

There's No Business Like Oil Business: The Allure of Tax Sheltered Oil Income to Hollywood's Wealthy

Yuxun Willy Tan
University of Iowa



Copyright © 2017 Yuxun Willy Tan

This work is licensed under a [Creative Commons Attribution 4.0 License](https://creativecommons.org/licenses/by/4.0/).

Recommended Citation

Tan, Yuxun Willy (2017) "There's No Business Like Oil Business: The Allure of Tax Sheltered Oil Income to Hollywood's Wealthy," *Iowa Historical Review*: Vol. 7: Iss. 1: 37-54. <https://doi.org/10.17077/2373-1842.1036>

This Article is brought to you for free and open access by [Iowa Research Online](https://www.iowa-research.com/). It has been accepted for inclusion in *Iowa Historical Review* by an authorized administrator of [Iowa Research Online](https://www.iowa-research.com/). For more information, please contact lib-ir@uiowa.edu.

There's No Business Like Oil Business: The Allure of Tax Sheltered Oil Income to Hollywood's Wealthy

Yuxun Willy Tan

“One of the finest laws ever passed in Washington.”
— Judge Oliver Whiteside (Charles Watts) on the
virtue of the oil depletion allowance, *Giant* (1956)

Hollywood's quintessential crooner, Bing Crosby, was not only a soothing baritone voice, but also an astute businessman who was one of the first high-income celebrities to invest in the oil business. Crosby and eventually many other Hollywood colleagues bought interests in oil wells in order to shelter a significant part of their income from taxation. The percentage oil depletion allowance, part of the Revenue Act of 1926, allowed an oil company to reduce its taxable income by 27 ½ percent. To combat rapidly rising income tax rates in the 1930s, one Hollywood lawyer approached Congress with a case to gain a similar tax allowance for the entertainment industry. When the attempt failed, Hollywood stars began investing in oil wells in order to turn the oil depletion allowance to their own benefit.

By the 1950s, many Hollywood individuals and corporations extensively invested in the oil business, making the allowance an important component of their financial portfolios. Meanwhile, a few prominent oilmen directed some of their fortune into producing Hollywood films, capitalizing on a hit or using the losses on a failed film to offset their taxable profits from oil. Thus, in the mid-twentieth century, the American oil industry and Hollywood formed a

close, mutually reinforcing relationship, and one that academic historians have largely overlooked.

In the aftermath of the 1973 oil shock, the percentage depletion allowance came under threat. In 1975, Congress repealed the provision for the major integrated oil companies, but it was retained for non-integrated independent producers.¹ In order to protect it from facing further repeal, the famous Hollywood actor and Republican president, Ronald Reagan, ardently defended the retention of the allowance during his term in the 1980s. Hollywood's role in the oil industry developed from being a few casual investors using the oil depletion allowance into a substantial oil industry participant and a major political defender of oil-specific tax provisions.

The Oil Industry's Special Tax Allowance

A year before Crosby's first hit "My Blue Heaven" (1927) skyrocketed to number one on U.S. charts, the oil depletion allowance catapulted itself to stardom as the biggest tax loophole in U.S. history. The depletion allowance was first introduced in 1913 as a provision to compensate mining and extractive businesses for the diminishing value of their natural resource assets incurred in production.² The new term 'depletion' was unique to extractive industries and was engineered to differentiate its accounting concept from 'depreciation.' While 'depreciation,' used by all other industries, accounts for the decreasing *financial value* of an asset, 'depletion,' afforded to extractive industries, accounts for the decreasing *physical units* of an asset. From 1913 to 1926, Congress, the oil industry, and geologists struggled to value total assets in the ground and determine how much depletion expense should be matched to each barrel of oil produced.³ After trying different ways of financially accounting for the

¹ An integrated oil company engages in exploration, production, refinement, and distribution (upstream and downstream) processes of the oil and gas business, whereas a non-integrated producer only engages in the exploration and production (upstream) process. The percentage depletion allowance was reduced to 23 percent in 1969, eliminated for integrated oil producers in 1975, and remains in place at a rate of 15% for independent producers for the first 1,000 barrels/day, determined on a property-by-property basis and limited to 65% of a taxpayer's net income.

² Peter A. Shulman, "The Making of a Tax Break: The Oil Depletion Allowance, Scientific Taxation, and Natural Resources Policy in the Early Twentieth Century," *Journal of Policy* 23.3 (2011): 288.

³ Treasury Secretary Andrew Mellon, who built his fortune from Gulf Oil, was instrumental in pushing for a generous depletion allowance. Shulman, "Making of a Tax Break," 286-303.

depletion, Congress finally settled on the rate of 27½ percent for the sake of administrative simplicity.⁴ Philip M. Stern explained the benefits of the oil depletion allowance in his book, *The Great Treasury Raid*.

