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## ***The History of the Standard Oil Company***

### ***Chapter V—The Price of Trust Building***

*“The American Beauty rose can be produced in its splendor and fragrance only by sacrificing the early buds which grow up around it.”*—J. D. ROCKEFELLER, JR., in an address on trusts to the students of Brown University.

MR. JOHN D. ROCKEFELLER has shown repeatedly in his conquering business career remarkable ability to learn from experience. The breaking up of the Refiners' Association in June, 1873, may have seemed a disaster to him. He did not allow it to be a profitless disaster. He extracted useful lessons from the experience, and, armed with this new wisdom, bent his whole mind to working out a third plan of campaign. He now knew that he could not hope to make again so rich a haul as he had made through the defunct South Improvement scheme. The experience of the past year with the refiners convinced him that it would take time to educate them to his idea of combination; but he had learned who of them were capable of this education. As for the producers, the alliance attempted with them was enough to demonstrate that they would never endure long the restraints of any association. Besides, the bulk of them still held the, to him, unpractical belief that rebates were wrong.

Mr. Rockefeller had re-learned in these eighteen months what he knew pretty well before, that the promise to give or take away a heavy freight traffic was enough to persuade any railroad king of the day to break the most solemn compact. He knew that, at his solicitation, Mr. Vanderbilt had broken the contract of March 25, 1872, with the oil men. He knew that at the solicitation of his rivals Mr. Scott had done the same thing. As for the president of the Erie, he had followed the lead of the others in the spring of 1873, the beneficiaries being from the very company of men who had held out so valiantly against all special privileges at the time of the breaking up of the South Improvement Company.

#### *Objective Points of the New Campaign*

With all these reflections fresh in mind, Mr. Rockefeller again bent over a map of the refining interests of the United States. Here was the world he sighed to conquer. If we may suppose him to have begun his campaign as a great general with whom he has many traits in common—the First Napoleon—used to begin his, by studying a map with red-headed pegs marking the points he must capture. Mr. Rockefeller's chart would have shown in and around Boston perhaps three pegs, representing a crude capacity of 3,500 barrels; in and around New York fifteen pegs, a capacity of 9,790 barrels; in and around Philadelphia twelve pegs, a capacity of 2,061 barrels; in Pittsburg twenty-two pegs, a capacity of 6,090 barrels; on the Creek twenty-

seven pegs, a capacity of 9,231 barrels. His work was to get control of the multitude of red pegs, and to fly above them the flag of what the irreverent call the "holy blue barrel." That he never lost sight of this purpose night or day there is abundant evidence, but for nearly two years the mass of the oil men had no reason to suspect that Mr. Rockefeller was interesting himself in any project except the very evident one of making his splendid Cleveland plants more splendid and more profitable. It was while in the prosecution of this work, indeed, that he became convinced that the moment was at hand for attempting the third time a concentration of refining interest.

### *Making Allies of the Railroad Men*

As the history of the Standard Oil Company to this point shows, Mr. Rockefeller had always realized the importance of an intimate relation with the railroads. By 1874 he had secured as stockholders in the Standard at least five eminent railroad men of the day, three of them of great importance to him. These three were W. H. Vanderbilt of the Central, Amasa Stone of the Lake Shore and Michigan Southern, and Peter H. Watson, late president of the South Improvement Company, but now president of the Erie railway. These three gentlemen were all distinguished for making things work together for the benefit of their own pockets, and it was to be expected that if they saw a way by which their respective railroads could help a company in which they held stock they would not be slow to follow it. Mr. Rockefeller could be relied upon to point out this way.

It was Mr. Rockefeller's intimate relations with these railway kings, as well as the fact that he was a large shipper, which brought him into certain conferences, held in the summer of 1874 by representatives of the great trunk lines looking to a readjustment of the rates on oil. The contracts under which the traffic was still ostensibly carried on were those of March, 1872, but, as we have seen, while the railroads signed them with the right hand, they gave rebates with the left. The men who had never been able to get special rates were suffering and loudly cursing the roads and the Standard. Those who had rebates were continually demanding more on the ground that the Standard had more. The division of freights was very unequal. Thus in the last five months of 1872 the Erie road carried only one-sixth as much oil as the Pennsylvania.

### *The Famous "Rutter Circular"*

Something had to be done if a traffic war was to be averted, and in 1874 Colonel Joseph D. Potts, the president of the Empire Transportation Company, an organization handling the entire oil freight of the Pennsylvania railroad, sought interviews with J. H. Rutter and George R. Blanchard, the general freight agents of the Central and Erie, and proposed that they work out a readjustment which would equalize the freights on crude and refined from all points. Such an equalization seems at first glance an unsolvable puzzle. The agents found it intricate enough. Throughout the summer of 1874 they worked on it, holding meetings at Long Branch and Saratoga and calling into their counsels a few of the leading refiners, pipeline men, and producers whom they could trust to keep quiet about the project. Whatever their precautions about keeping their counsels secret, a rumor got out that freights were to be raised, and the Oil Region was correspondingly uneasy. Early in September the rumor was proved true by the publication in the newspapers of a document intended as confidential to freight agents, and henceforth famous in the history of the oil business as the "Rutter Circular."

The circular gave the new rates, and closed by declaring that they were “even and fair to all parties, preventing one locality taking advantage of its neighbors by reason of some alleged or new facility it may possess.”

