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The History of the Standard Oil Company

Chapter II—The Rise of the Standard Oil Company

STRUNG along the banks of Walworth and Kingsbury Runs, the creeks to which Cleveland, Ohio, frequently banishes her heavy and evil-smelling burdens, there lay in the early sixties a dozen or more small oil refineries. Why they were there, more than two hundred miles from the spot where the oil was taken from the earth, a glance at a map of the railroads of the time will show. No railroad entered the region where oil was first discovered. To bring machinery for refineries to that distant and rugged locality was practically impossible. The simplest operation was to take the crude to the nearest manufacturing cities. Cleveland was one of these. Great as was its distance from the oil field, its advantages as a refining center more than balanced that. Cleveland commanded the entire Western market. It had two trunk lines running to New York, both eager for oil traffic, and by Lake Erie and the canal it had for a large part of the year a splendid cheap water way. Thus, at the opening of the oil business, Cleveland was destined by geographical position to be a refining center.

Men saw it, and hastened to take advantage of the opportunity. There was grave risk. The oil supply might not hold out. As yet there was no certain market for refined oil. But a sure result was not what drew people into the oil business in the early sixties. Fortune was running fleet-footed across the country, and at her garment men clutched. They loved the chase almost as they did success, and so many a man in Cleveland tried his luck in an oil refinery, as hundreds on Oil Creek were trying it in an oil lease. From the start the refineries made money, even the rudest ones. Seeing this, and seeing, too, that the oil supply was probably permanent, men who loved the result rather than the gamble took up the business. Among these was a young firm of produce commission merchants. Both members of this firm were keen business men, and one of them had a remarkable commercial vision—a genius for seeing the possibilities in material things. This man's name was Rockefeller—John D. Rockefeller. He was but twenty-three years old at the time, but he had already got his feet firmly on the business ladder, and had got them there by his own efforts. Frugality had started him. It was the strongest trait of his character. Indeed, the only incident of his childhood preserved by biographers illustrates his love of saving. When he was eight years old, so the story runs, he raised a flock of turkeys—his earliest business venture. The flock was a fine one, for the owner had given it close care, and it was sold to advantage. A boy of eight usually earns to spend. This boy was different. He invested his entire turkey earnings at seven per cent. It was the beginning of a financial career.

Five years after this turkey episode, when young Rockefeller was thirteen years old, his father moved from the farm in central New York. where the boy had been born (July 8, 1839), to Cleveland, Ohio. Here he went to school for three years. At sixteen he left school to become a clerk and bookkeeper. He was an admirable accountant—one of the early-and-late sort, who saw everything, forgot nothing, and never talked. His earnings he saved, waiting for an opportunity. In 1858 it came. Among his acquaintances was a young Englishman, M. B. Clark. Older by twelve years than Rockefeller, he had left a hard life in England when he was twenty, to seek fortune in America. He had landed in Boston in 1847, without a penny or a friend, and it had taken three months for him to earn money to get to Ohio. Here he had taken the first job at hand, as man-of-all-work, woodchopper, teamster. He had found his way to Cleveland, had become a valuable man in the houses where he was employed, had gone to school at nights, had saved money. They were two of a kind, Clark and Rockefeller, and in 1858 they pooled their earnings and started a produce commission business on the Cleveland docks. The venture succeeded. Local historians credit Clark & Rockefeller with doing a business of $450,000 the first year, a figure that somewhat taxes credulity. However that may be, the firm prospered. The war came on, and as neither partner went to the front, they had full chance to take advantage of the opportunity for produce business a great army gives. A greater chance than furnishing army supplies, lucrative as most people found that, was in the oil business (so Clark and Rockefeller began to think), and in 1862, when an Englishman of ability and energy, one Samuel Andrews, asked them to back him in starting a refinery, they put in $4,000, and promised to give more if necessary. Now Andrews was a mechanical genius. He devised new processes, made a better and better quality of oil, got larger and larger percentages of refined from his crude. The little refinery grew big, and Clark & Rockefeller soon had $100,000 or more in it. In the meantime Cleveland was growing as a refining center. The business which in 1860 had been a gamble, was by 1865 one of the most promising industries of the town. There were thirty refineries, big and little, with a capacity of from 1,800 to 2,000 barrels of crude a day, and the refined shipments of the year amounted to nearly 200,000 barrels. It was but the beginning —so Mr. Rockefeller thought—and in that year he sold out his share of the commission business and put his capital into the oil firm of Rockefeller & Andrews.