Principal among the provisions of the U.S. tax laws that bring about such remarkable results is a feature known as “percentage depletion,” which spares oil companies, oil investors and oil land and royalty owners the burden of paying any taxes on 27½ percent of their total oil income – or half the net profit from their respective oil properties, whichever is less.⁵

The percentage depletion allowance was an unprecedented, hugely attractive anomaly in the tax code, as it allowed oil businesses to avoid taxes on 27½ percent of total income even if they had already recovered their initial capital costs. Congress acknowledged this loophole in the Joint Committee’s 1926 report by noting that the concept of percentage depletion was “based on no sound economic principle.”⁶ After its passage in 1926, the percentage depletion allowance made all other industries look upon the oil industry with envy.

The film industry was especially jealous of the special allowance awarded to the oil industry. Many in Hollywood believed their industry shared similar income patterns and business risks. In January 1938, twelve years after the debut of the oil depletion allowance, Roger Marchetti, one of Hollywood’s prominent lawyers, approached Congress to argue that Hollywood should receive a similar allowance. Marchetti claimed that a film star only earns a high salary for an average of five to seven years, likening them to oil wells which earn their peak income for several years before facing steep decline.⁷ “Popularity is the source of their [film stars] income, and that runs dry as quickly as an oil well does,” he explained. His case publicly highlighted the unique tax loophole enjoyed exclusively by oil and questioned the special protection Congress allowed the industry. Although he failed to get a similar allowance for film stars, he succeeded in applying the idea of “depletion” to

⁴ Ibid., 284, 303; The odd number of 27½ percent was a negotiated compromise between the 25 percent desired by the House members and the 30 percent in the Senate version of the bill. Philip M. Stern, *The Rape of the Taxpayer* (New York: Random House, 1973), 242.

⁵ Philip M. Stern, *The Great Treasury Raid* (New York: Random House, 1964), 20.

⁶ Shulman, “Making of a Tax Break,” 307.

⁷ “Tax Relief Plea to Liken Film Stars to Oil Wells,” *Los Angeles Times*, January 3, 1938, 1.

movie stars and alerting some of them, like Bing Crosby, to the tax advantages enjoyed by oilmen.

Hollywood Gets into the Oil Business

As Bing Crosby became “Hollywood’s number one crooner,” he also became one of America’s top taxpayers. In the 1930s, he earned such a high income that his name appeared alongside the estate of the famous oil magnate, John D. Rockefeller (who lived until 1937), as one of the nation’s wealthiest.⁸ Personal tax rates had steadily increased after 1926, when the highest individual tax bracket was at 25 percent (it later peaked in 1964 at 91 percent).⁹ Since corporate tax rates were much lower than individual rates, Crosby decided to incorporate himself as Bing Crosby Ltd in 1936.¹⁰ The practice of setting up a personal holding corporation was standard practice for most Hollywood stars including Kirk Douglas, Frank Sinatra, Robert Mitchum, Joan Crawford, and Henry Fonda.¹¹ These stars “sold” their talents at a low salary to their corporations, in which they were the sole shareholders, for their corporations to make a profit by matching that expense to the revenues earned from movie contracts. This arrangement effectively shifted taxable income from the actor’s higher tax rate return, to the corporation’s lower tax rate return and thus resulting in a lower overall tax amount. The use of the personal holding corporation was not limited to Hollywood stars as other wealthy individuals, including Former Treasury Secretary Andrew Mellon and majority owner of Gulf Oil, used it to shift their incomes into a lower tax bracket.

Within a year, Congress imposed a “prohibitive penalty tax” which targeted personal holding corporations and raised Crosby’s corporate tax rate back up comparably with the higher individual rates.¹² The tax penalized Hollywood stars for setting up their own personal holding corporations by slapping an additional tax onto the corporation if a majority of its income was generated from the star’s personal service contract. Although this new rule was an

⁸ “Federal Tax Drive Starts on Wealthy,” *Los Angeles Sentinel*, May 30, 1937, 7.

⁹ “Federal Individual Income Tax Rates History, 1862-2013 (Nominal and Inflation-Adjusted Brackets),” Tax Foundation, October 17, 2013, <http://taxfoundation.org/article/us-federal-individual-income-tax-rates-history-1913-2013-nominal-and-inflation-adjusted-brackets> (3 December 2015).

¹⁰ Barbara Miller, “Bing Crosby Forms Own Film Company,” *Los Angeles Sentinel*, August 2, 1936, BC1.

¹¹ Stern, *Great Treasury Raid*, 132.

¹² *Ibid.*, 132.

attempt by Congress to deter the tax-saving activities of personal holding corporations, it left an important provision untouched. This provision allowed companies to avoid being classed as a personal holding corporation if more than 20 percent of a corporation's income was derived from sources other than dividends, interest, royalties, and personal service contracts. In other words, Hollywood corporations could easily sidestep the prohibitive penalty tax if they invested in and received more than 20 percent of their income in another business.¹³ Thus, Congress unintentionally stimulated the business diversification of Hollywood corporations and sent stars looking for profitable businesses outside of the entertainment industry.

