GRADING THE HONOR SYSTEM: THE LINOWES COMMISSION AND THE CREATION OF THE MINERALS MANAGEMENT SERVICE

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The *Linowes Commission Report*, presented to the Secretary of the Interior in 1982, represented the culmination of more than fifty years of frustration with the U.S. government's management of oil and gas royalties on Indian and public lands. It laid bare the failures of the U.S. Geological Survey in tracking millions of dollars in royalties that were rightfully owed to Indian tribes, individual Indians, states, and the national treasury. The report's findings ultimately ruptured the regulatory authority of the USGS and gave rise to a new agency, the Minerals Management Service, and to a new chapter in federal oversight of oil and gas activity.

In 1980, on a routine inspection, a truck hauling oil off the Wind River Reservation in west-central Wyoming was stopped without a run ticket. This seemingly innocuous incident gave rise to a scandal of unknown depth. The oil was stolen. How much oil and gas was disappearing from public and Indian lands without being paid for? Federal royalty management slipped into doubt, not only on one isolated Indian reservation, but on all public and trust land nationwide. The FBI came to investigate the oil theft at Wind River, the media seized on the story, and Congress demanded answers. Before long, indications emerged that oil rustlers in rural Wyoming represented only one dimension of a complex problem: Federal regulators depended entirely on oil and gas companies to report their own production and profits, making *paper theft* all too easy. Following a series of congressional hearings and other investigations, Secretary of the Interior James G. Watt appointed a special commission, chaired by University of Illinois economist and public-policy scholar David F. Linowes, to study the federal royalty management system.

At the center of this system was the USGS, entrusted with regulating royalty payments on public and Indian land. But the rapid expansion and ever-increasing sophistication of the oil and gas industry—in both field operations and business acumen—had left the venerable scientific institution behind. Dedicated geologists and engineers found themselves wandering in an overgrown maze of bookkeeping, administration, and cryptic accounting practices. For 12,400 leases covering 6 million acres in 1975, there were 61 USGS employees tasked with monitoring the royalties. Understaffing had led to an overreliance on the oil and gas industry, which was mostly left to police itself. Not only had royalty management become a *severe embarrassment* to the Department of the Interior, according to the Linowes Commission Report, but the heavy administrative workload had also detracted from the original scientific mission of the USGS.

The Linowes Commission Report was highly critical of federal royalty management in all regards. The commission found that oil and gas companies operated on an *honor system*, leading to significant royalty underpayments of undetermined value. The report analyzed key problems and recommended solutions, including the creation of a new regulatory entity. Shortly in advance of the report's public release, Secretary Watt established the Minerals Management Service. Although the new organization would, like the USGS, come under heavy criticism—ultimately meeting its own demise below the platform of the Deepwater Horizon in the Gulf of Mexico—it nevertheless represented a significant step toward serious reform. With a host of other statutory and regulatory initiatives in the early 1980s, oil and gas regulation on public and Indian lands underwent a rush of changes not fathomed in Teapot Dome.

This paper examines the U. S. government's royalty management system leading to the Linowes Commission Report, the commission and its findings, and the establishment of the MMS. Created out of crisis, the Linowes Commission and the MMS ultimately acted as agents of federal reform.