If Doheny was worried about the exhaustion of his Mexican oil supply in the early 1920s, he never betrayed his feelings. Even under the most trying political circumstances, he did not express any doubts about Mexico's petroleum reserves, and he continued to develop new fields as the government permitted. Commenting on the new Juan Felipe district, for example, Doheny maintained that "before this field is exhausted a lot of us will be dead and a lot of others will be broke as a result of bearing the prospects of the field." By the end of 1922, however, other companies began to pull out of Mexico as their confidence, along with their production, steadily dropped off.¹

Among the large companies, the Mexican Eagle fared the worst, suffering a drastic reduction in operations because of the invasion of salt water into their primary fields. La Corona, the other Royal Dutch affiliate, shut down its Mexican refinery after spending almost $100 million developing its properties in the preceding eighteen months—and considered the investment irretrievable. Likewise, Standard Oil closed its Tampico refinery and claimed that recent losses in Mexico had amounted to about $50 million. The remaining American operators, except for Doheny, also started scaling back their Mexican business in the latter part of 1922 for the same reasons. Ironically, La Corona and Transcontinental (Standard Oil) reached peak production in 1923 at 30.5 million barrels and 24 million barrels, respectively. Huasteca Petroleum still led with 36 million barrels, and the Mexican Eagle came in at 10 million. These four companies accounted for almost 70 percent of the production that year.²

Looking over the wreckage of his operation in March 1923, A. C. Bed-
ford, the chairman of Standard Oil, contended that the oil industry in Mexico had been brought down because of the opposition of the Mexican government. Without a doubt, Doheny agreed, the confiscatory laws of recent years had impeded oil development in Mexico, but he added that Pan American Petroleum's investments "are and have been satisfactory, having yielded and are still yielding excellent returns." Moreover, Doheny was sure that at some point the Mexican government would "see the light," and until such time the company was "content to continue [its] activities in the undeveloped portions of our great Mexican holdings, with faith in the eventual prevalence of justice and good understanding in Mexico." Doheny also noted that numerous "pencil experts" had been proclaiming the demise of the California oil industry for years, yet the state was producing at twice the 1921 rate, with a future that looked "as bright or brighter than it ever did." And he was willing to gamble that Mexico would do the same.

In the meantime, he was shrewd enough to hedge his bet. As early as March 1921, Doheny tried to diversify his holdings with a bid to buy the Atlantic, Gulf, and West Indies Company. Atlantic Gulf held oil lands in Colombia, operated in Mexico, and had a growing fleet of oil tankers. A major problem, however, was that Joseph F. Guffy, the president of Atlantic Gulf, did not get along with Doheny. Guffy had been a major critic of the conduct of the older companies, and he characterized Doheny as Mexico's "implacable enemy." Guffy's strategy had been to accept the government's tax and land decrees in order to win concessions on federal lands that ran through the developed territory of his rivals. Given their differences, Doheny and Guffy negotiated through a third party for three weeks straight without being able to strike a deal.

Venezuela was another possibility, and it became the destination of choice for the major oil companies abandoning Mexico. Gulf Oil and Standard Oil New Jersey, for instance, had already been there for several years by the time Doheny became interested in 1923. Even then, Doheny moved cautiously by acquiring a concession from the Maracaibo Oil Company and sending Harold Walker and a team of company geologists to scout for further prospects.

At the same time in the United States, Doheny made a tentative move into the Smackover oilfield in Arkansas, where, after spending $3 million, he had about 750 acres of developed land and at least one well producing 20,000 barrels per day, which had been capped off pending construction of a 1.7-million-barrel storage tank and a railroad spur onto the property. Despite continuing to drill for light oil in Smackover, Doheny concentrated his efforts in Southern California. In particular, the new fields in the Los
Angeles basin—including Long Beach, Torrance, and Signal Hill—were the focus of another oil boom, which flooded the market with low-priced oil in 1922. Under those conditions, Doheny's first act was to move in, buy up the surplus, and ship it to the Mexican Petroleum refinery at Destrehan, Louisiana. And by early 1923, Pan American Petroleum was taking as much as 130,000 barrels of oil a day out of Los Angeles, which reduced the demand on Mexican crude and helped stabilize the local market.  

Because much of the excess California production was light-gravity oil that yielded over 30 percent gasoline, the large companies also began investing heavily in new service stations in the region as a way to expand the market. In this way, local conditions fed into a national movement to reorient the industry to supply the automotive trade in the early 1920s. While other companies had been headed in this direction for years, this was new territory for Doheny, who had carved out his niche in the fuel oil business. But he was prepared to move quickly in response to the market. In the summer of 1923, he constructed a large refinery in Los Angeles and began scouting the city for desirable sites for "Pan Gas" stations. To buttress this development, the company triumphed in a contest with more than a dozen steamship lines to acquire the property of an old submarine base in Los Angeles Harbor, which gave Doheny what was expected to be the "finest oil-loading station on the Pacific coast."  

Although the flush-field production around the city afforded him a ready supply of low-priced oil, he still needed the long-term security of a stable reserve. Unfortunately, the political climate in Mexico was far from certain. And even under the best of circumstances, light Mexican crude yielded only about 11 percent gasoline, and the heavy oil from Ebano and Pánuco yielded almost none. Besides, Doheny already contracted most of the product from his topping plant in Tampico to Standard Oil for its retail outlets on the East Coast.  

