordinary backroom deal to transfer publicly owned natural resources at Huntington Beach to trespassing private companies. Slanted drilling from the uplands did largely protect the coastal waters from pollution. But the trespassing and royalty agreements did little to capture revenue for the state government or to speed Huntington Beach's transition to its future beach economy.

Governor James Rolph's bid to resolve the Huntington Beach uproar through low-royalty settlements with trespassing oil operators ran aground as California state politics changed during the Great Depression. Liberal Democrats elected to the state legislature in 1934 used the tidelands oil controversy to attack the dominant Republican Party. To these Democratic politicians, the controversy symbolized the Republican administration's eagerness to transfer millions of dollars of public natural resources to private economic interests, including the Standard Oil Company. Between 1934 and 1938, state politicians battled repeatedly over tidelands oil legislation. State senator Culbert Olson, the California Democratic Party chairman, seized on the oil issue more than anyone else. Olson initiated a lengthy investigation of Huntington Beach tidelands drilling that helped position him for the 1938 gubernatorial race. He and his allies drew the debate over coastal oil into the complex politics of the state budget deficits of the 1930s. They underscored how the management of public natural resources was intertwined with questions of public finance. In general the Democrats did not oppose coastal oil development, advocating instead greater state control and dramatically higher state royalties. They also joined the fight to break Standard Oil's monopoly at Huntington Beach and, with explicit comparisons to the Teapot Dome oil scandal, to expose insider dealing and corruption related to California's coastal petroleum lands.
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These fierce struggles culminated in the passage of the State Lands Act of 1938 and, later that year, in the election of Culbert Olson as governor. The State Lands Act resolved tensions between industrial and recreational use of the coast by tying beaches and oil together. Coastal oil royalties would fund the rapid expansion of California’s cash-strapped beach and park system. Drilling on state-owned lands would proceed on uplands or filled tidelands only. The legislature also opened state land management to greater scrutiny by creating a new State Lands Commission. These developments illustrate the ways in which California’s petroleum politics evolved largely independent of the federal government. The state courts, legislature, and executive branch, as well as private economic interests, often played roles familiar to students of federal politics. But political lobbies like coastal real estate and small business groups had a voice at the state level that they lacked in Congress. In addition, mechanisms of state politics like the initiative and referendum put California’s distinct imprint on the conflict over coastal development, particularly by strengthening the position of smaller, independent oil operators.

**THE EPIC DEMOCRATS AND CALIFORNIA’S NEW PETROLEUM POLITICS**

Increasing unemployment and poverty, growing numbers of business failures and real estate foreclosures, and declining state revenues drew California’s tidelands oil conflict into the broader tumult of depression-era politics in the state. After James Rolph died in office in June 1934, Lieutenant Governor Frank Merriam succeeded him as governor. A veteran of Iowa state politics from the 1890s, in 1930 the forty-five-year-old Merriam had moved to Long Beach, California, where he became a business executive for the Long Beach Press and launched a second political career. Elected to the California State Assembly for the first of five terms in 1916, Merriam went on to serve as speaker of the assembly, state senator, state party chair, and then lieutenant governor. Now in the November 1934 gubernatorial election, Merriam, a stalwart Republican closely tied to the right wing of the party, faced off against his ideological opposite, the Democratic candidate Upton Sinclair. Sinclair was a popular novelist and social crusader; his 1906 book, *The Jungle*, drew widespread attention to poor conditions in Chicago meatpacking and helped lead to the passage of the national Pure Food and Drug Act. Sinclair had exposed the greed and excitement of the Southern California oil boom in his best-selling 1926 novel, *Oil!* A longtime socialist, Sinclair put the radical End Poverty in California (EPIC) platform at the center of his 1934 campaign.2 After an ugly media campaign, in which many Democrats defected to support Merriam or the third-party candidate Raymond Haight, Merriam retained the governor’s house, bucking a rising Democratic tide across the nation.

The success of many liberal Democrats who shared the ticket with Sinclair, however, tempered Merriam’s victory. They reshaped California’s political landscape, which the Republican Party had long dominated. Culbert Olson, Sinclair’s candidate for chair of the state Democratic Party, was elected state senator from Los Angeles and became a prominent statewide leader, rallying progressive forces in the assembly and senate.3 During the 1935 legislative session, Olson and others fought the Merriam administration on many issues, including Huntington Beach tidelands oil drilling. The new assembly bloc of twenty-six EPIC Democrats and two liberal Republicans denounced the state budget at the end of May 1935 and delayed its passage. As the Sacramento Union reported, the politicians “took their crusade for revenue and social reform to a state-wide radio audience,” with state senator Culbert Olson “lashing Governor Merriam as ‘subservient to the reactionary minority.’” The EPIC bloc demanded that California adjust its system of public finance to do more for the poor and working class. California’s tidelands oil problem became thoroughly intertwined with these conflicts over state finance. The state had sharply reduced property taxes and instituted a 2.5 percent sales tax in the summer of 1933. Liberal Democrats and Republicans sought in 1935 to reduce the sales tax, raise corporate and inheritance taxes, and institute a progressive income tax and old age pensions. Most relevant to the oil industry, they urged measures to protect natural resources and to capture their value more effectively through state revenue and other mineral production.4 “The problem of taxation,” Olson declared, was the “most vital and serious” issue facing the new legislature. With millions of dollars in revenue at stake at Huntington Beach and elsewhere along the coast, fierce legislative battles ensued over California’s leasing policy.

In light of the economic depression and an increasingly anticorporate mood in California and the nation, the Rolph and Merriam administration’s generous settlements with Huntington Beach trespassers and proposed deal with Standard Oil became less tenable. California’s “unbelievably wealthy” oil fields belonged to the people, declared the Democratic assembly leader William Mosely Jones. Jones thought
Huntington Beach alone could yield $25 million annually for the state, and that petroleum royalties could make California “almost free of taxation.” Yet the former finance director Rolland Vandegrift said the state would earn only five hundred thousand dollars per year over the next eighteen years under the easement agreements. Unhappy with how the Republican administration was handling the coastal oil situation, Assemblyman Jones and Senator Olson initiated separate legislative committees to investigate California’s coastal oil policies. Although the committees were stacked against them by the Republican leadership of the assembly and senate, Jones and Olson used their investigations to focus attention on the tidelands oil problem and to frame the political dispute in the spring of 1935.

The assembly committee displayed the mix of idealism and crass maneuvering that characterized and complicated the California oil issue. Jones and Ben Rosenthal, two liberal Democratic assemblymen from Los Angeles, displayed their political commitment to raise revenues from wealthy businesses to fund state government, as well as a less clearly idealistic determination to help independent oil companies get a piece of Standard Oil’s pie. Their argument that California should lease its tidelands at competitive royalty rates closely matched the position of the Independent Petroleum Association of California (IPA). At the committee’s hearings, William J. Kemnitzer, a technical advisor to the IPA, had criticized the “lenient” royalty agreements at Huntington Beach and derided the proposed settlement with Standard Oil as a “pitance.” Kemnitzer, who later would write a book attacking the “rebirth of monopoly” in the petroleum industry, had called the beach protection movement an effort to “save[] the beaches for the Standard Oil Company.” “With modern practices,” Kemnitzer had insisted, “it is possible to build beautiful islands or piers on which the wells could be located and it would not interfere with the bathing on the beaches.” In their report to the assembly, Jones and Rosenthal adopted Kemnitzer’s reasoning and recommended that California pursue beach drilling to develop the Huntington Beach pool. Whereas the Democratic position combined revenue generation with antimonopoly advocacy for independent operators, the Republican position mixed corporate influence by Standard Oil with civic concern for coastal protection and real estate development. The complex alliances on each side make it hard to identify either one as clearly progressive, since economic concern for smaller businesses and economic relief for citizens were pitched against an alliance between corporate interests and environmental conservationists. The three Republican committee members sided with the Merriam administration, Standard Oil, and many Southern California civic and municipal organizations. They urged a ban on direct beach drilling and reliance instead on upland, slanted drilling. “The attractive beaches and beach resorts throughout the state are a source of considerable revenue,” the legislators wrote, “in addition to being of inestimable pleasure and aesthetic value.”

The rival political forces battled over royalty rates, state control, beach drilling, and competitive leasing through the tumultuous 1935 legislative session. The complex and often arcane political maneuvering reveals how the California legislature—in writing bills and amendments as well as in backroom dealing—played its pivotal role in determining if, when, and how tidelands oil would go to market. A 1935 bill authored by the Humboldt County Republican Michael Burns to allow slanted drilling into tideland oil pools became a focal point for widely divergent views on natural resource development, with direct implications for how much oil operators would pay for oil and who would get it. Low royalty rates favored the companies, since they would pay less to the state for its oil; conversely, higher minimum royalty rates and competitive bidding among companies for leases would increase the state’s share, raise the cost of oil to the companies, and enable smaller companies to compete for the field.

Legislators struggled to influence the Burns bill as it passed through the assembly and senate, and then back to the assembly. More conservative Republicans tended to favor giving the oil away at little cost, with few provisions to open the field to others beyond Standard Oil; liberal Republicans and most Democrats urged greater payments to the state treasury and provisions that gave smaller companies a chance to compete for leases. The assembly speaker and Orange County Republican Edward Craig first amended the bill to start royalties at 5 percent, blocking a rival proposal to require 12.5 percent royalties in unproven territory and 16.5 percent in proven territory. Craig argued that higher royalties would treat new state lessees unfairly, particularly Standard Oil, by charging them more than the Huntington Beach trespassers for access to the same oil pool. Critics like Assemblyman Frank Wright, a Republican from Los Angeles County, saw no reason to stick by previous royalty arrangements, adding that the Burns bill would give Standard Oil “a virtual monopoly” at Huntington Beach. Wright and others temporarily revised the bill to include competitive bidding on slanted wells, which would yield higher royalties and thus more income.
for the state, with greater opportunities for independent oil operators. Ellis E. Patterson, a liberal Republican from Monterey soon to switch to the Democratic Party, and Democrat John Gee Clark of Los Angeles went much further, urging the state to condemn Standard Oil's land and "go into the oil business." Patterson said bluntly, "The people should own and develop their own natural resources. I am confident that the state could make enough money with her oil resources to abolish all state taxes." The San Francisco Republican William Hornblower concurred: "The oil belongs to all of us." The conservative Republican majority controlled the final bill, however, stripping the competitive bidding provisions and providing upland owners like Standard Oil with privileged access to tidelands oil pools. As a compromise with critics, the bill provided for a minimum royalty of 16.67 percent.

As the Burns bill advanced to Governor Merriam for his signature, legislators allied with the smaller independent oil companies, as well as with the EPIC Democrats, continued to complain that the bill would grant Standard Oil unfair control of the Huntington Beach field. They accused Standard Oil of "steam rolling" the bill through the legislature. "If this pool . . . is to be preserved for the benefit of the people instead of the benefit of the private interests," Olson said, California should receive "at least 50 per cent of the total production" in royalties. Rumors of corruption circulated the capitol as explanations for the rapid switching of several votes that pushed the measure through. "Apparently there was nothing in writing," the Sacramento Bee reported, "but gossip was common around the corridors and Capitol grounds that from $50,000 to $200,000 changed hands." To test the political winds, Governor Merriam held hearings on the Burns bill in Sacramento, which opened up "an ancient feud of California politics and industry," according to the Sacramento Bee. Standing just feet from Merriam, William J. Kemnitzer, technical advisor to the Independent Petroleum Association, threatened that independent oil companies would force a referendum on the bill and try to recall the governor. Orange County supervisor Nathaniel West, allied with the IPA, insisted that the bill must permit competitive bidding. Royalties at Huntington Beach should reach 60 percent, West said. Giving the oil to Standard Oil for less hurt the state and unfairly excluded independent operators willing to pay more for the privilege and profits. Fearful of this political opposition, Merriam vetoed the Burns bill and returned the coastal oil conflict to where it stood at the outset of the legislative session, with no new drilling authorized for Huntington Beach.

The fight over the Burns bill was just one sally in the extended legislative struggle over tidelands oil. Culbert Olson's senate committee began a second investigation of the Huntington Beach situation later that July. Olson's efforts to get a reenactment of California's tidelands oil holdings and economic losses underscored how hard it was to challenge a system geared toward protecting industry profits and weakening state management capacity. A tall, trim white-haired man of fifty-nine when elected to the California State Senate from Los Angeles in 1934, Olson experienced a rapid rise in California politics that constituted a political rebirth. A lifelong progressive Democrat, Olson had served previously in the Utah State Senate from 1916 to 1920, where he chaired the judiciary committee and sponsored progressive legislation on a range of labor and public utility issues. After failing to get the Democratic nomination for the U.S. Senate in 1920, Olson moved to Los Angeles and set up a law office. Except for his work on behalf of Robert M. La Follette's third-party candidacy in 1924, Olson largely dropped out of politics. Then in the early 1930s, Olson helped organize the Los Angeles Democratic Club and pushed the Roosevelt ticket in the 1932 election. As president of the Democratic Club in 1934, Olson strongly supported the writer Upton Sinclair's controversial candidacy for governor. Although he did not officially join Sinclair's EPIC movement, in 1934 Olson became chairman of the state Democratic Party with Sinclair's support.

The idealistic and stubborn Olson sought to reframe the oil lands debate in terms of getting the state as much as possible from its natural resources. Olson thought drilling technologies were adequate to protect the coastal waters and instead prioritized raising revenue through higher royalty rates to fund urgent governmental initiatives. He thought California should capture 50 percent of future oil production in Huntington Beach, as well as collect proper payment for past production by trespassers. Protecting the public's financial interest in petroleum resources, however, proved an arduous task that particularly illustrated how control of information could determine public conflicts over resource allocation. To establish a factual basis for policy making at Huntington Beach, Olson wanted to examine the location and direction of wells drilled along the tidelands and to determine how much oil and gas they produced. He also sought an accurate survey to determine the boundary line between the state's land and privately owned land. Neither the contingency fund of the committee nor the state senate as a whole could cover the twenty-thousand-dollar cost of surveying wells and auditing the state's oil royalty accounts, even though several million dollars in oil royalties were at
state. In August 1935, after Governor Merriam promised that the executive branch would pay the well survey costs, Olson's senate committee contracted with Alexander Anderson, Incorporated, the leading well-surveying company, to examine many of the Huntington Beach wells. Shortly afterward, however, Merriam withdrew his offer. Olson learned that the director of finance and the Standard Oil Company had decided that the oil company would employ Alexander Anderson instead, despite its multimillion-dollar conflict-of-interest.\textsuperscript{20}

The backroom arrangement between Standard Oil and the Merriam administration blocked Olson's committee from getting the technical information it sought on Huntington Beach drilling, as he had feared would happen. In turn, the lack of information meant that the committee could not lay a firm foundation for claiming millions in royalties from Standard Oil's beach-bluff wells and other trespassing operations. When senate committee members asked Alexander Anderson about his surveys of the Standard Oil wells, Anderson stonewalled. Anderson had in hand records on four wells he had surveyed and fourteen more whose direction he had determined. But he called it a "private order" and refused even to tell the committee which wells he had examined.\textsuperscript{24} Olson struggled to access well survey data for another entire year. His opponents on the senate committee continued to thwart him, as did California's Division of Oil and Gas. Emile Huegeiman, in charge of the division's Los Angeles office, refused to provide production records and surveys of the key Huntington Beach oil wells.\textsuperscript{22} Confidentiality restrictions, which the oil industry's legislative allies had written into the division's mandate in 1915, he said, prevented any use of the information for the purposes of litigation or investigation in 1936.\textsuperscript{22} Olson was forced to embark on a lengthy process of obtaining approval from each Huntington Beach oil operator to allow a committee of geologists to look at well data filed with the state.\textsuperscript{24} Olson vented his frustration in a bitter report to the California State Senate in May 1936. Some members of his committee offered "no willing support," Olson declared, and the Department of Finance had offered "no cooperation." On the contrary, the department appeared eager to accept less than $475,000 in payment for oil and gas worth between $5 million and $8 million that had been extracted from state lands by the Standard Oil Company through early 1934.\textsuperscript{23}

While Olson fumed over these institutional obstacles, Standard Oil's alliance with powerful beach protection and development groups throughout the state deepened. Independent oil operators at Huntington

Beach had turned to the ballot initiative and referendum following legislative defeat in 1934; now, frustrated with Merriam's veto of the Burns bill, Standard Oil and its allies tested this alternative political forum. They placed on the November 1936 ballot a proposal to allow slant drilling from adjacent uplands. The measure, Proposition 4, also stipulated a royalty of about 15 percent, lower than the earlier Burns measure. In a new twist for gaining popular assent, the proposition also linked slanted drilling from the uplands with a provision allocating half of California's oil royalties to the State Parks Commission.\textsuperscript{26} The specific origins of this linkage between oil drilling and park development are obscure, but it likely resulted from the friendly ties between William Colby, State Parks Commission chairman and mineral law expert, and Oscar Sutro, chief lawyer at the Standard Oil Company.\textsuperscript{27} As Northern California chairman of the statewide committee for Proposition 4, Colby campaigned aggressively for the measure, as did many other civic, conservation, and Southern California development groups. The San Francisco Chronicle lobbied vigorously, continuing the skewed coverage that it had given the controversy over federal oil lands in the second decade of the twentieth century. Chronicle news articles, which published long excerpts from Colby's public statements without mentioning any opposition to the ballot proposition, were accompanied by strongly worded editorials supporting the measure. Oil from the offshore field would help relieve the California taxpayer, the Chronicle conceded. "But who wants drilling on the tidelands and the lovely California beaches messed up with sump oil?" Proposition 4 would "get out the oil with profit to the State, stop present losses . . . from wells on contiguous properties, and at the same time prevent tideland drilling and protect the beaches."\textsuperscript{28} The same groups that had forced Merriam to veto the 1935 Burns bill bitterly fought the ballot initiative measure. Ignored by the major newspapers, opponents took to the radio. State senator Olson denounced proponents' "unlimited expenditures" on "false propaganda." Begging voters to reject the measure, Olson broadcast over the air his statement of opposition from the ballot information pamphlet. He attacked the beach conservation groups, and the State Parks Commission in particular, for selling out to Standard Oil. Guy Finney, a Southern California lawyer affiliated with independent oil operators as well as beach protection groups, filed a lawsuit against the initiative to draw attention to the opposition.\textsuperscript{29}

Opponents of Proposition 4 were themselves split over the question of whether tidelands drilling threatened to worsen beach and
ocean conditions. Olson opposed the low royalties and preferential access promised by Proposition 4 because he believed that oil operators already had polluted and industrialized the coastline at Huntington Beach, destroying it for recreational purposes. He thought that tidelands drilling could be done safely, without further endangering the beaches. Less concerned with the environmental implications of tidelands operations than with the state’s economic predicament, Olson wanted competitive drilling with higher government royalties. By contrast, other opponents of the 1936 proposition were more focused on the threat to the beaches. The Shoreline Planning Association, claiming affiliations with the chambers of commerce of West Los Angeles, Santa Monica, Venice, Manhattan Beach, Palos Verdes, Redondo Beach, Hermosa Beach, and Playa Del Rey, attacked Proposition 4 as being deliberately misleading. As a representative of the association explained, the measure “definitely provides that drilling can be done on the beach sands down to the mean high tide line. Anyone who has ever seen a beach knows that if oil derricks and the surface equipment are placed on the beach sands down to mean high tide line, the beach is definitely destroyed.” The association argued that tourism and the development of “beautiful residential sections, business sections and beach improvements” was worth “infinitely more” to California than “the temporary revenue which will come from any oil project.”

Drawing on these divergent themes of antimonopoly and beach protection, the campaign against Proposition 4 convinced California voters to reject the 1936 slanted-drilling initiative. In turn, the defeat of the ballot proposition convinced Governor Merriam that he was poorly positioned on the oil issue, particularly in relation to state senator Olson, who had led the successful opposition. Within weeks of Proposition 4’s defeat, Merriam announced an entirely new vision of a California freed of debt and with resources to pay for unemployment relief—all through the marketing of its oil. Merriam declared that the state should either negotiate leases for slanted wells by private interests, with considerably greater royalties than previously proposed, or California should develop its coastal petroleum itself through slanted wells developed by the state. “My theory is that the state owns this oil,” Merriam now declared. “It is ours and the state should be competent to get it.”

Positioning themselves for a 1938 gubernatorial election showdown, Merriam and Olson both rushed forward with tidelands oil legislation in the 1937 legislative session. “The gathering of a powerful lobby of the oil interests in Sacramento adds all that is necessary to set off the fireworks,” reported Herbert Phillips, political columnist for the Sacramento Bee, in early January 1937. The recent discovery of the huge Wilmington oil field in the Long Beach and Los Angeles harbors intensified statewide interest in oil. California politics also continued to shift to the left following the 1936 election. The Democrats controlled the assembly. Republicans, largely from rural counties, still dominated the senate, but less decisively. The fierce political battle that ensued continued to tie California’s petroleum politics to broader struggles over public finance and economic policy. The outcome determined how and which companies gained access to coastal oil, patterns of production, and the timetable for coastal petroleum development.

Governor Merriam navigated a contradictory course, struggling to maintain conservative policies and satisfy allies in an increasingly liberal political landscape. Merriam’s Finance Department continued to negotiate a low royalty settlement with Standard Oil for existing wells at Huntington Beach. At the same time, Republicans moved swiftly to try to coopt the Democrats’ use of the oil issue. Merriam’s legislative allies introduced new legislation to offer slidelands oil leases along the coast to the highest bidder. The measure would authorize the state to purchase or condemn adjacent property to allow for slanted wells from the uplands. The legislation also provided for drilling operations directly on the beach, if necessary, and for state drilling in the absence of satisfactory bids. Assemblyman Frank Waters, a Merriam ally, criticized the Jones and Olson committees for failing to produce legislation, and even proposed another Huntington Beach investigation. When the Democratic leadership rejected a third investigation, Waters attempted to reposition the Republicans. “We should throw party politics overboard on this issue,” he declared. “It’s a case of the people on one side and the Standard Oil Company on the other. It’s a question of whether the Standard Oil Company shall continue to dominate this legislature.” Trying to link the Democrats to Standard Oil lobbyists, Waters asked, “Are we going to lay down to the Standard Oil Company?”

The Republican leadership had moved so far rhetorically in Olson’s direction by 1937 that Senator Olson had difficulty keeping his oppositional stance from looking like mere partisan politics. Yet the report he submitted on the same day as Assemblyman Waters’s grandstanding speech pushed the legislature farther toward higher royalties, increased
competition, and a greater likelihood of direct beach drilling at Huntington Beach. The report, an individual statement by Olson, brought together the key elements of his critique of California's management of its tidelands oil. Olson criticized the Rolph administration's 1933 settlements with Huntington Beach trespassers as an illegal circumvention of the legislature's 1929 ban on tidelands oil operations. He further noted that additional wells drilled by Standard Oil and others likely drained state lands, but that the oil companies and other committee members had prevented accurate surveys of the wells. Olson advised the legislature to develop oil from the Huntington Beach tidelands immediately. He recommended leases awarded by competitive bid, with a 30 percent minimum royalty and strict antimonopoly provisions to divide the Huntington Beach pool into nine separately leased parcels. Olson called on the Merriam administration to require payment of the "full amount of the proceeds" from past production from state tidelands. Finally, he urged the legislature to open oil well records filed with the Division of Oil and Gas for inspection by other state officials.

Accompanying Olson's report was a proposed bill to enact these recommendations into law, which pressured the Republicans in the state senate to make further concessions. While denouncing state drilling as "socialistic" and criticizing Olson's proposal for beach drilling, W.P. Rich conceded that Standard Oil might have stirred up past voter opposition to beach drilling. Rich and Ralph Swing, Merriam's senate floor leaders on the oil legislation, amended the competing Republican bill to set minimum royalties of 16.67 percent, enable companies other than Standard Oil to negotiate for state leases, and allow California to drill for oil itself if it could not make satisfactory lease arrangements. Swing insisted that their bill differed from the 1936 ballot proposition, which he now called "a wolf in sheep's clothing" that had favored Standard Oil.

