

The Teapot Dome Scandal

Federal Trials and Great Debates
in United States History

Case Summary:

- Teapot Dome was one of the biggest government corruption scandals in American history.
- In 1912 and 1915, the U.S. government set aside oil lands in California and Wyoming for the exclusive use of the U.S. Navy.
- Shortly after taking office in 1921, Secretary of the Interior Albert Fall took over management of the naval oil reserves.
- In 1922, Fall granted two major oil companies leases to drill in the reserves.
- A congressional investigation of the leases revealed that Fall had accepted large sums of money from the owners of the oil companies, Harry Sinclair and Edward Doheny.
- The government brought civil suits to cancel the leases for fraud and won.
- The government also brought criminal charges against Fall, Sinclair, and Doheny. Fall was convicted of bribery and spent nine months in prison. He was the first cabinet official to go to prison.

History of the Case:

In the early twentieth century, the U.S. Navy converted its fleet from coal-burning to oil-burning ships. To assist in this technological advancement, Presidents William H. Taft and Woodrow Wilson designated oil lands in California and Wyoming as reserves to be used exclusively for the benefit of the Navy. Naval Reserves No. 1 and No. 2, in California, were known as Elk Hills and Buena Vista, while Reserve No. 3 in Wyoming was called Teapot Dome due to the shape of an unusual rock formation on the land.

A 1920 statute provided that the Secretary of the Navy was primarily responsible for making decisions regarding the management of the reserves. In 1921, newly elected president Warren Harding appointed Albert B. Fall, who had an anti-conservation record as a U.S. senator from New Mexico, as secretary of the Interior. Fall quickly moved to take control of the oil reserves, convincing Navy Secretary Edwin Denby to join him in presenting Harding with a proposed executive order transferring management of the reserves to the Interior Department. Harding immediately signed the order.

During 1921 and 1922, Fall conducted secret negotiations with two oil magnates, Harry Sinclair of Sinclair Oil Company and Edward Doheny of Pan-American Oil and Transport Company. Eventually, the Interior Department granted both men contracts (known as leases) allowing them to drill in the naval oil reserves, Pan-American in Elk Hills and Mammoth Oil Company (incorporated by Sinclair) in Teapot Dome.

Members of the Senate were upset to learn that the naval oil reserves had been leased to private companies. They were also angered that the transactions had apparently been negotiated in secret, and that other oil companies were not given the opportunity to bid on the contracts, which would have ensured that the government received the most favorable terms possible. As a result, the Senate Committee on Public Lands and Surveys began an investigation of the transactions, holding extensive hearings in 1923 and 1924.

The hearings eventually revealed that Fall—who resigned his Interior post in early 1923—had received large sums of money from both Sinclair and Doheny around the times the Elk Hills and Teapot Dome deals were completed. When the committee learned that the previously cash-strapped Fall had recently become significantly more prosperous, it endeavored to find out how this had happened. Doheny admitted that he gave Fall \$100,000 in cash, which he characterized as a loan. Other testimony

established that Sinclair had paid \$68,000 to the foreman of Fall's ranch in New Mexico. (Further investigation later revealed that Sinclair had also given Fall \$233,000 worth of Liberty Bonds generated by a money-laundering scheme known as the Continental Trading Company.)

These revelations turned Teapot Dome into a national scandal. Calvin Coolidge, who became president when Harding died of a heart attack in 1923, appointed two special counsels to continue to investigate the matter and bring any necessary lawsuits on behalf of the government. Attorneys Owen Roberts (a future Supreme Court justice) and Atlee Pomerene (a former U.S. senator) brought civil suits against the oil companies in federal courts in California and Wyoming, claiming that the oil leases were fraudulent and should be canceled. They also brought criminal cases against Fall, Sinclair, and Doheny for conspiracy to defraud the U.S. government and against Fall and Doheny for bribery.

In seven different federal trials and related appeals, the government claimed that both oil lease deals were the product of corruption. In response, the defense argued in the various cases that Doheny's payment to Fall was a loan between friends and did not influence the Elk Hills transaction; that Navy Secretary Denby, and not Fall, had truly been in charge of the negotiations of both deals; that drilling in Teapot Dome was made necessary by the threat of drainage from drilling on an adjacent oil field; and that the Elk Hills deal, which included the construction of a fuel storage depot at Pearl Harbor, was motivated primarily by a concern for national security.

In the end, the government secured the cancelation of both oil leases. The Supreme Court declared both deals to be corrupt and Fall to be a "faithless public officer." In addition, Fall was convicted of bribery, becoming the first former cabinet official to go to prison. A different jury acquitted Doheny of paying a bribe, despite Fall's conviction for accepting the same money. Fall and Doheny were acquitted of conspiracy. Sinclair was also acquitted of conspiracy in a second trial after his first trial with Fall ended in a mistrial. Fall was not retried on the charge due to health issues. In two additional trials, Sinclair was convicted of contempt of Congress and contempt of court for refusing to answer questions before the Senate and for having jurors surveilled in his first conspiracy trial.

Teapot Dome has an enduring legacy as one of the most significant government scandals in American history and as a prime example of the rampant corruption that plagued the administration of Warren Harding. The federal courts played a crucial role in resolving the crisis brought about by the ill-fated oil leases.

Legal Issues:

- Did the oil companies obtain the Elk Hills and Teapot Dome leases by fraud?
- Did the Navy and Interior Departments have legal authority to grant the leases?
- Did Fall conspire with Sinclair and with Doheny to defraud the U.S. government?
- Was Fall guilty of accepting a bribe?
- Was Doheny guilty of paying a bribe?

Questions for Discussion:

- Why was the Teapot Dome affair a major national scandal?
- Should Fall receiving money from Doheny and Sinclair necessarily have made the oil leases invalid? What if the leases were beneficial to the country? What if Fall would have made the same decisions absent the money?
- What were the reasons given for and against allowing private oil companies to drill in the naval reserves? Which do you find more persuasive?
- If Congress and the president believed the leases to be fraudulent, why could they not just cancel the contracts?
- Was it fair that Fall was convicted of accepting a bribe while Doheny was acquitted of paying the same alleged bribe?