It did not take long for Crosby and other Hollywood celebrities to realize that the oil industry was a tax beneficial investment. Crosby entered into the oil business with his co-star and golfing partner, comedian Bob Hope.¹⁴ They each paid \$40,000 to Monty Moncrief (a successful Texas oilman as well as their golfing partner) for a 25 percent share in a West Texas venture.¹⁵ The oil venture enabled the stars to sidestep the prohibitive penalty tax on their corporations and earn income that was 27½ percent tax-free. For this particular venture, both stars earned \$5,000,000 each on their initial \$40,000 investment.¹⁶ When the depletion allowance was taken into account, \$1,375,000 of the \$5,000,000 was tax-free. Other Hollywood stars who experienced similar successes in the oil business included Jimmy Stewart, Gene Autry, Don Ameche, and Frank Sinatra, who fittingly titled his first oil well "Crooner No. 1."¹⁷ The successes of these famous stars persuaded others in Hollywood to consider the oil business as a way to shelter their large earnings.

Not all Hollywood stars, however, found the same fortune. Directors John Huston and Mervyn Le Roy, and actor Dennis O'Keefe, lost \$194,000 financing the drilling of dry holes in Southern California.¹⁸ Although these failures suggested that the oil business was a potentially perilous investment, the risks were not as large as they seemed. A Houston oil expert in Stern's *The*

¹³ Ibid., 133.

¹⁴ Bob Hope, "Inside Bob Hope," *Los Angeles Times*, January 2, 1950, p. H8.

¹⁵ Sally Helgesen, *Wildcatters: A Story of Texans, Oil, and Money* (New York: Doubleday & Company, Inc., 1981), 89.

¹⁶ Ibid.

¹⁷ "The Hollywood Wildcats," *TIME*, October 10, 1949, Vol. 54 Issue 15, 92-96.

¹⁸ Ibid.

Great Treasury Raid explained how the oil business was essentially a safer bet than other ventures due to its tax provisions:

In [oil] exploration, the government permits you to deduct all gambling losses. An individual in the 90 percent tax bracket can consider Uncle Sam as his partner in up to 90 percent of all losses. [But] because of the 27½ percent depletion allowance, Uncle Sam takes a relatively modest share of the income of successful ventures. If you are in the 90 percent tax bracket, you are risking only 10 cents out of a dollar spent on unsuccessful ventures.¹⁹

The United States government was effectively subsidizing the drilling of oil wells with the oil depletion allowance and other oil industry specific tax laws. The unique tax advantages provided to oil businesses lured Hollywood stars into oil investments. Oil came to the forefront of Hollywood's consciousness as the newfound business of drilling for oil wells became as much part of the Hollywood lifestyle as making movies. One oil executive observed in 1949, "When you see a group of movie people talking on the set, you don't know whether they're discussing an oil well or a movie."²⁰ The numerous reports of celebrity-owned wells in the late 1940s marked the growing use of the oil business as a way for Hollywood's wealthy to shelter their high income.

By the early 1950s, the Hollywood oil phenomenon was in full swing. In 1951, the president of the Management Corporation of America (MCA), Lew Wasserman, entered the oil business by forming the Calgush Oil Company (combination of the words "California" and "gusher") with partners Groucho Marx, Leland Hayward, and other Hollywood stars and top executives from MCA.²¹ With early successes, MCA continued to invest in oil exploration and became a significant independent oil producer in the industry.²² The 1950s represented one of the greatest periods of growth in the history of the industry with increased American demand and the development of colossal oilfields in the Middle East. As major integrated oil companies shifted their attention towards Middle Eastern investments, the absence of competition from the

¹⁹ Stern, *Great Treasury Raid*, 23.

²⁰ "The Hollywood Wildcats," 92.

²¹ Dennis McDougal, *The Last Mogul: Lew Wasserman, MCA, and the Hidden History of Hollywood* (Boston: Da Capo Press, 2001), 113n; Connie Bruck, *When Hollywood Had A King: The Reign of Lew Wasserman, Who Leveraged Talent into Power and Influence* (New York: Random House, 2003), 143.

²² McDougal, *The Last Mogul*, 113n.

bigger companies allowed smaller independent producers, like Calgush, to develop its presence in the United States. Hollywood's participation in the oil industry expanded from a few casual oil wells owned by personal corporations to oil companies that accounted for a rising portion of U.S. oil production. The oil depletion allowance became a significant part of the business of Hollywood.

Wasserman was responsible for changing the Hollywood business model in order to accommodate and use the oil depletion allowance to its full effect. Before the formation of Calgush, he experimented in earlier oil ventures with a few of his Hollywood colleagues. The most successful was a joint venture with Jimmy Stewart, Frank Sinatra, Robert Six (CEO of Continental Airlines), and producer-director Leland Hayward.²³ Wasserman recognized that although a portion of oil income was tax-free, the other 72 ½ percent of oil income was taxed at the marginal rate dependent on the taxpayer's salary. His solution was to broker a deal famous in film history that changed how actors were paid.²⁴ As Stewart's booking agent for the film *Winchester '73* (1950), Wasserman negotiated for the actor to receive a percentage of profits from the film, which would defer Stewart's income over several years, instead of a large upfront salary.²⁵ This allowed Stewart to stay in a lower tax brackets over several years and permitted his oil income, after the depletion allowance deduction, to be taxed at a lower marginal rate. This arrangement set a precedent for later contracts between studios and actors and the model of "deferred salary" would be a mainstay in the film industry by 1955.²⁶ Wasserman's shrewd negotiation of Stewart's *Winchester '73* contract helped Hollywood stars stabilize their earnings volatility while reducing their marginal tax rate on their additional oil income.

