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## *The History of the Standard Oil Company*

### *Chapter IV—An Unholy Alliance*

THE first appearance of Mr. John D. Rockefeller in the Oil Regions may be said to have been made in the South Improvement Company. That company was now scattered. Mr. Rockefeller's relation with it had not been vain, as we have seen. In fact, the Standard Oil Company was the only concern which had profited by the short-lived venture. Its business had been more than trebled in the few months between the conception and the death of the conspiracy. The Oil Regions knew this, and the bitterness engendered by the oil war was not lessened by the knowledge of the greatly increased facilities of the man who, they believed, had originated the attempt to rob them of their business.

#### *Mr. Rockefeller Returns to His Attack*

This feeling of outrage and resentment was still keen when Mr. Rockefeller and several of his colleagues in the South Improvement scheme suddenly, in May, 1873, appeared on the streets of Titusville. The men who had fought him so desperately now stared in amazement at the smiling, unruffled countenance with which he greeted them. Did not the man know when he was beaten? Did he not realize the opinion the Oil Regions held of him? His placid demeanor in the very teeth of their violence was disconcerting. Not less of a shock was given the country by the knowledge that Mr. Rockefeller, Mr. Flagler, Mr. Waring, and the other gentlemen in their party were pressing a new alliance, and that they claimed that their new scheme had none of the obnoxious features of the defunct South Improvement Company, though it was equally well adapted to work out the "good of the oil business." For several days the visiting gentlemen slipped around, bland and quiet, from street corner to street corner, from office to office, explaining, expostulating, mollifying. "You misunderstand our intention," they told the refiners. "It is to save the business, not destroy it, that we are come. You see the disorders competition has wrought in the oil industry. Let us see what combination will do. Let us make an experiment—that is all. If it does not work, then we can go back to the old method."

#### *An Anecdote of His 'Taciturnity*

Although Mr. Rockefeller was everywhere, and heard everything in these days, he rarely talked. "I remember well how little he said," one of the most aggressively independent of the Titusville refiners told the writer. "One day several of us met at the office of one of the refiners, who, I felt pretty sure, was being persuaded to go into the scheme which they were talking up. Everybody talked except Mr. Rockefeller. He sat in a rocking chair, softly swinging back and

forth, his hands over his face. I got pretty excited when I saw how those South Improvement men were pulling the wool over our men's eyes, and making them believe we were all going to the dogs if there wasn't an immediate combination to put up the price of refined and prevent new people coming into the business, and I made a speech which, I guess, was pretty warlike. Well, right in the middle of it John Rockefeller stopped rocking and took down his hands and looked at me. You never saw such eyes. He took me all in, saw just how much fight he could expect from me, and, I knew it, and then up went his hands and back and forth went his chair."

For fully a week this quiet circulation among the oil men went on, and then, on May 15<sup>th</sup> and 16<sup>th</sup>, public meetings were held in Titusville, at which the new scheme which they had been advocating was presented publicly. This new plan, called the "Pittsburg Plan" from the place of its birth, had been worked out by the visiting gentlemen before they came to the Oil Regions. It was a most intelligent and comprehensive proposition.

### *Plan Number Two: The Pittsburg Plan*

As in the case of the South Improvement scheme, a company was to be formed to run the refining business of the whole country, but this company was to be an open instead of a secret organization, and all refiners were to be allowed to become stockholders in it. The owners of the refineries which went into the combination were then to run them in certain particulars according to the direction of the board of the parent company; that is, they were to refine only such an amount of oil as the board allowed, and they were to keep up the price for their output as the board indicated. The buying of crude oil and the arrangements for transportation were also to remain with the directors. Each Stockholder was to receive dividends whether his plant operated or not.

The "Pittsburg Plan" was presented tentatively. If anything better could be suggested they would gladly accept it, its advocates said. "All we want is a practical combination. We are wed to no particular form."