Consequently, there was no way to get past the need for an assured supply of better-grade oil, although Doheny had several options available to him. The simplest solution was to regain working control of the California Petroleum Company. As noted previously, Doheny had pulled back from the company in 1916 after his failed attempt to consolidate the California independents. Six years later, California Petroleum was one of the nation's strongest independents, based on policies established under Doheny's leadership in its early years. With gross assets of $46 million, Calpet was expanding rapidly, and its daily production of 50,000 barrels put it among the top half-dozen oil companies in the state. In addition, Calpet had storage capacity for almost 7 million barrels and substantial proven
reserves. Calpet was also doing very well on the stock market. In fact, a surge of activity at the end of 1922 suggested that someone was trying to get control of the company. Most analysts assumed it was Doheny.9

Because Calpet was still being run by a group of officers closely associated with Doheny, including his longtime associate T. A. O'Donnell, who was the chairman, there is little doubt that he could have moved back into control. In any case, with about 150,000 shares of common stock outstanding, selling at around $65 a share on the New York Stock Exchange, Doheny could have bought his way back in for no more than $5 to $10 million—a relatively cheap and easy solution if he was really pressed to compensate for Mexico and supply his West Coast business with fresh oil.10

Instead, on December 15, 1922, the secretary of the navy announced that the department had just extended its arrangements with the Pan American Petroleum Company, based on the original Pearl Harbor contract of April 1922, to include a lease on the eastern half of Elk Hills Naval Petroleum Reserve No. 1, consisting of about 16,000 acres of proven oil territory. At the time, Doheny's existing California properties totaled about 25,000 acres. With respect to Elk Hills, the government retained control of the western half of the reserve but had the option to have Doheny drill offset wells on those lands at its discretion. According to Secretary Denby, this additional lease was necessary because of the increasing fuel oil demand of the navy and the continued drainage of government oil into private holdings within and alongside the reserve. A report filed in March 1922 stated that at least 22 million barrels of oil had been lost from the reserve because the previous administration had failed to drill offset wells when they were needed. At a standard 30 percent royalty, the government had lost almost 7 million barrels of oil, or about $9 million at current prices.11

Just as important as the navy's justification was Albert Fall's determination to open government-held property to commercial development at every opportunity, contrary to the strict conservation policies in place at the time. Because his appointment to the post of interior secretary promised a fundamental shift in this policy, his opponents were ready to take action against him. But Fall made no effort to hide his intentions. In fact, in June 1922, he published an article in the Magazine of Wall Street that summarized his philosophy. "Our unused mineral resources are enormous," Fall noted, out of which "we can go for generations turning nature's stored wealth into consumable wealth and enjoying sources of prosperity unknown to older countries." And he believed that "$150,000,000,000 of wealth can be extracted from the coal, oil, oil shale, potash and phosphate
deposits of the public lands,” which “should pour billions of dollars into the public treasuries.” With the right policy in place, “there are golden years of development ahead of us.”

In pursuing this strategy, Fall was determined to manage the public lands as a business rather than as a conservationist fiefdom, leaving himself free to make arrangements for the government as the opportunities arose. The public would have to trust him to act independently to make the best deal. Thus, when the navy wanted additional storage facilities at Pearl Harbor, Fall did not hesitate to favor Pan American Petroleum. Both Standard Oil and the Associated Oil Company bid on the work, but Doheny submitted two bids: one met the requirements as advertised; the other went much further in offering his services to the navy. The alternative proposal, as explained below, ultimately won the award, and the other companies cried foul, complaining that if they had been aware of Doheny’s second offer they would have readjusted their own bids as well. Fall disagreed and char-
acterized these complaints as the "machinations" of individuals "desirous of causing [Doheny] to lose money by making larger bids . . . which they would never have considered making at all." 13

And so, Doheny's lease for the Elk Hills Naval Petroleum Reserve fulfilled Fall's ideal. In return, Doheny assumed what he justifiably characterized as "a serious and substantial obligation." First, he would construct additional storage facilities at Pearl Harbor for up to 2.7 million barrels of oil. Next, in conjunction with plans for a new Los Angeles refinery and oil depot, he would provide free storage for 1 million barrels of fuel oil at the Los Angeles harbor; he agreed to bunker government ships out of that supply at cost and to deliver the navy's royalty oil from the petroleum reserve to the refinery at tidewater free of any pipeline charges; he would maintain 3 million barrels of fuel oil in storage depots on the Atlantic Coast; and he would furnish, at the government's command, a "reasonable amount" of crude oil products in storage facilities at locations to be determined in the future. Finally, he would give the navy a 10 percent discount off the market price of any additional fuel oil and refined products coming from the reserve. The contract would run for twenty years and "so long thereafter as oil and gas is produced in paying quantities." Government royalties ranged from 12½ to 35 percent, depending on the size of the wells. 14

Initially, Doheny expected to have to advance the government $12 to $15 million to complete the facilities at Pearl Harbor and estimated the cost of the remaining obligations at $50 million. Although he would eventually recover the entire amount, he admitted that it would be many years before the company was "on velvet" with respect to the contract. But, beyond his own concerns, Doheny saw immediate benefits for the California industry, as a whole: "It will mean the systematic development, when and as the market situation justifies, of an extensive scope of country and the development of a whole additional system of facilities for handling the oil." As Doheny envisioned it, therefore, his leasing of the Elk Hills reserve would help everybody—the navy, the country, and his own company. And despite the grumbling of his competitors, many others agreed with his assessment. The Wall Street Journal, for instance, hailed the lease as "one of the most important oil contracts ever closed by any company." Local observers were not willing to go that far but thought that it was at least one of the most spectacular deals ever made in California. 15

Was this the best way for Doheny to diversify Pan American Petroleum's supply and market activities? Far from being a government hand-out, this was clearly a risky and expensive proposition. It provided access
to a potentially large supply of oil, more than 30,000 acres for the whole reserve, but it put half of the oil under the supervision of the navy and interior departments for decades to come. Although some analysts saw this as a positive step away from a dependence on Mexico, any plan designed to drain one of the navy’s oil reserves merely put Pan American Petroleum into the hands of another set of politicians. Unless he had some other motive in mind, Doheny’s talent for smart business decisions seems to have failed him.16

According to sources close to the company, Doheny faced a good deal of internal opposition to the terms of the deal. In a letter to Admiral Robinson, newly appointed head of the Naval Oil Reserve, one attorney noted that “no one of importance in the Pan American organization favors the agreement except Mr. E. L. Doheny. Mr. Doheny told me that the president of the corporation [J. C. Anderson] refused to sign the agreement; and I will say in passing other of the officials of the corporation stated to me that they wished the agreement could be avoided as you had out traded Doheny!” The point the attorney was trying to make was that “some day when the influence of Mr. Doheny is not dominant an escape may be sought by those who succeed him.” Doheny conceded that the royalty structure of the contract might be attacked in the future, but he was certain that the lease itself would stand. In his mind, the government could not lose. But, as the attorney warned, there was always the possibility that a disgruntled shareholder might challenge the deal in court.17

Notwithstanding these disagreements, Doheny moved ahead with his plans. Before the December contract on Elk Hills, the Pan American Petroleum Company of California had invested almost $21 million in the shipping port, refinery, and associated property. Because all of the funding to that point had been on loan from the parent company, Doheny recapitalized the operation by creating a new subsidiary, called Pan American Western Petroleum, with a capital stock of $20 million and $15 million in new bonds. Then, he launched a major assault on the retail gasoline trade in both the United States and Mexico to set up the next phase of his operation.