As in 1935, tidelands oil had emerged as one of the "top problems" in the 1937 legislature, if not the "most important single issue of the session," noted the Sacramento Bee. Other assemblymen fleshed out further options, introducing at least twenty-four separate measures in January and February 1937 related to tidelands oil development. Some of the measures embraced state oil drilling more fully. Democrat John Gee Clark and Republican Ellis E. Patterson, who had proposed in 1935 that the California develop its own oil, again suggested that California extract its coastal oil through a public petroleum producing agency. Other bills broke Democratic unity on the tidelands oil issue. Los Angeles assemblyman Ralph Welsh, the new Democratic chairman of the Oil Industries Committee, proposed a measure much more favorable to Standard Oil, with provisions allowing upland drilling only by coastal landowners. The political contest between Welsh and Olson, both Los Angeles Democratic politicians, turned ugly. Olson publicly accused Welsh of violating "every campaign pledge" of the Democrats by promoting a "perfect Standard Oil bill." The public clash between Olson and Welsh "broke up before too much soiled party linen was given a washing." But the Democrats could not present an entirely united front on oil.

California's legislative politics remained as hard-fought and convoluted as with the Burns bill two years earlier. Both Republicans and Democrats tackled back and forth in the details of royalty rates, drilling regulation, and beach leases. Merriam's legislative allies moved back toward their original position, favoring low state royalties, Standard Oil, and beach protection. They removed the minimum royalty provision and provided only for slanted drilling from the uplands at Huntington Beach. Olson, for his part, moved to the center. He moderated his tough stance on Standard Oil and other Huntington Beach trespassers, removing provisions that would have barred them from bidding on leases.

After the senate approved Olson's bill and defeated the rival Rich-Swing measure, three rival bills remained in play in the assembly. Oil industry allies struggled mightily to block Olson's measure, which carried the highest suggested royalty for the state and alone provided for state drilling. But in the new political climate, the assembly felt compelled to pass a strong oil measure. Assemblymen like the Stanislaus County Democrat Hugh Donnelly recalled how "a powerful oil lobby" in 1933 had made it "so oily back of the rail in this house that if you ventured there you were liable to slip." Donnelly urged his colleagues, "Let's do our duty this year." After Olson's Democratic rival Ralph Welsh tied up Olson's bill in committee over the state drilling provisions, the assembly as a whole voted to force the bill onto the floor. Olson's bill passed in April, with an urgency clause to preclude a referendum by opponents. The assembly "snowed under" Welsh's own bill and another rival measure. Merriam claimed Olson's measure for himself, saying that it accorded with his own policy announcement of more than a year earlier.

Olson had achieved a "smashing personal victory," according to the Los Angeles Examiner, but his continuing struggle in the remainder of the same legislative session demonstrated how difficult it was to move
California's oil policies sharply and decisively in a new direction. Near the close of the legislative session in late May, Ralph Welsh made an "eleventh hour effort" to push his bill through. "Flaring tempers" and "charges and counter-charges" swirled around the legislature, and representatives fought into the early morning hours. Competing bills, including Ralph Welsh's measure, staged miraculously recoveries amid allegations of corruption. The Republican attorney general Webb, who passionately opposed coastal oil drilling, further complicated the political situation by ruling on a technicality that the Olson bill could not be an "urgency" measure and, therefore, could be held up and overturned on referendum. Olson complained "that so many constitutional questions are immediately raised when the state tries to protect its own natural resources." But oil companies successfully collected the necessary signatures for a referendum vote.

The legislative impasse of 1937 reflected a standoff between rival oil interests and between progressive and conservative forces in the state. In the new political climate, a fearful Governor Merriam felt compelled to veto Ralph Welsh's industry-backed giveaway. At the same time, Olson's oil bill was waylaid first by the Republican attorney general and then by oil companies, which forced a referendum vote on the tidelands oil bills that Merriam signed. As the Sacramento Bee observed, the referendums made "every scrap of legislation" enacted in 1937 to govern Huntington Beach oil production ineffective for more than a year, until the fall elections of 1938.

California's negotiations with Standard Oil for past production at Huntington Beach remained similarly unresolved at the conclusion of the 1937 legislative session. Olson and his legislative allies attacked the existing 10 to 12 percent royalty arrangements as "absurd," "grossly inadequate," and a "log-rolled settlement." The Merriam administration argued weakly that, although the state lacked the legal authority to grant leases under the 1929 law, easement agreements allowing oil production from existing and, in some cases, new wells differed technically from leases. In the middle of the March 1937 legislative session, the Department of Finance announced that it had settled the claims on previously unpaid royalties with Standard Oil for $505,000. Senator T.H. DeLap of Contra Costa County, the site of Standard Oil's principal California refinery, introduced a bill that Standard Oil had given him to ratify the agreements, and on the final day of the session the senate ratified it. Yet continued controversy dissuaded Governor Merriam from signing the bill ratifying what his own Department of Finance had negotiated. Three months later, when the legislature was out of session, the Merriam administration did finally settle with Standard Oil for $18,628 on oil production estimated at more than $5 million. Standard Oil's stonewalling of Olson's senate investigation had served the company's interests well. California settled with Standard Oil without ever surveying additional upland wells also suspected of tapping the tidelands field. Olson denounced this "$5,000,000 gift" as a "flagrant violation of the people's rights."

California desperately needed an effective way to manage the coastal tidelands. Legislative maneuvering in the previous two sessions had focused primarily on the Huntington Beach situation. But in the summer of 1937, the Merriam administration realized that the Wilmington oil field surpassed the Huntington Beach offshore pool, and that California already had begun to lose control of the field. Private upland drainage at Wilmington, with oil wells yielding as much as seven thousand barrels per day, threatened to repeat the Huntington Beach fiasco. And on the public tidelands at Wilmington, both Long Beach and Los Angeles planned municipal drilling strategies. Decades before, the California legislature had granted Long Beach its tidelands for harbor development. Now Long Beach claimed that mineral rights had passed with the harbor grant. Attorney General Webb and the Merriam administration sued to validate California's claims, arguing that the state retained the tidelands oil and mineral rights, and that drilling for oil would violate the harbor trust purposes. Amid the great uncertainty about which governmental entity controlled access to Wilmington's riches, oil operators, politicians, and military leaders also began to call for federal ownership of offshore oil reserves. The U.S. secretary of the navy urged Congress to empower the president to seize California's coastal oil, and the North Dakota senator Gerald Nye asked the U.S. attorney general to sue to recover title to the coastal lands for the nation.

With renewed determination to resolve the coastal oil problem before the 1938 state elections, Merriam called the legislature back for a special session in March 1938 to address the long-standing Huntington Beach problem and the new conditions in the Wilmington field. We don't want to interfere with oil operations," Merriam said. "We simply want to gain for the State its full share of the oil." Merriam proposed a new state lands commission empowered to enter royalty leases with private companies that would locate new wells on uplands or filled tidelands.
Merriam frankly admitted that his tidelands oil bill had been drafted and revised three times by oil lobbyists. The Democratic opposition lambasted Merriam's bill for its favors to private companies, including the Southern Pacific Railroad Company, Standard Oil, and others seeking to gain access to the Wilmington oil field. "It looks very much like we're turning the oil pool over to private interests lock, stock and barrel," Assemblyman Paul Peck complained. After battling over oil legislation until four in the morning, however, the state legislature approved Merriam's State Lands Act virtually intact. The legislature rejected state drilling and proposals granting Los Angeles and Long Beach rights to develop their tidelands; state leasing was limited to instances where onshore operators drained state oil deposits and drilling would proceed from uplands or filled tidelands only. While the measure required competitive bids, it did not stipulate a minimum royalty.

The state legislature amended Merriam's bill in only two significant ways, making changes that capped political trends that had dominated petroleum politics throughout the previous decade. Acknowledging the growing public awareness that oil politics had corrupted both the legislature and the Rolph and Merriam administrations, the California legislature established the new State Lands Commission outside the Department of Finance and substituted an elected lieutenant governor for an appointed director of natural resources on the commission. Olson and his allies successfully spread responsibility for state land management among three elected officials—the governor, represented by the director of finance; the lieutenant governor; and the state controller—and opened the leasing process to greater transparency and public accountability.

The legislature also changed the State Lands Act to dedicate 30 percent of the state's oil royalties to parks, reflecting the fact that beach protection groups, often in alliance with oil industry factions, had blocked efforts to develop coastal oil resources since 1929. In the 1938 bill, the conservation and coastal protection groups now acquiesced to coastal oil operations in exchange for funding for California's beaches and parks and an agreement that oil operations would be kept off the beaches, on the uplands. This trade of tidelands oil for beaches and parks endured for decades, and the abundant coastal oil funded the rapid expansion of California's state park system.

Coastal oil royalties came at a critical juncture for California's beach and park system. The California legislature had created a State Parks Commission in 1927 to administer the newly unified state park system. Voters approved a constitutional amendment the following year authorizing $6 million in state bonds to purchase parklands if private sources contributed matching funds. In this watershed moment for California's beach and park system, real estate prices dropped precipitously, making it less expensive to purchase new properties. From 1931 to 1938, the number of parks increased fourfold, the financial investment by seven times, and the acreage by fifteen.

But the California park system, while popular, remained vulnerable because it lacked a regular source of state funding. Anti-tax groups like the California Taxpayer's Association opposed funding park maintenance and operation. Without money to complete planned acquisitions or maintain recent purchases, in 1936 the State Parks Commission formed an odd but valuable alliance: it teamed up with Standard Oil to support a slanted drilling initiative that promised to dedicate state royalties to the beaches and parks. William Colby, the San Francisco mining lawyer who chaired the park commission, promised on radio and in print that "this measure will make future park bond issues unnecessary, and will provide for the entire park system at no future expense to the taxpayers." In subsequent testimony before Olson's senate committee in November 1936, Colby described redwood groves and beaches that needed protection but would be destroyed because there were "no revenues in sight." The situation only worsened between 1936 and 1938. With no new funds in sight, the commission reluctantly reported, "the period of acquisition is nearing completion." California's park system was "taxed to the utmost."

With the 1938 State Lands Act, the State Parks Commission turned again to oil royalties as a possible fiscal savior. As early as January 1938, the Shoreline Planning Association began lobbying to ensure that the state allocated a "reasonable portion" of state oil royalties to buy and maintain state beaches and parks. The beach and park groups parlayed support for the leasing bill into a 30 percent share of oil royalties. The fiscal outlook for California's beaches and parks had reversed by December 1938, with a proposed biennial budget of approximately $1.37 million drawing almost exclusively from oil revenues. The State Parks Commission hoped to continue its acquisition program at three hundred thousand dollars per year for the next ten years, targeting Southern California beaches and northern redwood groves for protection. In addition to their conservation value, these projects rewarded the powerful coastal development associations of Southern California and the Redwood Empire Association, a Northern California development
The legislature strengthened this bargain in 1941, when it increased the share of state oil royalties dedicated to beaches and parks from 30 to 70 percent.\footnote{34}

With the changes that favored the beaches and parks, and that opened the land management process by including the lieutenant governor on an independent commission, the State Lands Act leasing measure prevailed. Critics failed to muster sufficient signatures to force a referendum on the bill, and the act became law in June 1938. The State Lands Act also made largely irrelevant the alternative 1937 tidelands leasing bills, which remained held up on referendum until the November 1938 election.\footnote{35}

The complicated layering of political and legal jurisdiction in state and federal oil management policy remained evident in the spring of 1938. Even as the legislature passed the State Lands Act, the California Supreme Court undermined the legislative policy initiative by twice stripping away state ownership of the tidelands that California sought to manage. In Bolsa Land Company v. Vaqueros Major Oil Company, the court affirmed a lower court decision that pushed private ownership down the beach toward the water, depriving California of much of the tidelands it might have leased in Huntington Beach and elsewhere.\footnote{36}

The court decision deferred to federal boundary lines, dismissing the idea that the state could determine independently the line between private and public coastal lands. Some one to two hundred feet at Huntington Beach, along with millions of dollars of subsurface mineral rights, rode on the question of where the tidelands boundary lay.\footnote{37} In a second decision, the Supreme Court of California also ruled that California’s harbor grant to Long Beach had included mineral rights, so that the city could freely develop the oil. California had made no attempt to reserve oil rights for itself, the court concluded. Indeed, in 1937 the state legislature had approved a charter amendment authorizing drilling by the city. “If the State was inclined to commit itself to such an improvident transaction it is not the function of the courts to nullify it,” wrote Associate Justice William Langdon in City of Long Beach v. D.A. Marshall.\footnote{38}

The Marshall decision differed strikingly from an appellate court’s ruling in Lewis Stone v. City of Los Angeles eight years earlier, which had prevented Los Angeles from leasing municipal harbor land for drilling.\footnote{39} The Bolsa and Marshall court rulings transferred California’s coastal oil lands to upland property owners all along the California coast and to Long Beach and Los Angeles in the case of the Wilmington field.

In the spring of 1938, allegations that economic interests improperly influenced California politics finally prompted an independent investigation of legislative corruption. Rumors swirling around earlier California petroleum legislation were confirmed, and a broader scandal in state management of the state tidelands was uncovered. According to the investigation of the legislature, Assemblyman Gene Flint of Los Angeles had solicited funds to deliver votes on the Welsh oil bill, while Assemblyman Charles Hunt of Los Angeles and his associates had been promised they could get in “on the ground floor of a stock deal” if Merriman signed the Burns bill.\footnote{40} The oil industry, along with railroad companies and other interests, had quietly contributed considerable funds to legislative candidates. Between 1935 and 1938, for example, Sacramento’s preeminent lobbyist, Arthur Samish, had controlled a slush fund of at least ninety-seven thousand dollars in cash and destroyed all records of its distribution.\footnote{41} Among other triumphs, Samish claimed credit for squashing a 1937 oil bill sponsored by the administration.\footnote{42}

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\caption{California used its tidelands oil royalties to develop public beaches, including this one at Santa Monica, which visitors accessed by gasoline-powered automobiles. (Courtesy of the Security Pacific Collection/Los Angeles Public Library.)}
\end{figure}
A Sacramento grand jury investigation of Samish precipitated additional disclosures of petroleum-related corruption. In June 1938, following Samish's arrest for failing to testify before the grand jury, his lawyer, John Francis Neylan, demanded an investigation of the governor's office. Neylan threatened that Samish would reveal contributions to legislators as well as information regarding oil legislation prompted by two of Merriam's associates, his campaign manager Joe Rosenthal and the former state senator Ralph Clock. Just a few hours after Neylan's remarks, the director of finance, Arlin Stockburger, filed affidavits with the state personnel board detailing how several state employees had conspired to control rich oil lands in the Wilmington field. Those implicated included the State Lands Division chief Carl Sturzenacker, longtime state petroleum production inspector Arthur Alexander, Rosenthal, and Sturzenacker's former secretary, now employed in Ralph Clock's law firm.

Sturzenacker denied the charges and fought to retain a position with the new State Lands Commission. A cursory investigation by the Los Angeles district attorney concluded that the state employees had committed no crimes. But the state personnel board, in its first-ever civil service investigation, hired the San Francisco attorney Norris J. Burke to probe the administration of the Southern California oil fields. In early August 1938, as Burke waited in Sacramento for guidance as to whether he should file his charges, Arlin Stockburger announced in Los Angeles that Sturzenacker and Alexander had resigned, in hopes that this would end the personnel board proceedings. As Stockburger rushed north through the night to Sacramento with the resignation letters in his pocket, Fred Wood, chairman of the State Personnel Board, ordered Burke to file his report before the resignations became official.

"VAST TIDELANDS OIL FRAUD," the San Francisco Chronicle headlined on August 14, 1938. Burke's sixty-page report accused Sturzenacker and Alexander of a wide range of wrongdoing, including incompetence, dishonesty, and improper political behavior. Sturzenacker and Alexander had forced oil operators in the Huntington Beach offshore field to pay Joe Rosenthal to get drilling permits. Go "see Rosey," employees at the State Lands Division allegedly told applicants. Representatives of the Huntington Beach Oil Company were told that they could obtain a permit more quickly if they gave 2 percent interest in oil production to a relative of Arthur Alexander who lived in Chicago. Burke also substantiated allegations that state employees had conspired to control state tidelands in Wilmington. According to

Burke, Alexander and Sturzenacker attempted to cover up their activities by giving the land back to the state.

Burke's charges went beyond the original affidavits, further documenting how corruption had undermined all legislative efforts to manage the coastal oil lands. The Division of State Lands surreptitiously had allowed oil companies to drill new wells in the Huntington Beach tidelands. The division also permitted the Termo Oil Company, the first Huntington Beach operator to confess to trespass in 1934, to relocate wells into closed-off fields after others had been refused access. Similarly, Sturzenacker authorized William Bonelli, a member of the State Board of Equalization and the head of the Magnor Oil Company, to drill sixty new wells. Sturzenacker secretly issued the Bonelli permits in May 1937, even as the California legislature battled over how to dispose of the Huntington Beach field. Under his loose governance, a prior easement and political connections were the ticket. Sturzenacker's secretary backdated a letter by a year to provide written precedent for transferring the easements to Bonelli.

Burke also attacked Sturzenacker and Alexander's pro-owner determination of the tidal high-water mark for land owned by the swank Belle Aire Bay Club on Malibu Beach, which deprived California of valuable coastal property. Burke described how the party had accepted royalties inappropriately in the form of oil rather than cash in Huntington Beach, neglected to track royalty payments accurately, and sold state oil at 17 percent below market price to the mayor of Huntington Beach. Burke reported that Sturzenacker had tried to amend the State Lands Act to make himself a member of the commission. Finally, he accused Sturzenacker of campaigning for Governor Merriam in violation of civil service rules.

Burke's charges "rocked the Capitol," according to the Sacramento Bee. Sturzenacker withdrew his resignation, complaining that he had been double-crossed. Wood in turn charged that the Merriam administration had arranged the resignations to prevent Burke from filing his report. As the oil scandal became increasingly prominent in the Republican gubernatorial campaign, Merriam's director of finance dismissed the controversy as a "routine matter" exaggerated to strengthen Lieutenant Governor George Hatfield's challenge to Merriam for governor. Sturzenacker also said that opponents conspired to remove him from office so that Standard Oil, Signal Oil, and other oil companies could gain control of the Huntington Beach pool. On the radio, Merriam denied Burke and Wood's charges against his administration.
Whether or not an allegiance to Hatfield motivated Burke and Wood, "California's $1,000,000,000 tideland oil scandal" temporarily energized Hatfield's candidacy. Three state Republican leaders publicly urged Hatfield's gubernatorial nomination to give California a "much needed house cleaning." Arthur Samish's lawyer, John Francis Neylan, similarly denounced Merriam's "dishonest" administration of state oil lands. "No sane person" would allow a group of "utterly incapable and inexperienced men" to administer California's "greatest single material asset," Neylan said. As a member of the new State Lands Commission, Hatfield voted with the state controller Harry Riley to suspend Sturzenacker and Alexander. Hatfield's presence as lieutenant governor on the commission had tipped the balance of power away from the governor. In April 1939, the State Personnel Board would uphold Norris Burke's charges, dismissing Sturzenacker and Alexander from the state government.

"THINGS WILL NO LONGER BE MERELY 'OIL' RIGHT IF I AM ELECTED GOVERNOR"

In the 1938 election for governor, the Democrats, led by their candidate, Olson, successfully made oil a key campaign issue. Meanwhile, the Sturzenacker and Alexander scandal ultimately failed to revive Hatfield's challenge to Merriam's Republican candidacy. Merriam and Olson squared off against each other in the fall election of 1938. The bitter contest had gestated since 1934, when Merriam defeated Upton Sinclair, while Olson, Sinclair's choice as head of the state Democratic Party, joined the state senate. Olson now pushed hard on the oil issue. The Democrats promised to reserve for the state all oil and gas on California lands and to secure from the resource the greatest possible revenue. "We condemn the abject subserviency of the Republican State administration to special privileged interests," their platform stated. The Republicans, they said, had given away millions of dollars' worth of oil by allowing oil companies to extract petroleum "which rightfully belonged to the people of the state." Olson particularly emphasized his years of labor on the tidelands oil problem. An Olson campaign broadside from August 1938 used the "Olson Oil Fight" as the prime example of his leadership of progressive Democrats:

Perhaps the most conspicuous of his great services to the people has been Olson's fight—against overwhelming odds—to save the State's enormous oil reserves. He exposed the most wanton deprivations perpetrated by large oil companies. He fought them to the point of securing laws to protect the people's interest; only for their purpose to be defeated and subverted by the Merriam-Hatfield regime, which, because of their behavior on this one issue, deserve dismissal by the people. In a major radio speech in October 1938, just weeks before the election, Olson accused Merriam of having let the department of finance, which housed the Division of State Lands where Carl Sturzenacker and Arthur Alexander worked, become "the agencies of private interests." Merriam sought to dodge the oil issue. His campaign literature warned of an "Olson menace" and a "Lewis-Bridges-Olson dictatorship," linking Olson to John L. Lewis and Harry Bridges, two prominent labor leaders. Merriam claimed that Olson had endorsed a California labor relations act in exchange for the political support of communists in the Congress of Industrial Organizations (CIO). But Merriam's red-baiting strategy failed. In November 1938, California voters put Olson in the governor's office as the state's first Democratic governor in forty years. Olson's election affirmed the Democratic platform and perhaps signaled voter disgust with corruption. As with all elections held before intensive issue-based polling, it is difficult to determine how importantly one issue, in this case coastal oil, factored in the vote. But coastal petroleum politics had dominated state legislative sessions during the previous decade, and the charged coastal oil question had appeared on the popular ballot three times since 1929. Tidelands oil was particularly prominent in 1938, underscored by the special legislative session in March and the oil scandal that erupted in June.

Olson's long struggle to protect California's petroleum rights strengthened state management of the tidelands oil. Following the 1938 State Lands Division scandal, the new State Lands Commission tightened its administrative structure, hired additional staff, and got better at ensuring accountability and tracking royalty payments. The involvement of three different elected officials—the state finance director (representing the governor), the lieutenant governor, and the state controller—also opened to the public a previously obscure process. Ironically, the commission's new emphasis on maximizing financial returns from state lands would provoke criticism from conservationists of a later generation who wanted state lands protected rather than exploited. What progressives like Olson saw as the public interest in the depression years of the 1930s proved to differ greatly from the environmental priorities of the 1960s and 1970s.
lease most effectively for maximum production. In another instance at Huntington Beach, Starzenacker had “transferred” an easement over a distance of nine city blocks to allow an illegally drilled well to produce. The state auditors also identified redrilling permits for old wells that had been used to dodge laws barring tidelands drilling. While redrilled wells typically deviated by only one hundred feet from where they originally bottomed, wells in the Huntington Beach field moved laterally by more than twenty-three hundred feet.122 These so-called redrillings were actually new wells drilled to tap the tidelands. The auditors asked repeatedly whether the state might recover the full value of oil extracted from such questionable leases at Ellwood and Huntington Beach.123 The answer was no. As in the San Joaquin Valley in the second decade of the twentieth century, the facts on the ground overwhelmed the state’s apparent legal advantage. No California politician, even Governor Olson, wanted to revisit the 1930s oil fights simply to recover money for the state.

CONCLUSION

The 1938 creation of the State Lands Commission, the Division of State Lands scandal, and the election of Culbert Olson as governor closed one phase of California’s coastal petroleum conflict. In 1941 California passed a generous state mineral leasing policy modeled on the federal law of 1920. But to the surprise and disappointment of many state oil operators, the federal solution broke down quickly at the state level. Outrage over coastal oil operations in Santa Barbara County and the Los Angeles region generated a strong counterforce to the oil lobby. In the 1948 Boone decision, the California Supreme Court brushed aside this opposition and forced the state administration to issue oil leases around Santa Barbara. But in early 1929, legislative opponents of tidelands oil drilling blocked new operations in the rich coastal fields.