### *An Ingenious Piece of Handicapping*

The scheme was certainly most ingenious. It actually succeeded in making the cost of transporting a barrel of refined oil to the seaboard the same whether that oil was manufactured in the Oil Regions, in Cleveland, in Pittsburg, in New York, or in Philadelphia. But to do this the railroads had to raise the rate of shipping from the Oil Regions by one-third, without any corresponding raise for Cleveland. That is, where the open tariff from Titusville to New York had been \$1.50, it was now \$2.00, but whereas Mr. Rockefeller in Cleveland had paid \$2.00 under the old tariff to get his oil from the Oil Regions to his works, 150 miles west, and from there to New York, he paid the same price now! This was called equalization! To aid them in arranging the tariff, the railroads had to ally themselves with certain pipe lines (oil was all brought to the railroads by pipe lines in 1874); that is, they had to create a “pipe pool” by allowing a rebate of 22 cents to all pipes which would make their charges uniform.

The Rutter Circular seems to have been an honest attempt to do an impossible thing. It tried to overcome natural inequalities and created artificial ones—which are always the more irritating to men.

At first the Oil Region was puzzled by the Rutter Circular. It certainly was plausible. Was it not true that every man shared equally under it? As the days passed, the dazed mental condition into which it had thrown the oil men cleared up. The pipelines left out of the pool began to ask how it could be legal that the railroads should enter into an arrangement which obviously would drive them out of business. The Creek refiners began to ask by what right the advantage of geographical position at the wells should be taken from them, and Cleveland be allowed to retain the advantages of her proximity to the Western market; Pittsburg her position on the Ohio River and the market it commanded; all of the cities the advantage of their proximity to great local markets and to such necessary supplies as barrels and acids. Besides, was it constitutional for the railroads thus to regulate interstate commerce? Was not the arrangement, as far as the Pennsylvania was concerned, plainly prohibited by the new constitution of the State of Pennsylvania?

### *An Inequitable Equalization*

It was an “insolent equalization,” the oil men concluded, and the sum total of their dissatisfaction finally found expression at a mass meeting at Parker’s Landing, on October 2d. Directly after this meeting a committee appointed sent to Messrs. Scott, Vanderbilt, and Jewett, the new president of the Erie, letters calling their attention to the Rutter Circular, and stating the objections of the producers to it. This letter, sent on October 6th, received no attention from any of the railroad presidents addressed for over three weeks, when the following letter was received from the Pennsylvania:

Gentlemen:—Your communication of the 6th inst., to Thomas A. Scott, Esq., President, was received, and has been referred to me.

In establishing the recent rates and arrangements for the transportation of oil, the object which was at all times kept in view was to place all interests on an equality, giving to no one an undue advantage over any other.

We believe that this object has been accomplished, and that by adhering to our present rates the interests both of the producers, refiners, and transporters will be promoted.

Very truly yours,  
A.J. CASSATT.

It was evident that the railroads meant to stand by their creation. In this discussion of the Rutter Circular Mr. Rockefeller's name scarcely appears. It was known that he had been admitted to the conferences at which the tariff was arranged. This was taken as a matter of course. There was nothing which concerned the oil business which John Rockefeller was not on the inside of, but there is no evidence, as far as the writer knows, that Mr. Rockefeller had any hand in settling the main points of the Rutter Circular.

### *The Great Scheme Broached*

But if Mr. Rockefeller had not framed the Rutter Circular he had used his knowledge of its provision to aid him in accomplishing one of the shrewdest and most far-reaching moves of his life—the move which was to lead at last to the realization of his great purpose—the concentration of the oil business in his own hands.

Some time in the summer of 1874, after it had become certain that Colonel Potts's plan for an equalization of oil freights would be carried out, Mr. Rockefeller wrote to his former colleague in the South Improvement Company, Mr. W. G. Warden, of Philadelphia, telling him he wanted to talk over the condition of the oil business with him, and inviting him to bring Mr. Charles Lockhart, of Pittsburg, to that Mecca of American schemers, Saratoga, for a conference with him and Mr. Flagler. Mr. Warden hesitated. He had been much abused for his relation with the South Improvement Company. He had seen the National Refiners' Association fail. He had begun to feel a distaste for combination. Besides, he was doing very well in Philadelphia. However, after some hesitation, he and Mr. Lockhart went to Saratoga. The four gentlemen breakfasted together and later strolled out to a pavilion. Here they discussed again, as they had nearly three years before, when they prepared the South Improvement assault, the condition of the oil business.

Mr. Rockefeller now had something besides a theory to present to the gentlemen he wished to go into his third scheme. He had the most persuasive of all arguments—an actual achievement. "Three years ago," he could tell them, "I took over the Cleveland refineries. I have managed them so that today I pay a profit to nobody. I do my own buying, I make my own acid and barrels, I control the New York terminals of both the Erie and Central roads, and ship such quantities that the railroads give me larger rebates than they do any other shipper. In 1873 I shipped over 700,000 barrels by the Central, and my profit on my capitalization, \$2,500,000, was over \$1,000,000. This is the result of combination in one city. The railroads now have arranged a new tariff, by which they mean to put us all on an equal footing. They say they will give no rebates to any one, but if we can join with Cleveland the other great shipping points, and apply to them the same tactics I have employed, we shall become the only shipper, and can demand a rebate in return for an equal division of our freight. We proved in 1872-'73 that we could not do anything by an open association. Let us, who see what a combination strictly carried out will

effect, unite secretly to accomplish it. Let us become the nucleus of a *private* company which gradually shall acquire control of all refineries everywhere, become the only oil shippers, and consequently the master of the railroads in the matter of freight rates.”