Despite owning locations for service stations in Los Angeles, he moved first to the East Coast, where he purchased a 50 percent share in the American Oil Company, which operated the Lord Baltimore filling stations in Maryland, Pennsylvania, and the District of Columbia. Working from this base, Doheny hoped to expand American Oil’s marketing area throughout the eastern states and to make it the sole distributor of Pan-Am products. All of this centered on a distribution network radiating out from the Mexi-
can Petroleum Company's refinery at Destrehan. With ocean shipments of California crude oil and distillates from Tampico, Doheny hoped to dominate the gasoline sales market in the southern Gulf and Atlantic states. And from another outpost in Memphis, taking advantage of Pan American Petroleum's ability to ship gasoline by barge, the company could use the upper Mississippi and Ohio rivers, coupled with short rail lines, to move into the Ohio Valley and as far north as Buffalo, in direct competition with Standard Oil Indiana.¹⁸

Using Doheny's traditional shamrock logo, already familiar to purchasers of Mexpet fuel oil, the recently formed Pan American Southern began selling Panamco gasoline and Panolene motor oil in New Orleans and Atlanta in the winter of 1924. To capture the public's attention, the company's stations were designed in California mission style, with green tile roofs and natural stucco exteriors. Doheny also hired a marketing expert, T. A. LaBelle, who helped Pan American Petroleum's chemists develop a specialized grade of gasoline and laid out the stations using the latest conveniences and time-saving devices so that they could offer "superservice to the motoring public." As the number of these stations spread throughout the Southeast and northern Atlantic Coast, Pan American Petroleum began a major advertising campaign to introduce its line of products to the public, announce Pan Am's commitment to service, and teach some basic lessons in auto maintenance. Such an aggressive and sophisticated promotion enabled Doheny to capture a significant segment of the market almost overnight.¹⁹

This marketing campaign had actually been inspired by the company's recent experiences in Mexico City, where it operated the first service stations ever seen in that country. While the Pierce Oil Company, the Mexican Eagle, and La Corona (Royal Dutch) were still selling gasoline in bulk, Mexican Petroleum established retail stations in Mexico City, Tampico, and at least a dozen other metropolitan areas. Its most elaborate outlet sat at the foot of an exclusive residential area near Chapultepec Park in the capital and was styled like a palatial arch with hand-carved natural pink stone and a canopy of art glass panes over the service bays. All of the working parts were hidden behind the walls, with only the solid brass handles and dispensers exposed to the public; air and water came from eight solid brass lion heads. While nothing in the United States matched this opulent display, all of the stations reflected the same obsession with distinctive detail.²⁰

In Los Angeles, Pan American Petroleum ranked fifth among the major companies, with twenty-three stations by the summer of 1924; Standard Oil California led with 127 stations, Shell had 97, Richfield had 45, and
Union had 40. As yet, Doheny's operations were only partially based on the Naval Petroleum Reserve, although the production from government leases doubled over the year, from 3.5 million barrels to just over 7 million—at this point, less than 20 percent of Pan American Petroleum's total output. Taking Doheny's California production by itself, 24 percent of 2,061,565 barrels came from Elk Hills in 1921; 71 percent of 4,557,719 in 1922; 55 percent of 3,502,836 in 1923; 47 percent of 7,172,024 in 1924; and 59 percent of 6,236,202 in 1925. The total for Pan American Petroleum and Transport was 31 million barrels in 1921, 57 million in 1922, 40 million in 1923, 36 million in 1924, and 38.6 million in 1925. For the most part, then, Doheny was just getting started in California, and Elk Hills was as yet a small part of his business. Looking into the future, he now believed it would take a $150 million investment, or 3,000 wells at $50,000 apiece, to efficiently develop the reserve.²¹

By the end of 1923, however, there was some doubt that he would get to carry out this plan, when Albert Fall's federal leasing program came under political attack. The year before, Robert La Follette, the progressive senator from Wisconsin, asked for a congressional investigation of the leases made between Fall and Harry Sinclair for Naval Reserve No. 3 at Teapot Dome, Wyoming. Now, Doheny's arrangements at Elk Hills were
in for the same treatment. Initially, the investigation revolved around arguments over the severity of the drainage from outside wells as a justification for opening up the reserves, but it turned out that expert opinion about the viability of underground reserves was more guesswork than fact. Rumors of bribery and corruption were also being investigated but had not yet become the focus of the opposition.

Nevertheless, there was cause for alarm. In fact, because Congress had just concluded hearings into rising gasoline prices, at La Follette's urging, many observers feared that the investigation of the reserves was the beginning of an all-out assault on the industry. A former editor of the *Oil Investors' Journal* attributed all the negative attention to faulty leadership by the big oilmen, who were leading the industry astray by their conduct in the United States and their fight with the Mexican government. The sort of wide-ranging activity that Doheny and others were engaged in, the author contended, "will take us just where we do not want to go—into politics; it will excite public condemnation and bring the oil industry into serious disrepute."  

Doubtless, industry representatives were right to fear the consequences of the impending investigations when the Senate Committee on Public Lands and Surveys began public hearings on the oil leases in October 1923. Led by Senator Thomas J. Walsh of Montana, an Irish-American associate of Doheny's, the committee heard testimony from almost everyone involved in the leases over the next few months. At the conclusion of the hearings, Walsh believed that they had "produced a new sensation and [gave] the nation another dismaying and disquieting shock almost daily."

Initially, Walsh focused on the intent of Congress in opening the reserve to private development in 1920. At that time, concessions had been granted for certain tracts within the reserve where legitimate private claims had existed before the land was withdrawn by the government. In addition, Congress had authorized some contracts for offset wells to be drilled along the inside perimeter of the reserve to stop private companies from draining the pool from the other side. A subsequent extension of that plan, intended purely as a conservation effort, gave the Navy Department the right to "conserve and develop the reserves by lease, contract, or otherwise, and to use, store, exchange, or sell the oil." Supposedly, to safeguard the navy's oil supply, Congress deliberately intended "to exclude the Interior Department from any general control over the Naval reserves." Nevertheless, President Harding issued an executive order some months later that turned the administration of the reserves over to the Interior Department anyway.
According to Walsh, the president and the secretary of the navy, Edwin Denby, had been duped into this assault on the “sacred Naval oil reserve” by Albert Fall.