With legal access closed to them, the California oil operators resorted to illegal trespass at Huntington Beach and high-stakes lobbying in Sacramento. It took them a decade to get around the 1929 ban. The operators never succeeded in overriding the 1929 law outright; oil industry factionalism and opposition from coastal development groups crushed their initiative measures and legislative bills. But in 1958, California finally settled with the oil producers, authorizing state oil leases for uplands or filled tidelands in those instances when private landowners drained oil from pools extending under state lands. The state also earmarked oil royalties for beaches and parks to placate opponents.
This compromise underscored the difference between Californian and national petroleum politics. The initiative and referendum process, a legal recourse of state politics that gained prominence in this decade, disrupted the expected trajectory of policy making in the elected legislature. Without the referendum mechanism, legislators certainly would have resolved the tidelands oil question more quickly and in ways more favorable to major industry players like Standard Oil. Instead, the smaller independent companies successfully mounted expensive referendum campaigns that defeated coastal leasing legislation. Standard Oil and its allies also tried to bypass the legislature in 1936 by proposing an initiative measure that provided for low-royalty, limited-access drilling at Huntington Beach. But Standard Oil's opponents successfully resisted this "save the beaches" measure, and the electorate resoundingly defeated the proposal. Direct democracy thus turned away numerous proffered solutions.

California politicians responded to the powerful, although divided, oil sector, but they also juggled the economic interests of real estate developers and wealthy landowners. With Southern California growing rapidly between 1920 and 1940, coastal property owners and businesspeople worried deeply about beach oil pollution and the unappealing aesthetics of the industry. They resisted the spreading oil front at Santa Barbara and Venice. Then they blocked new tidelands oil development along the entire coast in 1929. Through the 1930s, they defended this 1929 ban. Even after the 1938 compromise that tied coastal oil extraction to beach and park development, beach protection groups continued to resist coastal drilling. Tidelands oil royalties financed the rapid expansion of California's beach and park system in the 1940s and 1950s, yet the beach-oil pact remained fragile and contentious. The 1969 Santa Barbara oil spill thoroughly disrupted the deal, causing powerful coastal protection groups to push through another moratorium on state coastal leasing that endures to this day.

State petroleum politics thus differed sharply from the earlier federal struggle but also displayed important continuities. The rule of capture as applied to common oil pools increased pressure on governmental entities at both levels. In the San Joaquin Valley, competition with neighboring landowners forced oil production by federal receiverships and within the naval oil reserves in the second decade of the twentieth century. A similar dynamic played out at Huntington Beach and the Wilmington field in the 1930s. With private wells perched on the bluffs above Huntington Beach and encroaching on the Wilmington tide-lands, California state and city governments rushed forward with oil development partly to protect the public's share of the petroleum pools. This helped protect the public's financial interest, but it hardly conserved oil.

The parallel between federal and state dynamics extends to the independent political role played by the federal and state courts. As in earlier federal decisions celebrating how oil operators had transformed a barren wasteland into a productive oil field, the California Supreme Court concluded in Boone v. Kingsbury that oil's importance to modern commerce outweighed concerns about coastal oil pollution. The court forced California's surveyor general to permit oil operators onto the state tidelands. The courts also enforced "improvident" past political decisions, as in Long Beach v. D. A. Marshall, when the California court declined to nullify the state's gift of mineral rights to Long Beach. Similarly, in Bolsa v. Vaqueros, the courts deferred to political and judicial precedents that allocated the beaches—and millions in subsurface oil rights—to upland owners rather than retaining them for the public. Shopping for favorable judicial rulings strengthened the industry's hand—for instance, when the Orange County assemblyman James Utt and finance director Rolland Vandegrift asked Judge Malcolm Glenn of the state superior court to authorize the highly questionable Huntington Beach easement agreements. Glenn previously had struck down the urgency provision of the 1929 coastal leasing ban. Now he obliged Utt and Vandegrift in a weakly argued decision.

The State Lands Division scandal and the investigator's report on legislative corruption, both in 1938, opened a window on internal administrative and legislative corruption in Sacramento. As with the federal conflict and its culmination in the Teapot Dome scandal, the long state controversy over oil lands similarly dissolved in a furor over how public employees had used their positions to cut sweetheart deals for lands that by law should have remained undeveloped. Albert Fall and his colleagues in Harding's Interior Department thus had lesser-known counterparts in Carl Sturzenacker and Arthur Alexander in the Merriam administration. Sturzenacker and his cronies opened the coastal lands through lax enforcement of leasing contracts and outrageous administrative interpretations of the law. Outright corruption also played a role, as when Sturzenacker and Alexander tried to file their own claims on land at Wilmington. Unofficial powerbrokers like Joe Rosenthal, Merriam's ally, also took payoffs in exchange for favorable action by the Division of State Lands. Rolph and
Vandegrift's 1933 settlement with Huntington Beach trespassers also appears to have been orchestrated through secret backroom deals by political insiders, although the historical record on this point is frustratingly slim.

Olson, who entered California politics as part of a progressive Democratic faction in 1934, appears to have been honest and committed to the goal of making government serve a broad public interest. He believed fervently in progressive taxation, an active state government, public benefit from natural resource development, more transparent and responsive government, and probalor policies. But some of his elected and appointed colleagues were either for sale or closely allied with private economic interests. Others favored the oil industry for bringing in jobs and tax revenue and providing California with a crucial energy source. Olson found his four years as governor undermined by the defection of conservative Democrats. In his first year in office, Olson's legislative opponents defeated his longtime goal of a per-barrel tax on oil and gas production, as well as his proposal to reduce tax incentives for oil drilling. And his achievement of legislation establishing an oil commission to regulate statewide production was overturned by a state referendum vote.

As at the federal level, where the debate about federal lands continues today, the political closure in state oil policy achieved by California in 1958 proved illusory. Heated politics continued to determine who controlled the extent and pace of coastal petroleum operations in California. The California Supreme Court's 1938 decision in *Long Beach v. D.A. Marshall*, which favored Long Beach's claims in the Wilmington field, sparked a tense legal struggle between the state government and the city. Using oil royalties that it had won, Long Beach spent $5 million on new piers, berths, streets, buildings, and landfill by 1944—and was well on its way to becoming a dominant harbor on the West Coast. Following further state-city conflict, California and Long Beach came to share the Wilmington royalties, with the state's portion going to the California State Water Project, and Long Beach's share financing harbor development. Political bargains on oil policy continued to yield funds for targeted state and city expenditures rather than for general expenses.

Federal intervention also ensured continuing political controversy. In 1958, officials in the United States Navy, Justice, and Interior Departments came to agree that the federal government should control coastal oil deposits off California. Their consensus partly reflected a growing sense in Washington that California managed its coastal oil lands poorly. The federal government sued California (as well as Texas and Louisiana) to claim the offshore oil in 1945. In 1947 the U.S. Supreme Court sided with the federal government, concluding that the nation, not the state governments, had paramount rights in the coastal waters. This decision threw the entire tidelands oil situation into renewed turmoil, which was resolved only in 1952, when Republican congressional majorities and a new Republican president, Dwight Eisenhower, returned the nearshore lands to state control. California's difficulties with U.S. intervention into offshore oil development intensified in the 1960s, when the federal government pressed forward with risky petroleum leases beyond the state-controlled three-mile limit. The 1969 Santa Barbara oil spill confirmed the worst fears of coastal oil opponents and brought a fresh state leasing moratorium, followed somewhat later by a federal leasing moratorium.

The irony of these struggles to access oil on state and federal public lands is that they forced open California's oil lands during a period of intense oversupply. During the late 1920s and the 1930s, when the state and federal governments struggled to conserve petroleum in the ground and to prop up oil prices for the companies, the California state courts and state administration bent over backward to open the petroleum-rich coastal oil lands to new drilling. These governmental entities helped prompt a new cycle of competition at Santa Barbara, Huntington Beach, and Wilmington. The oil industry and the state and federal governments responded by trying to limit the "overproduction" that their own petroleum politics, property law, and public land policies had created.
PART THREE

Regulation
The Struggle to Control California Oil Production

California and national political leaders generally designed public land policies and property law to increase oil production and lower energy prices. In this sense, the market structure certainly accomplished its policy objectives. Even when opponents challenged that structure and thwarted oil development—for instance, when Taft withdrew federal oil lands or when California politicians blocked coastal oil drilling—judicial rulings, political maneuvering, corruption, and outright lawbreaking forced open California's oil fields. By the mid-1920s, California oil production had surged due to petroleum development in the San Joaquin Valley and in town-lot fields in the Los Angeles Basin, like those at Huntington Beach and Long Beach. Oil also began to flow from the new Kettleman Hills field and from coastal fields in Santa Barbara County in the late 1920s.

Rapidly rising production drove prices for crude oil and gasoline sharply downward. Between August 1921 and October 1923, the highest grade of oil dropped from $2.45 to $1.76 per barrel. Retail gasoline prices slid along with crude oil prices. At the beginning of 1923, Standard Oil gasoline retailed at $2.22 per gallon. By September the price had fallen to $.13. Small retailers sold "boobleg" gasoline at $.10 per gallon, with prices reportedly as low as $.06.

Although these falling prices were the obvious outcome of the petroleum property regime, public officials and many within the oil industry responded with alarm. They feared industrial disarray due to overcapacity,
the shutting down of wells and firing of workers, and the squandering of valuable natural resources. From the late 1920s until World War II, politicians and industry leaders struggled to contain the overproduction resulting from competition to drain common oil pools, from tax-favored investment in oil exploration and development, and from the rapid disposal of public oil lands. They sought to address a fundamental problem of collective action—how to coordinate and enforce a statewide cut in production to stabilize oil prices and develop petroleum reserves more efficiently.

The overproduction that plagued California in the late 1920s and the 1930s was part of a recurrent pattern in the American oil industry. Fractured land holdings and the role of capture prompted landowners and oil operators into a boom-bust cycle of competitive production. From the original discoveries in Pennsylvania to Spindletop Hill in Texas and the California fields, operators quickly drained each newly discovered field and sent oil prices plummeting. As production leveled off, prices would rise and stabilize until the next big discovery. New ways to extract more value from oil, such as the ability to separate petroleum into heavier oil and lighter gasoline or kerosene, and, beginning in the 1920s, the ability to "crack" petroleum thermally to make different products, also put price pressure on established fields. In the late nineteenth century, the Standard Oil Trust, a conglomerate of companies, dealt with the problem of excess oil production and excess refining capacity through vertical integration and monopoly. Overcapacity had been one key reason for the formation of the trust in the 1870s. By controlling oil refining and transportation, the Standard Oil Trust privately regulated the market and smoothed its disruptive cycles, ensuring steadier profits. Maintaining the Standard monopoly required adept political intervention. State and national politicians eventually turned against the company and other trusts, passing antitrust laws, including the federal Sherman Act in 1890 and California's Cartwright Act in 1905, to prevent this private ordering of the market. And in 1911, the U.S. Supreme Court split the Standard Oil Company into thirty-three smaller entities to foster competition in the oil industry.1

Oil fields in California's San Joaquin Valley followed a by-now predictable pattern of development in the 1890s and early 1900s. Operators at the Coalinga, McKittrick, and Kern River fields competed in the broader oil market, but, more locally, they also raced against neighbors to capture their share of a common pool. California production climbed from 2 million barrels of oil in 1897 to nearly 50 million seven years later. Prices plummeted by nearly two-thirds, and millions of barrels of oil accumulated in storage in earthen sumps or tanks. Operators also capped hundreds of oil wells to reserve oil for higher prices. As flush production subsided and California crude oil demand climbed, the market tightened and prices began to rise again. The Taft administration also reversed federal policy in 1909, retaining California oil lands to restrain California oil production and conserve the nation's fuel resources. The California legislature in 1915 also considered, though it ultimately rejected, regulatory measures to slow the "feverish haste" with which producers drained oil from under their own and their neighbors' lands. These unsuccessful California legislative proposals matched similar regulatory measures passed in law in Oklahoma and Texas a few years earlier.4

World War I and the litigation over federal oil lands tightened oil markets and slowed urgent calls for state regulation of oil production. After the war, robust demand and slowly expanding supply kept prices high for a brief period, even causing a short-lived energy crisis in 1920, leading to fuel rationing. As the base price shot above two dollars per barrel in the summer of 1920, the navy struggled to obtain Pacific Coast oil at a "reasonable" price, and even sought to commandeer oil supplies.5 Then, in 1921, the oil industry shifted, in the words of the Standard Oil Bulletin, from "a famine of crude petroleum" to "a period of oversupply." The surge in production came partly from the San Joaquin Valley, where the Harding administration and the 1920 Mineral Leasing Act eliminated obstacles to production. In the last six months of 1920, for example, thirty-four new wells in the Elk Hills field contributed 11 percent of California's total oil production.6 At the same time, new discoveries in the Los Angeles Basin began to shift the center of the industry. First came stunning new discoveries at Huntington Beach, Santa Fe Springs, and Signal Hill by 1921; then came discoveries at Rincon, Playa del Rey, and Venice soon afterward. More than 50 percent of California production came from the San Joaquin Valley fields in 1920. By the end of 1923, almost 70 percent of state production came from the flush Huntington Beach, Long Beach, and Santa Fe Springs fields.8 The intense development of small landholdings around Los Angeles between 1922 and 1923 increased California's average daily production by 68 percent, from 315,000 barrels per day to 530,000 barrels per day. In addition to the new discoveries, technological advances in refining pushed yields of gasoline per barrel of crude up from 23 percent to almost 40 percent during the 1920s.9
As prices plummeted in the early 1920s, Standard Oil, Associated Oil, and other larger companies closed wells in the older fields, holding off potential production estimated at 109,000 barrels per day. Other oil companies continued to operate in the newer fields, where production was more elastic. Yet in general, dramatic price reductions and public calls for production cuts did little to dampen output. The fixed terms of leases, terms that themselves reflected landowner competition over joint oil pools, compelled oil operators to continue producing. As statewide production climbed in 1923, Standard Oil spent $35 million building huge new reservoirs, some of which could store 3 million barrels of oil, near its El Segundo refinery in Southern California. By 1924, tanks and reservoirs in California stored approximately 97 million barrels of oil. Cheap California oil began to cut deeply into eastern markets, undercutting midcontinent producers. The California companies attempted in vain to coordinate a voluntary reduction in crude oil output to boost crude oil prices. At the same time, oil operators drilled hundreds of new wells in the same territory.

The orgy of production in California in the early 1920s, which surpassed petroleum output in other individual states like Texas and Oklahoma, alarmed state and national politicians. President Calvin Coolidge, still vulnerable on oil issues following the Teapot Dome scandal, created the Federal Oil Conservation Board, to be led by the secretaries of war, commerce, the interior, and the navy. “The future of the oil industry,” Coolidge declared in his 1924 letter of appointment, could not “be left to the simple working of the law of supply and demand,” because “the oil industry’s welfare is so intimately linked
with the industrial prosperity and safety of the whole people." Coolidge asked the Federal Oil Conservation Board to find ways to achieve greater conservation and efficiency in the oil industry. Between 1924 and 1927, the board focused its efforts on inefficient methods of oil production and consumption, criticizing what it called inappropriate uses of petroleum. Yet competitive production and generous public land and tax policies had increased output so much that only these "inefficient" end uses, such as using oil as an industrial fuel, provided sufficient markets to absorb all of the petroleum.

The California industry resisted these federal initiatives to adjust market dynamics. Privately, industry leaders mocked as irrelevant the effort to study the nation's energy needs and anticipate its future needs. Publicly, they harshly criticized federal action. At a 1924 meeting of the American Petroleum Institute, the institute president, Thomas A. O'Donnell, portrayed the oil industry as "akin to a man with a broken leg." But he did not "care to go to Washington for a doctor. If we did we might wake up to find that we had no legs at all." The industry challenged federal officials' claim that the country might run out of oil. The American Petroleum Institute described vast unexplored, promising territory in the United States and abroad and argued that oil shale, coal, and lignite could substitute for petroleum to produce liquid fuel and lubricants. There had been too much talk of scarcity, Kenneth R. Kingsbury, president of the Standard Oil Company of California, informed Secretary of the Interior Hubert Work in 1925. "Personally, I do not believe that such [a] shortage impends." Speaking on behalf of the American Petroleum Institute in 1926, the Republican politician and jurist Charles Evans Hughes celebrated the price mechanism in the oil sector and warned against federal action. The key to finding oil reserves in the future, Hughes declared, "must be freely moving prices." Higher prices in the future would "furnish an incentive for men and capital to take the large risks incident to an uncertain and hazardous enterprise." The flood of oil from the Southern California fields temporarily abated in late 1926, seemingly confirming Hughes's belief in self-regulating markets. Consumption increased significantly even as production from the overdrilled Southern California fields declined rapidly. After five years of steady increases in stored crude oil, the California industry drew down its stocks. Higher prices rewarded Standard Oil's past decision to shut down active wells and store crude oil. The company reported strong profits in 1926 and paid an extra dividend.

Then major new discoveries of oil in Texas, Oklahoma, and California reversed the situation and cast new doubt on the functionality of the national oil market. The Standard Oil Bulletin noted nervously in April 1927 that the new discoveries were "enough to make anyone wonder if the oil industry has really but scratched the surface." The frenetic development of new oil fields lowered prices for California crude by more than one-third and cut sharply into industry profits. Oil producers and refiners lost hundreds of millions of dollars. In the oilier fields, the "price of crude actually had fallen below the cost of production," when capital investment was taken into account. "A condition approaching almost complete demoralization ensued," according to F.B. Loomis of Standard Oil of California. Standard Oil saw its net profits on operations in 1927 drop by $9.35 million. Oil securities declined substantially, with the market value of thirty larger petroleum companies falling nearly $600 million in one year.

Low oil prices and declining profits finally prompted Standard Oil and other California companies to call for government action to boost prices. Loomis, who had earlier warned against government action,
now explicitly rejected the idea that freely moving market prices could bring the oil market into equilibrium. He now saw no way for the industry alone to "restore the balance between supply and demand." He proposed legislation to empower oil operators to jointly develop oil pools without violating antitrust laws, and to allow the state government to enforce these joint production agreements. Because any act that constrained an individual oil operator's ability to develop his property risked legal challenge, Loomis emphasized that state regulatory power would have to be invoked. The U.S. Supreme Court, he noted presciently, might uphold regulatory measures prohibiting waste of a valuable resource, but not laws that mandated production cuts solely to raise prices. The California legislature would adopt Loomis's strategy two years later by regulating the waste of natural gas produced in conjunction with oil production.

Loomis's 1927 recommendations demonstrated how momentum had shifted decisively toward governmental action to readjust market relations in the oil sector before the 1929 stock market crash. "We are about to enter a period which will witness more legislative proposals to control the production of oil and gas than have ever before appeared at any one time," wrote the Standard Oil employee Earl Wagy to company president Kenneth R. Kingsbury in September 1927. The Federal Oil Conservation Board, Wagy said, thought "the industry has been given its chance, that it has failed, and that national conservation and safety requires not only state but federal legislation." Standard Oil and others viewed these proposals warily but supported some government action. Standard Oil now fully endorsed the idea that the market, and prices, would have to be managed through cooperative action. Presidents Calvin Coolidge and Herbert Hoover called for greater industry cooperation and state legislative action to solve the problem of overproduction, as part of their broader philosophy of limited federal regulation and industry-government partnerships. A national "Committee of Nine" senior government officials and oil industry leaders blamed the industry's problems in 1928 on property law as applied to oil. A flood of oil resulted from each new discovery "regardless of economic demand," because there was "no property ... in the oil until it is recovered." Only joint action by oil operators could prevent the destructive "race between all the owners in the field to recover all each can." Although property rights lay at the root of the problem, the Committee of Nine thought it "wholly impracticable" to change the relevant law. Instead it proposed that states encourage cooperative field development, either through voluntary agreement or through coercive measures. The committee also advocated state legislation to prohibit natural gas waste and to permit oil producer agreements, otherwise illegal under antitrust law, that would curtail production in times of excess supply.

The Committee of Nine also urged the Hoover administration to restrict the flow of oil from federal oil lands by taking advantage of federal powers under the 1920 Mineral Leasing Act. These proposed management techniques depended wholly on the victorious struggle in the second decade of the twentieth century to retain federal ownership of public oil lands. In an April 1929 letter to the governors of Utah, Wyoming, and Colorado, Secretary of the Interior Ray Lyman Wilbur told the western governors that the new federal leasing strategy aimed to "reserve as much oil as possible." The Interior Department would release many permit holders and lessees from contractual obligations to develop leases, drill, or produce oil. The Interior Department also would curtail sharply new federal leases. The government would lease only the minimum portion of land required under law. "Lease of the remainder is discretionary," Wilbur declared. The Interior Department would not issue additional leases "until such action is required in the public interest." California similarly modified its leasing policies for the state-controlled oil lands at this time. Surveyor General William Kingsbury first tried to use his discretionary power to restrain coastal oil development. But the California Supreme Court ruled in Boone v. Kingsbury that California law required Kingsbury to issue coastal permits. The California legislature then approved a coastal drilling ban one month later, in January 1929.

Yet curtailing federal and state leasing could not contain the oil rushing onto the market in late 1920s California. Private landowners and government permit holders on the coast and in the San Joaquin Valley controlled too much of the state's petroleum resources. Property laws governing oil pools and fragmented landholdings spurred rival operators to produce oil as quickly as possible. As the San Francisco Chronicle complained, "Instead of leaving their oil in its natural storage place in the ground, producers are forced to hurry and get it out before the other fellow drains the field." Antitrust laws further prevented the private solution to overproduction that the Standard Oil Trust had employed with considerable success before the U.S. Supreme Court broke up the company. Industry leaders and their allies argued unsuccessfully in the late 1920s that the antitrust laws should be changed to allow companies to agree collectively
to cut production. Calling the California situation an “extreme case,” Oscar Sutro, chief lawyer for Standard Oil of California, said, “I don’t believe the law requires a man to produce something which he cannot sell or dispose of.” Sutro described excess oil in California as “something which cannot be the subject of competition.”37 The San Francisco Chronicle described oil producers as “up against a stone wall” with antitrust laws and urged Congress and the state to differentiate between “combinations in the public interest and combinations intended to gouge the people.”38 The Chronicle editors and antitrust critics like Sutro thus rejected the idea that market prices alone should determine the oil trade. Yet the oil industry also resisted the public supervision that antitrust laws made a precondition for industrial cooperation and consolidation.39

Disciplining California’s oil market required industry leaders and the state and federal government to regulate production more aggressively. Industry and government leaders embraced three legal and political strategies to conserve oil in the winter of 1929. First, California pursued oil production cuts under the guise of a state natural gas conservation law. Second, the Department of the Interior sponsored the cooperative development of the Kettleman Hills field in the San Joaquin Valley as a national model for the management of an oil field as a single unit. And third, the oil industry continued its struggle to reduce oil production through voluntary production curtailment agreements. Although sharply different approaches, these three strategies all sought to overcome the problem of collective action in the California oil fields by coercing or persuading oil producers to limit their production of oil, within the bounds of state and federal antitrust laws.