The first revelation of the public meetings at which the "Pittsburg Plan" was presented was that in the days Mr. Rockefeller and his friends had been so diligently shaking hands with the oil men from Titusville to Oil City they had made converts—that they had not entered these open meetings until they had secured the assurance of cooperation in any plan of consolidation which might be effected from some of the ablest refiners and business men of the Creek, notably from J. J. Vandergift of Oil City, and from certain firms of Titusville with which John D. Archbold was connected. All of these persons had fought the South Improvement Company, and they all now declared that if the proposed organization copied that piratical scheme they would have had nothing to do with it, that their allegiance to the plan was based on the conviction that it was fair to all—who went in!—and that it was made necessary by over-refining, under-selling, and by the certainty that the railroads could not be trusted to keep their contracts. It was evident that the possible profits and power to be gained by a successful combination had wiped out their resentment against the leaders of the South Improvement Company, and that if they had the assurance, as they must have had, that rebates were a part of the game, they justified themselves by the reflection that somebody was sure to get them, and that it might as well be they as anybody.

### *Mistrust of the New Scheme*

The knowledge that a considerable body of the Creek refiners had gone over to Mr. Rockefeller awakened a general bitterness among those who remained independent. "Deserters," "ringsters," "monopolists," were the terms applied to them, and the temper of the public meetings, as is evident from the full reports the newspapers of the Oil Region published, became at once uncertain. There were long pauses in the proceedings, everybody fearing to speak. Mr. Rockefeller is not reported as having spoken at all, the brunt of defense and explanation having fallen on Mr. Flagler, Mr. Frew, and Mr. Waring. Two or three times the convention wrangled to the point of explosion, and one important refiner, M. N. Allen, who was also the editor of the Titusville "Courier," one of the best papers in the region, took his hat and left. Before the end of the convention the supporters of combination ought to have felt, if they did not, that they had been a little too eager in pressing an alliance on the Oil Regions so soon after outraging its moral sentiment.

The press and people were making it plain enough, indeed, that they did not trust the persuasive advocates of reform. On every street corner and on every railroad train men reckoned the percentage of interest the stockholders of the South Improvement Company would have in the new combination. It was too great. But what stirred the Oil Region most deeply was its conviction that the rebate system was regarded as the keystone of the new plan.

"What are you going to do with the men who prefer to run their own business?" asked a representative of the Oil City "Derrick" of one of the advocates of the plan. "Go through them," was reported to be his laconic reply. "But how?" "By the cooperation of transportation"—that is, by rebates. Now the Oil Regions had been too recently convicted of the sin of the rebate, and had taken too firm a determination to uproot the iniquitous practice to be willing to ally itself with any combination which it suspected of accepting privileges which its neighbors could not get or would not take.

### *A Brief Day of Triumph*

The upshot of the negotiations was that again the advocates of combination had to retire from the Oil Regions defeated. "Sic semper tyrannis, sic transit gloria South Improvement Company," sneered the Oil City "Derrick," which was given to sprinkling Latin phrases into its forceful and picturesque English. But the "Derrick" underrated both the man and the principle at which it sneered. A great idea was at work in the commercial world. It had come to them saddled with crime. They now saw nothing in it but the crime. The man who had brought it to them was not only endowed with far vision, he was endowed with an indomitable purpose. He meant to control the oil business. By one maneuver, and that a discredited one, he had obtained control of one-fifth of the entire refining output of the United States. He meant to secure the other four-fifths. He might retire now, but the Oil Regions would hear of him again. It did. Three months later, in August, 1872, it was learned that the scheme of consolidation which had been presented in vain at Titusville in May had been quietly carried out, that four-fifths of the refining interest of the United States, including many of the Creek refiners, had gone into a National Refiners' Association, of which Mr. Rockefeller was president, and one of their own men, J. J. Vandergift, was vice-president. The news aroused much resentment in the Oil Region. The region was no longer solid in its free-trade sentiment, no longer undividedly true to its vow that the rebate system as applied to the oil trade must end. There was an enemy at home. The hard words which for months men had heaped on the distant heads of Cleveland and Pittsburg refiners, they began

to pour out, more discreetly to be sure, on the heads of their neighbors. It boded ill for the interior peace of the Oil Regions.

### *The Producers Prepare for Action*

The news that the refiners had actually consolidated aroused something more than resentment. The producers generally were alarmed. If the aggregation succeeded, they would have one buyer only for their product, and there was not a man of them who believed that this buyer would ever pay them a cent more than necessary for their oil. Their alarm aroused them to energy. The association which had scattered the South Improvement Company was revived, and began at once to consider what it could do to prevent the consolidated refiners getting the upper hand in the business.