### *The Great Scheme Goes Through*

It was six hours before the gentlemen in conference left the pavilion, and when they came out Mr. Warden and Mr. Lockhart had agreed to transfer their refineries in Philadelphia and Pittsburg to the Standard Oil Company, of Cleveland, taking stock in exchange. They had also agreed to absorb, as rapidly as persuasion or other means could bring it about, the refineries in their neighborhood. Their union with the Standard was to remain an absolute secret—the concerns operating under their respective names. On October 15, 1874, Mr. Rockefeller consummated another purchase of as great importance. He bought the works of Charles Pratt and Company, of New York City. As before, the purchase was secret. The strategic importance of these purchases for one holding Mr. Rockefeller’s vast ambition was enormous. It gave him as allies men who were among the most successful refiners, without doubt, in each of the three greatest refining centers of the country outside of Cleveland, where he ruled, and of the Creek, where he had learned that neither he nor any member of the South Improvement Company could do business with facility. To meet these purchases the stock of the Standard Oil Company was increased, on March 10, 1875, to \$3,500,000. The value of the concern as a money earner at this early date, 1874, is shown by the fact that Pratt and Company paid not less than 265 for the Standard stock they received in exchange for their works.

### *The Scheme Comes to the Oil Regions in Disguise*

The first intimation that the Oil Region had that Mr. Rockefeller was pushing another combination was in March of 1875, when it was announced that an organization of refiners, called the Central Association, of which he was president, had been formed. Its main points were that if a refiner would lease to the association his plant for a term of months he would be allowed to subscribe for stock of the new company. The lease allowed the owner to do his own manufacturing, but gave Mr. Rockefeller’s company “irrevocable authority” to make all purchases of crude oil and sales of refined, to decide how much each refinery should manufacture, and to negotiate for all freight and pipeline expenses. The Central Association was a most clever device. It furnished the secret partners of Mr. Rockefeller a plausible proposition with which to approach the firms of which they wished to obtain control. I

Little as the Oil Regions knew of the real meaning of the Central Association, the news of its organization raised a cry of monopoly, and the advocates of the new scheme felt called upon to defend it. The defense took the line that the conditions of the trade made such a combination of refineries necessary.

### *Henry H. Rogers Defends the “Central Association”*

Altogether the ablest explanation was that of Mr. H. H. Rogers of Charles Pratt and Company to a reporter of the New York “Tribune”:

“There are five refining points in the country,” said Mr. Rogers, “Pittsburg, Philadelphia, Cleveland, the Oil Regions and New York City. Each of these has certain local advantages which may be briefly stated as follows: Pittsburg, cheap oil; Philadelphia, the seaboard; Cleveland, cheap barrels, and canal as well as railroad transportation; the oil regions, crude oil at the lowest figure; and all the products of petroleum have the best market in New York City. The supply of oil is three or four times greater than the demand. If the oil refineries were run to their full capacity the market would be overstocked. The business is not regular, but spasmodic. When the market is brisk and oil is in demand, all the oil interests are busy and enjoy a fair share of prosperity. At other times the whole trade is affected by the dullness. It has been estimated that not less than twenty millions of dollars are invested in the oil business. It is, therefore, to the interest of every man who has put a dollar in it to have the trade protected and established on a permanent footing. Speculators have ruined the market. The brokers heretofore have been speculating upon the market with disastrous effects upon the trade, and this new order of things will force them to pursue their legitimate calling, and realize their profits from their industry and perseverance. Two years ago an attempt was made to organize an oil refiners’ association, but it was subsequently abandoned. There was no cohesion of interests, and agreements were not kept. The movement at the present time is a revival of the former idea, and, it is believed, has already secured fully nine-tenths of the oil refiners in the country in its favor. I do not believe there is any intention among the oil men to ‘bull’ the market. The endeavor is to equalize all around and protect the capital invested. If by common consent, in good faith, the refiners agree to reduce the quantities to an allotment for each, made in view of the supply and demand and the capacity for production, the market can be regulated with a reasonable profit for all. The price of oil today is fifteen cents per gallon. The proposed allotment of business would probably advance the price to twenty cents. To make an artificial increase, with immense profits, would be recognized as speculative instead of legitimate, and the oil interests would suffer accordingly. Temporary capital would compete with permanent investment and ruin everything. The oil producers today are bankrupt. There have been more failures during the last five months than in five years previously. An organization to protect the oil capital is imperatively needed. Oil to yield a fair profit should be sold for twenty-five cents per gallon. That price would protect every interest and cover every outlay for getting out the crude petroleum, transporting by railroad, refining and the incidental charges of handling, etc. The foreign markets will regulate the price to a great extent, because they are the greatest consumers. The people of China, Germany and other foreign countries cannot afford to pay high prices. Kerosene oil is a luxury to them, and they do not receive sufficient compensation for their labor to enable them to use this oil at an extravagant price. The price, therefore, must be kept within reasonable limits.”

The Oil Regions refused flatly to accept this view of the situation. The world would not buy refined at 25 cents, they argued. “You injured the foreign market in 1872 by putting up the price. Our only hope is in increasing consumption. The world is buying more oil today than ever before, because it is cheap. We must learn to accept small profits as other industries do.” “The formation of the Refiners’ Association has thrust upon the trade an element of uncertainty that has unsettled all sound views as to the general outlook,” said the “Derrick.” “The scope of the Association,” wrote a Pittsburg critic, “is an attempt to control the refining of oil, with the ultimate purpose of advancing its price and reaping a rich harvest in profits. This can only be done by reducing the production of refined oil, and this will in turn act on crude oil; making the stock so far in excess of the demand as to send it down to a lower figure than it has yet touched.”