²³ The success of the joint venture may have been the catalyst for Wasserman and Hayward to later form Calgush. Robert J. Serling, *Maverick* (Garden City, NY: Doubleday & Company, Inc., 1974), 106.

²⁴ Philip K Scheuer, "Top Stars Now Share in Profits of Major Pictures," *Los Angeles Times*, July 24, 1955, D2.

²⁵ This famous film history deal was for Stewart's role in *Winchester '73* (1950) and *Harvey* (1950), which allowed Stewart to work for two pictures while retaining his favored production team of director Anthony Mann and producer Aaron Rosenberg. Jeanine Basinger, *Anthony Mann* (Middletown, CT: Wesleyan University Press, 2007), 79-80.

²⁶ Scheuer, "Top Stars Now Share in Profits," D2.

Black Gold on the Silver Screen

After Stewart's interest in oil was sparked during his initial joint venture with Wasserman, he made a point to integrate the subject into his work. His passion for oil was apparent in his film, *Thunder Bay* (1953), which was about an oilman's quest to discover oil offshore Louisiana. Stewart discovered and sent the script for the film to his director Anthony Mann.²⁷ Both Mann and producer Aaron Rosenberg were not crazy about the script as it deviated from their habit of making cowboy-themed movies. Stewart, however, was persistent. Rosenberg recalls Stewart's interest and intentions by explaining, "Jim did the film because he was developing an interest in oil exploration and was – or became – a partner with a Texas oilman. So he wanted to deliver a message that oil exploration and production did not affect the environment."²⁸ Stewart was determined to convey a message that oil exploration could coexist with nature in order to protect his private financial oil investments from possibly negative public perceptions.

Three years after *Thunder Bay* (1953), Hollywood again revisited the intricacies of the oil world in *Giant* (1956), an epic feature directed by George Stevens. One memorable scene in the film, based on Edna Ferber's novel of a Texas oil millionaire, features a conversation about the percentage depletion allowance. When the newly oil rich Texas family sits by their pool and muses wistfully about the allowance, Judge Oliver Whitehead (played by Charles Watts) exclaims that the oil depletion allowance is "one of the finest laws ever passed in Washington."²⁹ Leslie Benedict (the female protagonist and family matriarch played by Elizabeth Taylor) sharply questions the lack of a tax "exemption for depreciation of first-class brains" in reference to her father's profession as a doctor.³⁰ This exchange serves to highlight the anomaly of the favorable tax benefit bestowed solely on the oil industry and not on other worthy endeavors. Leslie Benedict's line also echoes Roger Marchetti's argument to Congress almost two decades ago for a special Hollywood exemption for the depreciation of an actor's talent.

²⁷ Basinger, *Anthony Mann*, 132.

²⁸ Michael Munn, *Jimmy Stewart: The Truth Behind The Legend* (Fort Lee, NJ: Barricade Books, 2006), 215-216.

²⁹ *Giant* (1956).

³⁰ *Ibid.*

The Relationship Between Hollywood Stars and Oilmen

Many oilmen resented the fact that Hollywood stars were getting into their business and did not respect them as legitimate investors. As one California oilman remarked in 1949, "I can give you an oil well which is actually producing a good amount of oil, and bet you'll go broke if you don't know what you're doing. The stars...don't know enough about the business..."³¹ Oilmen did not think that Hollywood stars could manage oil investments as well as they could, because the stars lacked experience in the oil industry. By the same token, Hollywood stars did not hold many oilmen in high esteem. Stars questioned whether oilmen's "talent" for discovering oil was due to experience or just plain luck. Crosby and Hope doubted Moncrief after the first well he drilled was a bust. "It came in dry and I'd say those Hollywood friends came in dry too," recalled Moncrief.³² The early misfortune of Crosby and Hope may have convinced Wasserman to form Calgush with exclusively Hollywood partners.

Although at first glance Hollywood and the oil business appeared quite different, they shared some striking similarities. The gambling aspect of each business attracted Hollywood investors to the business even though they did not have any knowledge of the mechanics of oil industry. Both industries were characterized by high, sporadic bursts of income when a well, or movie, struck it rich. So, it is not surprising that both Hollywood and the oil industry prized the oil depletion allowance to minimize their high taxes. In a 1948 essay in *The Nation*, "The Oil Men Invade Hollywood," Carey McWilliams observed:

Oil and motion pictures are not quite as antithetical as might be imagined. Both make a strong appeal to men with a bent for gambling. Hollywood has always had its "wildcat" productions. In motion pictures as in oil the "producer" is likely either to strike it rich or to come up with a "dry hole."³³

Hollywood investors were drawn to the oil industry largely for the depletion allowance, but also because of how similar it was to the entertainment industry.

The tax benefits also did not flow just one way. Oilmen went to Hollywood for the usual "bright lights, the girls, the glamour, the publicity," and also to

³¹ "The Hollywood Wildcats," 96.

³² Helgesen, *Wildcatters*, 89.