In the new firm Andrews attended to the manufacturing. The pushing of the business, the buying and the selling, fell to Rockefeller. From the start his effect on the business was tremendous. He had the frugal man's hatred of waste and disorder, of middlemen and unnecessary manipulation, and he began a vigorous elimination of these from his business. The residuum that other refineries let run into the ground, he sold. Old Iron found its way to the junk shop. He bought his oil directly from the wells. He made his own barrels. He watched and saved and contrived. The ability with which he made the smallest bargain furnishes topics to Cleveland storytellers today. Low-voiced, soft-footed, humble, knowing every point in every man's business, he never tired until he got his wares at the lowest possible figure. “John always got the best of the bargain,” old men tell you in Cleveland today, and they wince though they laugh in telling it. “Smooth,” “a savvy fellow,” is their description of him. To drive a good bargain was the joy of his life. “The only time I ever saw John Rockefeller enthusiastic,” a man told the writer once, “was when a report came in from the Creek that his buyer had secured a cargo of oil at a figure much below the market price. He bounded from his chair with a shout of joy, danced up and down, bugged me, threw up his hat, acted so like a madman that I have never forgotten it.”

He could borrow as well as bargain. The firm's capital was limited; growing as they were, they often needed money, and had none. Borrow they must. Rarely if ever did Mr. Rockefeller fail. There is a story handed down in Cleveland from the days of Clark & Rockefeller, produce merchants, which is illustrative of his methods.

One day a well-known and rich business man stepped into the office and asked for Mr. Rockefeller. He was out, and Clark met the visitor. “Mr. Clark,” he said, “you may tell Mr. Rockefeller, when he comes in, that I think I can use the $10,000 he wants to invest with me for your firm. I have thought it all over.”

“Good God!” cried Clark, “we don’t want to invest $10,000. John is out right now trying to borrow $5,000 for us.”

It turned out that to prepare him for a proposition to borrow $5,000 Mr. Rockefeller had told the gentleman that he and Clark wanted to invest $10,000! “And the joke of it is,” said Clark, who used to tell the story, “John got the $5,000 even after I had let the cat out of the bag. Oh, he was the greatest borrower you ever saw.”

These qualities told. The firm grew rich, and started a second refinery—William A. Rockefeller & Co. They took in a partner, H. M. Flagler, and opened a house in New York for selling their oil. Of all these concerns John D. Rockefeller was the head. Finally, in June, 1870, five years after he became an active partner in the refining business, Mr. Rockefeller combined all his companies into one—the Standard Oil Company. The capital of the new concern was $1,000,000. The parties interested in it were John D. Rockefeller, Henry M. Flagler, Samuel Andrews, Stephen V. Harkness, and William Rockefeller.

The strides the firm of Rockefeller & Andrews made after the former went into it were attributed, for three or four years, mainly to this extraordinary capacity for bargaining and borrowing. Then its chief competitors began to suspect something. John Rockefeller might get his oil cheaper now and then, they said, but he could not do it often. He might make close contracts for which they had neither the patience nor the stomach. He might have an unusual mechanical and practical genius in his partner. But these things could not explain all. They believed they bought, on the whole, almost as cheaply as he, and they knew they made as good oil and with as great, or nearly as great, economy. He could sell at no better price than they. Where was his advantage? There was but one place where it could be, and that was in transportation. He must be getting better rates from the railroads than they were. One of the rival refiners, of a firm long in the business, which had been prosperous from the start, and which prided itself on its methods, its economy, and its energy— Alexander, Scofield & Co.—went to the railroad companies’ agents in 1868 or 1869. “You are giving others better rates than you are us,” said Mr. Alexander, the representative of the firm. They did not attempt to deny it—they simply agreed to give him a rebate also. The arrangement was interesting. Mr. Alexander was to pay the open, or regular, rate on oil from the Oil Regions to Cleveland, which at the date was 40 cents a barrel. At the end of each month he was to send to the railroad vouchers for the amount of oil shipped and paid for at 40 cents, and was to get back from the railroad, in money, 15 cents on each barrel. This concession applied only to oil brought from the wells. He was never able to get a rebate on oil shipped eastward. When he complained to the railroads he was told that if he would ship as large quantities as the Standard Oil Company he could have as good a rate.