### *The Independents Smell a Rat*

“The most important feature of this contract,” said a veteran refiner, “is perhaps that part which provides that the Executive Committee of the Central Association are to have the exclusive power to arrange with the railroads for the carrying of the crude and refined oil. It is intended by this provision to enable the Executive Committee to speak for the whole trade in securing special rates of freight, whereby independent shippers of crude oil, and such refiners as refuse to join the combination, and any new refining interest that may be started, may be driven out of the trade. The whole general purpose of the combination is to reap a large margin by depressing crude and raising the price of refined oil, and the chief means employed is the system of discrimination in railroad freights to the seaboard.”

The “veteran refiner” was right in his supposition that Mr. Rockefeller intended to use the enormous power his combination gave him to get a special rate. As a matter of fact he had seen to that before the “veteran refiner” expressed his mind, contracts for a rebate of ten percent on all shipments of oil made by him or his agents having been signed with both the Erie and the Central roads in the spring of 1875. A little later Mr. Rockefeller made a similar contract with the Pennsylvania. These violations of their charters by the railroads, coming so closely after their reiterated assurances that all rates were to be equal and open under the Rutter Circular, were, of course, secret arrangements. Indeed, it was four years before those who suffered from the discriminations were able to get the railroad officials into court and secure proofs of them. They all then gave practically the same reasons for granting special privileges to Mr. Rockefeller. “We made our first contract with the Standard Oil Company” [the one referred to above], said Mr. Cassatt, “for the reason that we found they were getting very strong, and they had the backing of the other roads, and if we wanted to retain our full share of the business and get fair rates on it, it would be necessary to make arrangements to protect ourselves.” That is, Mr. Rockefeller was now in control of such an amount of oil freight that he could force the railroads to pay a rebate.

### *Result of Keeping a Secret for Three Years*

However grave the fears of the Oil Region that the Standard Oil Company was working out a scheme for corraling the oil business and depending largely for success on securing illegal privileges from the railroads, the oil men had nothing to go on but suspicion. There was nothing to do then but wait for developments, and developments came with a rapidity which baffles belief. In a little over three years from the time Mr. Rockefeller completed his rush line in the spring of 1875, he had actually obtained control, by purchase or lease, of not less than ninety-five percent of the refining interests of the United States, and with it such a proportion of collateral interests that his power in the oil business was almost as autocratic as that at which the South Improvement Company aimed. How had it been done?

As soon as the secret transfer of the New York, Philadelphia and Pittsburg refineries to the Standard Oil Company was complete, each of these companies set out to acquire his neighbors. Unquestionably the acquisitions were made through persuasion when this was possible. If the party approached refused to lease or sell, he was told firmly what Mr. Rockefeller had told the Cleveland refiners when he went to them in 1872 with the South Improvement contracts, that there was no hope for him; that a combination was in progress which was bound to work; and that those who stayed out would inevitably go to the wall. Naturally the first fruits

to fall into the hands of the new alliance were those refineries which were embarrassed or discouraged by the conditions which Mr. Rogers explains above. Take as an example the case of the Citizens' Oil Refining Company of Pittsburg, as it was explained in 1888 to the House Committee on Manufactures in its trust investigation. Mr. A. H. Tack, a partner in the company, told the story:

*Story of a Man who Surrendered*

“We began in 1869 with a capacity of 1,000 barrels a day. At the start everything was *couleur de rose*, so much so that we put our works in splendid shape. We manufactured all the products. We even got it down to making wax, and using the very last residuum in the boilers. We got the works in magnificent order and used up everything. We began to feel the squeeze in 1872. We did not know what was the matter. Of course, we were all affected the same way in Pennsylvania, and, of course, we commenced shifting about, and meeting together, and forming delegations, and going down to Philadelphia to see the Pennsylvania Railroad, meeting after meeting, and delegation after delegation. We suspected there was something wrong, and told those men there was something wrong somewhere; that we felt, so far as position was concerned, we had the cheapest barrels, the cheapest labor, and the cheapest coal, and the route from the crude district was altogether in our favor. We had a railroad and a river to bring us our raw material. We had made our investment based on the seaboard routes, and we wanted the Pennsylvania Railroad to protect us. But none of our meetings or delegations ever amounted to anything. They were always repulsed in some way, put off, and we never got any satisfaction. The consequence was that in two or three years there was no margin nor profit. In order to overcome that we commenced speculating, in the hope that there would be a change some time or other for the better. We did not like the idea of giving up the ship. Now, during these times the Standard Oil Company increased so perceptibly and so strong that we at once recognized it as the element. Instead of looking to the railroad, I always looked to the Standard Oil Company. In 1874 I went to see Rockefeller to find if we could make arrangements with him by which we could run a portion of our works. It was a very brief interview. He said there was no hope for us at all. He remarked this—I cannot give the exact quotation—‘There is no hope for us,’ and probably he said, ‘There is no hope for any of us’; but he says ‘The weakest must go first.’ And we went.”