STATE POLICE POWER: CALIFORNIA’S 1929 GAS CONSERVATION MEASURE

How could California control its output without regulating oil production directly? The state feared violating antitrust laws by overstepping its powers. Instead, the legislature found a way to regulate the industry indirectly by targeting the natural gas waste triggered by oil production. Petroleum and natural gas are commonly found together in underground deposits. The natural gas pressure often helps lift the heavier oil up through wells, after which it escapes, burns off, or is captured. On average, in the spring of 1929, the California oil fields simply blew into the air more than 620 million cubic feet of natural gas every day.40

Annual demand for electricity in Los Angeles could have been met by less than four days’ worth of the escaping natural gas.41 Stopping this waste of natural gas gave California the excuse it needed to limit oil production in its flush fields. Oil industry leaders proposed a gas conservation bill, which cleared through the industry-friendly Senate Oil Industries Committee, and which Governor Clement C. Young signed in May 1929.42 The amended Oil and Gas Conservation Act prohibited the “unreasonable waste” of natural gas, defined broadly as the “blowing, release or escape of natural gas into the air.” Procedurally, the natural gas conservation act empowered the Department of Natural Resources to determine whether unreasonable “waste” was occurring or threatened to occur. The oil and gas supervisor then could order the responsible parties to stop wasting the gas. If they refused, the department could sue to enforce the order.43 The legal basis for regulating oil production in a similar fashion was doubtful: so long as consumers purchased and used the oil, or producers safely stored it, no “waste” of oil occurred. Low oil prices did not indicate resource waste that warranted state regulation, whereas natural gas blown into the air possibly did.

Although the conservation measure nominally targeted natural gas waste, it truly aimed at oil production. Industry leaders and investors hoped that it would solve the collective action problem facing the oil industry. The Standard Oil Bulletin called natural gas conservation a cure for “demoralization and chaos” in the oil industry. Outlawing excess gas production would curtail the overproduction of oil, increase the overall recovery of petroleum, and eliminate the expense of storing oil. By bringing “supply and demand more nearly into balance,” the law would “prolong California’s supply of both oil and gas.” The importance of successful enforcement of the measure could “hardly be overstated,” said the Bulletin.44 The American Petroleum Institute’s president, E.B. Reese, proclaimed optimistically that overproduction would be “solved within a year, with California holding the key to the solution.”45 The seven major oil companies, which would benefit most from laws controlling flush production by small operators, formed the Gas Conservation Association to support the gas legislation and its enforcement.46

But the indirect control of oil production through natural gas conservation proved a convoluted policy. Many smaller oil operators tried to stop enforcement of the gas conservation law, seeking to prevent the state’s efforts to change oil and gas production methods, for the
particular benefit of the major producers. Small producers, whose limited landholdings left them vulnerable to neighboring competitors and in need of cash, often felt compelled to pump rapidly. By cutting back their production, the law would help sustain crude oil prices. But because some operators had contracts to dispose of their natural gas, two neighboring oil wells might produce the same natural gas, but only one would "waste" it. Regulating natural gas made sense if its waste were the target, but not if excess oil was the real problem. Producers who could sell their gas did not have to reduce their oil production.  

The state began to enforce the law in the fall of 1929 by going to court to prevent dozens of oil operators from wasting natural gas at fields in Santa Fe Springs, Signal Hill, Ventura, and Kettleman Hills. All but three operators complied in Santa Fe Springs, cutting oil production almost by half. But angry landowners and oil operators—the three noncompliant producers at Santa Fe Springs and resisters in other fields—pursued a series of legal defenses and countersuits to block enforcement. They argued that "arbitrary" gas production orders violated due process and equal rights guarantees under the state and federal constitutions and constituted uncompensated regulatory takings of private property for public use. The defendants also criticized the law's vague standard of "unreasonable waste." No market existed for the natural gas, the Santa Fe Springs operators insisted, and if they were to use gas as a lifting force for oil, its most important use, then some must escape. The California oil industry anxiously awaited court rulings on the constitutionality of the natural gas conservation statute.  

The California Supreme Court ruled the gas law constitutional in People v. Associated Oil Company et al. in December 1930, affirming California's power to regulate the use of natural resources and prohibit unreasonable waste. The crucial distinction between the physical waste of natural resources blowing into the air and "economic waste," in which oil production exceed market demand and drove down prices, thus protected the gas law from the constitutional challenge. The court dismissed three Santa Fe Springs companies' contention that the law's enforcement cut production excessively, harmed property, or unduly failed to recompense for alleged loss. Despite the history of California's gas conservation act, which had been drafted by oil industry lawyers and pushed through by their allies, the court denied that the real purpose of the statute was "to regulate and stabilize the market price" of oil. The California Supreme Court instead commented on the tremendous economic importance of the oil and gas industry and noted with confidence a long line of cases establishing that the public's interest in natural resources justified legal intervention to prevent their waste.  

Even though the courts upheld the gas law's constitutionality, the oil industry realized by 1931 that the law could not tame the oil market. In the extraordinary Kettleman Hills field, A.L. Weil of the California Oil and Gas Association pointed out, operators could "absolutely swamp the Los Angeles Basin area and other fields" with oil, without wasting any gas. Standard Oil's president, Kenneth R. Kingsbury, whose company dominated Kettleman Hills, confirmed this in an October 1931 letter to Ray Lyman Wilbur, secretary of the interior, telling Wilbur that he was "unduly alarmed" about gas waste at Kettleman Hills. A year ago, 300 million cubic feet of natural gas had blown into the air. Now, due to technology for controlling and capturing natural gas, only 17 million cubic feet escaped from the field as a whole. Standard Oil was installing compressor stations so that the company's remaining 8 million cubic feet could enter transmission lines. Gas waste had been "definitely overcome as far as this field is concerned," Kingsbury wrote. Still hoping that California could use gas waste as a pretext to control oil production, Secretary Wilbur asked whether Standard Oil could share its consumer market for gas and refrain from developing its own petroleum properties further. But Standard Oil saw no need to share its economic advantage. The exchange underscored the long-term ineffectiveness of the natural gas conservation act as a mechanism for controlling oil production. By capturing and marketing the gas that previously blew into the air, Standard could produce oil at will.  

FEDERALLY SPONSORED COOPERATION: THE KETTLEMAN HILLS CONSERVATION PLAN  

What could the federal government do to advance oil conservation that would be consistent with President Hoover's idea of limited federal regulation of business affairs? Federal power to regulate private economic activities remained circumscribed. Having transferred most California oil lands into private hands, federal officials could not specify production practices, shut down oil wells in the name of conservation, or regulate gas production. These police powers rested with the state government alone in the late 1920s, at least according to the Hoover administration. Secretary of the Interior Ray Lyman Wilbur, a former medical professor on leave from the presidency of Stanford University, tried to figure out how the federal government could help resolve the problem of split
ownership of oil pools, which caused neighboring operators to maximize their share of production. Wilbur thought that the three geologic domes of Kettleman Hills in the San Joaquin Valley, located to the north of the contested Elk Hills and Buena Vista Hills naval oil reserves, offered him a unique opportunity to exercise conservation leadership in 1929. The petroleum beneath the domes lay more than seven thousand feet below-ground, and oil operators had not developed the drilling technology to strike oil there until the late 1920s. This fortuitous delay in development enabled Wilbur to intervene before competitive development spiraled out of control. The federal government also still owned between one-quarter and one-third of the Kettleman Hills oil lands, strengthening Wilbur's hand considerably. Standard Oil, which had purchased the Southern Pacific Railroad Company's land grant holdings, owned approximately half the Kettleman Hills field, providing a key partner. Major oil companies also controlled most of the federal and private leases in the area. They could satisfy their need for petroleum elsewhere in California and leave their Kettleman Hills leases untapped.

Kettleman Hills thus presented Wilbur with a unique opportunity to slow oil development by federal lessees and neighboring operators and increase production efficiency. Only the North Dome of Kettleman Hills had been drilled in 1929, and only General Petroleum and the Milham Exploration Company operated wells at that time. Drilling new wells would take at least nine months, giving Wilbur time to negotiate with federal permittees and others to act to conserve oil in the three domes. Wilbur sent George Otis Smith, longtime director of the United States Geological Survey, to meet with federal lessees and help devise a conservation plan. Describing Kettleman Hills production as a menace to the nation's oil markets, Smith warned that the interior secretary would cancel or regulate federal leases to enforce conservation if oil operators could not reach a voluntary agreement. Wilbur and Smith's strategy at Kettleman Hills depended heavily on federal land ownership, for without title the federal government lacked clear authority to intervene.

After months of hard negotiation, Smith successfully persuaded oil companies operating at the Middle and South Domes of Kettleman Hills to delay production for at least eighteen months. Speaking during a visit to the San Joaquin Valley, Wilbur placed the summer 1929 agreements in the context of a larger oil conservation agenda that would make producers "see the wastefulness of drilling when oil is not needed." Wilbur and other Interior Department officials deserved ample credit for achieving the Kettleman Hills agreements.

Halting drilling at the South and Middle Domes, where it had not yet begun, was far easier than Wilbur's next goal: persuading the North Dome operators to manage that field as a unit. Several additional companies, including Bolsa Chica Oil, George F. Getty Oil, Pacific Western Oil, and the Petroleum Securities Company, had begun to build roads and commence other preparatory work for drilling in the spring of 1929. Each well potentially would provoke offset drilling by adjoining landowners. By contrast, at the Middle Dome, only the Shell Oil Company had drilled a well, and the company agreed to delay development on the condition of unanimous agreement in the field. Further complicating the North Dome situation, Milham Exploration Company's initial discovery well, Elliott No. 1, continued to blow wildly out of control nine months after being tapped in October 1928. To deplete the tremendous gas pressure driving the well, the government and the field's operators planned to drill four offset wells nearby. But neighboring operators feared that their own holdings would lose oil or vital gas pressure to the offset wells.

George Otis Smith finally persuaded operators and landowners at the North Dome to shut down the field in September 1929. Secretary Wilbur hailed the "striking result," calling the agreement a model for how governments and companies could manage oil fields nationwide through conferences and mutual consent. Looking beyond the halt to development, Secretary Wilbur proposed operating the North Dome field jointly as one producing unit. By avoiding destructive competition, field operators would conserve natural gas and produce oil more efficiently. ""The problem is in the split ownership," Wilbur said. "If the Government, which owns about one-third of the field, owned all of it or one large company owned it all, the matter would be simple." Kettleman Hills operators responded coolly to Wilbur's unit plan, until a crisis at the North Dome radically altered their position. Petroleum Securities, operating a lease on private lands not party to the agreement to stop production, completed a well that stood capped and ready to produce. The landowners reportedly insisted that the company open the well. A general drilling race threatened to ensue, with six offset wells immediately anticipated. Wilbur and the companies rushed the unit plan forward to save the existing conservation plan.

To bolster their case, the state and federal government also used the California natural gas conservation law as a legal lever to advance a "voluntary" conservation agreement on operations at the North Dome. The California director of natural resources, Fred Stevenot, sought a court injunction to restrain Petroleum Securities, arguing that
its well would prompt operators to open other wells, potentially unleashing up to 500 million cubic feet of natural gas daily into the air. Secretary Wilbur, traveling again to California in January 1930, warned that, if his voluntary plan failed, the operators might “find California’s gas conservation law jammed down their throats.”

Under Wilbur’s plan for joint management, an operators committee would determine production levels and divide pooled output, thereby increasing efficiency and conserving oil while eliminating competition. To facilitate federal participation, Wilbur and President Hoover obtained congressional authorization to work with private firms to reduce wasteful competition over the next eighteen months. The federal law revealed growing congressional enthusiasm for industrial cooperation and planning. The need for special authorization also sparked fresh criticism of the antitrust laws. “What a law—this Sherman act—which has to be chained up by a special act of Congress to permit some useful thing to be done!” the San Francisco Chronicle complained.

The Kettleman Hills situation replicated the competitive property regime for oil across California and the nation. Wilbur was determined to show that the problem could be solved through industrial cooperation, by demonstrating the cost savings, gas conservation, and engineering efficiency of joint operation. Operators typically rushed to develop their holdings regardless of market demand or consequent waste, Wilbur explained. “The man who gets his well down first, and who sucks the hardest, is the man who wins.” By contrast, under a unit plan, participants produced oil only when there was a market for it. Wilbur believed widespread unit development could double the value of the nation’s oil fields by increasing recovery of oil from the fields. Wilbur and Smith pressed their North Dome unit plan during the fall of 1930, warning of the perils of failure. “If the lid was taken off the Kettleman wells[,] all of the other wells of California would be forced to shut down,” Wilbur said. “We have been sitting on the lid out there for some months, working on a cooperative plan, but the lid is getting tilted more all the time.” A “disaster” would occur “if we don’t fasten it down.”

Under the shadow of California’s natural gas litigation against twenty-eight Kettleman Hills companies, the North Dome operators finally worked out a unit agreement in mid-October 1930. The North Dome companies would operate the area in two units, each controlling about 50 percent of the productive acreage. One unit consisted solely of Standard Oil, on the old Southern Pacific sections. The other unit would combine all the other operators into the Kettleman North Dome Asso-

Struggle to Control California Oil Production

ation (KNDA)—a corporation to develop and produce oil and gas under agreement with the secretary of the interior, landowners, and operators. The KNDA agreement planned one well for every twenty acres in the field, in contrast to common town-lot drilling of one well on less than two acres. The major companies that dominated the KNDA particularly sought to eliminate natural gas waste, since the deep Kettleman Hills oil wells depended heavily on gas pressure to lift petroleum more than seventy-five hundred feet. The Department of the Interior partially paid for the unit agreement, which Wilbur considered “one of the major steps toward conservation taken by this department.” In exchange for the agreement, the department lowered government royalties, arguing that greater efficiency would increase the overall returns to the treasury. The difficult negotiations did not end when operators signed the unit agreement, however. The KNDA, Standard Oil, and nonparticipating oil operators in Kettleman Hills “argued and fought” over their share of production and continued to renegotiate the terms.

Wilbur hoped his Kettleman Hills work would provide a model for oil operators to replicate in California and around the country. But his difficulty in obtaining a unit production agreement for the North Dome, and then subsequently for the Middle Dome, only underscored why other oil fields did not embrace unit agreements as a way to resolve the collective-action problem pervading the entire industry. If it took the Interior Department, Standard Oil, and the other major companies two years to conclude the North Dome arrangements, how would operators and landowners in the crowded oil fields at Santa Fe Springs, Signal Hill, or Huntington Beach reach similar agreements? In those fields, small landowners eager for quick oil royalties would not allow their lessees to delay drilling or even cooperate with neighboring producers to develop a common pool more efficiently. The Mineral Leasing Act of 1920 accounted for the difference between the Kettleman Hills outcome and the government’s lack of success on other former public lands in California. At Kettleman, the federal government retained significant ownership rights and thus could pressure its lessees into a conservation plan. Elsewhere, the government had only a bully pulpit.

STATE-SANCTIONED CONTROLS: “VOLUNTARY” STATEWIDE CURTAILMENT

California’s natural gas conservation act and the federally sponsored unit agreements at Kettleman Hills applied only to select parts of the
industry. Where companies wasted relatively little gas or where a unit plan lay far beyond reach, what could be done to contain oil production? Many in the California oil industry sought more direct statewide control of production. An oil industry committee began orchestrating statewide oil curtailment in early 1929, with the backing of Governor Clement C. Young. Under the voluntary curtailment system, the committee hired "oil umpires" to estimate California demand and specify allowable production for the different oil fields and producers. The California industry entered into a partnership with the state government. The government authorized the industry curtailment program, but, as the head of Shell Oil’s California operations explained, the oil umpires worked for the industry as "a branch of our own business and wholly financed by us." 36

Although the major oil companies vigorously supported voluntary curtailment, many smaller oil operators again refused to comply. Many believed that the major companies sought simply to create market opportunities for their foreign petroleum reserves. Vern Dumas, president of the Independent Petroleum Association of California, saw "neither equity nor justice" in cutting domestic production while major companies shipped in "unrestricted foreign oil." At the same time, many smaller oil operators needed to keep their wells flowing, even at low oil prices, to meet short-term financial obligations and maximize their share of a common oil pool.

Because of resistance to curtailment, the industry called off the voluntary program following passage of the natural gas conservation act in the spring of 1929. The major companies hoped that the act would force small well owners to cut back on production instead. However, the gas law proved inadequate. Constitutional challenges delayed its full implementation, sending it to both the California and the United States Supreme Courts, where it was upheld. Furthermore, gas conservation controlled oil production only indirectly. As oil operators improved their ability to capture and market natural gas, it quickly became evident that gas conservation alone would not restrain state oil production.

The failure of the gas law to cut oil production sufficiently prompted industry leaders to revive statewide voluntary curtailment shortly after the gas law’s troubled implementation. California’s oil curtailment committee ordered a sixty-day statewide cut of 15 percent in March 1930 to force oil production to match estimated demand. The curtailment order limited production by nine leading California fields, with a potential daily output of 644,966 barrels of oil, to 379,031 barrels per day. In addition, the curtailment order cut back production by thirty older, settled fields, with an estimated potential production of 365,420 barrels, to 216,646 barrels per day. By March 15, California oil operators had cut daily production from 750,000 barrels to 644,464 barrels. But compliance with the curtailment policy varied widely. Within a week, Santa Fe Springs operators had brought production down to 8,000 barrels over their stipulated daily allowable production, and Ventura operators to 2,000. In the Richfield, Huntington Beach, and Signal Hill fields, however, operators largely ignored the curtailment program. Rather than cut back production, oil operators brought in ten new wells at Signal Hill during the first two weeks of March alone.

Independent oil operators in Southern California resisted the constraints of the curtailment program as it dragged on through the spring of 1930. In fields such as Signal Hill, where twenty-five smaller producers refused to comply, curtailment faced “absolute failure,” reported the San Francisco Chronicle in May 1930. The Signal Hill disappointment underscored how much “voluntary” curtailment, like the more traditional state regulation, also depended on coercion to function effectively. The major oil companies pressured violators. “To whip mutinous operators into line,” reported the Chronicle, the major pipeline companies would refuse to purchase their oil. To penalize the Signal Hill field producers for recurrent violations, the statewide curtailment committee also cut back the field’s allotment. Likewise, to discipline Playa Del Rey producers for doubling their allotted output, the major companies refused to purchase Playa Del Rey oil until the field complied. And when Santa Fe Springs producers resisted the curtailment order, major oil companies cut prices sharply to subdue recalcitrant operators. Herbert MacMillan, president of the California Oil and Gas Association, glossed over this coercion when he praised the “cooperative” spirit whereby California operators cut production. Difficulties at Santa Fe Springs would be “ironed out within a few days,” he said.

Oil curtailment countered the drive toward competitive production that resulted from the property politics and law described in earlier chapters. Slightly lower production and increased shipments to Atlantic Coast markets had reduced stored California crude oil by nearly 8.5 million barrels by the end of August 1930. At the same time, however, oil operators continued to drill many new oil wells, worsening overproduction. California oil operators completed fifty-nine new wells in August 1930 alone, increasing California’s potential oil production by
an estimated 53,064 barrels per day. The coastal oil boom in Santa Barbara County had just ignited, following the California Supreme Court’s Boone ruling upholding state permits. Pacific Western brought in 12,000 and 15,000 barrels per day from wells on state leases at Ellwood. After establishing a high potential output for curtailment purposes, the company “pinched back” the wells’ output, but they continued to produce. To make room for new wells at the Signal Hill, Venice, Ellwood, and Kettleman Hills fields, operators in other California fields, particularly older ones such as the Midway Valley–Sunset, Elk Hills, and McKittrick fields, further cut their production.

Lower oil production intentionally raised crude oil prices, which squeezed refineries. Independent oil refiners in Los Angeles urged Standard Oil, California’s leading company, to raise retail prices for gasoline in September 1930. So long as higher crude oil prices remained in effect, the Los Angeles refiners could not run profitably at the low retail gasoline prices set by Standard Oil, which set the standard for contracts. Independent refiners who also produced oil threatened to overthrow the entire curtailment program by opening their wells to full capacity. Standard Oil quickly created a greater opportunity for refining profits. The company increased its retail price of gasoline by one cent per gallon and lowered its payment for crude oil by eight to twelve cents per barrel. The other major companies immediately followed Standard Oil’s lead, raising retail gasoline prices and cutting payments for crude oil.

Standard Oil, which had ridiculed the Federal Oil Conservation Board’s early initiatives, now quoted former President Coolidge to justify its market manipulation. Conservation promised “stabilized value and price” over the long term rather than low prices during periods of excessive production and high prices when scarcity arrived. Standard Oil and the California oil industry generally had repudiated free-floating prices, choosing instead to try to influence the price structure for oil and gasoline. Calling for yet another production cut, now to five hundred thousand barrels per day for all producers, the California Oil and Gas Curtailment Committee’s chairman, Paul Boggs, described curtailment as the only way to “maintain a semblance of prosperity in the oil industry.” Boggs predicted that curtailment would remain in effect in California for several years. The curtailment program still fell short of its goals, however, with fields such as those at Venice and Santa Fe Springs producing significantly more than their share.

Divergent interests within the oil industry undermined the voluntary curtailment program, as they had the natural gas act and the Kettleman Hills unit plan. Larger oil companies benefited most from oil production limitations, since they could hold oil off the market and wait for higher prices. Smaller oil operators and refiners often had to sell their product without regard to price; and many believed, sometimes correctly, that limiting production would bring financial ruin. Restrictions on oil well output increased a producer’s average cost per barrel and the time required to amortize the investment. Simply to meet overhead costs, an independent producer might feel compelled to violate curtailment orders or natural gas restrictions and increase output. The curtailment program further undercut independent producers by constantly ratcheting back production quotas to allow for new wells. Curtailment programs also limited the oil available to independent refiners, threatening their survival. Many companies thus had compelling financial reasons for continuing to produce in the face of low market prices and in violation of curtailment orders.

The fractured nature of property ownership further disrupted efforts to manage oil production. Divided land ownership spurred competitive production among neighboring producers. Court-appointed bankruptcy receivers were legally obligated to maximize production to serve the interests of creditors. Divisions also existed within an individual lease. Although some operating companies were able to gain approval for voluntary curtailment, in other instances royalty-owners and landowners sued operating companies for breach of contract when they tried to curtail their output.

Even those oil operators who supported curtailment disagreed about how to implement it. Many major companies complained that they bore too much of the burden, and they sought to increase their share of production by changing the rules. In 1931, for example, J.A. Brown of General Petroleum urged the state to permit oil storage to base allowable production on a company’s total oil reserves, regardless of well completion or proven production potential. He complained that the prevailing system, which depended largely on the estimated production potential of completed wells only, forced companies to drill new wells to “increase their potentials.” Brown’s proposal reflected the difficult position of companies like General Petroleum and Pacific Western, which held considerable undeveloped oil land and sought to maintain their share of total production without having to drill new wells. By contrast, the oil developer Ralph Lloyd, whose Ventura landholdings did not include extensive untapped oil lands, preferred the existing system. Lloyd confirmed Brown’s complaints, however, by urging his
lessee, Associated Oil, to drill new wells in order to maintain its “relative position” in the Ventura field. Rather than resolve the underlying competitive pressures causing overproduction in California, the state’s voluntary conservation program introduced new episodes of gamesmanship, encouraging landowners and operators to drill new wells to protect their share of allowable production.

CONCLUSION

California experimented between 1929 and 1931 with three distinctive strategies to control oil production: a state natural gas conservation law, federally sponsored unit agreements, and voluntary statewide curtailment. In different ways, each strategy sought to overcome the problem of competitive production that had been created by the American system of property rights in oil and the history of breaking up and generously distributing public oil lands in California.

The natural gas conservation act used the cover of natural gas “waste” to skirt the antitrust laws that seemed to prevent California from restricting oil production simply to raise prices. The gas law successfully contained the most egregious cases of excess gas production, as at Santa Fe Springs. It also helped stimulate a market for natural gas in San Francisco and other urban areas. But because the gas act did not target oil production directly, it could not cope with the severe overproduction of oil in 1930 and 1931 and with technological advances, such as compressor stations, that enabled operators to break the connection between wasting gas and producing oil. Enforcement also quickly became tied up in litigation, with the constitutionality of the gas law uncertain until the U.S. Supreme Court upheld the California Supreme Court’s ruling in 1931.