Walsh also claimed to have been surprised and shocked when he learned that all of Elk Hills “had been secretly leased, or promised, to the Pan American Petroleum Company” in exchange for the construction of $102 million worth of harbor improvements and oil storage depots in the Pacific. Those contracts, Walsh contended, had been set up to allow the navy to evade congressional approval, and they left the government “powerless to take oil out of this reserve except through request to Doheny to do so.” Fall and Denby, on the other hand, claimed that the exchange provisions of the preceding congressional directive gave them full authority to proceed as they had. Admiral Robison, whose role was described earlier, claimed full responsibility for “the idea of converting oil in the ground into tankage and stored fuel oil,” but Walsh thought that there was more to it. In fact, Walsh was “convinced that [Robison] caught the idea from Doheny,” who was working under the “presiding genius” of Albert Fall.

Furthermore, Walsh thought he knew the purpose behind Fall’s actions when he learned that someone had loaned the secretary $100,000 during his negotiations for the Pan American lease. Fall had used the money to buy a small property, the Harris ranch, to fill out his larger holdings in southern New Mexico. This information, which came through various informants, sent Walsh in search of the benefactor. Initially, when confronted with the loan, Fall stated that the money had come from Ned McLean, the wealthy owner of the Washington Post, who had, in fact, offered to loan Fall money in the past. Walsh was skeptical, if not unbelieving, and followed McLean to Florida during the Christmas recess to ask him point-blank whether the money was his. McLean confirmed the story but was not convincing. Finally, when it became clear that Walsh was not going to give up, the truth came out.24

And so, on January 24, 1924, Doheny asked to appear before the committee and admitted that he was the one who had loaned Fall the money. He then made one of the biggest understatements in the history of American politics when he confessed that Fall had been “making an effort to keep my name out of the discussion for the reason that a full statement might be misunderstood.” As Doheny explained it, Fall had been doing legal work for him since resigning from the Interior Department in October 1923. In particular, Fall was helping negotiate with the Obregón government in Mexico as well as organizing the Pan American Western Company. Fall was also planning to accept Doheny’s offer of a permanent
position with the company. Needless to say, with all those deals in the works, neither Fall nor Doheny wanted to publicly acknowledge the loan. Instead, they laid out the McLean story as a false trail, hoping it would satisfy Walsh's curiosity. Unfortunately, when that ruse failed, it was too late for the truth to do any good.25

Apparently, the Harris ranch, which controlled some strategic water resources, had been part of Fall's plans for many years, but he had been unable to negotiate a sale with the current owner. And Fall was afraid that when the property finally came on the market, he would not have the money to pay for it. As it was, his existing holdings made up one of the largest ranches in the state, but they were not producing as he had hoped.
In the meantime, the meager profits from operations and all of Fall's government salary were plowed back into the ranch to try and keep things going. For all the years he had been in Washington, Fall had left the care of the ranch to his wife and son-in-law, and it had been a constant source of aggravation. He knew he was going to have to lease it out, sell it, or retire from the Senate and run it full time. In May 1920, Fall wrote to his wife Emma that he was sick of politics and was “determined to get out of it as soon as my sense of duty will permit me to do so.” Unexpectedly, however, President Harding chose him for the interior post nine months later: “He [Harding] thinks that the Interior Department, is second only to the State Department in importance and that there is more opportunity for graft and scandal connected with the disposition of public lands &c than there could be in any other Department and he wants a man who is thoroughly familiar with the business and one he can rely upon as thoroughly honest.”

By the summer of 1921, however, things were not going as planned. In particular, Fall worried about Harding’s weaknesses as a leader and his own inability to advise the president from within the administration. “I would have very much more influence with him,” Fall believed, “if I were not in the Cabinet at all and he certainly needs good, independent and straight from the shoulder advice if ever a man did.” Emma was visiting the Dohenys in Los Angeles when Fall wrote to her in July, “Thank God, I am in a way to get out of politics and I shall do it at the earliest possible moment. If the matter comes up in any of your discussions while there, you may truthfully say that you know my mind is definitely and absolutely made up.” Fall did not elaborate, but if his plan revolved around dealings with Doheny one wonders why she would have to say anything at all.

Perhaps it was just the knowledge that Doheny and McLean both assured him that he could count on a loan at any time. At any rate, during a drought and depression in the cattle market in the fall of 1921, the owners of the Harris ranch decided to sell out, giving Fall his chance to fortify his own holdings, at the same time that the Interior Department was negotiating the additional Elk Hills leases to Pan American Petroleum. Almost a year later, in August 1922, Fall complained once again to Emma that it was almost impossible to get anything done in Washington, that no one knew what was happening, and that his plans for the naval reserve were bogged down by indecision: “I have been worrying for two or three weeks about trades for royalty oil production from our public land, so that we can let the Shipping Board, or the Navy, have the amount, by exchange, and at the same time so that I can get better prices than have been gotten by my
predecessors, but I have to educate the Shipping Board officials, or Naval officials, and as yet have got no where [sic]. The President promised this morning that he would join me in settling the matter [within] the next day or two."

Throughout this period, if Fall wanted out of government service, Doheny was prepared to hire him. Already, Doheny had employed Franklin K. Lane and a number of other officials retiring from the Wilson Administration, including Attorney General Thomas W. Gregory, Secretary of War Lindley Garrison, and former Treasury Secretary (and Woodrow Wilson’s son-in-law) William Gibbs McAdoo. All of these individuals either left Washington to take positions at Pan American Petroleum with sizable salaries or accepted large retainers from Doheny to help solve his legal problems with the Mexican government.

