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History of U.S. Pipelines, 1906-1959

By

ARTHUR M. JOHNSON

Cambridge: Harvard University Press. 1967

Pp. 555. \$15.00

This study is a painstaking, thoroughly documented history of oil pipeline development in the United States during the period 1906-1959. (It is a sequel to an earlier work covering 1862-1906.) Professor Johnson is primarily concerned with the problems faced by pipeline managers "in this century" as the result of public policy constraints. His focus is on the "strategy and tactics evolved to cope with [these problems] in terms of managerial decision making." He seeks insights on how "several generations of pipeline managers perceived the challenge of a changing environment and the opportunities for adjusting to or anticipating changes in it."

After careful observation of a half century of pipeline management reactions to public policy and market forces, the author concludes "remarkably" that "the long period of governmental interest in oil pipelines . . . did not of itself produce basic changes in the modes of pipeline operation or significantly alter the yardsticks applied in making private pipeline investment decisions." Any major operational, pricing, or technological changes "virtually without exception . . . were the result of private industry rather than public policy decisions." Most important, "given time, private decentralized decision-making produced a national pipeline network operating in a fashion that approximated the goals sought by earlier proponents of rapid, enforced change via public policy."

This is not to say that public policy was without effect; but the evolution of enlightened pipeline managerial policies was, in Professor Johnson's view, the principal factor which led to an industry of large, economic, joint-venture lines where "common-carrier pipeline transportation by an affiliate of an integrated oil company would be provided if the economics of the situation warranted it, the interests of the parent company apart." What more could a critic of pipelines validly ask?

On balance, this reviewer could not quarrel significantly with Professor Johnson's conclusions—provided, of course, that they do not lead the reader to assume that pipeline regulation is wholly without significance. Clearly, the 1941 Consent Decree limiting dividends paid by crude oil pipelines to 7% of I.C.C. valuation is

significant, as is the 1906 Hepburn Act provision making pipelines common carriers.

One wonders, however, whether this highly detailed historical review has given a balanced view of the growth and transformation of the industry. The careful rendering of history undoubtedly leaves us with an insight into environmental problems which could not otherwise be drawn. A notable example: the two above-mentioned public policies were historical accidents, or very nearly so. The 1906 Hepburn Act declaration that interstate oil pipelines would henceforth be common carriers came as the result of a Senate floor amendment without prior hearings, and pipeline managements had no real opportunity to react. The 1941 Consent Decree, which was negotiated and signed at the beginning of World War II, was a rather hastily drawn device to settle outstanding antitrust and Elkins Act complaints so that the industry could get on with the business of providing oil for the war effort. The lesson is that the results of long and careful managerial dealing with environmental problems can easily be significantly altered by government actions taken hastily in an unguarded moment.

Another example of an insight drawn from history is the continuity of complaints against pipelines. The same arguments appear before Congress over and over again during that period: excessive rates; excessive minimum tenders of oil (which would allegedly limit the use of lines by small shippers); failure to serve non-integrated producers; etc. Even the most fatuous argument would not die, viz., that an integrated company should not even be entitled to a minimal cost-of-capital return when it is required to invest its capital in facilities for handling oil for its non-integrated competitors.

A detailed rendering of economic history certainly has its merits, especially in appraising environmental problems; but it also has its limitations. Speaking in great detail about a relatively limited activity is quite feasible. On the other hand, when activity expands greatly, the ability to employ a balanced thorough historical approach tends to break down unless one devotes much more attention to the later periods (or less attention to the earlier periods). A distorted perspective of the relative importance of events can result. Thus, it was possible to describe the early industry in detail because its scope was quite limited; but equal treatment was not accorded the later years.

The postwar years covered in the study are accurately described by the author as the "Transformation of Pipelining, 1946-1959."

Thousands of miles of obsolete crude lines were dug up, while others were converted to refined product carriers. The new postwar crude lines were much larger and much more sophisticated technologically than their small prewar predecessors. A new mass transportation industry was created, as total barrel miles of throughput in 1959 were 2½ times those in 1946. Thus, in volumetric terms, the oil pipeline industry in 1946 was less than 40 per cent of the industry of 1959. Yet the small-diameter, low-volume industry of the pre-1946 years receives 80 per cent of the historical attention in the book.

“For lack of space, it was possible to mention only the more outstanding projects” after 1946, even though the postwar projects should be the ones of most interest today because they are the ones which converted oil pipelining to today’s mass transportation industry. Similarly, ending the history in 1959 has left the reader uninformed about the most recent decade, again the period of most current interest. The reader is told, for example, of two major anti-trust filings in 1950 and 1953. With no further information, there is an implication that the cases are still at issue; but both have been closed.

In summary, this is a scholarly economic history approach to the examination of an industry’s growth and public policy constraints. As such, it is a worthy effort. However, either less attention to the more distant past or more attention to the postwar years would have given a more balanced appraisal. This is not to say that Professor Johnson denies the importance of the postwar transformation of the industry. Indeed, he makes it clear that this occurred; but his story leaves one with his view that the change was more one of degree than of kind—an opinion which this reviewer would reverse.

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