Federally sponsored unit agreements attempted to solve the problem of waste and overproduction by rewriting U.S. public land policy. After the federal government had thoroughly fragmented oil lands and petroleum rights in the process of distributing the public domain, Secretary of the Interior Ray Lyman Wilbur and Geological Survey director George Otis Smith struggled to put the pieces back together. Wilbur and Smith negotiated with, cajoled, and threatened oil operators for two years before they successfully created a unit to develop Kettleman Hills oil cooperatively. But only the special combination of dominance by the federal government and Standard Oil, coupled with the later timing of the oil field’s development, made this strategy feasible.

The statewide curtailment program aimed to solve the competition problem through voluntary cooperation with mandated production cuts. The program somewhat restrained state oil production, but curtailment “umpires” lacked the power to bring recalcitrant operators into line. The split between major companies like Standard Oil and minor companies—which had thwarted effective management of coastal oil development—also undermined efforts to curtail oil production. Industry efforts to manipulate the market and control errant producers underscored similarities between monopoly, self-government by trade groups, and regulation by the government. In each of these strategies, the critical importance of public authorization and a comprehensive, enforceable grip on production illustrated how far the oil market was from being a “free market.”

Many in the oil industry, particularly the major companies, supported these three initiatives in hopes of raising oil prices. Every promising advance in curtailment brought renewed optimism about the state of the industry, a paradoxical situation in which drastic cuts in output signified progress and boosted company stock prices. Industry leaders insisted that curtailment “did not mean that prices were going to be rigged up, and the consumers made to bear the burden.” But higher oil prices through lower production were clearly the operators’ primary goal, even if they dovetailed with the desire of some government officials to conserve a nonrenewable resource. Each strategy achieved partial success but, ultimately, failed to contain the greater excesses. Overproduction continued to drive oil prices down in early 1931. Politicians and California oil operators desperately sought sterner state and federal action to compel compliance with statewide curtailment of oil production.
Federalism and the Unruly California Oil Market

Oil prices remained ruinously low in early 1931, and the industry, according to the business leader Mark Requa, was "out of hand." Government and business leaders in California intensified their efforts to coordinate and control the oil market. California oil operators and state politicians grasping for ways to eliminate "destructive competition" experimented with state regulation, with a private cooperative sales agency for smaller California firms, and with federal regulation.

The twists and turns in petroleum regulation in 1930s California demonstrated the historical role played by both federalism and direct democracy in twentieth-century United States politics. Many politicians and lawyers in the 1920s and 1930s believed that regulatory power over petroleum production and other industries still rested with state governments, and the state and federal governments jostled with one another over responsibility and jurisdiction. National governance made logical sense for an increasingly integrated domestic oil market, but state governments and the oil industry also feared state control would be supplanted by direct federal regulation. They were alternately drawn to and repelled by national solutions. In this state-federal dynamic, California's experience differed from that of states like Texas, where more effective regulatory procedures were instituted in 1930. In California, ballot referendum votes, which had derailed the state's efforts to resolve its tidelands oil controversy, twice overturned oil control bills passed by the California legislature. The state's inability to regulate oil production sped the depletion of its oil fields. By World War II, California, which had led the nation in oil production in the 1920s, verged on becoming a net oil importer. As in Texas, Oklahoma, and other states, however, California's ongoing struggle to cut oil output by private and public means, did somewhat dampen petroleum production and helped sustain oil and gasoline prices.

California oil producers and state government leaders explored national limits on imports as a way to solve the oil market problem in early 1931 but were turned away by the Hoover administration. At a conference of major oil-producing states in Washington, D.C., to which California governor James Rolph sent twenty-three representatives, independent oil companies pressed for federal action to protect domestic oil producers. Kansas's Democratic governor Harry H. Woodring accused Standard Oil of Indiana of "laying waste" to his state's fields by importing inexpensive oil. The meeting participants demanded a partial embargo on crude oil imports from abroad and an outright ban on refined imports to relieve unemployment and economic distress in the oil-producing states. These protectionist measures did not resonate with the Hoover administration's oil policy or with the major oil importers.

Secretary of the Interior Ray Lyman Wilbur called instead for a congressionally approved interstate oil compact. An interstate compact would provide for uniform state conservation laws and consistent enforcement, bringing "fair play" and "sensible planning." Wilbur also emphasized the importance of preserving the gas content of oil pools, permitting unit development as at Kettleman Hills, and prolonging the life of fields. Wilbur hoped new markets would solve the problem of an oil glut. Wilbur made clear that the Hoover administration also would not support the stronger federal oil conservation initiatives demanded by the major oil companies, declaring in April 1931 that "the States, which possess the necessary police power, must be the active factors." Wilbur insisted that the United States constitution prevented the federal government from intervening in the oil market, since oil production did not constitute interstate commerce. "We have to face the practical problem that until the law is changed those charged with duty must see it through," Wilbur wrote Standard Oil of California's Francis B. Loomis. Wilbur urged Standard Oil to "control this California situation within the State and through the state authority on the basis of gas conservation."
PASSAGE OF THE SHARKEY BILL

Rebuffed at the federal level, the major California oil companies turned to their state legislature in early 1931 to put more of the muscle of government behind oil conservation. The oil companies particularly sought to bolster the faltering statewide voluntary curtailment program, and some looked to Texas and Oklahoma for model legislation. The Texas Oil Company lawyer C.C. Stanley proposed empowering the California Railroad Commission as an “impartial tribunal” to use “the power of the state” to regulate oil production firmly and directly. But most California oil operators feared having an independent state regulatory agency. Stanley’s failed proposal illustrated the ambivalence California oil producers consistently felt toward government regulation. They wanted enforcement power to facilitate collective action, but resisted accepting the public responsibilities and obligations that an independent state agency might impose.

The major companies in California instead advocated conservation legislation that would enable greater control by industry. The Contra Costa County Republican William R. Sharkey introduced a bill drafted by A.L. Weil of General Petroleum to establish an industry-dominated oil commission to regulate California oil production. Sharkey, whose senate district included Standard Oil’s Richmond refinery and who chaired the oil industries committee, also introduced a bill drafted by Weil that would bar future town-lot drilling and reduce competitive production by setting well-spacing requirements for new drilling. As the major California companies lobbied for these initiatives in the spring of 1931, they resisted interstate collaboration. They viewed the growing interstate effort, which culminated in the Interstate Oil Compact, as a threat to their more promising state-based legislative agenda, and California never did join the compact.

The California industry’s effort to pass an oil control bill came amid widespread concern about startlingly low gasoline prices and accusations that major firms were underpricing their gasoline to drive independent companies out of business. The debate over instituting gasoline price controls exposed the contradictory rhetoric surrounding regulation. The major companies fought direct controls on gasoline prices, celebrating the “free play of the economic law of supply and demand” even as they sought to regulate the crude oil supply. How could gasoline prices and production remain subject to the full “operation of economic laws” when a state commission restricted production in order to stabilize prices?

The major companies evaded this contradiction and jointly pushed forward the Sharkey bill to create an oil commission that combined industrial self-government with the enforcement powers of the state. To forestall suits charging price-fixing, the Sharkey bill defined “waste” to include production of crude oil when current and stored production exceeded the current requirements for use inside and outside California—in other words, the legislature said that producing oil when there was no reasonable market for it constituted waste. Under the bill, companies in California’s five oil districts would elect industry representatives to determine whether wasteful overproduction of oil existed, set a desirable level of production for the state, and fix allowable production in each field. The oil commission could order a person or corporation to stop wasting oil, and order a property closed until an operator obeyed the production order. The Sharkey bill also required that producers allow the commission to inspect records of producing properties. It provided for public hearings and for recall votes of elected commissioners.

Although the major oil companies claimed that the Sharkey oil commission would bring “financial security,” some independent operators, represented by the Independent Petroleum Association of California, complained about the “great hardship” that the Sharkey bill would impose. A.T. Jergins, an Independent Petroleum Association leader, called instead for a protective tariff or embargo and warned against dominance of the oil commission by the major companies. Other independent firms, particularly midsize operators like Pacific Western and large oil-land owners such as Ralph Lloyd, embraced the commission proposal. Anxious about the loss of revenue from low prices, they believed they would fare better under a system that brought lower production at more stable, higher prices.

The legislative debate on the Sharkey bill highlighted the tricky relationship between oil production controls, gasoline prices, and industry profits. Higher prices for oil and gas would increase energy costs for consumers and other industries in the state. “Why does the oil and gasoline industry require public authority to interfere with the law of supply and demand any more than other industries suffering from price depression under competition by reason of over-supply?” asked James S. Bennett, the lawyer employed by California to enforce its Natural Gas Conservation Act. Bennett supported oil production controls, but he thought the new state oil commission needed to protect the public
against prices being stabilized at a “too high” level. Bennett noted that, in nearly all other state industries, prices dropped when supply exceeded current market demand: “Anything that increases [the] cost of supplies used by these other industries in the face of lowered market prices for their products increases their difficulties.” Bennett thought low-cost, high-quality Kettleman Hills oil had created a condition of “permanent oversupply” that threatened to drive out of business “the independent producers of crude oil.” Only oil curtailment would avert the disaster of “unregulated competition.” At the same time, production controls had to be carefully designed to avoid “untoward economic effects elsewhere.”

Governor James Rolph signed the Sharkey bill into law in June 1931, establishing a state oil commission and barring future town-lot drilling, as had occurred in Los Angeles Basin communities like Santa Fe Springs and Huntington Beach. Petroleum company stock prices rose sharply amid anticipation of higher gasoline prices and general optimism that the industry was being put on a “sound basis.” Standard Oil of California’s president, Kenneth R. Kingsbury, optimistically described to Walter Teagle, his counterpart in New Jersey, “a very general feeling throughout the industry here that overproduction of crude and gasoline must stop.” Kingsbury did not know how long this feeling would last, but he trusted the Sharkey bill to stabilize the industry. “Our new law[,] which has some real teeth in it[,] will be effective in August,” Kingsbury wrote Teagle, “and then I expect the recalcitrant operators can be made to toe the mark.”

After Rolph signed the Sharkey bill, however, the “recalcitrant operators” turned to the referendum process to continue their fight. By the middle of July, the bill’s opponents, led by the Independent Petroleum Association of California, had collected over one hundred thousand names on referendum petitions, forcing a special vote in May 1932 to determine the fate of the oil measure. At the same time that the industry debated whether to force production cuts, Huntington Beach oil operators were forcing a ballot referendum vote on whether California could lease its Huntington Beach tidelands field. California’s system of direct democracy thus enabled smaller independent oil operators who could not achieve their goals in the legislature to appeal directly to voters in an expensive referendum battle. In both ballot referendums, the companies sought to promote oil production, either by repealing the Sharkey bill or opening the Huntington Beach field to oil operators.

Figure 14. The Ventura landowner Ralph Lloyd bridged the old and new West, investing his oil wealth in real estate and malls in Los Angeles and Portland, Oregon. (Courtesy of the Ralph Lloyd Papers, Huntington Library.)

PRODUCTION CONTROL THROUGH PRIVATE CONTRACT: THE OIL PRODUCERS SALES AGENCY

Even as the Sharkey bill gained momentum in the spring of 1931, some of the smaller oil operators simultaneously pursued a private effort to “bring order out of chaos” and increase prices for their oil. The independent oil operator Ralph Lloyd led the organizing effort. The son of a Ventura rancher, Lloyd had studied geology at Berkeley and correctly predicted that significant oil deposits lay beneath the ranchland in Ventura County. After drilling several successful wells in the early 1920s, Lloyd began to turn his oil wealth into real estate holdings, particularly in Portland, Oregon. Lloyd’s conversion of Southern California’s natural oil wealth into malls, golf courses, and office buildings mirrored a larger transformation occurring up and down the Pacific Coast in the early twentieth century.

Lloyd believed fiercely in private initiative and enterprise and strenuously opposed the growth of government planning and regulation. At the same time, he condemned the chaotic state of the oil market in 1931 and urged voluntary reductions in oil output. To address the problem of low
oil prices, Lloyd and his colleagues at Getty, Pacific Western, Superior, and other oil companies created a nonprofit Oil Producers Sales Agency (OPSA) to market their oil at higher prices. OPSA grew rapidly, selling 3.5 million barrels of its members' oil by August 1931 and, according to one estimate, representing 40 percent of the California industry.

Within the confines of state and federal antitrust law, OPSA attempted to control production through private coordination and cooperation. In return for strict compliance with voluntary curtailment orders, OPSA promised to bargain with the major companies to obtain better terms for its members' oil. OPSA attributed low oil prices to market dominance by the major companies and overproduction. Citing agricultural and producer trade associations as historical examples, the OPSA organizers situated their project in an American tradition of populist rhetoric about fairness and cooperation. In a recruitment letter sent to all California oil producers in April 1931, OPSA's leader, Ralph Lloyd, denounced "the buyers" for setting crude oil prices "without consulting producers." Lloyd insisted on a "proper sales value" that producers could determine through study of demand and of production, transportation, refining, and marketing costs. Lloyd carefully specified that OPSA would not violate antitrust laws by seeking to control the state oil supply or fix crude oil prices. OPSA simply sought to obtain sufficient clout for producers "to render their collective bargaining beneficial." It also sought fuller information on the oil market so that it could determine the "proper" price that would permit "producers to live, labor to receive a fair wage, and the consumer to receive the refined product at a price that is fair and reasonable." OPSA aggressively embraced industrial cooperation to avoid greater public interference. At an organizational meeting in 1931, OPSA leaders advocated "cooperative action under the law but not by the force of law." They viewed "curtailment under law" as "the path of litigation and delays," and Lloyd characterized government action as a "woeful record of mistakes and ineffectiveness, overtaxation and misrule." Yet public intervention continued to loom on the horizon. OPSA's legal advisor, William Hazlett, a former Los Angeles superior court judge who had adjudicated some of the natural gas litigation, counseled Lloyd that the industry had to "control the situation, and very soon, if the threats of public control are not made realities" and the industry turned into a "political football." As they launched the Oil Producers Sales Agency, Lloyd and his associates thus believed that the California oil industry could solve its problems through "educational and moral pressure" to boost compliance with industry-determined curtailment orders. Their stance in early 1931 neither idealized a free market in oil nor demanded government action to mandate production schedules. Instead, OPSA called for a cooperative effort to limit production and to bargain collectively with the major purchasing companies on behalf of independent producers. Yet OPSA's leading organizers quickly realized that ethical business behavior alone could not bring the market into line. By early 1932, OPSA's core leadership strongly backed the Sharkey bill, with its state enforcement provisions, when it came up on a ballot referendum in May 1932.

THE 1932 SHARKEY BILL REFERENDUM BATTLE

After the Sharkey bill's opponents forced a referendum vote, the measure's supporters worked closely with Governor Rolph to gain approval for the bill. On the advice of lobbyists for the major oil companies, Rolph set the referendum vote for the same date as the presidential primary in May 1932. The California Oil and Gas Association lobbyist C.R. Stevens explained privately to the Republican political leader Theodore Roche that he anticipated "no particular opposition" but thought the May date preferable to November because of the "extremely light" turnout predicted. This way, the oil industry could convey the "merits of this bill" to the electorate for far less money. Stevens further explained that the California Oil and Gas Association thought it unwise to submit the Sharkey bill by itself to the electorate. Stevens suggested that Roche ask Governor Rolph to submit fourteen constitutional amendments adopted by the last legislature for ratification at the same time.

To build support for passage of the Sharkey bill, Rolph invited E.B. Reece, president of the American Petroleum Institute, to California to document "the urgency and advisability of the Sharkey oil conservation act." Reece delivered a ringing endorsement in early February 1932, declaring curtailment the "only sound remedy" for the industry's "deplorable conditions." Because of reduced gas pressures and the depletion of existing oil reserves, Reece predicted that California production would decline rapidly, and that present proven reserves would be exhausted in twenty years. California needed to "enact laws giving it the authority to enforce curtailment," Reece said, because "foolish selfishness" had defeated voluntary curtailment. Reece called the
Sharkey bill the "only tangible hope available," particularly to protect companies operating in California's older oil fields.\textsuperscript{39}

Standard Oil, Governor Rolph, OPSA, and others launched a powerful propaganda campaign in support of the Sharkey bill. The Standard Oil lawyer Felix Smith coordinated the efforts of some advocates, like the railroad commissioner Fred Steevenot, Rolph's former natural resources director.\textsuperscript{40} Governor Rolph joined with Governors Ross Sterling of Texas and William H. Murray of Oklahoma to broadcast radio appeals urging support for the oil control bill. Sterling and Murray described their states' difficulties containing oil production and warned Californians of potential chaos and the possible need to invoke martial law.\textsuperscript{41}

OPSA leaders like Ralph Lloyd, who had been lukewarm or opposed to the Sharkey bill in 1931, now backed the measure aggressively. Compliance with voluntary curtailment had fallen off in late 1931, and the OPSA general manager Rush Blodget described small producers as "bordering closely to a rebellion." He saw the Sharkey bill as a way to save curtailment and to "forestall further government regulation." Blodget's continuing rhetorical opposition to government regulation was ironic, since the Sharkey bill promised to save curtailment by placing official state power behind production controls. Yet Blodget emphasized that industry-elected commissioners would control the state program, and he warned that a "bill of sterner stuff may be thrust upon our industry—perhaps on all industry."\textsuperscript{42} Blodget mailed one thousand letters on behalf of OPSA asking oil operators to support the Sharkey bill.\textsuperscript{43} The California Oil and Gas Association, an industry group dominated by the major companies, publicized OPSA's endorsement of the measure. In turn, OPSA circulated a telegram from E.B. Reeser, president of the American Petroleum Institute. "Unrestrained competition, especially in natural resources, belongs to the dark ages," Reeser wrote.\textsuperscript{44}

But the efforts by Governor Rolph, the large oil companies, and OPSA to assemble impressive endorsements failed to persuade independent oil operators suspicious of how the Sharkey commission would exercise its power. OPSA's membership remained deeply split on the Sharkey bill, despite the board of directors' statewide campaign for the measure.\textsuperscript{45} Smaller companies affiliated with the Independent Petroleum Association sent campaign representatives throughout the state to urge defeat of the Sharkey bill.\textsuperscript{46} Minor companies, including Mohawk Petroleum, Hancock Oil, Dabney-Johnson Oil, and Superior Oil, attacked the bill and recruited support from other organizations, including local labor unions.\textsuperscript{47}

Opponents criticized the Sharkey bill for establishing a regulatory system that would systematically disadvantage smaller, independent producers in the state for the benefit of the major oil companies. Landowners and royalty owners protested their exclusion from voting for commissioners. The Bakersfield lawyer F.E. Burton, whom Standard Oil tried to intimidate into silence, pointed out that the commission had no power to regulate imports yet had to take them into account; these unregulated imports would squeeze in-state producers.\textsuperscript{48} Other oil operators warned against "oil monopoly." The bill "is in no sense a conservation measure," declared Alfred Marsten of the IPA. "It is drafted and fostered by identically the same interests that were behind the gas conservation act." The major oil companies aimed to use the commission to dominate independent producers, refiners, marketers, and royalty owners. "Watch every move made in support of this unprecedented legislation," he warned.\textsuperscript{49} A. Wardman, an OPSA member, had supported the Sharkey bill when it passed the legislature but now opposed it because of his unpleasant experience with California's natural gas conservation law. At Santa Fe Springs, Wardman said, the courts had "calmly proposed" to put the smaller producers "out of business" because they had no way to dispose of natural gas except to blow it into the air.\textsuperscript{50} If the Sharkey bill passed, he warned, "independent producers would soon be prorated out of business."\textsuperscript{51} Wardman thought overproduction resulted primarily from the opening of new fields, and proposed permitting each well to open "in its chronological order," as the oil was needed. "I do not believe the people of this State would approve of wrecking a large number of small companies, where they have drilled in good faith and have an investment to protect, and approve at the same time of the drilling of additional zones, or fields that are not necessary."\textsuperscript{52} Wildcatting—drilling for new wells in unproven areas—could continue, but under Wardman's scheme all existing discoveries would produce fully before new zones or discoveries could produce.

The day before the referendum vote, the California Oil and Gas Association lobbyist C.R. Stevens called for a big turnout to support the Sharkey bill. The State Chamber of Commerce, International Brotherhood of Teamsters, California Fruit Growers' Exchange, and civic leaders all issued statewide appeals on behalf of the measure. By stabilizing a critical state industry, the Sharkey bill would "do something toward ending the depression and bringing better times," they declared.\textsuperscript{53} But the vigorous campaign came to no avail. California voters, swayed by the anti-Standard Oil rhetoric and aggressive opposition of the independent
oil producers, rejected the Sharkey bill by a margin of almost four to one.54

The defeat of the Sharkey bill left a regulatory vacuum that oil industry leaders lamented as they criticized the narrow-mindedness of California voters. "We have no enforceable rule at this time," OPSA told its members following the vote.55 Yet conditions in the oil industry, and American business generally, were "bordering on economic chaos" due to competitive overproduction.56 OPSA's Ralph Lloyd urged production limits and denounced pure competition. If "unlimited competition" were so inviolable, Lloyd asked sourly in OPSA's publication The Stabilizer, "why not . . . let every nation of the world use the limits of its competitive ability, including that of war, to find out who is entitled to survive?"57 Clearly, competition among companies, as among nations, had to be managed and contained. With the defeat of the Sharkey bill, Lloyd said, "we must choose between efficient voluntary curtailment or a competitive warfare to the finish."58

Lloyd and other industry leaders pressed anew for voluntary curtailment, hoping to use the promise of increased prices to encourage greater cooperation.59 A new Executive Committee for Equitable Curtailment, which included members of OPSA, the Independent Petroleum Association, and the Central Proration Committee (selected by field operators), asked Standard Oil and other price-setting major purchasers to raise the price for crude oil in exchange for production cuts by California's oil producers.60 Standard Oil agreed to raise the price approximately twenty-five cents per barrel if the industry complied with a statewide limit on production.61 But the company warned that it would not pay the higher price if any field in California exceeded its share.62 This voluntary curtailment and private rule-making suffered from the same weaknesses that had led companies to embrace the Sharkey bill. When Standard's deadline arrived, California's production had dropped 9 percent, from 953,435 barrels per day to 461,750, well under the stipulated 476,700 allowable. But fields varied in their compliance. The Ventura Avenue field, where Lloyd's holdings were concentrated, under-produced by 11,722 barrels, but Long Beach overproduced by 3,048. Underproduction in one field would not offset overproduction elsewhere, Standard informed the industry as it refused to pay the premium price.63 Many furious operators, including small producers who had operated at a loss in expectation of higher prices, doubted that Standard would ever pay the higher price. Noncompliance increased.64 Although the state total hovered around the allowable limit, field-by-field adherence to curtailment slipped quickly.65 Neal Anderson, an oil umpire employed by the industry, finally resigned in frustration in July 1932, complaining that it was "almost impossible" to strictly enforce curtailment "when there is no legal method to compel obedience."66

The California industry shared Anderson's dissatisfaction with voluntary curtailment and grew increasingly receptive to the idea of federal regulation as 1932 drew to a close. Howard Kegley of the Los Angeles Times reported in January 1933 that some producers, "growing tired of having their lands drained, are opening up their wells." The outlook was "anything but rosy," and Kegley predicted an imminent "showdown on production and prices."67 When the new presidential administration of Franklin D. Roosevelt launched its drive for general industrial legislation in 1933, OPSA and other leading segments of the California oil industry called openly for federal action. The industry desperately needed stabilization to prevent more "receiverships or worse," according to OPSA's general manager, Rush Bledson.68

FEDERAL REGULATION, 1933–1935

Following the passage of the National Industrial Recovery Act in 1933 and the development of a national "code" to govern oil production in the summer of that same year, California oil operators moved swiftly to gain control of the national program's operations in the state. In late August, Ralph Lloyd and a colleague from California's Central Proration Committee, the industry group elected by California's field operators, wrote to federal officials to endorse the new industry code. Lloyd and his colleague requested that the federal government use this industry-organized committee as its agent in California.69 After the Interior Department designated it to carry out the production code in California, the Central Proration Committee set a production schedule to allocate California's 480,000-barrel-per-day quota among the state's fields.70

The new code-based system differed from voluntary curtailment because the Central Proration Committee now had federal authority behind it. The committee relied heavily on this federal support to overcome opposition to production quotas. A week after issuing its first production orders, for example, the Central Proration Committee reported to Secretary of the Interior Harold Ickes that some crude oil producers questioned its authority to allocate production to individual operators, as opposed to fields as a whole.71 Ickes confirmed that he had "fully authorized" the committee to exercise all powers conferred
upon state regulatory bodies under the petroleum code. Two days later, the Central Proration Committee reported that the “uncertainty in many producers’ minds” had “to a large degree disappeared,” and that a “fine spirit of cooperation is becoming evident.”