Ship as large a quantity! It was a new principle in railroad policy. Were not the railroads public servants? Were they not bound, as common carriers, to carry ten barrels at the same rate per barrel as they did a hundred? If they were not, what was to become of the ten-barrel men? Could they live? Mr. Alexander remonstrated. The railroad agent was firm with Mr. Alexander. In all branches of business the heaviest buyer got the best rate; the railroad must regard this principle. It could not give him the same rate as Mr. Rockefeller unless he shipped as large amounts " of oil, and he went back to his refinery knowing that he must do business with a handicap, nearly, if not quite, as great as his profit. How had it happened that Rockefeller and his colleagues had secured this advantage so out of harmony with a railroad's obligations to the public? Nobody knew then. But ten years later the railroad man who granted them this privilege, and started them on the road by which, a few years later, they reached almost a complete monopoly of the oil business, stated the reasons for the discrimination in an affidavit which has never, to the writer's knowledge, been published. This man was General J. H. Devereux, who in 1868 succeeded Amasa Stone as vice-president of the Lake Shore Railroad. He came to this position at a moment when a lively contest was going on for the eastward oil traffic, and when the Pennsylvania Railroad, having the advantage, was claiming what General Devereux called a "patent right on the transportation of oil." The cheap rates which the Pennsylvania was giving, the wild speculations in both refined and crude, to which the officials of the Erie—Fiske and Gould—were lending aid, combined with the fact that a number of big and finely equipped refineries were going up in the Oil Regions, frightened the Cleveland refiners. Unless something was done, they told General Devereux, Cleveland would be destroyed as a refining center. Something was done—the Lake Shore ran its road still nearer to the heart of the Oil Regions, and began to give Rockefeller, Andrews, & Flagler rebates on their crude oil. General Devereux's reason for making special rates to this firm and to no other, was that while all the other refiners expressed the fear that the advantages of refining on the Creek close to the oil supply were such that they might ultimately all have to move from Cleveland to the Oil Regions, Rockefeller and his associates promised to fight it out in Cleveland if the Lake Shore would handle their oil as cheaply as the Pennsylvania could. Why the railroad should not have quieted the fears of the other firms by the same assurance as it gave the Standard General Devereux did not explain. This was the beginning. Two years later, in 1870, the Lake Shore made a broader contract with the Standard. The road had been carrying little oil eastward for the firm for some time. The rates they offered were not low enough, and the Standard firm was shipping principally by water; but this method was slow, and the way, for a portion of the year, was closed. Soon after the Standard Oil Company was formed, in 1870, Mr. Flagler, representing the firm, proposed that if General Devereux would not give them a special through rate they would ship sixty carloads a day. The rate asked was considerably lower than the regular open rates, but the advantage of having a regular amount shipped daily was so great that the railroad company concluded that their profit would be greater than by serving all alike. It was evidently merely a question of which method paid better. The question of the railroad's duty as a public carrier was not considered. The Standard's arrangement with General Devereux, in 1870, gave them steady transportation the year round to the seaboard, at a rate cheaper than anybody else could get. It was equivalent to renting a railroad for their private use. Every Cleveland refiner was put out of the race by the arrangement. The refining business was so prosperous at the time the arrangement was made that suspicion was not at first aroused, but in a year' s time the effect became apparent. Firms which had been making $10,000 to $20,000 a year found themselves making little or nothing. But why? That they did not see. The oil business in Cleveland was growing prodigiously. By 1870 the city had become the largest refining center in the United States, taking 2,000,000 barrels of crude oil from the region—one-third of the entire output of the Oil Regions. Instead of being destroyed by the competition of refineries built close to the wells, it was growing under the competition, but in spite of this growth only one firm—the Standard Oil Company—was making much money. This was puzzling and disheartening.