*A Sentiment and Mr. Rockefeller's Opinion of It*

All over the country the refineries in the same condition as Mr. Tack's firm sold or leased. Those who felt the hard times and had any hope of weathering them resisted at first. With many of them the resistance was due simply to their love for their business and their unwillingness to share its control with outsiders. The thing which a man has begun, cared for, led to a healthy life, from which he has begun to gather fruit, which he knows he can make greater and richer, he loves as he does his life. It is one of the fruits of his life. He is jealous of it—wishes the honor of it, will not divide it with another. He can suffer heavily his own mistakes, learn from them, correct them. He can fight opposition, bear all—so long as the work is his. There were refiners in 1875 who loved their business in this way. Why one should love an oil refinery the outsider may not see; but to the man who had begun with one still and had seen it grow by his own energy and intelligence to ten, who now sold 500 barrels a day where he once



sold five, the refinery was the dearest spot on earth save his home. He walked with pride among its evil-smelling places, watched the processes with eagerness, experimented with joy and recounted triumphantly every improvement. To ask such a man to give up his refinery was to ask him to give up the thing which, after his family, meant most in life to him.

To Mr. Rockefeller this feeling was a weak sentiment. To place love of independent work above love of profits was as incomprehensible to him as a refusal to accept a rebate because it was wrong! Where persuasion failed then, it was necessary, in his judgment, that pressure be applied—simply a pressure sufficient to demonstrate to these blind or recalcitrant individuals the impossibility of their long being able to do business independently. It was a pressure varied according to locality. Usually it took the form of cutting their market. The system of “predatory competition,” as Attorney General Knox calls it, was no invention of the Standard Oil Company. It had prevailed in the oil business from the start. Indeed, it was one of the evils Mr. Rockefeller claimed his combination would cure, but until now it had been used spasmodically. Mr. Rockefeller never did anything spasmodically. He applied underselling for destroying his rivals’ market with the same deliberation and persistency that characterized all his efforts, and in the long run he always won. There were other forms of pressure. Sometimes the independent found it impossible to get oil; again they were obliged to wait days for cars to ship in; there seemed to be no end to the ways of making it hard for men to do business, of discouraging them until they would sell or lease, and always at the psychological moment a purchaser was at their side.

### *Story of Another Surrender*

Take as an example the case of the Harkness refinery in Philadelphia, a story told to the same committee as that of Mr. Tack:

“I was the originator of the enterprise,” said Mr. William W. Harkness, “believing that there was no better place than Philadelphia to refine oil, particularly for export. We commenced then, as near as I can now recollect, about 1870, and we made money up to probably, 1874. We managed our business very close and did not speculate in oil. We bought and we sold, and we paid a great deal of attention to the statistical part of our business so as to save waste, and we did a nice business. But we found in some years that probably five months out of a year we could not sell our oil unless it would be at a positive loss, and then we stopped. Then when we could sell our oil, we found a difficulty about getting cars. My brother would complain of it, but I believed that the time would come when that would be equalized. I had no idea of the iniquity that was going on; I could not conceive it. I went on in good faith until about 1874, and then the trouble commenced. We could not get our oil and were compelled to sell at a loss. Then Warden, Frew & Company formed some kind of running arrangement where they supplied the crude, and we seemed to get along a little better. After a while the business got complicated, and I got tired and handed it over to my brother; I backed out. That was about 1875. I was dissatisfied and wanted to do an independent business, or else I wanted to give it up. In 1876—I recollect that very well, because it was the year of the Centennial Exposition—we were at the Centennial Exposition. I was sitting in front of the great Corliss engine, admiring it, and he told me there was a good opportunity to get out. Warden Frew & company, he said, were prepared to buy us out, and I asked him whether he considered that as the best thing to do; whether we had not better hold on and fight it through, for I believed that these difficulties would not continue; that we would get our oil. I knew he was a competent refiner, and I wanted to continue business, but he said he

thought he had better make this arrangement, and I consented, and we sold out; we got our investment back.”

Here we have a refiner discouraged by the conditions which Mr. Rockefeller claims his aggregation will cure. Under the Rutter Circular and the discrimination in freight to the Standard which followed, his difficulty in getting oil increases, and he consents to a running arrangement with Mr. Rockefeller’s partner in Philadelphia, but he wants to do an “independent business.” Impossible. As he sits watching the smooth and terrible power of that famous Corliss engine of 1876—an engine which showed to thousands for the first time what great power properly directed means, he realized that something very like it was at work in the oil business—something resistless, silent, perfect in its might—and he sold out to that something. Everywhere men did the same. The history of oil refining on Oil Creek from 1875 to 1879 is almost uncanny. There were at the beginning of that period twenty-seven plants in the region, most of which were in a fair condition, considering the difficulties in the business. During 1873 the demand for refined oil had greatly increased, the exports nearly doubling over those of 1872. The average profit on refined that year in a well-managed refinery was not less than three cents a gallon. In the summer of 1874 an editor of the Oil City “Derrick” made a tour of the Creek refineries and reported all of the larger ones in Titusville and Oil City as prosperous and growing, and the small ones in the little towns between these two points as “jogging along pleasantly.”