Standard Oil and the other major companies embraced the federal code and organized the California refiners to prevent any violators of production limits from selling their oil. Standard Oil Company’s president, Kenneth R. Kingsbury, spent April 1934 in Los Angeles negotiating an agreement among the state’s refiners. All but five had signed up, and he thought the remaining ones would come around soon. Kingsbury called the federally sanctioned agreement “the only effective weapon to enforce proration.” The refiners would “deny a market” to anyone producing oil in excess of his federally specified level. “Of course, it is always possible that some producer of ‘hot’ oil may want to stick his neck out by building his own little refinery,” he said, but if we “cannot find some way to stop that we are not much good.”

Even as the industry relied on federal authority, it feared federal action. As with the Sharkey bill at the state level, the California oil industry sought federal enforcement of industrial self-government rather than regulation. The oil producers struggled to establish their authority under the new federal law. Rush Bldget noted in December 1933, for example, that some people thought the interior secretary had the “authority to allocate” and that the California ‘Agency’ is merely advisory.” If the courts recognized the secretary as the sole authority, Bldget warned, then “autocratic Federal Control” would result. Bldget urged the Central Proration Committee to make itself responsible for determining allotment schedules and estimating demand. The committee should compile “a record of industry control, which the courts may rely on.” Bldget articulated clearly the California oil industry’s delicate strategy: rely on federal power to enforce curtailment goals set by industry, but deny the federal government independent authority to set and allocate production and demand. The committee gained considerable discretionary power. For example, the committee decided in September 1933 not to permit any withdrawals of stored petroleum, instead choosing to fill the state’s quota of 455,000 barrels per day entirely by drawing from the current production. This policy made room for new wells, such as those drilled by trespassers at Huntington Beach, while forcing major California producers like Standard Oil to sustain a tremendous aboveground inventory. Still, California oil operators were not entirely pleased with the new national code and, in particular, protested cuts in California’s share of national production. The committee revised the California code four times in as many months in the fall of 1933, each new revision redistributing allowable production and provoking renewed protest.

Different sectors of the industry settled quickly into predictable patterns of behavior. Oil operators who had resisted earlier state-level regulation of production now contested the national program. “Without having seen a copy of the new formula or having heard it discussed,” Howard Kegley of the Los Angeles Times reported, “some of the independent operators said yesterday that early next week they probably will file objections to the new set-up.” Other independent producers were grateful that the National Industrial Recovery Act had relieved them of the burden and uncertainty of voluntary curtailment. Federal law supplanted private agreements in establishing the rules of the playing field. They again could push their production activities to the limit of a national law that set the boundaries. Landowners like Ralph Lloyd in Ventura cancelled their curtailment agreements with lessees, relying instead on federal mandates. Lloyd explained to Associated Oil that he and the other lessors had “from time to time in the interest of the conservation of gas” consented to restricted production levels. But the adoption of the National Industrial Recovery Act and the establishment of agencies to administer an oil code had “eliminated the necessity” for these voluntary agreements. Lloyd instructed Associated Oil to adhere strictly to its lease, which specified levels of production and competitive drilling to protect lessor interests as much as possible within the framework of the federal law.

The federal petroleum code also changed the calculus of oil development by making it less rewarding to open new wells in established fields. Under the previous voluntary curtailment program, the state committees always rewarded new wells with production allowances. The federal code was less generous. “Code regulations have pinched most of the new wells down to a comparatively small amount,” reported Howard Kegley of the Los Angeles Times. Consequently, California oil operators increased their wildcat drilling to find new reserves for future development. “The drillers had rather hunt for something new and find it for future development,” Kegley explained, “than drill new holes in proven acreage.” Oil operators tested at least twelve counties—between Corning and Marysville and the Imperial
The change from the voluntary curtailment program to federal regulation thus redirected industry investment. Federal officials also cracked down on the companies that had been chief offenders under the voluntary program and state gas act. Lawyers from the Justice and Interior Departments sought injunctions against the Wilshire Oil Company and its subsidiaries for producing excess crude at Huntington Beach and Santa Fe Springs in violation of the federal code of fair competition. The federal suit against the oil operators contended that they had produced eight hundred thousand barrels of crude oil above their allowable production during the previous three months. This overproduction caused "unreasonable and unwarranted waste and depletion of the country's natural resources," according to the suit. Oil in storage "constantly threaten[ed] the price," and the code violations "drain[ed] and deple[ted] the oil reserves of the government" and destabilized the market. Tough enforcement of the national code thus achieved the long-sought goal of limiting California oil production. Even so, the California industry soured quickly on federal controls. When the U.S. Supreme Court struck down the National Industrial Recovery Act in 1935, few California operators mourned its passing. In Schechter Poultry Corporation v. United States and Panama Refining Company v. Ryan, the Court ruled that production of commodities like oil did not constitute interstate commerce and, therefore, was not subject to federal regulation under the commerce clause of the constitution. Rush Bledget, general manager of OPSA, previously hopeful about using federal authority to industry advantage, called the court decision "an emancipation proclamation for industry, divorcing American industry from centralized dictatorship by the federal executive." Instead of supporting revised federal oil regulation that would pass constitutional muster, California politicians and industry operators renewed their push for state-level management. The California State Assembly protested federal encroachment on California's "exclusive power" to control its own production. Federal regulation of oil production, the assembly declared, was "contrary to the principles of our dual form of government." As a result of opposition from California and other oil-producing states, congressional legislation in 1935 avoided direct federal controls and instead ratified interstate coordination, limited imports, and made permanent a law barring the interstate shipment of oil produced in violation of state production con-

controls. The federal experiment in direct regulation of oil production was dead.

STRUGGLING TO FILL THE VACUUM, 1935-1938

Following the demise of the National Industrial Recovery Act, California legislators proposed new state oil control measures that provoked a fierce fight within the oil industry, a fight reminiscent of the early 1930s. Proposals for commissions akin to the rejected Sharkey bill, although restructured to reduce the influence of major companies, continued to draw the ire of independent oil producers and their allies in the legislature. Opponents of state regulation, like John B. Elliott, an independent oil producer and prominent Democratic critic of the earlier Sharkey bill, denounced the new proposals, warning against "major company domination" and cautioning that motorists would pay the price for any production limits. The Senate Oil Industries Committee narrowly rejected an end-of-session attempt to push through an oil control bill in 1935, with legislative advocates of federal action and allies of the independent companies joining with senators loyal to OPSA and the major companies.

As the California legislature struggled and failed to regulate California oil production, the state's oil fields fell into turmoil. Following the demise of federal regulation, some independent producers decided to "throw their wells wide open." Renewed efforts to restrict production through a cooperative agreement confronted the same problem experienced during the period preceding passage of the National Industrial Recovery Act. Over the summer of 1935, portions of the industry steadily broke away from the curtailment program. By August the California industry produced in excess of 600,000 barrels per day, compared to an estimated demand of 520,000 barrels per day. In the absence of effective state or federal action, the cooperating independent producers again begged Standard Oil to use its price-setting role to enforce and support California's curtailment program. It would be a waste of words for me to describe the chaotic condition that now exists in the oil business of the State of California," Ralph Lloyd wrote to Standard Oil's president, Kenneth R. Kingsbury. Lloyd asked Standard Oil to raise the price paid for California oil to the level prevailing during the two previous years of federal regulation. Standard Oil agreed to raise the benchmark price of Signal Hill crude from fifty to eighty cents per barrel. The company also increased gasoline prices in
Southern California by three cents per gallon, again underscoring the close relationship between production controls and prices. But higher prices did not yield greater compliance. In December 1935 California oil operators produced 150,000 barrels per day over the estimated demand, and the major companies added millions of barrels of oil to storage. Kingsbury warned that the industry verged on filing "all available storage for crude oil." Standard Oil continued to flex its muscles as the statewide price setter and curtailment enforcer. The company began paying higher prices for oil from individual fields that had complied with the mandate to cut production by 22 percent. Many of the operators working California’s major producing fields were barred from the higher prices, however, including those at Signal Hill, Alamitos Heights, Huntington Beach, Playa del Rey, Dominguez, Santa Fe Springs, and the Elk Hills, and in the Lakeview area of Midway Valley-Sunset. Voluntary curtailment continued to falter as a result of the industry’s fundamental problems with prices and competition.

As curtailment compliance eroded among the independent producers, overproduction by major companies became increasingly divisive. S.E. Belither, president of Shell Oil of California, attacked the Central Proration Committee policy as “grossly unfair.” The Union Oil, Associated Oil, Richfield Oil, and Texas Oil Companies had exceeded their share of production and then been rewarded with increased levels of allowable output. “I want the industry to know that I have no intention of being left at the gate,” Belither said. “Curtailment should be on a basis of equity.” Disparities in compliance by the major companies provoked bitter feelings and further weakened support for curtailment. The major companies in Los Angeles, except for Shell, were “either inimical or indifferent” to curtailment and had actively undermined the Central Proration Committee, according to an internal Standard Oil report. Standard Oil blamed the six other major companies, not the small renegade independents, for excess production of 2.6 million barrels of oil during the first nine months of 1937. “If our company had over-produced at the same average rate of the other six companies, we would have produced, during the same period, an additional 1,283,000 barrels,” Standard Oil noted.

As 1937 drew to a close, the California curtailment program founded because of the same problems that had plagued it for almost a decade. The major companies continued to support curtailment and proration, but even they could not stick to the program under competitive field conditions. Compliance also waned as older fields began to decline. Many began to envision a time when California would no longer need artificial curtailment of production. The discovery of the Wilmington field around 1937, however, lent new urgency to the push for oil production controls. Observers saw the huge Wilmington field as being similar to the Kettleman Hills field in 1931–1932. Beginning around 1937, California companies began to position themselves for access to Wilmington oil.

Just as the Wilmington field compelled resolution of the tidelands drilling problem, it also provoked the decade’s last pitched battle over oil production controls. Maurice Atkinson, a Democratic assemblyman from Long Beach, proposed a new oil commission in 1939 with broad powers over oil and gas production. Atkinson freely admitted that labor union leaders had written the bill in an effort to protect oil sector jobs by stabilizing the industry. In deliberate contrast to the industry-dominated commission created by the 1931 Sharkey bill, however, public officials would run the new Oil Control Commission, including the directors of the Departments of Natural Resources, Public Works, and Finance. Governor Culbert Olson strongly supported the bill, emphasizing that it meant “control by the State and not by any group engaged in the oil production.”

An eclectic but powerful coalition composed of Governor Olson, the major oil companies, some independent oil companies, and the oil workers union rammied the Atkinson bill through the legislature at the very end of the session. The coalition brought enormous pressure to bear on legislators. As three Democratic assemblymen later conceded, “Our vote for the Atkinson oil control bill was not cast on the basis of our own knowledge. … We voted our confidence in the judgment and wishes of the Governor.” Olson’s alliance with major oil companies split the party by alienating many independent oil producers who previously had sided with Democrats against Standard Oil and others on tidelands bills and oil regulation. Key Olson allies, including Lieutenant Governor Ellis Patterson and J. Frank Burke, Olson’s Southern California primary campaign leader, demanded to know when their “great liberal Governor changed his mind.” Yet Olson signed the Atkinson bill into law, one of the few major administration initiatives to survive a generally hostile 1939 legislature. Olson’s willingness to use his precious political capital to press for the bill’s passage underscored how important he felt it was to get control of the oil production situation in California.

The fight over the Atkinson oil bill replayed many aspects of the Sharkey bill conflict seven years earlier. John Smith, president of the
Independent Petroleum and Consumers’ Association, launched a referendum petition drive almost immediately, attacking the major oil companies for trying to “put the little fellows completely out of business.” Despite the different governance structure that enhanced public control, opponents denounced the Atkinson bill as “essentially the same” as the Sharkey measure and warned of government “for the Standard Oil Company and by the Standard Oil Company.” “No oil is wasted in California,” J. Frank Burke and two Democratic assemblymen wrote in the voter information pamphlet. “Should we add to the insecurity of the low income groups, the aged, the unemployed by legalizing profiteering in gasoline and oil?” Atkinson bill supporters also returned to venerable themes. “The chisellers, though delighted to have other operators curtail, will not let the voluntary method succeed,” the San Francisco Chronicle declared. “Experience in California and the other oil States has proved to the hilt that curtailment of production, to succeed, must have legal enforcement behind it.” President Roosevelt, Interior Secretary Ickes, and other administration officials strongly backed state-level oil controls, just as the Hoover administration had endorsed the 1932 Sharkey referendum. Union officials, who had helped draft the initial bill, warned of an impending market collapse or a complete industry shutdown with dire implications for employment. Despite this formidable political support, however, the Atkinson bill met the same fate as the Sharkey bill—it was resoundingly rejected by suspicious California voters in November 1939.

CONCLUSION

“California is the one great oil state maintaining the law of supply and demand and with no artificial controls running the oil business,” contended Harold C. Morton, a Los Angeles Attorney and independent producer during the 1939 campaign against the Atkinson bill. Morton was correct that, when the California electorate spurned the Sharkey and Atkinson bills, it rejected the strict state oil regulation occurring in Texas, Oklahoma, and other states.

But had California maintained the “law of supply and demand”—or did “artificial controls” run the oil business? Since 1927, many operators in California had struggled tirelessly to control production in the state. The natural gas act that the operators pushed through in 1929 attempted to restrain flush producers from too rapidly draining their oil reserves and lowering the gas pressure of entire fields. The 1931 town
development of new production calls on the operators of older properties to ‘move over’ until we are sick of it.” Furthermore, because industry cooperation and government action sustained prices at an artificially high level, and every new well received an allocation, the curtailment system also could encourage operators to drill expensive, deep wells by guaranteeing that they would recoup their investments.

The extent and type of new development encouraged by oil production controls depended on the specific rules of the curtailment program. Conflict within the industry over the structuring of curtailment mediated economic competition. Some operators sought to protect older entrants, like J.B. Wells, by barring all new production until sufficient market demand existed for it, regardless of whether the older wells were as cost-efficient as new ones. Others attempted to reward operators based on their expenditures, by seeking to allocate greater production to more expensive wells. Exclusively California-based oil operators attempted to bar or restrict oil imports from other states or countries. Operators without storage attacked restrictions on production that would allow the major companies to unload stored oil at solid prices. Under voluntary curtailment, each operator's allowed production corresponded to its overall potential. This encouraged landowners to drill new wells to prove they had more extensive holdings. By contrast, the federal codes did not award generous production levels to new wells in settled fields, and so sent operators on a wildcat search for new fields.

Although California operators frequently embraced publicly the abstract idea of free-floating prices and the “law of supply and demand,” in retrospect it is clear that no one in the industry seriously advocated any such thing. Oil operators sought to eliminate destructive competition by ordering and controlling the oil market to their advantage. Whether they believed in public or private controls depended primarily on which they saw as most advantageous to their interests. Independent oil operators appealed to, feared, and battled the market power of Standard Oil, just as they did state and federal regulation. Standard and its allies first sought to limit oil production through cooperative agreements, and then turned to public enforcement in order to achieve the same ends—boosting the price of oil and stabilizing the industry.

It is easier to identify and chronicle the constant political struggle over the contours of the market than it is to calculate the precise economic impact of these diverse attempts to limit oil production. But it is clear that consumers paid higher prices in the short run, and that oil companies captured greater returns on their production. One economic study of the Pacific Coast petroleum industry reported consistent average profits for the industry throughout the depression, except in 1937. Oil production controls sustained a window of profit between the cost of production and the market price. Public and private regulation of the market prevented competitive overproduction from thoroughly squandering California's petroleum resources and from lowering oil prices to levels that would cause widespread well closures.
Notes

ABBREVIATIONS

BL       Bancroft Library
CSA      California State Archives
CSL      California State Library
GTWHP    Gerald T. White History Project
HL       Huntington Library
LAT      Los Angeles Times
SB       Sacramento Bee
SFC      San Francisco Chronicle

PREFACE


INTRODUCTION. STRUCTURING THE OIL MARKET


9. See Raymond Williams’s critique of the “intellectual separation between economics and ecology” in “Ideas of Nature,” in Problems in Materialism and Culture: Selected Essays (London: Verso, 1980), 67–85. In current environmental politics, environmental groups increasingly recognize these connections and seek to shape international trade agreements, tax policy, international financial flows, and government subsidies for highways, dams, and natural resource industries. The programs of the World Resources Institute and Friends of the Earth exemplify these trends, although the organizations are not alone in such efforts. See www.wri.org and www.foe.org.


15. As the historian Richard Victor has written, the airline, telecommunications, and natural gas industries, “There are two related environments in which [a regulated firm] must operate effectively: the market and the political arena.” Contrived Competition, 21.


CHAPTER 1. THE END OF THE OLD PROPERTY REGIME


District of California, Northern Division, RG 21, National Archives, Pacific Sierra Region, 1747-1750; United States v. Southern Pacific Company, 1, 10-12.


15. Ibid., 803-4.


25. When Bledsoe sold his stock in the National Pacific Oil Company in order to remove the appearance of a conflict of interest, he recouped only $16.90. See In re Horovitz Consolidated Oil Company, Ninth Circuit Court of Appeals, 243 F. 348, 350-51, 5 July 1917. In the early 1920s, Bledsoe left the bench to join a law firm that handled several high-profile California oil cases of the 1930s: Alphonsco E. Bell Corporation v. Bell View Oil Syndicate et al., Court of Appeals of California, 24 Cal. App. 2d 197 (27 January 1948); E.G. Stark v. William J. Slaney, Court of Appeals of California, 11 Cal. App. 2d 111 (20 January 1941); Hartman Ranch Company v. Associated Oil Company, Supreme Court of California, 50 Cal. 2d 234 (26 November 1957); Alexander Anderson, Inc., v. Eastman Oil Well Survey Company, Ninth Circuit Court of Appeals, 94 F. 2d 1020 (7 February 1938).


27. See, for example, United States v. Record Oil Company; United States v. Consolidated Mutual Oil Company; United States v. Caribou Oil Mining Company; United States District Court, 242 F. 746, 749 (8 June 1917).


29. C.W. Hamel, "Memorandum for Mr. Justice," Number 2, uncertain date, Department of Justice Records, United States Ninth Circuit Court of Appeals, RG 218, Box 1: 21, National Archives, Pacific Sierra Region; United States v. Thirty-Two Oil Company, United States District Court, 244 F. 730 (8 June 1917).

30. United States v. California Midway Oil Company, 343, 353, 354. Even the General Land Office director, Clay Tallman, who was generally sympathetic to the western claimants, thought that the McMurry claims were clearly fraudulent. James N. Gillett to William Herrin, 25 June 1919, Gillett Papers, Box 1093; California State Library (hereafter CSL). The Standard Oil lawyer Oscar Sutro called the McMurry claims "a desperate case." Oscar Sutro to Henry Ads, 24 June 1919, Gerald T. White History Project, Carton 155072: Government Relations—World War I, Chevron Archives; and United States v. California Midway Oil Company, 516, 520. See also C. W. Hamel, "Memorandum for Mr. Justice," Number 1, uncertain date, Department of Justice Records, United States Ninth Circuit Court of Appeals, Box 217: 1, National Archives, Pacific Sierra Region.

31. United States v. Midway Northern Oil Company (and five related cases), United States District Court, 252 F. 609, 633 (1 May 1916). See also United States v. Brandon-Canfield Midway Oil Company, United States District Court, 256 F. 145 (10 September 1918); and Bee, United States Oil Policy, 314-20.


33. United States v. McCatchen, United States District Court, 238 F. 575, 595 (20 July 1916).

34. United States v. Midway Northern Oil Company (and five related cases), 619, 623-31.

35. Based on the district court's sympathy for the oil operators, the Justice Department's special assistant on the oil cases recommended that the government...
not pursue damages based on willful trespass. Henry F. May to the Attorney General, 24 December 1918, RG 118, Case 601, Box 1, Folder 4, National Archives, Pacific Sierra Region.

36. United States v. Midway Northern Oil Company (and five related cases), 619, 633. Judge Bledsoe similarly felt “impelled” to continue production, since an injunction would only “damage both parties.” United States v. Dominion Oil Company, United States District Court, 241 F. 425, 426 (5 March 1917).


CHAPTER 2. THE POLITICS OF THE 1920 MINERAL LEASING ACT


2. Frank Short to James N. Gillett, 33 November 1916, Gillett Papers, Box 1092:22, CSL.


4. Honolulu Consolidated Oil Company to James N. Gillett, 20 July 1922, A. C. Dierick to Gillett, 20 July 1922, Honolulu Consolidated Oil Company to Gillett, 28 June 1922, Gillett Papers, Box 1092:11, CSL.


6. Francis B. Loomis (signed in code as “Grey”) to Oscar Sutro, 12 April 1916, James N. Gillett to Sutro, 27 March 1916, Frank Short to Sutro, 20 March 1926, Gerald T. White History Project (hereafter GTWHP), Carton 155072: Government Relations—World War I, Chevron Archives.


9. George Hatton to James N. Gillett, 7 December 1916, Gillett Papers, Box 1093:1, CSL. See also Gillett to George C. Perkins, 24 November 1916, Gillett to Hatton, 25 November 1916, Gillett to Hatton, 6 December 1916, Gillett Papers, Box 1093:1, CSL.

10. Francis B. Loomis to Oscar Sutro, 18 December 1915, Loomis to Sutro, 6 January 1916, Loomis (signed in code as “Blue”) to Sutro, 8 January 1916, Loomis (signed in code as “Crimson”) to Sutro, 6 March 1916, Frank Short to Sutro, 6 March 1916, GTWHP, Carton 155072: Government Relations—World War I, Chevron Archives.

11. Roy N. Bishop to James N. Gillett, 30 December 1916, Gillett Papers, Box 1092:13, CSL.

12. Louis Titus to James N. Gillett, 16 December 1916, Gillett Papers, Box 1093:7, CSL.


15. James N. Gillett to Roy N. Bishop, 25 November 1916, Gillett Papers, Box 1093:1, CSL.


17. See, for example, James N. Gillett to George Hatton, 25 November 1916, Gillett Papers, Box 1093:1, CSL.

18. James N. Gillett to W.P. Thorn, 25 November 1916, Gillett Papers, Box 1093:1, CSL.

19. Harrison Gray Otis to James N. Gillett, 13 January 1917, Gillett Papers, Box 1092:15, CSL.


22. Michael deYoung to James N. Gillett, 13 December 1916, Gillett Papers, Box 1092:7, CSL. Gillett demurred, believing it advisable to publicly
express his views on the western land problem even as he lobbied a Democratic Congress. Gillett to San Francisco Chronicle, 21 December 1916, Gillett Papers, Box 109312, CSL.