It would seem as if the one man in Cleveland who ought to have been satisfied with the situation in 1870 was Mr. Rockefeller. His organization, from his buyers on the Creek to his exporter in New York, was well-nigh perfect. His control of a railroad from the wells to the sea board gave him an advantage nobody else had had the daring and the persuasive power to get. It was clear that in time he must control the entire Cleveland trade. But Mr. Rockefeller was far from satisfied. Hewas a brooding, cautious, secretive man, seeing all the possible dangers as well as all the possible opportunities in things, and he studied, as a player at chess, all the possible combinations which might imperil his supremacy. These twenty-five Cleveland rivals of his—how could he at once and forever put them out of the game? He and his partners had somehow conceived a. great idea ——the advantages of combination. What might they not do if they could buy out and absorb the big refineries now competing with them in Cleveland? The possibilities of the idea grew as they discussed it. Finally they began tentatively to sound some of their rivals. But there were other rivals than these at home. There were the Creek refiners! They were there at the mouth of the wells. What might not this geographical advantage do in time? The Oil Regions, in the first years of oil production, had been an unfit place for refining because of its lack of connections with the outside world; now, however, the railroads were in, and refining was going on there on an increasing scale; the capacity of the region had indeed risen to nearly 10,000 barrels a day—equal to that of New York, exceeding that of Pittsburg by nearly 4,000 barrels, and almost equaling that of Cleveland. The men of the oil country loudly declared that they meant to refine for the world. They boasted of an oil kingdom which eventually should handle the entire business and compel Cleveland and Pittsburg either to abandon their works or bring them to the oil country. In this boastful ambition they were encouraged by the Pennsylvania Railroad, which naturally handled the largest percentage of the oil. How long could the Standard Oil Company stand against this competition?

There was another interest as deeply concerned as Mr. Rockefeller in preserving Cleveland's supremacy as a refining center, and this was the New York Central Railroad system, Let the bulk of refining be done in the Oil Regions, and that road was in danger of losing a profitable branch of business. For its own sake it must continue to support Cleveland—by which it meant the Standard Oil Company. The chief representative of the interest of the Central system in Cleveland was Peter H. Watson. Mr. Watson was an able patent lawyer, who served under the strenuous Stanton as an Assistant-Secretary of War, and served well. After the war he had been made General Freight Agent of the Lake Shore and Michigan Southern Railroad, and later president of the branch of that road which ran into the Oil Regions. He had oil interests principally at Franklin, Pennsylvania, and was well known to all oil men. He was a business intimate of Mr. Rockefeller and a warm friend of Horace Clarke, the son in-law of W. K. Vanderbilt, at that time president of the Lake Shore and Michigan Southern Railroad.

Two other towns shared Cleveland’s fear of the rise of the Oil Regions as a refining center, and they were Pittsburg and Philadelphia, and Mr. Rockefeller and Mr. Watson found in certain refiners of these places a strong sympathy with any plan which looked to holding the region in check. But while the menace in their geographical positions was the first ground of sympathy between these gentlemen, something more than local troubles occupied them. This was the condition of the refining business as a whole. It was unsatisfactory in many particulars. First, it was over done. There was at that time a refining capacity of three barrels to every one produced, and this capacity was widely scattered. The result was, every now and then, ruinous underselling in order to keep or to secure a market. The export business was not what these gentlemen thought it ought to be. Oil had risen to fourth place in the exports of the United States in the twelve years since its discovery, and every year larger quantities were consumed abroad, but it was crude oil, not refined, which the foreigners were beginning to demand; that is, they had found they could import crude, refine it at home, and sell it cheaper than they could buy

American refined. France, to encourage her home refineries, had even put a tax on American refined. Competition between the railroads was so keen that nobody could be sure what freight rates his neighbor was getting, and whether he might not any day secure a special advantage in transportation which would enable him to undersell. Then the speculation in crude oil caused wide variation in the cost of their product, as well as serious fluctuation in the refined market. In short, the business had all the evils of a young, vigorous growth. Its possibilities were still undefined, its future a mere guess. Time was bound to cure the evils in it, but the refiners were impatient of waiting.

In the fall of 1871, while Mr. Rockefeller and his friends were occupied with all these questions certain Pennsylvania refiners, it is not too certain who, brought to them a remark able scheme, the gist of which was to bring together secretly a large enough body of refiners and shippers to compel all the railroads handling oil to give to the company formed special rebates on its oil, and draw backs on that of others. If they could get such rates, it was evident that those outside of their combination could not compete with them long, and that they would become eventually the only refiners. They could then limit their output to actual demand, and so keep up prices. This done, they could easily persuade the railroads to transport no crude for exportation, so that the foreigners would be forced to buy American refined. They believed that the price of oil thus exported could easily be advanced 50 per cent. The control of the refining interests would also enable them to fix their own price on crude. As they would be the only buyers and sellers, the speculative character of the business would be done away with. In short, the scheme they worked out put the entire oil business in their hands. It looked as simple to put into operation as it was dazzling in its results. Mr. Flagler has sworn that neither he nor Mr. Rockefeller believed in this scheme. But when they found that their friend, Peter H. Watson and various Philadelphia and Pittsburg parties, who felt as they did about the oil business, believed in it, they went in and began at once to work up a company—secretly. It was evident that a scheme which aimed at concentrating in the hands of one company the business now operated by scores, and which proposed to effect this consolidation through a practice of the railroads which was forbidden by their charters, although freely indulged in, and which was regarded as the greatest commercial scandal of the day, must be worked with fine discretion if it ever were to be effective.