³³ Carey McWilliams, "The Oil Men Invade Hollywood," *Nation*, October 16, 1948, 429.

seek tax relief. McWilliams noted how oilmen were “looking around for ways in which they can acquire some ‘profitable’ business losses for tax-deduction purposes.” Using the same rationale as Hollywood stars, oilmen would rather risk money on Hollywood investments instead of paying it out in taxes. The losses from their Hollywood ventures could offset their large incomes from oil, thus reducing their tax burden. McWilliams summed up the oilmen’s involvement in Hollywood by proclaiming, “Hollywood is a good place to have an exciting time while losing money – and there is always a chance of making a rich strike.”³⁴ The Hollywood oil relationship was a two-way street with both sides reaping tax benefits that were unrelated to their core business.

Oil Gets into the Hollywood Business

The first oil-rich businessmen to enter Hollywood was Howard Hughes Jr., the heir of the Hughes Tool Company founded in 1909 by his father, the legendary Howard Hughes, Sr., who built his oil fortune through his invention of the rotary drill bit during the formative years of the Texas Oil Rush.³⁵ When Hughes Jr. inherited the company, it made him the “wealthiest Texas oilman of all.” Hughes Jr., however, was not interested in oil, choosing to leave Houston upon his inheritance to pursue a career in film.³⁶ He quickly assimilated into Hollywood, producing several films that garnered Academy Award nominations.³⁷ After he produced his first hit, *Hell’s Angels* (1930), the *Los Angeles Times* described Hughes Jr. as the “Texas oil tool manufacturer who has successfully crashed the Hollywood gates as an independent picture producer.”³⁸ In 1948, he secured his place in Hollywood as a “major cog in the industry” when he purchased production company RKO (Radio-Keith-Orpheum) Pictures.³⁹ Although Hughes Jr. entered the film business to pursue

³⁴ Ibid.

³⁵ Bryan Burrough, *The Big Rich: The Rise and Fall of the Greatest Texas Oil Fortunes* (New York: The Penguin Press, 2009), 13.

³⁶ Ibid.

³⁷ Films that Hughes Jr. produced that have Academy Award nominations include: *Arabian Knights* (1928) (Best Comedy Direction – won Lewis Milestone), *The Racket* (1928) (Best Picture, then called “Outstanding Picture” – nominated), *The Front Page* (1931) (Best Picture – nominated, Best Director – nominated Lewis Milestone, Best Actor – nominated Aldophe Menjou), and *Hell’s Angels* (1930) (Best Cinematography – nominated).

³⁸ Earle E. Crowe, “Hughes After Multicolor,” *Los Angeles Times*, June 12, 1930, 14.

³⁹ McWilliams, “Oil Men Invade Hollywood,” 429.

his dreams instead of tax benefits, he still played an important role in bringing Hollywood to the attention of oilmen, especially his friend, Glenn McCarthy.

McCarthy was the person who brought the image of the “Texas oil millionaire” to national attention and made the biggest impression in Hollywood. From humble beginnings, McCarthy grew up from the Hughes’ family paper boy to becoming one of the wealthiest Texas oilmen, crowning himself the “King of Texas.”⁴⁰ With his newfound wealth, he formed Glenn McCarthy Productions in order to stir up Hollywood’s interest in a lavish new hotel he was building in Houston called the Shamrock.⁴¹ Hughes Jr.’s RKO helped McCarthy produce a film, *The Green Promise* (1948), which premiered at the grand opening of the Shamrock Hotel on St. Patrick’s Day, 1949.⁴² Many Hollywood stars attended the opulent and famously chaotic opening.⁴³ The Shamrock fulfilled McCarthy’s desire to make Houston the “Hollywood” of Texas, drawing crowds from all over the United States and booking entertainers such as Dinah Shore, Mel Torme, and Sinatra at its famous Cork Club.⁴⁴ McCarthy sought fame with his fortune and emerged as the ultimate representation of an oil-rich Texas millionaire who associated himself with Hollywood’s rich and famous. His legend even inspired the character Jett Rink, played by James Dean, in the aforementioned film, *Giant*.

McCarthy’s fame also brought attention to the other oil magnates residing in Hollywood and their tax arrangements. Although it was not explicitly reported that McCarthy reaped any tax benefits from his foray into the film industry, many reporters speculated about his use of business losses for tax deduction purposes. In his 1948 *Nation* essay, McWilliams exposed the tax strategies of oilmen in Hollywood and featured McCarthy as one of the oil millionaires attracted to the film industry.⁴⁵ Besides McCarthy and Hughes Jr., another oilman who became financially successful in Hollywood was Jack Wrather. A Dallas oil heir, Wrather turned to the film business and founded a fortune by producing seven movies, investing in television, producing *Lassie*

⁴⁰ Burrough, *The Big Rich*, 167, 173.

⁴¹ *Ibid.*, 173-180; “Texas Oil Millionaire Forms Producing Firm,” *Hollywood Boxoffice*, May 15, 1948, 47; Thomas F. Brady, “New Film Company Formed By Oil Man,” *New York Times*, April 12, 1948, 25.

⁴² “McCarthy, RKO Talk,” *Variety*, March 9, 1949, 22.