28. A. J. Pollak to James N. Gillett, 13 August 1919, Gillett Papers, Box 1094217, CSL.
29. James N. Gillett to William F. Herrin, 19 September 1919, Gillett to A. C. Dierick, 19 September 1919, Gillett Papers, Box 109339, CSL. In 1916, Gillett similarly sought to avoid public hearings to prevent the attorney general from introducing into the record information about fraud, dummy locations, and “everything else of that kind that might tend to prejudice the minds of Members of Congress.” Gillett to Oscar Satro, 29 February 1916, GTWHP, Carton 155072: Government Relations—World War I, Chevron Archives.
30. James N. Gillett to Roy N. Bishop, 8 December 1916, Gillett Papers, Box 109311, CSL. See also Gillett to Editor, New York Times, 2 January 1916, and Gillett to Editor, Springfield Republican, 2 January 1916, Gillett Papers, Box 109313, CSL.
32. Ibid., chap. 7.
33. See United States Oil Policy, 338, 497-504.
34. James N. Gillett to William F. Herrin, 14 September 1918, Gillett Papers, Box 109337, CSL.
35. James N. Gillett to A. C. McLaughlin, 19 November 1918, Gillett Papers, Box 109317, CSL. Rates oddly argues that the oil lobbyists were “disconcerted and weakened in 1919 by the change to Republican control of Congress.” Gillett’s correspondence suggests the exact opposite. Bates, Origins of Toapat Dome, 183.
36. A. J. Pollak to James N. Gillett, 20 May 1919, Gillett Papers, Box 109217, CSL. See also James M. Sheridan to Scott Ferris, 3 June 1918, Fall Papers, Box 611, Huntington Library (hereafter HL).
37. A. J. Pollak to James N. Gillett, 20 May 1919, Gillett Papers, Box 109217, CSL.
38. William F. Herrin to James N. Gillett, 13 September 1918, Herrin to Gillett, 31 October 1918, Herrin to Gillett, 2 June 1919, Herrin to Gillett, 3 June 1919, Box 109210, CSL.
39. James N. Gillett to George E. Whitaker, 10 February 1920, Gillett Papers, Box 109311, CSL.
40. James N. Gillett to A. J. Pollak, 7 February 1920, Gillett Papers, Box 109311; Pollak to Gillett, 4 June 1920, Gillett Papers, Box 109430, CSL.
41. James N. Gillett to Clay Tallman, 25 September 1920, Gillett Papers, Box 109212, CSL.

42. Charles V. Safford to Stephen B. Davis, 31 July 1919, 16 August 1919, 5 September 1919, 24 October 1919, 3 November 1919, 11 February 1920, Davis to Safford, 12 February 1920, Safford to Davis, 25 February 1920, Safford to A. E. McGregor, 25 February 1920, Full Papers, Box 4811, HL.
43. Stephen B. Davis to Charles V. Safford, 21 March 1919, Full Papers, Box 4811, HL.
44. James N. Gillett to Fred B. Henderson, 26 September 1919, Gillett Papers, Box 109319, CSL.
45. James N. Gillett to William F. Herrin, 2 October 1919, Gillett Papers, Box 109310, CSL.
46. James N. Gillett to A. C. Dierick, 15 January 1920, Gillett to William F. Herrin, 7 February 1920, Gillett Papers, Box 109311, CSL.
47. James N. Gillett to A. J. Pollak, 7 February 1920, Gillett Papers, Box 109311, CSL.
48. Roy N. Bishop to James N. Gillett, 26 February 1920, Gillett Papers, Box 1092, Folder 3, CSL.
49. James N. Gillett to William F. Herrin, 16 October 1919, Gillett Papers, Box 109310, CSL.
50. James N. Gillett to L. L. Aitken, 15 January 1915, Gillett Papers, Box 109316; Aitken to Gillett, 18 January 1923, Gillett Papers, Box 109417, CSL.
51. James N. Gillett to John T. Barnett, 14 May 1935, Gillett to Barnett, 12 September 1925, Gillett Papers, Box 109316, CSL.
52. James N. Gillett to Alaskan Pioneer Oil Company, 23 October 1919, Gillett Papers, Box 109310, CSL. See also A. J. Pollak to B. M. Howe, Trojan Oil Company, 4 June 1920, Gillett Papers, Box 109430; Gillett to Corporation Company of Delaware, 28 May 1920, Gillett to F. M. Phelps, 16 June 1920, and Gillett to Corporation Company of Delaware, 7 July 1920, Gillett Papers, Box 109312; E. G. Mattoo to Gillett, 26 January 1921, Gillett Papers, Box 109427, CSL.
53. James N. Gillett to W. L. McGuire, 27 January 1921, Gillett Papers, Box 109312, CSL.
54. James N. Gillett to William Spry, 5 April 1921, Gillett Papers, Box 109312; Gillett to Spry, 20 March 1922, Box 109315; Gillett to Spry, 21 June 1923, Gillett Papers, Box 109316, CSL.
57. Oscar Satro to James N. Gillett, 12 February 1920, Gillett Papers, Box 109424, CSL. The section title is from “Patent Is Now Only a Memory,” California Oil World, 29 February 1920, 1.
58. Francis B. Loomis to Oscar Satro, 3 March 1919, GTWHP, Carton 155072: Government Relations—World War I, Chevron Archives.
59. Oscar Satro had conceded privately in 1916 that leases on reasonable terms would “constitute substantial relief.” But, as he wrote Frank Short in
Washington, "to abandon the demand for patent would be to show the white feather." By demanding full title to their claims, Standard and other oil companies toughened their negotiating position and held out for an even more lenient leasing regime. Suro to Short, 29 February 1916, GTWHP, Carton 155072: Government Relations—World War I, Chevron Archives.


65. N. N. Gillette to Frank Short, 23 April 1926, GTWHP, Carton 150072: Government Relations—World War I, Chevron Archives.


67. H. Foster Bain, Director, Bureau of Mines, Department of the Interior, to Albert B. Fall, Secretary, 25 October 1921, "Amendments to the Regulations Approved August 26, 1921, Governing Leasing of Lands in the Osage Reservation, Okla., for Oil and Gas Purposes," 13 May 1923; B.B. Trow to A.W. Ambrose, 22 October 1923, Fall Papers, Box 60140, HL.

68. Guy W. Finney and Charles V. Safford to Albert B. Fall, 19 September 1923, Fall Papers, Box 59115, HL.


70. Guy W. Finney to Albert B. Fall, 15 September 1921, Fall Papers, Box 59110, HL.

71. Albert B. Fall to Charles V. Safford, 18 September 1921, Fall to Safford, 14 September 1921, Fall to Guy W. Finney, 19 August 1921, Fall Papers, Box 59110, HL.

72. Albert B. Fall to Guy W. Finney, 15 September 1921, Fall Papers, Box 59110, HL.


76. "Wilbur Details Oil Curb Steps," LAT, 4 November 1931, 11.

77. C. Naramore to James N. Gillette, 22 March 1931, Gillette Papers, Box 109121, GSL.


79. Wallach, "The Geographic Consequences of Oil-Land Tenure," 122. Ragland, History of the Naval Petroleum Reserves, has the best details on and map of the leases granted within the Elk Hills. The push to consolidate and protect the Elk Hills naval oil reserve came before Congress as early as 1930, but no action was taken until 1938. "Oil Reserve Legislation Takes Shape," SFC, 5 July 1930, 193. The litigation finally ended in 1964, when the U.S. Court of Claims exhaustively reviewed the case and determined that the United States did not owe compensation to the heirs of one claimant. Estate of Charles O. Fairbank v. the United States, United States Court of Claims, 164 Ct. Cl. 1 (24 January 1964).


81. Fall similarly sought to liberalize laws "to get individual capital into Alaska," rather than let it "rust." "Interviews of Secretary Fall with Representatives of the Press," 6 March 1922, Fall Papers, Box 49110; Fall to Richard Ballinger, 23 March 1922, Fall Papers, Box 49110; Fall to Charles F. Curry, 22 July 1922, Fall to Harry S. New, Chairman of Committee on Territories and Insular Possessions, U.S. Senate, 22 July 1922, Fall Papers, Box 4812, HL; Bates, Origins of Teapot Dome, 242-48.

82. "This measure is a compromise one," Charles V. Safford wrote on Fall's behalf. Safford to J. W. Palmer, 4 September 1919, Fall Papers, Box 6212, HL. The proposed mineral leasing act was still "not as liberal ... as the Senate hoped to secure." Safford to H.W. Loggins, 10 September 1919, Albert B. Fall to Constituents, 3 September 1919, Fall Papers, Box 6212, HL.

83. Albert B. Fall to Commissioner of General Land Office, 23 April 1921, Fall Papers, Box 49109, HL.

84. "Fall's Decision Gives Navy Oil: Honolulu's Leases Keep Up Reserve," California Oil World, 1 December 1921, 1. The abrupt dismissal by Harry Daugherty, the new attorney general, of Henry May, special assistant to the attorney general, foreshadowed Fall's actions. See Henry F. May, Coming to Terms: A Study in Memory and History (Berkeley: University of California Press, 1987), 157-63.


86. Ibid. By January 1, 1944, 300 million barrels of oil had been produced from the Buena Vista field. Ragland, History of the Naval Petroleum Reserves, 109.
85. Congressional Record, 15 April 1921, 6071, in "Tepot Dome Government Materials," April–May 1924, Fall Papers, Box 59:23, H.L. In the same collection, see "So the People May Know," Denver Post, 15 August 1922. See also Bates, Origins of Tepot Dome, 238.
86. Noggle, Tepot Dome, 75, 190, 211.
87. Ibid., 49–71.
88. See, for example, C.H. Goddard to James N. Gillett, 22 November 1922, Gillett Papers, Box 1904:13, CSL.
89. Numerous prominent political figures joined Albert Fall in mixing public service with oil ventures. The list includes Judge Benjamin F. Bledsoe (who left the bench in the early 1920s to join Hill, Morgan, and Bledsoe, a California law firm that litigated a number of major oil cases); Oscar Lawler (who left the Interior Department, where he worked on the Taft withdrawal, and the U.S. Attorney’s Office, to begin a long career as Standard Oil of California’s chief lawyer in Los Angeles); Alexander Vogelsang (an assistant secretary of the interior under Wilson who left government employment to become an oil lobbyist and legal advisor to Standard Oil in its Elk Hills Section 36 case); Franklin Lane (Wilson’s secretary of the interior who left the government to take a $50,000-per-year position with the Doheny interests); Clay Tallman (a commissioner of the General Land Office under Wilson who went to work for the Midwest Oil Company); Joseph J. Cotter (Franklin Lane’s personal assistant at the Department of the Interior who left to become a vice president of Doheny’s Pan-American Petroleum Transport Company); Francis B. Loonis (an assistant secretary of state in the Roosevelt administration who became one of Standard Oil’s chief advocates in Washington and abroad); Judge Frank Feuille (a former attorney general of Puerto Rico who became Standard Oil’s chief negotiator in Latin America; Judge Frank Short (who became a prominent lobbyist for Standard Oil and for the California Oil and Gas Association); James N. Gillett (a former governor of California and congressman who became chief lobbyist for Honolulu Consolidated Oil Company in Washington and a leading negotiator for Standard Oil and California Oil and Gas Association; John Eschelman (a former lieutenant governor of California who became a lobbyist for Standard and other California oil companies); Charles Towne (who, upon leaving the Senate, used his Senate perquisites to lobby former colleagues on behalf of oil and potash interests); and Kay Pittman (a senator from Nevada active in writing leasing legislation who was also an active investor in western oil lands, along with his brother and with the oil lobbyist James N. Gillett). See chapter text here or Bates, Origins of Tepot Dome, 197, 220. Others mentioned by Bates include J.H.G. Wolf (formerly an advisor to naval officer Irvin F. Landis), who went to work for a Honolulu company that sought lands in the Buena Vista Hills naval oil reserve; William G. McAdoo (a California politician linked to Doheny); George Creel (a prominent California politician who also worked for Doheny briefly and who lobbied to open the naval oil reserves); Van Manning (formerly the head of the U.S. Bureau of Mines, who became an industry spokesman for the American Petroleum Institute); and Mark L. Requa (a Petroleum War Board chief who became vice president of the Sinclair Consolidated Oil Company).

CHAPTER 3. BEACHES VERSUS OIL IN SOUTHERN CALIFORNIA

1. Frank Short to John W. Weeks, 3 January 1917, Gillett Papers, Box 1902, Folder 23, CSL.
3. The U.S. government and Standard Oil fought over one school parcel for more than twenty years before courts determined that the nation retained title. The federal government annexed a second parcel when it expanded the naval oil reserve boundaries in 1942. Litigation over the first parcel within the reserve did not end conclusively until 1964. For the most important struggle over a school land grant in California, see Estate of Charles O. Fairbank by Charles Fairbank and Henry Fairbank, Trustees v. United States, United States Court of Claims, 164 Ct. Cl. 1 (14 January 1964).
10. People v. California Fish Company, Supreme Court of California, 166 Cal. 576 (20 December 1915); People v. Southern Pacific Railroad Company, Supreme Court of California, 159 Cal. 357 (5 March 1918).

12. Secretary of the Interior Ray Lyman Wilbur simultaneously claimed jurisdiction to refuse permits for federal oil lands under the 1922 mineral leasing law, a position ultimately upheld by the U.S. Supreme Court. See chap. 2, 8-17.


21. See Spalding v. United States, United States District Court, 17 F. Supp. 917, 919 (16 January 1937). Caroline and Silsby Spalding, a married couple who owned state tidelands permits Nos. 92 and 139, unsuccessfully attempted to avoid federal income tax on more than $1 million in oil and gas income in 1930, claiming that they had generated the income on a “tax-exempt” state lease. For similar efforts at tax evasion, see also A.T. Jergins Trust v. Commissioner of Internal Revenue, United States Board of Tax Appeals, 22 B.T.A. 451 (5 March 1931); Barnet, Commissioner of Internal Revenue, v. A.T. Jergins Trust, Supreme Court of the United States, 288 U.S. 508 (13 March 1933).


25. Lewis Stone v. City of Los Angeles, Court of Appeals of California, 134 Cal. App. 191 (20 May 1913); “City Plea Los on Oil Leasing,” LAT, 19 July 1931, pt. 8, 811.


29. See Webb Shadid v. Submarine Oil Company, 3 June 1930, 29 August 1930, State Lands Commission—Correspondence 1930, C.S.A.

30. For typical contractual arrangements that stipulated competitive production, see A.T. Jergins Trust v. Commissioner of Internal Revenue, 55, 553–54; “Banning Lease with T.E. Gesell,” 29 August 1930, Banning Papers, Box 20, Folder 2, 1; “Banning Lease with Superior Oil Company,” 1931, Banning Papers, Box 20, Folder 2, 1; “Oil Conservation Program Gets First Results from Price Cut in Signal Hill,” S.F.C, 23 October 1929, 221.


32. Be, United States Oil Policy, 108, 211, 216.


35. “Court Forbids Ocean Drilling,” LAT, 10 February 1930, 158.

36. Ibid.


42. Felix T. Smith to Oscar Lawler, 27 June 1931, Lawler to Vincent Butler, 7 July 1931, GTWHP, Carton 0333081, Folder: Producing—Huntington Beach, Chevron Archives.

43. Elson G. Conrad and L. W. Blodget, "Argument against Preventing Leasing of State-Owned Tide or Beach Lands for Mineral and Oil Production Referendum Measure," in Referendum Measures, together with Arguments Respecting the Same (Sacramento: California State Printing Office, 3 May 1932), 5-6.

44. "Tidelands Oil Battle Opens," LAT, 17 May 1932, pt. 1, 64; Roy Maggard v. W. S. Kingseley, 765; Porter Flint, "Oil News," LAT, 13 September 1932, pt. 1, 212; After the electorate rejected the November 1932 proposition, the Pacific Exploration Company’s lease option expired (because the company was unable to carry out the drilling terms). In July 1933, the Huntington Beach City Council initiated a new lease with the South Coast Exploration Oil Company, affiliated with the prominent Hancock Oil Company. Most likely, the city council switched leases hoping that Hancock would have more political clout and persuade legislators to push through legislation in 1934 allocating oil rights to the city. "Renewal of Tidelands Oil Battle Looms as Huntington Beach Grants Lease," LAT, 9 July 1933, pt. 1, 147.


48. C. G. Ward, Chairman, Civic Betterment Committee, Huntington Beach Chamber of Commerce, and Willis H. Warner, Secretary and Treasurer, Beach Protective Association, Huntington Beach, California, "Argument against

Initiative Proposition No. 11," in Proposed Amendments to Constitution and Proposed Statutes, with Arguments Respecting the Same, by Secretary of State, State of California (Sacramento: California State Printing Office, 8 November 1934); "Oil Drilling Move Opposed," LAT, 14 October 1934, pt. 2, 112.


52. For further political efforts, see "Tidelands Oil Wells Approved," LAT, 19 July 1934, pt. 1, 1035; "Huntington Beach Oil Leasing Wins in Assembly," LAT, 22 July 1934, pt. 1, 206; "Beach Oil Drilling," LAT, 31 July 1934, pt. 2, 415.


55. "Huge State Oil Loss in Beach Field Rumored; Official Reported Perturbed over Talk of Pilfering," SFC, 8 September 1933, 417; "State to Restrain Illegal Oil Practice," SFC, 14 September 1933, 312. See also "Huntington Beach Oil Leasing Wins in Assembly," LAT, 22 July 1934, pt. 1, 214.


58. “State Finance Head in Oil Row,” LAT, 19 October 1933, 8:2; “Dock Approved by Vandegrift,” LAT, 4 February 1934, 181.
60. Anonymous to Culbert L. Olson, 9 July 1935, Olson Papers, MSS C-B 443, Box 5, Bancroft Library (hereafter B/L); for details on Jefferson, see H.R. Philbrick, Legislative Investigative Report (Sacramento: Edwin N. Atkerson and Associates, 1938), sec. IV-A, sec. II-B.
61. “State Revenue Increase Seen,” LAT, 2 January 1934, 12:24; “Governor Is Due to Hold Hearing on Tideland Oil,” SB, 10 July 1935, 177.
64. Floyd J. Healey, “Oil Royalties Plan Drawn Up,” LAT, 8 December 1933, 211.
65. “Refrainment of State Oil Suits Sought: Beach City Asserts Action Interfering with Valuations,” SFC, 5 January 1934, 2577. The Department of Finance won a court judgment against the Termo Oil Company but then settled for royalties under an easement. People of the State of California v. Termo Oil Company, “Judgment and Decree.”
67. “Refrainment of State Oil Suits Sought: Beach City Asserts Action Interfering with Valuations,” SFC, 5 January 1934, 2577.
69. “State Demands $400,000 from Oil Operators; Suits Filed in Attempt to Shut Down Beach Producers,” SFC, 31 January 1934, 208; “State’s Share on Oil Set High,” LAT, 24 January 1934, 117; “Beach City Accuses State in Oil Scheme: Municipality Says Group Promised Lienency to Large Firms,” SFC, 4 February 1934, 1312.
71. “Production Data Huntington Beach Field,” October–November 1936, Olson Papers, Box 3, B/L.
to pay William Kenniter and the geologists who had worked to determine the tidelands boundary. See Kenniter's letter of thanks, recounting his memories of "those long hours of thankless work ... standing alone behind you at hearings where everyone was against you." William J. Kenniter to Culbert L.
Olson, 4 March 1939, Olson Papers, Box 3, BL.
27. Oscar Sutro to William E. Colby, 16 June 1936[4], William E. Colby Papers, BANC MSS C-B 980, Box 2, BL. Colby was also close to Robert Sears, principal lobbyist for the mining companies. Robert Sears to William E. Colby, 11 April 1930, Colby Papers, BANC MSS C-B 980, Box 2, BL. For an earlier compromise in which Colby traded automobile access to the parks for the national auto club's political support for park appropriations, see William Colby to Frederick Schwarz, 31 July 1931, William E. Colby Sierra Club Papers (BANC MSS 71/994 C Series 19), Box 38, Folder 3, BL.
33. "Oil Group Plans Move to Allow Beach Drilling," SB, 24 November 1936, 125.
34. "Governor Stays Oil Drilling Bill," SFC, 4 December 1936, 406.
36. Ibid.
40. Olson's fellow committee men filed a separate report in March, which endorsed California's agreements with trespassing companies in the name of "good faith" and "fair dealing. " "State Drilling Not Urged in Report on Oil; Senate Survey Differs from Ideas of Olson and Merriman," SFC, 1 March 1937, 415; "Report of Special Senate Committee to Investigate the Abstraction of Oil and Gas from State Lands," Senate Daily Journal, 4 March 1937, 475-86.
41. "Production Data Huntington Beach Field," October—November 1936, Olson Papers, Box 3, BL.
43. "Swing Amends Oil Bill to Give 15 Per Cent Royalty," SB, 5 March 1937, 153; "Swing Amends Oil Bill to Prevent Monopoly," SFC, 5 March 1937, 415; W. P. Rich of Marysville was Merriam's close ally, as Rich's consideration for a state supreme court position indicated. "Behrens' Political Gossip," SFC, 4 September 1937, 812.
54. "Senate Finally Gives Approval of Olson Oil Bill," SB, 30 April 1937, 1411; "Assembly Approves the Olson Oil Measure," SB, 30 April 1937, 1417.
80. Despite the rapid growth in properties, the number of park employees had increased by only 13 percent, and the budget by a meager 10 percent. The park system averaged less than one field employee per park unit. California State Parks Commission, 1938 Annual Report (Sacramento: California State Printing Office, 1938); George D. Nordenbalt, "Report to Governor Frank E. Merriam on the Department of Natural Resources, 1935–1938 Inclusive," 1939, Institute of Governmental Studies Collections, University of California, Berkeley.
82. Letter from the Shoreline Planning Association to the Los Angeles City Council, 28 January 1938, in Minutes of the Los Angeles City Council, 269: 574, file #518, archive of the Los Angeles City Clerk's Office.
83. "Division of Parks: Proposed Biennial Budget—91st and 92nd Fiscal Years," December 1938, Institute of Governmental Studies Collections, University of California, Berkeley.