The first thing was to get a charter—quietly. At a meeting held in Philadelphia late in the fall of 1871, a friend of one of the gentlemen interested mentioned to him that a certain estate then in liquidation had a charter for sale which gave its owners the right to carry on any kind of business in any country and in any way; that it could be bought for what it would cost to get a charter under the general laws of the State, and it would be a favor to the heirs to buy it. The opportunity was promptly taken. The name of the charter bought was the "Southern (usually written South) Improvement Company." For a beginning it was as good a name as another, since it said nothing.

With this charter in hand Mr. Rockefeller and Mr. Watson and their associates began to seek converts. In order that their great scheme might not be injured by premature public discussion, they asked of each person whom they approached a pledge of secrecy. Two forms of the pledges required before anything was revealed were published later. The first of these, which appeared in the New York "Tribune," read as follows:

I, *A. B.*, do faithfully promise upon my honor and faith as a gentleman, that I will keep secret all transactions which I may have with the corporation known as the South Improvement Company; that, should I fail to complete any bargains with the said company, all the preliminary conversations shall be kept strictly private; and, finally, that I will not disclose the price for which I dispose of my product, or any other facts which may in any way bring to light the internal workings or organization of the company. All this I do freely promise.

.... .Signed.

Witnessed by ....

A second, published in a history of the "Southern Improvement Company," ran:

The undersigned pledge their solemn words of honor that they will not communicate to any one without permission of (name of director of Southern Improvement Company) any information that he may convey to them, or any of them, in relation to the Southern Improvement Company.

That they met with encouragement is evident from the fact that, when the corporators came together on January 2, 1872, in Philadelphia, for the first time under their charter, and transferred the company to the stockholders, they represented in one way or another a large part of the refining interest of the country. At this meeting 1,100 shares of the stock of the company, which was divided into 2,000 shares of $100 each, were subscribed for, and 20 percent of their value paid in. Just who took stock at this meeting the writer has not been able to discover. At the same time, a discussion came up as to what refiners were to be allowed to go into the new company. Each of the men represented had friends whom he wanted taken care of, and after considerable discussion it was decided to take in every refinery they could get hold of. This decision was largely due to the railroad men. Mr. Watson had seen them as soon as the plans for the company were formed, and they had all agreed that if they gave rebates all refineries then existing must be taken in.

Very soon after this meeting of January 2d the rest of the stock of the South Improvement Company was taken. The complete list of stockholders, with their holdings, was as follows:

William Frew, Philadelphia, Pa.	10 shares.
W. P. Logan " " .	10 "
John P. Logan, " " ..	10 "
Chas. Lockhart, Pittsburg, " .	10 "
Richard S. Waring, Pittsburg, Pa .	10 "
W. G. Warden, Philadelphia, Pa	475 "
O. F. Waring, Pittsburg, Pa	475 "
P. H. Watson, Ashtabula, Ohio	100 "
H. M. Flagler, Cleveland, "	180 "
O. H. Payne, " "	180 "
Wm. Rockefeller, " " ..	180 "
J. A. Bostwick, New York, N. Y	180 "
John D. Rockefeller, Cleveland, Ohio "	180 "
	2,000

Mr. Watson was elected president and Mr. Warden secretary of the new association. It will be noticed that the largest individual holdings in the company were those of W. G. Warden, of Philadelphia, and O.F. Waring, of Pittsburg, each of whom had 475 shares. The company most heavily interested in the South Improvement Company was the Standard Oil Company of Cleveland, Messrs. J. D. Rockefeller, William Rockefeller, O. H. Payne, and H. M. Flagler, all stockholders of that company, each having 180 shares--720 in the company.