So what about the loan to Fall? First, as Doheny told Walsh, the amount involved was inconsequential. His oft-repeated comment that it was a mere “bagatelle” worth “no more than $25 or $50 perhaps to the ordinary individual,” was pure braggadocio, but it was also true. If it was a bribe, as Walsh had implied, he could have “loaned” Fall a million. Certainly, $100,000 would have been an insult to a crook holding the keys to an oil-field reputed to be worth a thousand times that much. Second, the lease and the loan were coincidental; one did not depend on the other. Fall went into the Interior Department with a deliberate plan to lease out public lands wherever possible and wasted no time putting this plan into effect. He was also determined to leave office as soon as he thought his reforms were secure. And when he got a chance to fill out his New Mexico properties, he asked Doheny for the money as an advance, intending to pay it off from future legal work. Fall’s mistake was in the simultaneous pursuit of public and private initiatives that, if not patently illegal, were guaranteed to catch someone’s attention.

The most notable thing about the loan, therefore, was the utter stupidity with which it was executed. Surely, two experienced men could have come up with a dozen different ways of handling it. Instead, the public was treated to stories of $100,000 in cash being carried to New Mexico in a “little black satchel,” which became the centerpiece of innumerable political cartoons about the oil scandal. Since Doheny still held mining properties in New Mexico that he had acquired back in the 1880s, and had recently invested in a Silver City bank, he could also have easily purchased a ranch next to Fall’s in his own name—and with no public comment. As it was, Fall supposedly acted in haste, telephoned Doheny to tell him that the ranch was available, and asked for the money outright. Or, did he?
Another interpretation, based upon a close reading of Fall's correspondence, suggests a slightly different possibility. In 1925, Fall wrote to his attorney about the decision to deceive Walsh with the McLean story and recalled an interesting conversation he had had with Doheny. Apparently, as Doheny was about to testify for the first time in December 1923, Fall asked him what he intended to say if the committee asked him about the loan. Without hesitation, Doheny said he would deny it, but he reminded Fall that “as a matter of fact, Ned [Edward Jr.’s nickname] let you have that money and rested under a cloud with the bankers of having drawn that amount of money because of some ‘woman scrape.’” Fall gave no indication that Doheny’s assertion was either incorrect or in any way mistaken. In fact, one of the more inexplicable elements of the case was the revelation
that the younger Doheny had withdrawn the $100,000 from his bank account and delivered it to Fall at his Washington hotel. Doheny senior explained it away during his testimony, claiming that, when Fall asked him for the loan, he did not have that much in his personal account and that his son covered it for him until they could transfer the funds. But from what Fall stated above, he may have asked Ned for the money before his father knew about it. According to a later comment from Estelle Doheny’s secretary, Ned suffered from alcoholism and was not completely reliable. Putting these two pieces of information together suggests that Ned might have given Fall the money ill-advisedly and that his father was left to cover it up. In any event, the speed of the transaction belies any conspiracy to defraud the government.\footnote{31}

Doheny’s long-standing views on the need to open the oil reserves to private drilling demonstrated further the incongruity of a conspiracy theory. Like Fall, Doheny had been outspoken in his criticism of public land policy. To substantiate those views with the Walsh committee, he had his testimony from the first congressional debate over the Elk Hills reserve in 1917 read into the record. The navy’s oil reserves, Doheny argued, had always been subject to drainage along the borders, and, contrary to the claims of the conservationists, the oil could not be held in the ground indefinitely. When Walsh asked him to explain why so many of his calculations differed from those of the Bureau of Mines, Doheny replied that the government’s conclusions were often predetermined by political considerations. “Policy is not a fact,” Doheny contended, whereas his own views were based on solid, practical experience: “No man on earth has access to the same information I have, because my information comes from 29 years of close study of the proposition, such as no other living man has given to the business. That sounds egotistical, I grant you, but that is absolutely the truth, since you have asked the question.”\footnote{32}

Doheny was equally certain about his work at Pearl Harbor, where Pan American Petroleum rigorously monitored construction bids, took no profit from the subcontracted work, and ultimately saved the government $1 million over what he might have charged had he done it “on a cold-blooded basis.” At Elk Hills the company’s drilling campaign would require about thirty years of steady development, with the government receiving more than a 50 percent royalty on some leases. “While we didn’t squeal” about the terms, Doheny added, “we felt like squealing.” Yet, he also admitted that the company would “be in bad luck if we do not get $100 million profit,” depending on the future price of gasoline. And with a total investment of $100 to $150 million, Doheny needed to sell at least 250 million
barrels of oil to meet his goal. While $3.3 million a year profit over three decades of work would hardly be seen as extraordinary or excessive, Doheny's comment about making $100 million off the deal was misinterpreted and did more to convict him in many people's eyes than almost anything else about the case.\textsuperscript{33}

If Doheny miscalculated about the effect of that statement, however, he was being deliberately assertive when he boasted of his ability to lure government officials into his employ. In particular, Doheny singled out William McAdoo, stating that McAdoo had been on retainer for the Mexican Petroleum Company since 1919 and had collected $250,000 in fees. This comment, which portrayed the latter as a paid lackey of the oil company, had a devastating effect on McAdoo's position as the leading Democratic presidential candidate in 1924. Although McAdoo rushed to the committee to clear his name, he could correct Doheny's numbers only by noting that his retainer had actually been $25,000 a year instead of $50,000. It hardly mattered, and McAdoo's campaign suffered accordingly.\textsuperscript{34}

Editorial writers and Republican politicians, especially, fearful that the oil scandal would hurt their own chances, gave free rein to their accusations. The \textit{Magazine of Wall Street} criticized McAdoo's "success in pocketing the fat retainers of predatory wealth." The \textit{Wall Street Journal}, which upheld the $100,000 check to Secretary Fall while he was in office as a "genuine loan," accused McAdoo of selling political secrets to the highest bidder in private practice. Later, the \textit{Journal} reconsidered its position but still maintained that while "there may have been a far more compromising moral aspect in Secretary Fall's relations with Mr. Doheny, it is a matter for temperate, judicial . . . decision." McAdoo's acceptance of Doheny's retainer, on the other hand, "completely unfitted him for the presidential office."\textsuperscript{35}