### *The Entering Wedge on Oil Creek*

Mr. Rockefeller did not buy into the Creek interests in 1874 when he took Lockhart, Warden and Pratt into the Standard Oil Company; nor was that district touched until the spring of 1875. Then a representative came to the Creek. None of the independents would listen to him. They would have nothing to do, they said, with any combination engineered by John D. Rockefeller. The representative withdrew, and the case was considered. In the meantime conditions on the Creek grew harder. The margin of profit on refined was much lower than in 1873, probably not over a cent a gallon, and the increase of rates under the Rutter Circular threatened to eat that up. Then all sorts of difficulties began to be strewn in their way—cars were hard to get, the markets they had built up were cut under them — a demoralizing conviction was abroad in the trade that this new and mysterious combination was going to succeed; that it was doing rapidly what its members were reported to be saying daily: “We mean to secure the entire refining business of the world.” Such was the state of things on the Creek when in the early fall of 1875 an energetic young refiner and oil buyer well known in the Oil Regions, Mr. J. D. Archbold, appeared in Titusville as the representative of a new company, the Acme Oil Company, a concern which everybody believed to be an offshoot of the Standard Oil Company of Cleveland, though nobody could prove it. As a matter of fact the Acme was capitalized and controlled entirely by Standard men, its stockholders being, in addition to Mr. Archbold, William Rockefeller, William G. Warden, Frank Q. Barstow and Charles Pratt. It was evident at once that the Acme Oil Company had come into the Oil Regions for the purpose of absorbing the independent interests as Mr. Rockefeller and his colleagues were absorbing them elsewhere. The work was done with a promptness and dispatch which does great credit to the energy and resourcefulness of the engineer of the enterprise.

### *Collapse of the Creek Independents*

In three years, by 1878, all but two of the refineries of Titusville had “retired from the business gloriously,” as Mr. Archbold, flushed with victory, told the counsel of the Commonwealth of Pennsylvania in 1879, when the State authorities were trying to find what was at work in the oil interests to cause such a general collapse. Most of the concerns were bought outright, the owners being convinced that it was impossible for them to do an independent business, and being unwilling to try combination. All down the Creek the little refineries which for years had faced every difficulty with stout hearts collapsed. “Sold out,” “dismantled,” “shut down,” is the melancholy record of the industry during these four years. At the end practically nothing was left in the Oil Regions but the Acme of Titusville and the Imperial of Oil City, both of them now under Standard management.

### *A Memory that Rankles*

To the oil men this sudden wiping out of the score of plants with which they had been familiar for years seemed a crime which nothing could justify. Their bitterness of heart was only intensified by the sight of the idle refiners thrown out of business by the sale of their factories. These men had, many of them, handsome sums to invest, but what were they to put them in? They were refiners, and they carried a pledge in their pockets not to go into that business for a period of ten years. Some of them tried the discouraged oil man’s fatal resource, the market, and as a rule left their money there. One refiner who had, according to popular report, received \$200,000 for his business, speculated the entire sum away in less than a year. Others tried new enterprises, but men of forty learn new trades with difficulty, and failure followed many of them. The scars left in the Oil Regions by the Standard combination of 1875-79 are too deep and ugly for men and women of this generation to forget them.

In Pittsburg the same thing was happening. At the beginning of the work of absorption—1874—there were between twenty-two and thirty refineries in the town. As we have seen. Lockhart and Frew sold to the Standard Oil Company of Cleveland sometime in 1874. In the fall of that year a new company was formed in Pittsburg, called the Standard Oil Company of Pittsburg. Its president was Charles Lockhart; its directors, William Frew, David Bushnell, H. M. Flagler and W. G. Warden—all members of the Standard Oil Company of Cleveland; four of them South Improvement Company men. This company at once began to lease or buy refineries. Many of the Pittsburg refiners made a valiant fight to get rates on their oil which would enable them to run independently. To save expense they tried to bring oil from the oil fields by barge; the pipe lines in the pool refused to run oil to barges. An independent pipeline attempted to bring it to Pittsburg, but to reach the works the pipeline must run under a branch of the Pennsylvania railroad. It refused to permit this, and for months the oil from the line was hauled in wagons from the point where it had been held up, over the railroad track, and there repiped and carried to Pittsburg. At every point they met interference until finally one by one they gave in. According to Mr. Frew, who in 1879 was examined as to the condition of things in Pittsburg, the company began to “acquire refiners” in 1875. In 1877 they bought their last one; and at the time Mr. Frew was under examination he could not remember but one refinery in operation in Pittsburg not controlled by his company.

### *Story of an Oil Shipper*

Nor was it refiners only which sold out. All departments of the trade began to share the terror. There was in the oil business a class of men known as shippers. They bought crude oil, sent it East, and sold it to refineries there. Among the largest of these was Adnah Neyhart, whose active representative was W. T. Scheide. Now to Mr. Rockefeller the independent shipper was an incubus; he did a business which, in his judgment, a firm ought to do for itself, and reaped a profit which might go direct into the business. Besides, so long as there were shippers to supply crude to the Eastern refineries at living prices, so long these concerns might resist offers to sell or lease.

Some time in the fall of 1874 Mr. Scheide began to lose his customers in New York. He found that they were making some kind of a working arrangement with the Standard Oil Company; just what, he did not know. But at all events they no longer bought their oil from him, but took it from the Standard buyer, J. A. Bostwick & Company. At the same time he became convinced that Mr. Rockefeller was after his business. "I knew that they were making strenuous efforts to get our business," he told the Hepburn Commission, in 1879, "because I used to meet Mr. Rockefeller in the Erie office."

In the spring of 1875 Mr. Scheide sold. It is interesting to note that when he sold it was as he supposed, to Charles Pratt & Co. Well informed as he was in all the intricacies of the business—and there were few abler young men in the trade at the time—he did not know that Charles Pratt & Co. had been part and parcel of the Standard Oil Company since October, 1874.