The association which now prepared to contest the mastery of the oil business with Mr. Rockefeller and those who had joined him was a curious and a remarkable body. Its membership, drawn from the length and breadth of the Oil Regions, included men whose production was thousands of barrels a day and men who were pumping scarcely ten barrels; it included college-bred men who had come from the East with comfortable sums to invest, and men who signed their names with an effort, had never read a book in their lives, and whose first wells they had themselves "kicked down." There were producers in it who had made and lost a half-dozen fortunes, and who were, apparently, just as buoyant and hopeful as when they began. There were those who had never put down a dry well, and were still unsatisfied. However diverse their fortunes, their breeding, and their luck, there was no difference in the spirit which animated them now.

### *An Able Leader*

The president of the association was Captain William Hasson, a young man, both by his knowledge of the Oil Regions and the oil business well fitted for the position. Captain Hasson was one of the few men in the association who had been in the country before the discovery of oil. His father had bought, in the fifties, part of the grant of land at the mouth of Oil Creek, made in 1796 to the Indian chief Cornplanter, and had moved on it with his family. Four years after the discovery of oil he and his partner sold three hundred acres of the tract they owned for \$750,000. Young Hasson had seen Cornplanter, as the site of his father's farm was called, become Oil City; he had seen the mill, blacksmith shop, and country tavern give way to a thriving town of several thousand inhabitants. All of his interests and his pride were wrapped up in the industry which had grown up about him. Independent in spirit, vigorous in speech, generous and just in character, William Hasson had been thoroughly aroused by the assault of the South Improvement Company, and under his presidency the producers had conducted their successful campaign. The knowledge that the same man who had been active in that scheme had now organized a national association had convinced Captain Hasson of the necessity of a countermove, and he threw himself energetically into a new and much more difficult task. This was to persuade the oil producers to devise an intelligent and practical plan for controlling their end of the business, and then stand by what they decided on.

### *"Three-Dollar Oil"*

Captain Hasson and those who were working with him would have had a much more difficult task in arousing the producers to action if it had not been for the general dissatisfaction over the price of oil. The average price of crude in the month of August, 1872, was \$3.47-1/2. The year before it had been \$4.42-1/2, and that was considered a poverty price. It was pretty certain that prices would fall still lower, that "three-dollar oil" was near at hand. Everybody declared three dollars was not a "living price" for oil, that it cost more than that to produce it. The average yield of the wells in the Oil Region in 1872 was five barrels a day. Now a well cost at that time from \$2,500 to \$8,000, exclusive of the price of the lease. It cost \$8 to \$10 a day to pump a well, exclusive of the royalty interest—that is, the proportion of the production turned over to the landowner, usually one-fourth. If a man had big wells, and many of them, he made big profits on "three-dollar oil," but there were comparatively few "big producers." The majority of those in the business had but few wells, and these yielding only small amounts.

### *The Producer's Conception of a "Paying Investment"*

If he had been contented to economize and to accept small gains, even the small producer could live on a much lower price than \$3, but nobody in the Oil Regions in 1872 looked with favor on economy, and everybody despised small things. The oil men as a class had been brought up to enormous profits, and held an entirely false standard of values. As the "Derrick" told them once in a sensible editorial, "their business was born in a balloon going up, and spent all its early years in the sky." They had seen nothing but the extreme of fortune. One hundred percent per annum on an investment was in their judgment only a fair profit. If their oil property had not paid for itself entirely in six months, and begun to yield a good percentage, they were inclined to think it a failure. Now nothing but \$5 oil would do this, so great were the risks in business; and so it was for \$5 oil, regardless of the laws of supply and demand, that they were struggling. They were notoriously extravagant in the management of their business. Rarely did an oil man write a letter if he could help it. He used the telegraph instead. Whole sets of drilling tools were sometimes sent by express. It was no uncommon thing to see near a derrick broken tools which could easily have been mended, but which the owner had replaced by new ones. It was anything to save bother with him. Frequently wells were abandoned which might have been pumped on a small but sure profit. In those days there were men who looked on a ten barrel (net) well as hardly worth taking care of. And yet even at 50 cents a barrel such a well would have paid the owner \$1,800 a year. The simple fact was that the profits which men in trades all over the country were glad enough to get, the oil producer despised. The one great thing which the Oil Regions did not understand in 1872 was economy.