⁴³ Burrough, *The Big Rich*, 181-186.

⁴⁴ *Ibid.*, 181-186.

⁴⁵ The essay was published six months after Glenn McCarthy Productions was formed; McWilliams, “Oil Men Invade Hollywood,” 429.

and *The Lone Ranger*, and financing the construction of the Disneyland Hotel in Anaheim.⁴⁶ While McCarthy sought fame and Wrather found riches in Hollywood, other Texas oilmen searched for power within the Hollywood landscape.

Texas Oil Builds Hotel California

Instead of bringing Hollywood to Texas, Clint Murchison, one of the richest Texas oilmen of the time, brought Texas to California by establishing the Hotel del Charro in La Jolla, California, the ritzy community near San Diego. The oilman bought a riding academy in La Jolla and transformed it into a fifty-room hotel complex complete with the stables refurbished into eight two-bedroom cottages around a pool.⁴⁷ Hotel Del Charro opened its doors in 1951 and unofficially declared itself a Texas enclave in the middle of Hollywood-land, complete with a Texas flag that flew overhead.⁴⁸ In similar fashion to the Shamrock Hotel, the Hotel Del Charro was soon filled with movie stars such as John Wayne, Zsa Zsa Gabor, Elizabeth Taylor, William Powell, Jimmy Durante, Betty Grable, and Joan Crawford.⁴⁹ The hotel served as a remote outlet for Murchison and his business partner, Sid Richardson, to spread their influence and ideals within the Hollywood sphere, especially their political views.

In contrast to McCarthy's glitzy 1,100-room Shamrock, which became a popular social place for local society, the modest fifty-room Hotel Del Charro was an exclusive club reserved for only the very wealthy and powerful. Murchison and Richardson liked to invite politicians, including Dwight Eisenhower, Sam Rayburn, and Joe McCarthy, to stay at their hotel to "lobby" for their private interests. Murchison understood the interrelationship between money and politics and once compared money to manure, "If you spread it around, it does a lot of good."⁵⁰ The business partners knew that money was the true power in politics so well that when vice presidential candidate, Richard

⁴⁶ Burrough, *The Big Rich*, 189.

⁴⁷ Ibid., 225-226.

⁴⁸ Ibid., 226.

⁴⁹ Ibid., 226.

⁵⁰ Matt Potter, "Oil and Politics in La Jolla," San Diego Reader, January 5, 2011, <http://www.sandiegoreader.com/news/2011/jan/05/cover-oil-politics-la-jolla/?page=1&> (February 21, 2017).

Nixon, visited their hotel, they treated him as if he were a mere office boy.⁵¹ Another powerful entity that found itself at the La Jolla retreat was organized crime, which included underworld kingpins Vito Genovese and Carlos Marcello.⁵² Oilmen, politicians, and crime bosses who relaxed around the hotel complex became collectively known as the “Del Charro Set.”⁵³

Murchison and Richardson soon devised a system for moving money between the Del Charro Set by combining their passion for gambling and tax-evasion. In 1954, the pair acquired control of the Del Mar racetrack, previously operated by Bing Crosby, under the tax-free nonprofit organization, Boys’ Inc.⁵⁴ The new racetrack owners would control certain races to have guaranteed results and would “authoritatively tip” a select few patrons.⁵⁵ The person who especially enjoyed this privilege was FBI Director J. Edgar Hoover. Hoover was an asset to the oilmen as he had the power to clear the path for a business deal through government bureaucracy and organized crime. After all, it was Hoover that made sure that Boys’ Inc. could acquire the Del Mar racetrack.⁵⁶ A later investigation by the Justice Department revealed that Hoover received financial favors from organized crime in the form of racetrack tips and information on fixed races.⁵⁷ The Del Mar racetrack was successful in shifting funds around the Del Charro Set privately, although the races the money depended on were quite public.

While most politicians checked-in to the Hotel del Charro in search for campaign funds, Hoover, had unique financial arrangements with its owner. Usually with his longtime companion, FBI Deputy Clyde Tolson, Hoover enjoyed special privileges to reserve the exclusive Bungalow A of the complex and never had to pay his hotel tab.⁵⁸ Furthermore, as former FBI assistant director William Sullivan disclosed, “Hoover had a deal with Murchison where

⁵¹ Anthony Summers, *The Arrogance of Power: The Secret World of Richard Nixon* (New York: Penguin Books, 2000), 85.

⁵² Jeff Smith, “The Del Charro Set,” *San Diego Reader*, July 18, 2002, <http://www.sandiegoreader.com/news/2002/jul/18/unfrogettable-del-charro/?page=1&> (February 21, 2017).

⁵³ Ibid.

⁵⁴ Matt Potter, “The Big Rich, Part Two,” *San Diego Reader*, January 12, 2011, <http://www.sandiegoreader.com/news/2011/jan/12/feature-big-rich-part-two/?page=1&> (February 21, 2017).

⁵⁵ Smith, “The Del Charro Set.”