But McAdoo's dilemma was as much personal as it was political, and, several days before Doheny made his statement, McAdoo confessed that he was "deeply grieved that Mr. Doheny has become involved in this unpleasant situation, not only because he is a client of mine, but more because he is a friend whom I really like." McAdoo had actually been warned to stay away from Doheny at the time he left the cabinet in 1919 when Wilson's secretary, Joseph Tumulty, gave him a prophetic piece of advice. "I have the highest opinion of Mr. Doheny," Tumulty stated, "but if you intend to be a candidate for the presidency, the Mexican question . . . and your acceptance of a retainer from Mexican interests is sure to come up and embarrass you." McAdoo, known to be above political cant and thoroughly practical, reassured Tumulty that he had accepted the position be-
cause he was convinced that Doheny had lawfully acquired rights in Mexico and that he was under no bond “to advocate any particular govern­mental policy.” In the end, after McAdoo’s bid for the presidential nomina­tion went down amid shouts of “Oil! Oil! Oil!” at the Democratic convention, he told Walsh that Doheny intentionally tried to hurt him because he had refused to intercede on his behalf to stop the the Elk Hills investigation.36

If McAdoo felt that his former friends were out to ruin his chances for public office, though, Doheny was equally dismayed by the conduct of his political associates and its effect on his pending business arrangements. A few weeks after his final appearance before the Walsh committee, Doheny had this to say about the experience: “It reminded me of old times in the West when one of our dogs at the mating season joined the wolves. The wolves would surround our camp at night and I could hear my own dog barking among those wolves as they howled around us. It seemed to me when I was on the stand in Washington that I could hear the bark of my own friends in the pack of political wolves.”37

Doheny’s friends in the oil industry were not as quick to change sides, but they reacted to the howls of the politicians just the same. Warren Platt, the editor of the National Petroleum News, characterized the capital as “a mean, sordid, contemptible, un-American town,” where the petroleum industry “will be tossed to the dogs without a qualm.” Platt was not willing to pass judgment on Doheny’s guilt, but he recognized that the loan to a cabinet officer created a serious situation “regardless of how innocent he may really be.” Thomas O’Donnell, as one of Doheny’s oldest California partners, was also unwilling to condemn him on the spot. But as the first president of the recently established American Petroleum Institute—where Doheny was also a director—O’Donnell wanted to make it absolutely clear to the public that “the integrity of the American petroleum industry was beyond question.”38

Lost in the headlines over Doheny’s personal relationship with Fall was the general opinion among industry analysts that the Elk Hills leases had been too favorable to the government and should have never been undertaken in the first place. In March 1924, with the Walsh investigation finding every reason to question the validity of those leases, the case was turned over to Judge Paul J. McCormick of the Federal District Court in Southern California. In the meantime, Pan American Petroleum’s operations on the oil reserve were placed in receivership. With the court’s permission, however, the company was permitted to continue drilling on undeveloped land to offset private wells across the border. Nevertheless, the navy made plans
to put the administration of the reserve in the hands of officers who were avowed “oil in the ground conservationists,” including individuals who believed that the nation’s oil supply would be completely exhausted in less than twenty years and who recommended that the onshore use of oil ought to be legally restricted whenever it could be replaced by coal.\textsuperscript{39}

Facing this sort of strident opposition, Doheny took comfort in the fact that the issue would be decided in court instead of in Congress: “We have no apprehension as to the final outcome of the litigation, because there has been no conspiracy and no fraud connected with either the Executive Order of President Harding providing administrative machinery for handling the navy’s oil, or with our contracts. We have an abiding confidence in the result of the litigation started to-day. The case is now taken out of the forum of partisan politics into the United States Courts, where every citizen is assured of a square deal.”\textsuperscript{40}

Unfortunately, the controversy had already taken a toll on his business; as Fall put it, the plans for the Pan American Western Petroleum Company “went up in smoke” the moment Doheny confessed to the loan. In light of the circumstances, Doheny canceled the new bond issue and withdrew the stock offer for the company. Nevertheless, with Clarence Barron running interference for him, this announcement did not set off a panic on Wall Street. In the days that followed, Barron gave what he described as “splendid support” in the \textit{Wall Street Journal} to head off any short sellers trying to capitalize on the situation. In particular, the paper emphasized that, even if the company lost the government lease and could not develop the reserve, it still had an enormous daily production, large stocks of crude oil and gasoline, and growing cash reserves. For his part, Doheny was not willing to concede the leases under any circumstances, because, as he told the stockholders, they not only protected the oil reserve from competitive drainage but “[made] possible the defense of the Pacific Coast and our island possessions against hostile attack.”\textsuperscript{41}

Meanwhile, except for canceling the Pan American Western bonds, Doheny maintained the construction schedule on his Los Angeles shipping depot, the big refinery, and the 140-mile pipeline from Elk Hills. From everything that could be seen, Doheny’s plans for a major assault on the retail gasoline market continued unabated during the remainder of 1924. While market analysts celebrated the future prospects for Pan American Petroleum, the ongoing litigation over the naval oil reserve was still a cause for concern. But the Elk Hills situation was also offset by a turnaround in the fuel oil business, where Doheny enjoyed a solid and comfortable lead. Whereas fuel oil prices had been below a dollar a barrel in the early twen-
ties, they had almost doubled—to $1.85 a barrel—by the winter of 1924–1925. “Every tick of the clock,” according to one writer, “registers ten and one-half barrels of fuel oil [a million barrels a day] consumed in the United States.” With the second largest tanker fleet in the country and a total oil production ranked first or second in the world alongside the Royal Dutch interests, Doheny would, without a doubt, capture the lion’s share of the business. And that was more than enough, wrote another commentator, “for those who believe in the financial genius of E. L. Doheny, and also in his reputation as being one of the best if not the best oil man of his generation.”

At the same time, by the summer of 1924, there were rumors that Doheny was ready to sell out and retire. Doheny categorically denied every report, especially those dealing with a rumored sale to Standard Oil Indiana: “There never has been a time since I have been in business that I have not had some individual or organization seeking an option on my stock and there never has been a time when I would not have sold if the price had been right.” This time, however, the talk was more than idle gossip, since the Indiana company had been hunting for a producing partner for several years. Standard’s chairman, Robert W. Stewart, had two possibilities in mind for a merger: Gulf Oil and Pan American Petroleum.

In fact, Stewart’s interest in Doheny’s company began around 1921 or 1922 and may have been one more reason that Doheny was willing to encumber Pan American—to make it a less attractive target—with a long-term obligation to the federal government against the advice of his directors. Regardless, by 1924, Stewart had failed in his bid to capture Gulf and was even more determined to make, or force, a deal with somebody else: “I am ambitious to get into a bigger field of operations for the Standard of Indiana.” With its large reserve holdings in South America and Mexico, not to mention Doheny’s recent invasion of Stewart’s marketing area, Pan American Petroleum was the logical choice.