89. The court distinguished between leases proposed for Venice and the direct municipal drilling contemplated by Long Beach. The court further noted that the California legislature had recently approved a municipal charter for Long Beach that expressly authorized oil drilling and extraction. City of Long Beach v. D.A. Marshall, Supreme Court of California, 11 Cal. 2d 609, 620–21 (28 July 1938).
91. Ibid., sec. IV–34.
95. "Land Chief Denies Charges," SFC, 30 June 1938, 68.
98. Harry Lerner, "Two Officials Charged with Vast Tidelands Oil Fraud?" SFC, 14 August 1938, 18.
100. Lerner, "Two Officials Charged," "Complaints Are Filed Against State Aids in Oil Land Investigation," SB, 15 August 1938, 117.
113. Anticipation of an Olson-Merriam showdown in 1938 began as early as 1937. See, for example, Herbert L. Phillips, "Hatfield, Olson Loom as Governor Candidates," SB, 10 June 1935; and "Farewell to Epic," San Francisco News, 14 February 1936. Olson originally wanted to enter the Senate race to confront his longtime enemy William G. McAdoo. Burke, Olson's New Deal in California, 10. The section title is from Olson for Governor, "If Olson Is Nominated," 1938, Behrens Collection, RG 3981, Folder 50, California State Historical Society
115. "Calvert Olson Our Next Governor," 22 August 1938, Olson Papers, Caron 7, Folder: August 1938, BL; "Republicans Blind to Folly Stock Deals, Charges Olson," Democratic Leader, 26 August 1938, 2. A 1938 campaign document listing Olson's career highlights put his introduction of the Olson oil bill in 1937 first and said its passage was "the first time in California history in which the oil interests lost their grip in the legislature." "Highlights in Political Record of Calvert Olson, Democratic Candidate for Governor of California," 1938, Behrens Collection, RG 3981, Folder 50, California State Historical Society.
117. Northern California Merriam-Franklin Campaign Committee, "Let's Stop Telling Ghost Stories," campaign pamphlet from 1938, Behrens Collection, RG 3981, Folder 50, California State Historical Society.
118. Division of Budgets and Accounts of the Department of Finance, State of California, "Report on Examination of the Books and Records of Account of the Division of State Lands, Department of Finance for the Period November 1, 1934 to June 30, 1940," 8 December 1941, Finance-Audits, Series AC 91-04-19, Box Audit Nos. 82-130, 3, CSA. State auditors under Earl Warren expressed similar dissatisfaction with the operations of the State Lands Commission. They wrote in 1944, "The obscure legal history of the execution of many leases, the rulings in the past years which apparently have been based on expediency rather than on sound statutory authority, and the acceptance over long periods of time of practices not strictly in consonance with law or contracts militate against satisfactory audit performance. There exist legal questions of magnitude which have a direct bearing on major sources of revenue." Division of Budgets and Accounts of the Department of Finance, State of California, "Report on Examination of the Books and Records of Account of the State Lands Commission for the Period July 1, 1940 to June 30, 1943," 27 January 1944, Finance-Audits, Series AC 91-04-19, Box Audit Nos. 1-81, 3, CSA.
121. Division of Budgets and Accounts of the Department of Finance, "Special Report in Connection with Our Current Audit of Records and Accounts of the State Lands Commission Division of State Lands Department of Finance" (Sacramento: California State Printing Office, 16 May 1943), 23-24, Exhibit F: "Statement Showing Horizontal Displacement of Bottom Hole Locations of Wells Redrilled Prior to Prohibition of Uniform Redrill Regulations by State Lands Commission"; Division of Budgets and Accounts of the Department of Finance, State of California, "Report on Examination of the Books and Records of Account of the Division of State Lands, Department of Finance for the Period November 1, 1934 to June 30, 1940," 8 December 1941, Finance-Audits, Series AC 91-04-19, Box Audit Nos. 82-130, 42-44, CSA.
123. A 1944 shoreline planning study financed by the Greater Los Angeles Citizens Committee, a private association, warned that the region's heritage—a "varied coastline of picturesque beauty," "rugged cliffs and jutting headlands," "clear water covering with marine life," and "miles of wide beaches of clean white sand"—was being despoiled. The report urged a prohibition on oil drilling "in any area within a minimum of 2500 feet of the shoreline" and recommended an initiative measure to secure such a ban. Carl C. McElvy, Shoreline Development Study: Playa Del Rey to Palos Verdes, A Portion of a Proposed Master Recreation Plan for the Greater Los Angeles Region, April 1944, Ford
Papers, Box 17, Folder 36, 34, HL. Three years later, the Shoreline Planning Association organized a discussion group that focused on oil drilling, as part of its search for ways to make the oil industry more compatible with the coast's recreational uses. Shoreline Planning Association of California, "Agenda (Advance Copy)," 21 April 1947, Ford Papers, Box 70, Folder 36, HL.

See, for example, Department of Natural Resources, Division of Beaches and Parks, "1956-57 Budget," December 1955, Ford Papers, Box 69, Folder 36, HL; "Legislature Plans to Curtail Bills in 1948 Session," SB, 14 November 1947, 4:6 (reporting that "loss of Tidelands oil royalties under the recent United States Supreme Court decision threatens continuation of California's beach and park program").

235. For a thorough account of the woes of the Olson administration, see Burke, Olson's New Deal in California.


237. In December 1947, the Supreme Court rebuffed an effort by Long Beach to transfer 25 percent of the harbor fund to a public improvement fund that could be used outside the harbor. City of Long Beach v. H. C. Morse, Supreme Court of California, 31 Cal. 2d 254, 30 (30 December 1947).

238. "Long Beach Plans Postwar Port Development," The Log, July 1944.


240. Notably, the federal government alone, and not the state administration, reopened federal oil lands off California's shores during the 1970s energy shocks. Pressure from state politicians then resulted in a two-decades-long moratorium on federal offshore oil development in California. First imposed by


CHAPTER 5. THE STRUGGLE TO CONTROL CALIFORNIA OIL PRODUCTION


7. California State Mining Bureau, Summary of Operations, California Oil Fields (Sacramento: California State Printing Office, 1927), 11. The Elk Hills field was not even listed in the California State Mining Bureau's Sixth Annual Report, Summary of Operations (Sacramento: California State Printing Office, 1920), 6-7.


18. Ibid., 159-60; Ise, United States Oil Policy, 148.


20. In an exchange of internal memos, Standard Oil of California's director, H.M. Storey, requested legal advice from Oscar Sutro, the company's chief legal advisor. The Federal Oil Conservation Board, Storey wrote, sought information to answer the following question: "What is the future of the electric driven car and truck, and the return of the horse, and the reduction of gasoline consumption?" Sutro replied that "the future of the electric driven car and truck... has been exclusively reserved for long-legged crooks with curly hair." Continuing in this vein, he noted that gasoline consumption would fall "with the consumption of booze." H.M. Storey to Oscar Sutro, 27 February 1925, GTHWP, Carton 135070, Box: Conservation, Chevron Archives.


30. Francis B. Loomis[1], Statement on Overproduction, 1927, GTHWP, Carton 135070, Box: Conservation (unsigned, untitled statement in file labeled "Loomis" by GTHWP; if it is not by Loomis, then it is by another Standard Oil lawyer), Chevron Archives.

31. Ibid.

32. Earl W. Wagy to Kenneth R. Kingsbury, 30 September 1927, GTHWP, Carton 135070, Box: Conservation, Chevron Archives.


35. "Dissipation of Resources Held Danger," SFC, 13 April 1929, 2:11; "Purpose of President's Oil Policy Explained by Wilbur," SFC, 13 April 1929, 2:13 (reprinting text of Wilbur's letter); "Wilbur insists on Oil Conservation," SFC, 13 April 1930, 6:35; "Obstacles Many but the Oil Resources Must Be Conserved," SFC, 11 April 1930, 2:11. See also chap. 2, n. 73, on suits over Wilbur's permittion restrictions.


37. Oscar Sutro to A.L. Weil, 17 February 1928, GTHWP, Carton 135070, Box: Conservation, Chevron Archives.
39. For an attack on the "old line oil concerns" that "refuse to accept the Government supervision," see "Cut-Throat Oil Production Is Our National Disgrace," 281.
40. Carl C. Wakefield, "Success of Gas Conservation Law Is Declared of Vital Importance by Standard Oil," SFC, 7 August 1929, 1922; "New Oil, Gas Law Is Signed by Governor," SFC, 30 May 1929, 1311; "$2,500,000 Gas Line Planned," SFC, 6 October 1929, 156; People v. Associated Oil Company et al., Supreme Court of California, 241 Cal. 93, 95 (3 December 1930).
41. Department of Water and Power, Thirty-second Annual Report: Board of Water and Power Commissioners of the City of Los Angeles, California, Fiscal Year Ending June 30, 1933 (Los Angeles: City of Los Angeles, 1933), 77.
42. "State Bill to curb Wastage in Oil Fields," SFC, 4 April 1929, 244; "New Oil, Gas Law Is Signed by Governor," 1311.
43. "New Oil, Gas Law Is Signed by Governor," 1311; "Oil and Gas Division Created," SFC, 4 June 1929, 311.
45. "Oil Industry Crisis Declared 'Bogey': California Law Held Key to Situation," SFC, 16 August 1929, 1732. Reerer clearly did not anticipate the east Texas boom.
51. People v. Associated Oil, 93, 98.
55. A. L. Wed to Roland Rich Woolley, 4 March 1931, Lloyd, Box LCI 61(A), Folder I, H.
56. Kenneth R. Kingsbury to Ray Lyman Wilbur, 8 October 1931, GTWHP, Carton 155083, Box: Conservation, Chevron Archives.
57. Ray Lyman Wilbur to Kenneth R. Kingsbury, 21 October 1931, M.E. Lombardi to Kingsbury, 27 October 1931, GTWHP, Carton 155070, Box: Conservation, Chevron Archives.
60. "Six Oil Firms Agree to Quit Drilling in Kettleman Hills," SFC, 6 June 1929, 1754.
64. Following a deadlocked meeting in mid-July, resistant operators like Ellsworth McGowan, representing the Kettleman Oil Corporation, finally agreed to accept a share of the oil from the four wells offsetting Elliot No. 1, in exchange for not drilling additional wells. To placate holdouts like McGowan, the Kettleman Hills North Dome conservation committee increased the share of production given to operators whose property would be drained through offsets to Elliot No. 1. "Kettleman Hills Meeting Deadlocked," SFC, 18 July 1929, 2021; "Kettleman Oil Conservation Plan Adopted," SFC, 20 July 1929, 1315; "Kettleman Hills Awaits Oil Hal," SFC, 22 July 1929, 1315.
73. "Wilbur Hopeful for Unit Plan," SFC, 26 September 1930, 1314.
Notes to Pages 131-135

Minutes of Meeting of Board of Directors of OPSA, 8 July 1931, "Minutes of the Special Meeting of the Board of Directors of OPSA," 23 May 1932, Lloyd Papers, Box LCL 6(1), Folder: OPSA—minutes, HL. Proposers of stronger state regulation hoped that it would allow courts to force receivers to comply with curtailment. See E. B. Reeser to James Ralph Jr., 10 February 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA; Frederick Kincaid to Ralph B. Lloyd, 22 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Portland Committee, HL.

99. Ralph B. Lloyd to Hartman Ranch Company, 4 April 1931, Lloyd Corporation Papers, Box LCL 6(2), Folder: H, HL. See also Lloyd to Alfred S. McConigle, 4 April 1931, Lloyd Corporation Papers, Box LCL 6(1), Folder M-1931; Lloyd to Neal Anderson, 24 April 1931, Lloyd Papers, Box LCL 6(1), Folder: OPSA, HL: "Oil Conservation Brings $3,150,000 Suit," SFC, 27 May 1930, 2215.

100. J. A. Brown to William Reinhardt, W. C. McDuffie, Ralph B. Lloyd, and Paul N. Boggs, 6 February 1931, Lloyd Papers, Box LCL 6(1), Folder: California Oil and Gas Curtailment Committee, HL. See also W. N. Craddock to R. K. Templeton, "Discussion of the Proposed Sliding Scale Proportion Plan," 23 April 1931, Lloyd Papers, Box LCL 6(1), Folder: California Oil and Gas Curtailment Committee, HL.

101. Frederick Kincaid to Ralph B. Lloyd and Robert L. Smith, 9 February 1931, Lloyd Papers, Box LCL 6(1), Folder: California Oil and Gas Curtailment Committee, HL; Lloyd to William F. Humphrey, 17 August 1933, Lloyd Corporation Papers, Box LCL Letter 1933 (A-C), Folder: Associated Oil Company, HL; Lloyd to Associated Oil Company, 28 September 1933, Lloyd Corporation Papers, Box LCL Letter 1933 (A-C), Folder: Associated Oil Company, HL.


Chapter 6. Federalism and the Unruly California Oil Market

1. Mark L. Requa to Ralph B. Lloyd, 13 May 1931, 18 May 1931, Lloyd Papers, Box LCL 6(1), Folder: California Oil and Gas Curtailment Committee, HL.


6. "Governors' Oil Relief Conference Maps Drive to Aid Independent Firms: Crude Import Embargo, Ban on Reined to Be Proposed to Congress," SFC, 29 January 1931, 153.

7. "Governors' Oil Relief Conference Maps Drive to Aid Independent Firms," 153.

8. "Wilkbar Prefers Sales to Tariff for Oil Relief," SFC, 8 January 1931, 154.

9. "Governors' Oil Relief Conference Maps Drive to Aid Independent Firms," 154; "Wilbur Says Oil Problem up to States," SFC, 21 April 1931, 1226.

10. Ray Lyman Wilbur to Francis B. Loomis, 12 May 1931, GTWHP, Car ton 155070, Box: Conservation, Chevron Archives; "Wilbur Says Oil Problem up to States," 1226.


12. J. A. Borstingham to J. A. Brown, 12 January 1931, including attached letter from Charles C. Stanley to C. E. Olmsted suggesting revisions to proposed law; Stanley to Olmsted, "Regulation of Production of Petroleum," 9 January 1931, Lloyd Corporation Papers, Box LCL 6(1), Folder: California Oil and Gas Curtailment Committee, HL.


16. Although the major companies shared common interests and collaborated on their 1931 legislative agenda by means of the California Oil and Gas Association, they occasionally worked at cross-purposes. For example, Standard Oil apparently maneuvered behind the scenes to ensure that another Well-authored measure introduced by Senator Sharkey would not become law. The measure would have eliminated the use of gas-oil ratios as the basis for enforcing the Oil and Gas Conservation Act. Well's amendments would have overrode the 1939 provisions, since the ability to link oil and gas production had enabled state gas enforcement. A. L. Weil to Roland Rich Woolsey, 4 March 1931, Lloyd Corporation Papers, Box LCL 6(1), Folder I, HL; James E. Depman to Felix T. Smith, 9 March 1931, C. R. Stevens to Weil, Charles C. Stanley, Paul M. Gregg, F. F. Thomas, Smith, Edwin Higgins, and A. R. Bradley, 30 March 1931, James S. Bennett to William R. Sharkey, 6 March 1931, GTWHP, Car ton 155070, Box: Conservation, Chevron Archives.

17. "New State Oil Conservation Laws Will Become Effective on August 15," SFC, 2 June 1931, 1215; Secretary of State, State of California, "Proposition


24. Neal H. Anderson to Ralph B. Lloyd, 6 June 1931, Lloyd Papers, Box LCL 6(3), Folder: OPSA, HL.

25. Ralph B. Lloyd to Hartman Ranch Company, 4 April 1931, Lloyd Corporation Papers, Box LCL 6(4), Folder H, HL. Lloyd and a few others whom he recruited financed the establishment of the Lloyd Corporation. This corporation carried many of OPSAs initial operating expenses, and Lloyd and other sponsors, including George E. Getty, Pacific Western, and Superior Oil Company, each contributed five hundred dollars. Lloyd to R. R. Templeton, Secretary Treasurer, OPSA, 17 April 1931, Lloyd Papers, Box LCL 6(5), Folder: OPSA, HL. See also Templeton to Getty, Superior Oil Company, Pacific Western Oil Company, and Lloyd, 10 April 1931, Lloyd Papers, Box LCL 6(5), Folder: OPSA, HL.

35. Ralph B. Lloyd to James Sharkey, 3 April 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL.

44. Ralph B. Lloyd to All Members of OPSA, 15 February 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL.

56. L. G. Kelly to Independent Petroleum Association, 25 April 1932, Lloyd Papers, Box LCL 7(8), Folder: OPSA, HL.

48. “Attorney F. E. Barton Declares Sharkley Bill Is Dangerous Measure,” Bakersfield Californian, 20 April 1932, 9. Barton handled Bakersfield-area cases for the Standard Oil Company of California, which urged passage of the bill. Standard Oil’s chief lawyer, Oscar Sutro, soon wrote Barton to pressure him to keep his opinions to himself. Sutro said that Barton’s “definite and hostile” public attitude toward the Sharkley bill had been “a matter of great surprise to me and to my associates.” He concluded, “One is prepared for hostility emanating from those who are ignorant and from the camp of the enemy. One does not expect it to come from the house of a friend—and certainly not without fair notice.” Sutro to Barton, 2 May 1932, GTWHP, Carton 155970, Box: Conservation, Chevron Archives. Barton replied scathingly, “When it comes to the matter of my personal views as a citizen, I wish you to understand that I do not give them away like a pound of tea as a premium with the purchase of my legal services.” Barton requested instructions on how he should dispose of the two cases that he was handling for the company. Barton to Sutro, 3 May 1932, GTWHP, Carton 155970, Box: Conservation, Chevron Archives.

49. Alfred Marston to Ohio Oil Company, 14 February 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL.

50. A. Wardman to Rush M. Bledget, 11 February 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL.

51. H. A. Bardeen and A. Wardman to Members, OPSA, 18 February 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL. See also Bardeen to Los Angeles Chamber of Commerce, 14 March 1932, Robert Bronberg to Los Angeles Chamber of Commerce, 8 March 1932, Lloyd Papers, Box LCL 7(2), Folder Fl, HL.

52. A. Wardman to Rush M. Bledget, 11 February 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL.

53. “Voters Decide Tomorrow on Sharkley Bill,” SFC, 2 May 1932, 221.


55. “Order of Business for Special Meeting,” 16 May 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA—Minutes of Meetings, HL.

56. “Minutes of the Regular Meeting of the Executive Committee of OPSA,” 11 May 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA Minutes, HL.

57. Ralph B. Lloyd, “Thrown Back upon Ourselves,” article prepared for May 1932 Stabilizer, Lloyd Papers, Box LCL 7(4), Folder: OPSA, HL.

58. Ibid.; Ralph B. Lloyd to Rush M. Bledget and George M. Swindell, 6 June 1932, Lloyd Papers, Box LCL 7(1), Folder: B, HL.

59. California Oil and Gas Association, “Yearly Report of the Managing Director,” 30 June 1932, Lloyd Papers, Box LCL 7(1), Folder: California Oil and Gas Association—Letters, Minutes of Meetings, etc., HL.

60. “Minutes of the Special Meeting of the Board of Directors of the OPSA,” 16 May 1932, Lloyd Papers, Box LCL 7(4), Folder: OPSA—Minutes of Meetings, HL. After the passage of the National Industrial Recovery Act, in 1933, this committee dissolved, to be replaced by the Central Proration Committee, OPSA, “Minutes of the Meeting of the Board of Directors of OPSA,” 29

April 1933, Box LCL 8(4), Folder: OPSA—Meetings, HL; “Oil Men Form Committee for Curtailment,” SFC, 22 May 1932, 128; Neil H. Anderson to All Operators, 13 June 1932, Lloyd Papers, Box LCL 7(1), Folder: California Oil Curtailment—Letters, etc., HL.

61. Kenneth R. Kingsbury to William M. Keck, Chairman of Executive Committee for Equitable Curtailment of the Oil Industry in California, 11 June 1932, Lloyd Papers, Box LCL 7(1), Folder: California Oil Curtailment—Letters, etc., HL.

62. Neil H. Anderson to Members Executive Committee, Central Proration Committee, 11 June 1932, Lloyd Papers, Box LCL 7(1), Folder: California Oil Curtailment—Letters, etc., HL.


64. Executive Committee for Equitable Curtailment of the Oil Industry in California to Kenneth R. Kingsbury, 22 June 1932, Lloyd Papers, Box LCL 7(1), Folder: California Oil Curtailment—Letters, etc., HL.


66. Neil H. Anderson to All Oil Operators, 21 July 1932, Lloyd Papers, Box LCL 7(1), Folder: California Oil Curtailment—Letters, etc., HL.


68. Rush M. Bledget to Ralph B. Lloyd, 26 May 1933, Lloyd Papers, Box LCL 8(3), Folder: OPSA—Letters, etc., HL.

69. Ralph B. Lloyd and R. E. Allen to Franklin D. Roosevelt, Harold Ickes, and Hugh Johnson, 21 August 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Proration Committee and Planning and Coordination Committee, Letters, etc., HL.

70. Central Proration Committee to Harold Ickes, 4 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Proration Committee and Planning and Coordination Committee, Letters, etc., HL; J. H. Ward to Central Committee of California Oil Producers, 24 August 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Proration Committee and Planning and Coordination Committee, Letters, etc., HL.

71. Central Committee of California Oil Producers to Harold Ickes, 12 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Proration Committee and Planning and Coordination Committee, Letters, etc., HL.

72. Harold Ickes to Ralph B. Lloyd, 16 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Proration Committee and Planning and Coordination Committee, Letters, etc., HL.

73. Ralph B. Lloyd and J. R. Pemberton to Harold Ickes, 18 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Proration Committee and Planning and Coordination Committee, Letters, etc., HL.
74. Kenneth R. Kingsbury to Amos L. Beatty, 4 May 1934, GTWHP, Carton 155085, Box NRA, Cheyren Archives.

75. Rush M. Blodget to A. L. Weil and Paul M. Gregg, 5 December 1933, Lloyd Papers, Box LCL 8(1), Folder: OPSA—Letters, etc., HL.

76. Ralph B. Lloyd to George W. Holland, 29 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Protraction Committee and Planning and Coordination Committee, Letters, etc., HL; and Lloyd to J. R. Pemberton to Harold Ickes, 18 September 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Protraction Committee and Planning and Coordination Committee, Letters, etc., HL.

77. OPSA to Harold Ickes, 26 October 1933, Lloyd Papers, Box LCL 8(1), Folder: OPSA—Letters, etc., HL.

78. Howard Kelby, "Oil News," LAT, 2 December 1933, pt. 1, 9:6; "Minutes of Special Meeting of the Central Committee of California Oil Producers and Protestants to the Supplemental Code," 20 November 1933, Lloyd Papers, Box LCL 8(1), Folder: Central Committee of California Oil Producers—Minutes of Meetings, HL.

79. Ralph B. Lloyd et al. to Associated Oil Company, 26 September 1933, Lloyd Corporation Papers, Box LCL, Letter 1933 (A-C), Folder: Associated Oil Company, HL.

80. Ralph B. Lloyd, President, Lloyd Corporation, Ltd., and Louis Dabney, President, South Basin Oil Company, to Associated Oil Company, 13 November 1933, Lloyd to William F. Humphrey, 13 July 1933, Associated Oil Company to Lloyd Corporation, South Basin Oil Company, and Ventura Land and Water Company, 6 October 1933, Lloyd Corporation Papers, Box LCL, Letter 1933 (A-C), Folder: Associated Oil Company, HL.


91. For an example of Standard Oil's position as enforcer and price setter, see the correspondence between the Fillmark Oil Company and Standard over the Lakeview pool. Charles H. Forward to Kenneth R. Kingsbury, 28 February 1936, J. H. Tuttle to Forward, 28 February 1936, GTWHP, Carton 155085, Box: Conservation, Chevron Archives.


95. R. E. Allen to Kenneth R. Kingsbury, 27 January 1936, Kingsbury to Our Lessees and Producers from Whom We PurchaseCrude Oil, 18 January 1936, GTWHP, Carton 155083, Box: Conservation, Chevron Archives.


105. As quoted in Burke, Olson's New Deal, 127.

106. Earl C. Behrens, "Oil Control Bill Wins in Assembly after 34-Fr. Fight," SFC, 16 June 1939, 112. Quoting Assemblywoman Jeanette Daley from San Diego; Behrens, "Oil Control: Senate O.K.'s Bill, Sends It to Olson," SFC, 20 June 1939, 125; Burke, Olson’s New Deal, 118.


CHAPTER 7. "TRANSPORTATION BY TAXATION"

1. According to a 1960 study by the organization Resources for the Future, 89 percent of gasoline went to highway use, and 44.4 percent of oil was used for gasoline—yielding 40 percent for gasoline on highways. Sam Schurr and Bruce C. Netschert, with Vera Eliasberg, Joseph Lerner, and Hans Landsberg, Energy in the American Economy, 1850-1975: An Economic Study of Its History and Prospects (Baltimore: Johns Hopkins Press, 1960), 119, 122.


5. See, for example, Bottles, Los Angeles and the Automobile, 29-34.


7. Richard M. Zettel, An Analysis of Taxation for Highway Purposes in California, 1853-1946: Submitted to the Joint Fact-Finding Committee on Highways, Streets, and Bridges (Sacramento: California State Printing Office, 1946), 113-4 (table): "Adjusted Statement of Highway User and General Tax Revenues Expended for Highway and Street Purposes by the State, Counties, and Cities of California, 1920-1945." Included in Zettel's calculation are $16 million in transportation license taxes that I believe should have been credited to the general fund. They were taxes on commercial activity comparable to the gross receipts taxes paid into the general fund by the public utilities, like railroads and streetcars. To make the calculations easier, however, I have not altered Zettel's figures.