Now the drop in the price of oil everybody recognized to be due to a natural cause. Where a year before the production had been 12,000 barrels a day, it was now 16,000. The demand for refined had not increased in proportion to this production of crude, and oil stocks had accumulated until the tanks of the region were threatening to overflow. And there was no sign of falling off.

Under these circumstances it needed little argument to convince the oil men that if they were to get a better price they must produce no more than the world would use. There was but one way to effect this—to put down no new wells until the stocks on hand were reduced and the daily production was brought down to a marketable amount.

### *Heroic Measures*

Under the direction of the Producers' Association an agitation at once began in favor of stopping the drill for six months. It was a drastic measure. There was hardly an oil operator in the entire region who had not on hand some piece of territory on which he was planning to drill, or on which he had not wells underway. Stopping the drill meant that all of the aggressive work of his business should cease for six months. It meant that his production, unreplenished, would gradually fall off, until at the end of the period he would have probably not over half of what he had now; that then he must begin over again to build up. It meant, too, that he was at the mercy of neighbors who might refuse to joint the movement, and who by continuing to drill would drain his territory. It seemed to him the only way of obtaining a manageable output of crude, however, and accordingly, when late in the month of Augusta pledge to stop the drill was circulated, the great majority of the producers signed it.

The chief objection to the pledge came from landowners in Clarion County. They were the "original settlers," plodding Dutch farmers whose lives had always been poor and hard and shut-in. The finding of oil had made them rich and greedy. They were so ignorant that it was difficult to transact business of any nature with them. It was not unusual for a Clarion County farmer if offered an eighth royalty to refuse it on the ground that it was too little, and to ask a tenth. When the proposition to stop the drill for six months was brought to these men, who at the time owned the richest territory in the oil field, no amount of explanation could make them understand it. They regarded it as a scheme to rob them, and would not sign. Outside of this district, however, the drill stopped nearly all over the field on September 1.

### *A Thirty Days' Shutdown*

Stopping the drill afforded no immediate relief to the producers. It was for the future. And as soon as the Petroleum Producers' Association had the movement well under way, it proposed another drastic measure—a thirty days' shutdown—by which it was meant that all wells should cease pumping for a month. Nothing shows better the compact organization and the determination of the oil producers at this time than the immediate response they gave to this suggestion. In ten days scarcely a barrel of oil was being pumped from end to end of the Oil Regions. "That a business producing three million dollars a month, employing ten thousand laboring men and fifty million dollars of capital should be entirely suspended, dried up, stopped still as death by a mutual voluntary agreement, made and perfected by all parties interested, within a space of ten days—this is a statement that staggers belief—a spectacle that takes one's breath away," cried the "Derrick," which was using all its wits to persuade the producers to limit their production. It was certainly a spectacle which saddened the heart, however much one might applaud the grim resolution of the men who were carrying it out. The crowded oil farms where creaking walking beams sawed the air from morning until night, engines puffed, whistles screamed, great gas jets flared, teams came and went, and men hurried to and fro, became suddenly silent and desolate, and this desolation had an ugliness all its own—something unparalleled in any other industry of this country. The awkward derricks, staring cheap shanties, big tanks with miles and miles of pipe running hither and thither, the oil-soaked ground, blackened and ruined trees, terrible roads—all of the common features of the oil farm to which activity gave meaning and dignity—now became hideous in inactivity. Oil seemed a curse to many a man in those days as he stood by his silent wells and wondered what was to become of his business, of his family, in this clash of interests.