#### *Fear of the Standard Becomes Superstitious*

As this work of absorption went on steadily, persistently, there grew throughout the oil world an almost superstitious fear of resistance to proposals to lease or sell which came from parties known or suspected to be working in harmony with the Standard Oil Company. In Cleveland this was particularly true. A proposal from Mr. Rockefeller was certainly regarded popularly as little better than a command to "stand and deliver." "The coal oil business belongs to us," Mr. Rockefeller told those who got in his way. "We have facilities; we must have it. Any concern that starts in business we have sufficient money laid aside to wipe out."

#### *Mr. Rockefeller Does Business With a Widow*

The feeling is admirably shown in a remarkable case still quoted in Cleveland—a case which took the deeper hold on the public sympathy because the contestant was a woman, the widow of one of the first refiners of the town, a Mr. A--, who had begun refining in Cleveland in 1860. Mr. A—'s principal business was the manufacture of lubricating oil. Now at the start the Standard Oil Company handled only illuminating oil, and accordingly a contract was made between the two parties that Mr. A-- should sell to Mr. Rockefeller his refined oil, and that the Standard Oil Company should let the lubricating business in Cleveland alone. This was the status when in 1874 Mr. A-- died. What happened afterwards has been told in full in affidavits made in 1880, and the writer will let them tell the story; the only change made in the documents being to transfer them for the sake of clarity from the legal third person to the first, and to condense them on account of space.

#### *The Woman's Affidavit*

Mrs. A—'s story as told in her affidavit is as follows:

"My husband having contracted a debt not long prior to his death, for the first time in his life, I, for the interest of my fatherless children, as well as myself, thought it my duty to endeavor to continue the business, and accordingly took \$92,000 of the stock of the --- Oil Company and afterwards reduced it to \$72,000 or \$75,000, the whole stock of the company being \$100,000, and continued business from that time until November, 1878, making handsome profits out of the business during perhaps the hardest years of the time since Mr. A-- had commenced. Some time in November, 1878, the Standard Oil Company sent a man to me by the name of Peter S. Jennings, who had been engaged in the refining business and had sold out to the Standard Oil Company. I told Mr. Jennings that I would carry on no negotiations with him whatever, but that if the Standard Oil Company desired to buy my stock I must transact the business with its principal officer, Mr. Rockefeller. Mr. Jennings, as representing the Standard Oil Company, told me that the president of the company, Mr. Rockefeller, said that said company would control the refining business, and that he hoped it could be done in one or two years; but if not, it would be done, anyway, if it took ten years to do it.

"After two or three days' delay Mr. Rockefeller called upon me at my residence to talk over the negotiation with regard to the purchase of my stock. I told Mr. Rockefeller that I realized the fact that the --- Oil Company was entirely in the power of the Standard Oil Company, and that all I could do would be to appeal to his honor as a gentleman and to his sympathy to do with me the best that he could; and I begged of him to consider his wife in my position—that I had been left with this business and with my fatherless children, and with a large indebtedness that Mr. A-- had just contracted for the first time in his life; that I felt that I could not do without the income arising from this business, and that I had taken it up and gone on and been successful, and I was left with it in the hardest years since my husband commenced the business. He said he was aware of what I had done, and that his wife could never have accomplished so much. I called his attention to the contract that my husband had made with him in relation to carbon oil, whereby the Standard Oil Company agreed not to touch the lubricating branch of the trade carried on by my husband, and reminded him that I had held to that contract rigidly, at a great loss to the --- Oil Company, but did so because I regarded it a matter of honor to live up to it. I told him that I had become alarmed because the Standard Oil Company was getting control of all the refineries in the country, and that I feared that the said Standard Oil Company would go into the lubricating trade, and reminded him that he had sent me word that the Standard Oil Company would not interfere with that branch of the trade. He promised, with tears in his eyes, that he would stand by me in this transaction, and that I should not be wronged; and he told me that, in case the sale was made, I might retain whatever amount of the stock of the --- Oil Company I desired, his object appearing to be only to get the controlling stock of the company. He said that while the negotiations were pending he would come and see me, and I thought that his feelings were such on the subject that I could trust him and that he would deal honorably by me.

"Seeing that I was compelled to sell out, I wanted the Standard Oil Company to make me a proposition, and endeavored to get them to do so, but they would not make a proposition. I then made a proposition that the whole stock of the --- Oil Company with accrued dividends should be sold to said Standard Oil Company for \$200,000, which was, in fact, much below what the stock ought to have been sold for; but they ridiculed the amount, and at last offered me only \$79,000, not including accounts, and required that each stockholder in the --- Oil Company should enter into a bond that within the period of ten years he or she would not directly or

indirectly engage in or in any way be concerned in the refining, manufacturing, producing, piping or dealing in petroleum or any of its products within the county of Cuyahoga and State of Ohio, nor at any other place whatever.

“Seeing that the property had to go, I asked that I might, according to the understanding with the president of the company, retain \$15,000 of my stock, but the reply to this request was, ‘No outsiders can have any interest in this concern; the Standard Oil Company has “dallied” as long as it will over this matter; it must be settled up today or go,’ and they insisted upon my signing the bond above referred to.

“The promises made by Mr. Rockefeller, president of the Standard Oil Company, were none of them fulfilled; he neither allowed me to retain any portion of my stock, nor did he in any way assist me in my negotiations for the sale of my stock; but, on the contrary, was largely instrumental in my being obliged to sell the property much below its true value, and requiring me to enter into the oppressive bond above referred to.