The organization complete, there remained contracts to be made with the railroads. Three systems were interested: the Central, which, by its connection with the Lake Shore and Michigan Southern, ran directly into the Oil Regions; the Erie, allied with the Atlantic and Great Western, with a short line likewise tapping the heart of the region; and the Pennsylvania, with the connections known as the Allegheny Valley and Oil Creek Railroad. The persons to be won over were W. H. Vanderbilt, of the Central; W. H. Clarke, president of the Lake Shore and Michigan Southern; Jay Gould, of the Erie; General G. B. McClellan, president of the Atlantic and Great Western; and Tom Scott, of the Pennsylvania. There seems to have been little difficulty in persuading any of these persons to go into the scheme. It was, of course, a direct violation of their charters as public carriers, but such violations had been in practice for at least four years in the oil business, and for a longer period in other industries. Under pressure or persuasion all of these roads granted special rates. For years they had been fighting bitterly for the oil trade, often cutting rates to get a consignment, until there was no profit in it. They were glad enough to go into any arrangement which guaranteed each a sure percentage of the business and gave them a profit on it. This the South Improvement Company did. They seem not to have agreed to the contracts until the company assured them that all the refiners were going in. The contracts they made were not on condition, however, that all were included. Three months after they were signed Congress investigated the great scheme. The testimony of the secretary of the company on this point before the Congressional committee is worth reading:

Q. You say you made propositions to railroad companies, which they agreed to accept upon the condition that you could include all the refineries?

A. No, sir; I did not say that; I said that was the understanding when we discussed this matter with them; it was no proposition on our part; they discussed it, not in the form of a proposition that the refineries should be all taken in, but it was the intention and resolution of the company from the first that that should be the result; we never had any other purpose in the matter.

Q. In case you could take the refineries all in, the railroads proposed to give you a rebate upon their freight charges?

A. No, sir; it was not put in that form; we were to put the refineries all in upon the same terms; it was the understanding with the railroad companies that we were to have a rebate; there was no rebate given in consideration of our putting the companies all in, but we told them we would do it; the contract with the railroad companies was with us.

Q. But if you did form a company composed of the proprietors of all these refineries, you were to have a rebate upon your freight charges?

A. No; we were to have a rebate anyhow, but were to give all the refineries the privilege of coming in.

Q. You were to have the rebate whether they came in or not?

A. Yes, sir.

“What effect were these arrangements to have upon those who did not come into the combination?” asked the chairman.

“I do not think we ever took that question up," answered Mr. Warden.

A second objection to making a contract with the company came from Mr. Scott, of the the Pennsylvania road. “You take no account here,” Mr. Scott told the secretary, W. G. Warden, who discussed the matter at length with him, "of the oil producer—the man to whom the world owes the business. You can never succeed unless you take care of the producer.” Mr. Warden objected strongly to forming a combination with them. “The interests of the producers were in one sense antagonistic to ours: one as the seller and the other as the buyer. We held in argument that the producers were abundantly able to take care of their own branch of the business if they took care of the quantity produced.” So strongly did Mr. Scott argue, however, that finally the members of the South Improvement Company yielded, and a draft of an agreement, to be proposed to the producers, was drawn up in lead pencil; it was never presented. It seems to have been used principally to quiet Mr. Scott.

The work of persuasion went on swiftly. By the 18th of January the president of the Pennsylvania road, J. Edgar Thompson, had put his signature to the contract, and soon after Mr. Vanderbilt and Mr. Clarke signed for the Central system, and Jay Gould and General McClellan for the Erie. The contracts to which these gentlemen put their names fixed gross rates of freight from all common points, as the leading shipping points within the Oil Regions were called, to all the great refining and shipping centers—New York, Philadelphia, Baltimore, Pittsburg, and Cleveland. For example, the open rate on crude oil to New York was put at $2.56. On this price the South Improvement Company was allowed a rebate of $1.06 for its shipments; but it got not only this rebate, it was given in cash a like amount on each barrel of crude shipped by parties outside the combination.

The open rate from Cleveland to New York was $2.00, and 50 cents of this sum was turned over to the South Improvement Company, which at the same time received a rebate enabling it to ship for $1.50. Again an independent refiner in Cleveland paid 80 cents a barrel to get his crude from the Oil Regions to his works, and the railroad sent 40 cents of this money to the South Improvement Company. At the same time it cost the Cleveland refiner in the combination but 40 cents to get his crude oil. Like drawbacks and rebates were given for all points—Pittsburg, Philadelphia, Boston, and Baltimore.