### *The Producers' Agency*

While the producers were inaugurating these movements, Captain Hasson and a committee were busy making out the plan of the permanent association which was to control the business of oil producing and prevent its becoming the slave of the refining interest. Towards the end of October Captain Hasson presented the scheme which he and the committee had prepared. It proposed that there should be established what was called a Petroleum Producers' Agency. This agency was really an incorporated company with a capital of one million dollars, the stock of which was to be subscribed to only by the producers or their friends. This agency was to purchase at at least \$5 a barrel. If stocks could be kept down so that the market took all of the oil at once, the full price was to be paid at once in cash; if not, the agency was to store the oil in tanks it was to build, and a portion of the price was to be paid in tank certificates. By thus controlling all the oil, the agency expected to protect the weakest as well as the strongest producer, to equalize the interest of different localities, to prevent refiners and exporters from accumulating stocks, and to prevent gambling in oil. The agency was to take active means to collect reliable information about the oil business—the number of wells drilling, the actual production, the stocks on hand—things which had never been done to anybody's satisfaction. Indeed, one of the standing causes for quarrels between the various newspapers of the region was their conflicting statistics about production and stocks. It was to make a study of the market and see what could be done to increase consumption. It was to oppose monopolies and encourage competition, and, if necessary, it was to provide cooperative refineries which the producers should own and control.

The spirit of the agency, as explained by Captain Hasson, was most liberal, considering the interests of even the drillers and pumpers. "Advise every employee to take at least one share of stock for himself," he said in his address, "and one for his wife and each of his children, and encourage him to pay for it out of his saved earnings or out of his monthly pay. If he is not able to keep up his installments, assure him that you will help him, and then take care to do it. You will thus do him a double kindness, and benefit his family by encouraging habits of thrift and economy. You owe this much to him who so nobly seconded your efforts to gain control of the market by stopping work. You had all to gain, and he had nothing to hope for but your benefit. Now show your appreciation of his acts by this evidence of your regard for his welfare." The plan was received with general enthusiasm, and when it came up for adoption it went through with a veritable whoop. Indeed, within a few moments after its acceptance, which took place in Oil City on October 24<sup>th</sup>, two hundred thousand dollars' worth of stock was taken, and less than two weeks later it was announced that more than the desired million dollars had been subscribed, that the trustees and officers had been elected, and that the agency was ready for work. For the first time in the history of the oil business, the producers were united in an organization which, if carried out, would regulate the production of oil to something like the demand for it, would prevent stocks from falling into the hands of speculators, and would provide a strong front to any combination with monopolistic tendencies. Only one thing was necessary now to make the producer a fitting opponent to his natural enemy, the refiner. That thing was loyalty to the agency he had established. The future of the producer at that moment was in his own hand. Would he stick? By every sign he would. He thought so himself. He had acted so resolutely and intelligently up to this point that even Mr. Rockefeller seems to have thought so.

### *The Refiners Propose an Alliance*

During the entire three months that the producers had been organizing, the refiners had been making divers overtures to them. In August several of the refiners sought certain of the big producers and privately proposed a two-headed combination which should handle the whole business, from drilling to exportation. The proposition they made was most alluring to men suffering from low prices. "Carry out your plans to limit your production and guarantee to sell only to us," said Mr. Rockefeller's representatives, "and we will give you \$4 a barrel for your oil. We will also establish a sliding scale, and for every cent a gallon that refined oil advances we will give you 25 cents more on your barrel of crude. The market price of crude oil, when this offer was made, was hovering around \$3. "How," asked the producer, "can you do this?" "We expect, by means of our combination, to get a rebate of 75 cents a barrel," was the answer. "But the railroads have signed an agreement to give no rebates," objected the producers.

"As if the railroads ever kept an agreement," answered the worldly-wise refiners. "Somebody will get the rebates. It is the way the railroads do business. If it is to be anybody, we propose it shall be our combination." Now, it was clear enough to the men approached that the great body of their association would never go into any scheme based on rebates, and they said so. The refiners saw no disadvantage in that fact. "We don't want *all* the producers. We only want the big ones. The small producer under our arrangement must die, as the small refiner must." The proposition never got beyond the conference chamber. It was too cynical and ruthless. Several conferences of the same nature took place later between representatives of the two interests, but nothing came of them. The two associations were kept apart by the natural antagonism of their ideals and their policy. Captain Hasson and his followers were working on an organization "which aimed to protect the weakest as well as the strongest, which welcomed everybody who cared to come into the business, which encouraged competition and discountenanced any sort of special privilege. Mr. Rockefeller and his associates proposed to save the strong and eliminate the weak, to limit the membership to those who came in now, to prevent competition by securing exclusive privileges. Their program was coldblooded, but it must be confessed that it showed a much firmer grasp on the commercial practices of the day, and a much deeper knowledge of human nature as it operates in business, than that of the producers.