“After the arrangements for the sale of the refinery and of my stock was fully completed and the property had been sold by myself and the other stockholders, and after I had made arrangements for the disposition of my money, I received a note from Mr. Rockefeller, in reply to one that I had written to him threatening to make the transaction public, saying that he would give me back the business as it stood, or that I might retain stock if I wished to, but this was after the entire transaction was closed, and such arrangements had been made for my money that I could not then conveniently enter into it; and I was so indignant over the offer being made at that late day, after my request for the stock having been made at the proper time, that I threw the letter into the fire and paid no further attention to it.”

#### *Mr. Rockefeller's Affidavit*

The letter which Mrs. A-- destroyed was included in the affidavit in which Mr. Rockefeller answered Mrs. A--'s statement. It reads:

“November 13th, 1878. Dear Madam: I have held your note of 11th inst., received yesterday, until today, as I wished to thoroughly review every point connected with the negotiations for the purchase of the stock of the --- Oil Company, to satisfy myself as to whether I had unwittingly done anything whereby you could have any right to feel injured. It is true that in the interview I had with you I suggested that if you desired to do so, you could retain an interest in the business of the --- Oil Company by keeping some number of its shares, and then I understood you to say that if you sold out you wished to go entirely out of the business. That being my understanding, our arrangements were made in case you concluded to make the sale that precluded any other interests being represented, and therefore, when you did make the inquiry as to your taking some of the stock, our answer was given in accordance with the facts noted above, but not at all in the spirit in which you refer to the refusal in your note. In regard to the reference that you make as to my permitting the business of the --- Oil Company to be taken from you, I say that in this, as all else that you have written in your letter of 11th inst., you do me most grievous wrong. It was of but little moment to the interests represented by me whether the business of the --- Oil Company was purchased or not. I believe that it was for your interest to make the sale, and am entirely candid in this statement, and beg to call your attention to the time, some two years ago, when you consulted Mr. Flagler and myself as to selling out your interests to Mr. Rose, at which time you were desirous of selling at considerably less price, and upon time, than you have now received in cash, and which sale you would have been glad to have

closed if you could have obtained satisfactory security for the deferred payments. As to the price paid for the property, it is certainly three times greater than the cost at which we could construct equal or better facilities; but wishing to take a liberal view of it, I urged the proposal of paying the sixty thousand dollars, which was thought much too high by some of our parties. I believe that if you would reconsider what you have written in your letter, to which this is a reply, you must admit having done me great injustice, and I am satisfied to await upon innate sense of right for such admission. However, in view of what seems your present feelings, I now offer to restore to you the purchase made by us, you simply returning the amount of money which we have invested and leaving us as though no purchase had been made. Should you not desire to accept this proposal, I offer to you one hundred, two hundred, or three hundred shares of the stock at the same price that we paid for the same, with this addition, that we keep the property we are under engagement to pay into the treasury of the --- Oil Company an amount which, added to the amount already paid, would make a total of \$100,000, and thereby make the shares one hundred dollars each.

”That you may not be compelled to hastily come to conclusion, I will leave open for three days these propositions for your acceptance or declination, and in the meantime believe me, Yours very truly, JOHN D. ROCKEFELLER.”

Mr. Rockefeller says further in the affidavit from which this letter is drawn:

“It is not true that I made any promises that I did not keep in the letter and spirit, and it is not true that I was instrumental to any degree in her being obliged to sell the property much below its true value, and I aver that she was not obliged to sell out, and that such was a voluntary one upon her part and for a sum far in excess of its value; and that the construction which was purchased of her could be replaced for a sum not exceeding twenty thousand dollars.”

It is probably true, as Mr. Rockefeller states, that he could have reproduced Mrs. A—’s plant for \$20,000; but the plant was but a small part of her assets. She owned one of the oldest lubricating oil refineries in the country, one with an enviable reputation for good work and fair dealing, and with a trade that had been paying an annual net income of from \$30,000 to \$40,000. It was this income for which Mr. Rockefeller paid \$79,000; this income with the old and honorable name of the --- Oil Company, not a few stills and tanks and agitators.

It is undoubtedly true, as Mr. Rockefeller avers, that Mrs. A-- was not obliged to sell out, but the fate of those who in this period of absorption refused to sell was before her eyes. She had seen the twenty Cleveland refineries fall into Mr. Rockefeller’s hand in 1872. She had watched the steady collapse of the independents in all the refining centers. She had seen every effort to preserve an individual business thwarted. Rightly or wrongly she had come to believe that a refusal to sell meant a fight with Mr. Rockefeller, that a fight meant ultimately defeat, and she gave up her business to avoid ruin.

### *The Pennsylvania Declares War*

It must not be supposed that this process of absorption went on from 1874 to 1878 without opposition. On all sides there was alarm, and repeated efforts were made to meet the consolidation. None of the efforts assumed serious proportion until suddenly the Pennsylvania railroad and its great transportation line, the Empire, aroused by the indignation of the State at the aid it was believed to be giving to a foreign corporation aiming at an absolute monopoly, and seeing, too, that the thing it was helping create was fast becoming so big that it would be unmanageable even by a trunk railroad, hastened to ally itself with the independent interests. To

give a sure outlet for their oil to the producers it began to build refineries. Immediately the Standard, backed by the Erie and the Central, cried halt. The Pennsylvania refused to obey, and there followed then one of the finest fights in all the Standard's thirty years of war and conquest.