An interesting provision in the contracts was that full waybills of all petroleum shipped over the roads should each day be sent to the South Improvement Company. This, of course, gave them knowledge of just who was doing business outside of their company—of how much business he was doing, and with whom he was doing it. Not only were they to have full knowledge of the business of all shippers —they were to have access to all books of the railroads. The parties to the contracts agreed that if anybody appeared in the business offering an equal amount of transportation, and having equal facilities for doing business with the South Improvement Company, the railroads might give them equal advantages in drawbacks and rebates, but to make such a miscarriage of the scheme doubly improbable, each railroad was bound to cooperate as “far as it legally might to maintain the business of the South Improvement Company against injury by competition, and lower or raise the gross rates of transportation for such times and to such extent as might be necessary to overcome the competition. The rebates and drawbacks to be varied *pari passu* with the gross rates.”

The reason given by the railroads in the contract for granting these extraordinary privileges was that the “magnitude and extent of the business and operations purposed to be carried on by the South Improvement Company would greatly promote the interest of the railroads and make it desirable for them to encourage their undertaking. The evident advantages received by the railroad were a regular amount of freight—the Pennsylvania was to have 45 percent of the east-bound shipping, the Erie and Central each 27-1/2 per cent, while west-bound freight was to be divided equally between them—fixed rates, and freedom from the system of cutting which they had all found so harassing and disastrous.

It was on the second of January, 1872, that the organization of the South Improvement Company was completed. The day before, the Standard Oil Company, of Cleveland, increased its capital from $1,000,000 to $2,500,000, “all the stockholders .of the company being present and voting therefor.” These stockholders were greater by five than in 1870, the names of O. B. Jennings, Benjamin Brewster, Truman P. Handy, Amasa Stone, and Stillman Witt having been added. The last three were officers and stockholders in one or more of the railroads centering in Cleveland. Three weeks after this increase of capital Mr. Rockefeller had the charter and contracts of the South Improvement Company in hand, and was ready to see what they would do in helping him carry out his idea of wholesale combination in Cleveland. There were at that time some twenty-six refineries in the town— some of them very large plants. All of them were feeling more or less the discouraging effects of the last three or four years of railroad discriminations in favor of the Standard Oil Company. To the owners of these refineries Mr. Rockefeller now went one by one, and explained the South Improvement Company. “You see,” he told them, “this scheme is bound to work. It means an absolute control by us of the oil business. There is no chance for anyone outside. But we are going to give everybody a chance to come in. You are to turn over your refinery to my appraisers, and I will give you Standard Oil Company stock or cash, as you prefer, for the value we put upon it. I advise you to take the stock. Lt will be for your good.” Certain refiners objected. They did not want to sell. They did want to keep and manage their business. Mr. Rockefeller was regretful, but firm. It was useless to resist, he told the hesitating; they would certainly be crushed if they did not accept his offer, and he pointed out in detail, and with gentleness, how beneficial the scheme really was—preventing the Creek refiners from destroying Cleveland, keeping up the price of refined oil, destroying competition, and eliminating speculation.

The perfection of the scheme, the inevitableness of the result, the persuasiveness of its advocate, the promise of great profits were different reasons for leading many of the refiners to succumb at once. Some of them took stock—more took money. The explanation of why they sold was in most cases similar to that given to the Congressional committee which later investigated the South Improvement Company, by Mr. Alexander, of Alexander, Scofield & Co.:

"There was a pressure brought to bear upon my mind and upon almost all citizens of Cleveland engaged in the oil business, to the effect that unless we went into the South Improvement Company we were virtually killed as refiners; that if we did not sell out we should be crushed out. My partner, Mr. Hewitt, had some negotiations with parties connected with the South Improvement Company, and they gave us to understand, at least my partner so represented to me, that we should be crushed out if we did not go into that arrangement. He wanted me to see the parties myself; but I said to him that I would not have any dealings with certain parties who were in that company for any purpose, and I never did. We sold at a sacrifice, and we were obliged to. There was only one buyer in the market, and we had to sell on their terms or be crushed out, as it was represented to us. It was stated that they had a contract with railroads by which they could run us into the ground if they pleased. After learning what the arrangements were I felt as if, rather than fight such a monopoly, I would withdraw from the business, even at a sacrifice. I think we received about 40 or 45 cents on the dollar on the valuation which we placed upon our refinery. We had spent over $50,000 on our works during the past year, which was very nearly all that we received. We had paid out $60,000 or $70,000 before that; we considered our works at their cash value worth 75 per cent of what they had cost. According to our valuation, our establishment was worth $150,000—and we sold it for about $65,000, which was, as I have stated, about 40 or 45 percent of its value. We sold to one of the members, as I suppose, of the South Improvement Company, Mr. Rockefeller; he is a director in that company; it was sold in name to the Standard Oil Company, of Cleveland, but the arrangements were, as I understand it, that they were to put it into the South Improvement Company. I am stating what my partner told me; he did all the business; his statement was that all these works were to be merged into the South Improvement Company; I never talked with any members of the South Improvement Company myself on the subject; I declined to have anything to do with them."