### *Mr. Rockefeller's Great Move*

The formation of the Producers' Agency brought the refiners back to the Oil Regions in greater earnest than ever. The success of that organization gave them an active antagonist, one which, as it held the raw material, could at any time actually shut up their refineries by withholding oil. The vigor, the ability, the determination the new organization had displayed made it a serious threat to the domination Mr. Rockefeller and his associates had dreamed. It must be placated. On November 8<sup>th</sup>, immediately after it was announced that the entire million dollars' worth of stock was taken, an agent of the Standard Oil Company in Oil City was ordered to buy oil from the agency—six thousand barrels of oil at \$4.75 a barrel—and the order was followed by this telegram from Mr. Rockefeller :

"It has been represented to us that if we would buy of the producers' agent at Oil City and pay \$4.75 per barrel they would maintain the price. We are willing to go further and buy only of



the producers' agent, hence the order we have given you. See Hasson and others and let there be a fair understanding on this point. We will do all in our power to maintain prices, and continue to buy, provided our position is fully understood. We do this to convince producers of our sincerity, and to assist in establishing the market."

A more adroit move could not have been made at this moment. This purchase was a demonstration that the Refiners' Association could and would pay the price the producers asked; that they asked nothing better, in fact, than to ally themselves with the agency. The events of the next three weeks, on the contrary, showed the agency that it would be some time before anybody else would pay them any such price as that Mr. Rockefeller promised. The reason was evident enough. In spite of the stopping of the drill, in spite of the thirty days' shutdown, production was increasing. Indeed, the runs for November were greater than they had ever been in any single month since the beginning of the oil business. A large number of wells under way when the drill was stopped had "come in big." New territory had been opened up by unexpected wildcats. The shutdown had done less than was expected to decrease stocks. It was evident that the Producers' Association had a long and severe task before it to bring the crude output down to anything like the demand. Could the great body of producers be depended upon to take still further measures to lessen their production, and at the same time would they hold their oil until the agency had the mastery of the situation? Their tanks were overflowing. Many of them were in debt and depending on their sales to meet their obligations—even to meet their daily personal expenses. It was little wonder that they grew restive as they began to realize that the agency in which they had seen immediate salvation from all their ills could only be made effective by months more of self-sacrifice, of agitation, of persistent effort from every man of them. With every day they became more impatient of the bonds the agency had set for them, and the leaders soon realized that some immediate tangible results must be given the mass of oil men, or there was danger of a stampede.

A strong feature of the genius of John D. Rockefeller has always been his recognition of the critical moment for action in complicated situations. He saw it now, and his representatives again came to the Creek seeking an alliance. Their arguments, as they found their way from the private meetings into the press and the street, ran something like this: "Our combination is the only big buyer. We are in the thing to stay, and shall remain the only big buyer. You might erect refineries and oppose us, but it would take months, and while you are waiting how are you going to hold the producers? You cannot do it. We can easily get all the oil we want today at our own price from the men who sell from necessity, and yet your agency is in the first flush of enthusiasm. Sell only to us and we will buy 15,000 barrels a day from you. Refuse an alliance with us and you will fail."

### *The "Treaty of Titusville"*

Overwhelmed by the length and severity of the struggle before them if they insisted on independence, fearful lest the scattered and restless producers could not be held much longer, convinced by their confident arguments that the refiners could keep their promise, the council finally agreed to a plan of union which the "Derrick" dubbed the "Treaty of Titusville."

The alliance was only accepted after a debate so acrimonious that even the "Derrick" suppressed it. Captain Hasson led the opposition. In his judgment there was but one course for the producers—to keep themselves free from all entanglement and give themselves time to build

up solidly the structure they had planned. If they had followed his advice, the whole history of the Oil Regions would have been different. But they did not follow it. The treaty was ratified by a vote of twenty-seven to seven.