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Burrough, *The Big Rich*, 226.

he invested in oil wells and if they hit oil, he got his share of the profits, but if they didn't hit oil, he didn't share in the costs."⁵⁹ In return, Hoover would enable the oilmen to succeed in many of their business endeavors including acquiring the Del Mar racetrack. The Texas oil duo had been cultivating financial friendships with politicians since the 1940s to guard their wealth.⁶⁰ Bryan Burrough comments on the influence oilmen had on politics in *The Big Rich*:

One of the most important, and most overlooked, legacies of Texas Oil has been its contribution to the growth of right-wing policies and politicians. The state's oil millionaires would channel tens of millions of dollars into new conservative causes... the entire "Texanization" of right-wing politics can be traced to forces set into motion by restive Texas oilmen during the 1930s.⁶¹

Texas Oil set the foundation for funding politicians that protect their oil income and the tax policies that sheltered it. Influenced by the tactics of Murchison and Richardson, Hollywood soon realized that the best way to protect their own tax arrangements was to get a man of their own into Washington.

Hollywood's Political Influence on Oil Interests

Despite the widespread use of the oil depletion allowance in Hollywood, the entertainment industry still wanted to attain a similar allowance exclusively for itself. In 1959, Hollywood actors' union leader, Ronald Reagan, made a case to Congress strikingly similar to Roger Marchetti's plea twenty years before. His past experience as the star of several movies enabled him to present the actors' perspective first hand. In his statement to Congress, he again cited that the average successful life of an actor is about five and a half years and complained that actors "have no depletion allowance to compensate for the diminishing market value."⁶² When offered an alternative to the depletion allowance, Reagan desperately replied, "Yes, of course we will take almost anything we can get. We feel we are about as short lived as an oil well and twice

⁵⁹ Ibid., 228.

⁶⁰ Ibid., 213-222.

⁶¹ Ibid., 126-146.

⁶² Ronald Reagan, "Statement to the House, Committee on Ways and Means," *General Revenue Revision*, 85th Cong., 1st sess., January 27, 1958, 1,982-1,991.

as pretty.”⁶³ Reagan’s charm nevertheless failed to attain a favorable tax provision that would benefit the entertainment industry. The denial of a special Hollywood allowance made the oil depletion allowance even more valuable.

Reagan recognized this value when he became a business partner in MCA. In 1959, the same year that he made his case to Congress, he also made a deal with his then boss and mentor, Lew Wasserman, for a 25 percent ownership in the *General Electric Theatre*, the show Reagan had hosted since 1954.⁶⁴ This made Reagan a formal business partner of MCA, which owned the *General Electric Theatre* and was the same corporation that formed the Calgush Oil Company eight years prior. Although *General Electric Theatre* was cancelled at the end of 1962, Reagan came to appreciate the value of the oil depletion allowance in Hollywood and would make it a political priority later in his career.

Both oil and entertainment moguls put faith in Reagan as a political patron. On Tuesday, October 27, 1964, Reagan’s televised speech, “A Time for Choosing,” put him in the forefront of the Republican Party politics.⁶⁵ An endorsement for Barry Goldwater’s campaign for president, the speech garnered attention from many conservative financiers and helped raise \$8 million for the campaign.⁶⁶ One of these sponsors, Henry Salvatori (an oilman and founder of the Western Geophysical Company, a seismic exploration contractor), explained that Reagan “gave the Goldwater speech better than Goldwater,” and expressed interest in funding Reagan’s political career.⁶⁷ In 1965, Salvatori helped form Friends of Reagan Committee, which would evolve into the Reagan for Governor Committee, with MCA’s Jules Stein and Taft Schreiber as key supporters.⁶⁸ Aided by oil and entertainment financial backers, Reagan secured his first political office as the Governor of California in 1967 and went on to be reelected for a second term in 1971. He refused to run for the third term as governor and instead focused his energy on his presidential campaign.

⁶³ Ibid., 1,991.

⁶⁴ McDougal, *The Last Mogul*, 191.

⁶⁵ Dan E. Moldea, *Dark Victory: Ronald Reagan, MCA, and the Mob* (New York: Penguin Books, 1987), 235.

⁶⁶ Ibid.

⁶⁷ Ibid., 238.

⁶⁸ Ibid., 236-238. In order to protect their interests, MCA played both sides of the political sphere with Jules Stein and Taft Schreiber covering the Republicans and Lew Wasserman covering the Democrats.

In his first bid for presidency, in 1976, Reagan employed the help of many of his oil and Hollywood friends, including Jimmy Stewart, who used his celebrity status to broadcast public messages to protect his own personal oil interests. In 1976, Stewart appeared in a Citizens for Reagan political ad where he explained how Reagan had saved “two billion dollars for the [California] taxpayer” as the governor of California.⁶⁹ In addition to supporting Reagan’s tax strategies, Stewart was also a public advocate for the continuation of American oil exploration. Throughout the 1980s he was an active spokesman for the Independent Petroleum Association of America and starred in televised public service announcements touting the importance of oil exploration to America’s energy independence.⁷⁰ His message stressed the “high risks involved in petroleum exploration” and urged the government to retain the oil depletion allowance for independent producers.⁷¹ Although Reagan lost the 1976 Republican nomination to Gerald Ford, his political influence gained strength and his base of financial backers broadened. In his second bid for presidency, he won the 1981 election to become the 40th President of the United States.