Negotiations along these lines took place through Blair & Company, a successor to William Salomon & Company, which handled all of the financing and stock issues for Doheny’s corporate interests. Blair operated as a small firm specializing in oil company mergers, and it handled several large consolidations featuring former California independents, including Associated Oil’s merger with Tidewater Oil, General Petroleum’s purchase by Standard Oil New York, and Pacific Oil’s absorption by Standard Oil California. Blair’s managing partner, Elisha Walker, was a former partner with William Salomon and had been on the board of Pan American Petroleum & Transport since 1916. So it was, in January 1925, that Walker,
Stewart, and E. R. Tinker Jr., a Pan American Petroleum director from Chase National Bank, negotiated an “unexpected” sixty-nine-day option to purchase all of Doheny’s personal stock in the company.\textsuperscript{45}

According to the most recent government audit of Pan American Petroleum & Transport for June 1922, there were 1,265,152 shares ($50 par) of stock outstanding. Doheny held 485,977 (38 percent) shares through his family-owned Petroleum Securities Company. Eight other shareholders each had 1 percent or more of the stock. Herbert Wylie, Norman Bridge, Florence Whitney (Charles Canfield’s daughter), and S. M. Spalding held a combined total of 92,845 (7 percent) shares. Another 59,812 (5 percent) shares were held by five New York brokerage houses, leaving 626,518 shares in the hands of some 3,300 shareholders, at an average of 190 shares apiece.\textsuperscript{46}

Because of this tight financial control, the final negotiations took everyone by surprise. The \textit{Wall Street Journal} reported in February that Doheny would most likely repurchase the California Petroleum Company. Two weeks later, the \textit{Journal} wrote that Doheny was planning to split Pan American Petroleum & Transport into two companies, an eastern and a western division, in a move similar to his earlier proposal for a western subsidiary. A subsequent Pan American Petroleum press release called this a reorganization, not a sale, and failed to mention Stewart in any way. “There may be changes in the personnel of the two companies,” the report noted, “but Mr. Doheny will always remain interested and active in the Pan American affairs, and he will give special attention to the California end of the business.” A week after that, the \textit{Journal} reported that interests related to Standard Oil of Indiana had been heavy investors in Doheny stock but still did not say that they were attempting to buy Pan American. Finally, on April 2, almost three weeks after the initial report, Doheny announced his resignation from the eastern half of the business, with Stewart taking over “at a time of the greatest prosperity thus enjoyed.”\textsuperscript{47}

“This deal,” according to the \textit{National Petroleum News}, “will be, by far, the most important event in the oil world since the dissolution of the Standard Oil Company of New Jersey more than 13 years ago.” The Pan American stock included in the sale had a book value of $193 million and a market value of $220 million and, in combination with Standard Indiana, created an international oil titan big enough rival Standard Oil New Jersey and Royal Dutch-Shell as one of the industry’s three largest organizations. The benefits for Robert Stewart were obvious, since he acquired Pan American Petroleum’s Mexican and Latin American properties, the Destrehan refinery, Gulf Coast and south Atlantic Coast service stations, East Coast
distribution outlets, British and European interests, and the tanker fleet. The advantages for Doheny, who retained control of Pan American's West Coast properties, including full liability for the oil reserve contracts, were not so clear.48

Perhaps, as many people have suggested, Doheny was just getting too old at the age of sixty-nine to keep up the pace after thirty years in the business. But keeping Pan American Petroleum intact would have been the best way to absorb a potential loss of the Elk Hills production. On the other hand, if Doheny had any hopes of maintaining a family dynasty in the fuel oil industry, which he had mentioned years before, he must have given up on them by this time. Perhaps, as suggested earlier, he had too little confidence in his son's ability to handle a major corporation, and it would be many years before any of his three grandsons was old enough to assume the role.49

Family considerations notwithstanding, it seems apparent that, once Doheny got a taste of the government's intentions for litigating the case in the civil trial, he knew he was in for the fight of his life. And looking into the future, he may have anticipated that it would take most of his energy and resources just to save his name let alone his business. Writing to Albert Fall in July 1925, Doheny suggested as much:

I have come, however, at this late date in my life, to that period when substantial returns which nature has so bounteously given do not supply that which I seem to want most, the good opinion of the public, or, in other words, recognition on its part of real effort made to serve. If there is one thing more than another that a man possesses who has followed the life of a prospector, it is hope, and I have not yet given up hope that public opinion may be greatly changed with regard to both you and I, and those who have been reviled with us because of our efforts to serve the Government.50

Doheny was responding, in particular, to the adverse decision in the civil trial, handed down two months earlier, in which Judge McCormick had found "elements of a criminal conspiracy" behind the Elk Hills contract. Although the government did not have to prove a conspiracy between Fall and Doheny, McCormick concluded that the intention of the defendants was "injurious and pernicious to the public welfare and governmental integrity" and "inimical" to the stated purposes of the naval oil reserves. With respect to the $100,000 loan, McCormick thought it was possible that Fall might not have been influenced by the money—but not probable. At the very least, the attempt to keep it a secret suggested a
“consciousness of wrongdoing.” In the judge’s opinion, therefore, Doheny’s contract for the Elk Hills reserve was illegal and unenforceable. Nevertheless, because McCormick conceded that the work already completed for the government at Pearl Harbor was of superior quality and obviously beneficial to the navy, Doheny was entitled to have the $10 million invested in the project up to that point refunded by the government.51

For Doheny, who had just reincorporated the Pan American Western company a week earlier, McCormick’s decision was disheartening but not catastrophic. He could accept the loss of the government leases so long as he was not punished financially for reinforcing the nation’s petroleum defenses. Without oil from Elk Hills, Doheny was still producing about 11,500 barrels a month from his other properties and could easily purchase the remaining 30,000 to 40,000 barrels required to run the Los Angeles refinery at capacity. But he was going to need a new source of oil fairly soon, since the California company now had sixty-seven gasoline/oil lubricating stations operating throughout the state and was committed to a “progressive policy of refining and marketing.”52