A few of the refiners contested before surrendering. Among these was Robert Hanna, an uncle of Mark Hanna, of the firm of Hanna, Baslington & Co. Mr. Hanna had been refining oil since July, 1869. According to his own sworn statement he had made money, fully 60 percent on his investment the first year, and after that 30 percent. Some time in February, 1872, the Standard Oil Company asked an interview with him and his associates. They wanted to buy his works, they said. “But we don’t want to sell,” objected Mr. Hanna. “You can never make any more money, in my judgment,” said Mr. Rockefeller. “You can’t compete with the Standard. We have all the large refineries now. If you refuse to sell, it will end in your being crushed.” Hanna and Baslington were not satisfied. They went to see Mr. Watson, president of the South Improvement Company, and an ofiicer of the Lake Shore, and General Devereux, manager of the Lake Shore road. They were told that the Standard had special rates; that it was useless to try to compete with them. General Devereux explained to the gentlemen that the “privileges granted the Standard were the legitimate and necessary advantage of the large shipper over the smaller, and that if Hanna, Baslington & Co. could give the road as large a quantity of oil as the Standard did, with the same regularity, they could have the same rate. General Devereux says they “recognized the propriety” of his excuse. They certainly recognized its authority. They say that they were satisfied they could no longer get rates to and from Cleveland which would enable them to live, and “reluctantly” sold out. It must have been reluctantly, for they had paid $75,000 for their works, and had made 30 percent a year on an average on their investment, and the Standard appraiser allowed them $45,000. “Truly and really less than one-half of what they were absolutely worth, with a fair and honest competition in the lines of transportation,” said Mr. Hanna, eight years later, in an affidavit.

Under the combined threat and persuasion of the Standard, armed with the South Improvement Company scheme, almost the entire independent oil interest of Cleveland collapsed in three months’ time. Of the twenty six refineries, at least twenty-one sold out. From a capacity of probably not over 1,500 barrels of crude a day, the Standard Oil Company rose in three months’ time to one of 10,000 barrels. By this maneuver it became master of over one-fifth of the refining capacity of the United States. Its next individual competitor was Sloan & Fleming, of New York, whose capacity was 1,700 barrels. The Standard had a greater capacity than the entire Oil Creek Regions, greater than the combined New York refiners. The transaction by which it acquired this power was so stealthy that not even the best informed newspaper men of Cleveland knew what went on. It had all been accomplished in accordance to one of Mr. Rockefeller’s chief business principles —“Silence is golden.” While Mr. Rockefeller was working out the “good of the oil business” in Cleveland, his associates were busy at other points. A little more time and the great scheme would be an accomplished fact. And then there fell in its path two of those never-to-be-foreseen human elements which so often block great maneuvers. The first was born of a man's anger. The man had learned of the scheme. He wanted to go into it, but the directors were suspicious of him. He had been concerned in speculative enterprises and in dealings with the Erie road which had injured these directors in other days. They didn’t want him to have any of the advantages of their great enterprise. When convinced that he could not share in the deal, he took his revenge by telling people in the Oil Regions what was going on. At first the Oil Regions refused to believe, but in a few days another slip born of human weakness came in to prove the rumor true. The schedule of rates agreed upon by the South Improvement Company and the railroads had been sent to the freight agent of the Lake Shore Railroad, but no order had been given to put them in force. The freight agent had a son on his death-bed. Distracted by his sorrow, he left his office in charge of subordinates, but neglected to tell them that the new schedules on his desk were a secret compact, whose effectiveness depended upon their being held until all was complete. On February 26th, the subordinates, ignorant of the nature of the rates, put them into effect. The independent oil men heard with amazement that freight rates had been put up nearly one hundred per cent. They needed no other proof of the truth of the rumors of conspiracy which were circulating. It now remained to be seen whether the Oil Regions would submit to the South Improvement Company as Cleveland had to the Standard Oil Company