Newly elected with the help of his oil and entertainment supporters, Reagan knew it was crucial to maintain the oil depletion allowance. Just six years before he took office, the allowance was repealed for major integrated oil companies in the face of rising oil prices due to the Arab oil embargo and political backlash against “Big Oil.”⁷² By the 1970s, Hollywood had started to gain an international presence and tried to flex its global influence in response to the shifting world order of the oil industry. Charles Bluhdorn, CEO of Gulf & Western Industries, which owned Paramount Pictures Corporation, demanded a price increase on American films shown in oil countries, particularly Iran. Bluhdorn compared the price of film rights to barrels of oil, “‘The Godfather’ in the can will increase in value just the same as oil in the ground.”⁷³ Although the entertainment industry found many financial similarities with the oil

⁶⁹ Citizens for Reagan, “Ronald Reagan presidential campaign TV ad ‘Jimmy Stewart’ (March 19, 1976),” *Archive.org: Citizens for Reagan Records* video, 1:23, 1 February 2016, https://archive.org/details/csth_000019.

⁷⁰ “Jimmy Stewart,” *Oil and Gas Investor*, July 2004, 88.

⁷¹ *Ibid.*

⁷² The oil depletion allowance was repealed in 1975 for major integrated oil companies under the Ford administration. Yanek Mieczkowski, *Gerald Ford and the Challenges of the 1970s* (University Press of Kentucky, 2005), 170.

⁷³ Frank J. Prial, “Higher Film Fees Urged for Oil Countries: Visited Iran Seen as Progressive,” *New York Times*, January 25, 1974, 18.

industry, it did not enjoy the same economic power as oil, and Bluhdorn's suggestion to raise film prices failed.

Despite the vilification of "Big Oil," the depletion allowance was retained for independent producers. Many oil advocates argued that the allowance was the only way such producers could stay in business with the increased competition from oil production in the Middle East.⁷⁴ During his term as President, Reagan fiercely guarded the oil depletion allowance.⁷⁵ When David Stockman, the Director of the Office Management and Budget, proposed to eliminate the allowance in order to fund certain deficit reduction measures, Reagan immediately shut down the idea.⁷⁶ "All of a sudden, the President became animated," Stockman recalled. "Our proposal unleashed a pent-up catechism on the virtues of the oil depletion allowance, followed by a lecture on how the whole idea of 'tax expenditures' was a liberal myth."⁷⁷ During this time, journalists reported that Reagan relied on his "Kitchen Cabinet" more than his officially appointed Cabinet members.⁷⁸ This group consisted of thirteen close advisers and financiers, including oilmen Wrather, Salvatori, and William Wilson (President of Web Wilson Oil Tool until 1960), all of whom had an interest in maintaining the allowance.⁷⁹ Hollywood developed from being a casual user of the oil depletion allowance to a major political defender – as personified by Ronald Reagan – for the retention of the unique oil-specific tax provision.

⁷⁴ Mieczkowski, *Gerald Ford and the Challenges of the 1970s*, 166. The allowance was lowered to 15 percent, limited to the first 1,000 barrels per day, and capped at 65 percent of net taxable income.

⁷⁵ Hollywood stars were not the only powerful interests guarding the depletion allowance. Since the 1940s, Texas oilmen Sid Richardson and Clint Murchison, along with Brown & Root's George and Herman Brown had worked with Democrats Lyndon B. Johnson (Senate Majority Leader and 36th President) and Sam Rayburn (Speaker of the House) to protect their oil interests. see Burroughs, *The Big Rich*, 126-146.; For the "subgovernment and overrepresentation" theory of policy making in regards to the oil depletion allowance, see Jon R. Bond, "Oiling the Tax Committees in Congress, 1900-1974: Subgovernment Theory, the Overrepresentation Hypothesis, and the Oil Depletion Allowance," *American Journal of Political Science*, Vol. 23, No.4 (November, 1979): 651-664.

⁷⁶ David A. Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed* (New York: PublicAffairs, 1986), 139.

⁷⁷ Ibid.

⁷⁸ Claudia Wright, "Ronald Reagan's Kitchen Cabinet," *New Statesman*, June 19, 1981, 6-10.

⁷⁹ Ibid.

Conclusion

The Hollywood oil phenomenon evolved from a mere tax saving strategy by a few stars to an industry wide standard for reducing taxes. Hollywood had long envied of the oil industry for attaining such a unique tax provision and even approached Congress twice to appeal for a similar provision. However, when the initial plea for a special entertainment industry tax provision failed, high-earning Hollywood stars funneled personal earnings into oil exploration and development, taking advantage of the percentage depletion allowance as a key way to reduce their tax bills. Many oilmen reciprocated by risking investments in Hollywood films, either to profit from blockbusters or write off money lost on flops against their high oil earnings. With its increased dependence on the allowance, Hollywood backed politicians such as Ronald Reagan in order to preserve the allowance. After World War II, Hollywood adopted as its theme song the 1946 number by Irving Berlin, “There’s No Business Like Show Business.” But on some film sets, one might have heard a variation on the refrain sung as “There’s No Business Like Oil Business.”