In the meantime, he continued to fight McCormick’s decision through the legal system. On January 4, 1926, the Circuit Court of Appeals not only upheld the negative decision on the leases but reversed the ruling on the money. The Appeals court decided that, once the contracts for the Elk Hills project were declared fraudulent, the company was no longer entitled to any equity from the government, regardless of the utility of its work. Doheny appealed that decision to the Supreme Court. But Pan American Petroleum lost all hope for legal redress in February 1927, when the high court agreed that the company should lose its contract on Naval Reserve No. 1 and should not be recompensed for construction costs and improvements made to government property. In addition, the court ruled that Doheny should have to pay for all of the oil taken from the reserve since 1921. In the opinion of Justice Butler, “It was the purpose of those making the contracts and leases to circumvent the laws and defeat the policy of the United States established for the conservation of the naval petroleum reserves.” On the civil side, then, Doheny had gone to the limit of the law but was unable to recover the money invested in the reserves and the storage depot at Pearl Harbor; furthermore, he owed the government an additional $9.5 million for all of the royalties, profit, and interest on the oil taken out of Elk Hills.53

One final point about the oil reserve is that recent investigations have shown that it was actually the government’s subsequent policy of leasing out small portions of the reserve to different companies for offset wells
that cost the most oil. Fall’s idea of giving the whole reserve to one large company for systematic development was actually the best thing that could have happened to the field.54

Fortunately for Doheny at least, the criminal cases went much better. In December 1926, Fall and Doheny went to trial together in Washington, D.C., on the charge of conspiring to defraud the government. As yet, except for his appearance before Walsh’s committee, Doheny had not taken the stand in his own defense. Anticipating a criminal trial, his attorneys had advised him to wait before opening himself up to cross-examination. They also believed—correctly—that Doheny’s testimony would not do him any good before a judge but would be a marvelous antidote to the government’s personal attacks in front of a jury. In particular, Doheny and his counsel counted on the public’s reverence for the pioneer West as their best defense. In addition to playing up Doheny’s own frontier days, defense counsel called several of his old acquaintances from the mountains of New Mexico as character witnesses to testify about his friendship and generosity over the years. And it was true that Doheny had kept some of them prospecting for decades and had doled out grubstakes whenever they asked. The loan to Fall, his attorneys argued, was just the same, and the jury had no trouble acquitting them both.55

Failing to convict them of conspiracy, the government next tried Fall and Doheny on the bribery charge, with an even more controversial result. In these cases, because the guilt or innocence of each defendant depended on his state of mind, the two men were tried individually. And in October 1929, just a few days before the stock market crash, Albert Fall was found guilty of having accepted a bribe from Doheny. Five months later, however, Doheny was acquitted of having ever offered one to Fall. The split verdicts, from separate juries, convinced many people that the legal system in America was completely worthless. For others, it suggested that it was impossible to convict a millionaire of anything. After Doheny’s acquittal, Fall summed up the opposing decisions as a “puzzle,” and they have seemed so ever since.56

It was apparent at the time, however, that the juries had responded to the men themselves rather than to the confusing, and often disputed, details of the case. In that respect, Fall, who was sick during his trial, and bound to a wheelchair, appeared old, haggard, and mean-spirited, like someone who could accept a bribe. Doheny, on the other hand, with his grandfatherly white hair and a hint of a sparkle in his eyes, was an altogether sympathetic witness, someone who always loaned money to his friends regardless of their circumstances.
In the meantime, as the legal history of the oil scandal wound down, Doheny’s business career also came to an end. But not before he made the last, and perhaps shrewdest, deal of his career by selling his interest in Pan American Western to Richfield Petroleum in May 1928. When he lost the California Appeals Court decision in 1926, there were unsubstantiated rumors that Doheny was still trying to put together another big merger with either California Petroleum or Associated Oil, in conjunction with Blair & Company. In the end, Blair eventually negotiated mergers with Texaco and Tidewater Oil, respectively. In Doheny’s case, a former Blair partner was apparently in control of California Petroleum and resented his competition or interference. More to the point, however, assuming Doheny was truly interested in such a merger, was that he no longer had enough financial leverage to be effective.\(^5\)

Instead, he negotiated the best deal he could to sell the company. None of the details of the transaction, handled again by Blair & Company, were made public, but the consensus has been that it was Richfield’s greatest mistake. Supposedly, Richfield paid Doheny somewhere around $10 million to secure 80 percent of Pan American Western stock, $7.5 million of
this in cash. In return, Richfield received the unfinished marine terminal at Los Angeles harbor, the refinery and pipeline to the Midway oilfields, a large inventory of refined products, and a varied portfolio of oil properties mortgaged by a $10 million bond issue. Richfield thought it was buying a path into the ranks of the major oil companies. Instead, by replicating many of its own holdings, the Pan American acquisition sent it into receivership two years later. Before that happened, though, Doheny made a second deal with Richfield to turn over two issues of Pan American bonds totaling $24 million and a contract for Richfield to buy the production of the Petroleum Securities Company, Doheny's small family-owned producing company. In the end, Doheny supposedly walked away with $25.6 million in cash, proving that he had not yet lost his touch.58

After his acquittal on the bribery charge, however, Doheny was in his mid-seventies, obviously still mentally sharp but physically frail and often relegated to a wheelchair. Supposedly, he was still conducting business through a number of small operations, but his health was failing fast, and the government was refusing to give up its efforts to secure a financial judgment against him. By this time, several suits had been filed on behalf of Pan American shareholders and the Richfield Petroleum Corporation claiming that Doheny's actions in making the naval reserve leases violated his fiduciary responsibility to the company and made him personally liable for the penalties.

In the end, attorneys for the federal government fought on for three years after Doheny's death on December 8, 1935, before they finally settled the case, receiving a total of $8.5 million from the Doheny estate. Former senator Atlee Pomerene, a Democrat from Ohio, was particularly hostile to Doheny after failing to convict him on two occasions and imputed the worst motives to everything he did. For Pomerene and his associates, Doheny's acquittal was a travesty of justice that could be explained only by a pool of stupid, and easily impressed, jurors.59

It was little wonder, then, that after Doheny died, Estelle followed through with his request to destroy his correspondence and business records, and subsequently refused to discuss the case with anyone. But, as has been shown throughout this book, the loss of that information did irreparable damage to a full understanding of the details of Doheny's extraordinary life and career.