A committee of the agency went immediately to New York to arrange a contract. The main points of the agreement decided upon were that the Refiners' Association should admit all existing refiners to its society, and the Producers' Association all producers present and to come—that the former company should buy only of the latter, the latter sell only to the former, and that the agency should bind all producers enjoying its privileges to handle their oil through it. The refiners were to buy such daily quantities as the markets of the world would take and at a price governed by the price of refined, \$5.00 per barrel being paid when refined was selling at 26 cents a gallon. Either association could discontinue the agreement on ten days' notice.

It was late in December when this contract, signed by Mr. Rockefeller himself, was brought back to the Oil Region. The committee brought with them an order for two hundred thousand barrels of oil at \$3.25. This large order created a general feeling that, after all, an alliance might not be so bad a thing. The moral sense of the country was quieted, too, by the assurance that the producers, before signing the contract, had insisted that the refiners' combination sign an agreement to take no rebates as long as the alliance lasted.

### *The Refiners Spring Their Trap*

And now, at last, after five months of incessant work, the agency was ready to begin disposing of oil. They set to work at once to apportion the two hundred thousand barrels the refiners had bought among the different districts. It was a slow and irritating task, for a method of apportionment and of gathering had to be devised, and, as was to be expected, it aroused more or less dissatisfaction and many charges of favoritism. The agency had the work well under way, however, and had shipped about fifty thousand barrels when, on January 14<sup>th</sup>, it was suddenly announced that the refiners had *refused to take any more of the contract oil!*

There was a hurried call of the Producers' Council and a demand for an explanation. A plausible one was ready from Mr. Rockefeller. "You have not kept your part of the contract—you have not limited the supply of oil—there is more being pumped today than ever before in the history of the region. We can buy all we want at \$2.50, and oil has sold within the week as low as \$2. If you will not, or cannot, stop overproduction, can you expect us to pay your price? We keep down the output of refined, and so keep up the price. If you will not do the same, you must not expect high prices."

What could the producers reply? In spite of their heroic measures, they had not been able to curtail their output. It seemed as if Nature, outraged that her generosity should be so manipulated as to benefit only the few, had opened her veins to flood the earth with oil, so that all men might know that here was a light cheap enough for the poorest of them. Her lavish outpouring now swept away all of the artificial restraints the producers and refiners had been trying to build. The Producers' Association seemed suddenly to comprehend their folly in supposing that, when five thousand barrels more of oil was produced each day than the market demanded, any combination could long keep the contract the refiners had made with them; and their unhappy session, made more unhappy by the reading of bitter and accusing letters from all over the discontented region, ended in a complete stampede from the refiners, the vote for dissolving the alliance having but one dissenting voice.

There were few tears shed in the Oil Regions over the rupture of the contract. The greater part of the oil men had called it from the beginning an “unholy alliance,” and rejoiced that it was a fiasco. If the alliance had been all that came to an end, the case would not have been so serious, but it was not. The breaking of the alliance proved the death of the agency and the association. The leaders who had disapproved of the treaty withdrew from active work; the supporters of the alliance, demoralized by its failure, were glad to keep quiet. A few spasmodic efforts to stop the drill, to inaugurate another shutdown, were made, but failed. Most of the producers felt that, as oil was so low, their only safety was in getting as large a production as they could, and a perfect fever of development followed. The Producers’ Association, after ten months of as exciting and strenuous effort as an organization has ever put in, was snuffed out almost in a day. It was to be five years before the oil men recovered sufficiently from the shock of this collapse to make another united effort. If Mr. Rockefeller felt in the fall of 1872 that the “good of the oil business” required the dissolution of the Producers’ Agency, he could not have acted with more acumen than he did in leading them into an alliance, and at the psychological moment throwing up his contract.

### *The Refiners Dissolve*

Humiliated as the producers were by their failure, they soon found consolation in the knowledge that the Refiners’ Association was in trouble. A serious thing, in fact, had happened. When the official report of the year’s exports and imports came out, it was shown that the exports of refined oil had fallen off for the first time in the industry of the business. In 1871, 132,178,843 gallons had been exported. In 1872, only 118,259,832 were exported. Just as alarming was the proof that the shale and coal oil refineries of Europe had taken a fresh start—that they were selling their products more cheaply than kerosene could be imported and sold. There was a general outcry from all over the country that Mr. Rockefeller and his associates were ruining the oil business by keeping up the price of refined oil beyond what the price of crude justified. The producers, eager for a scapegoat, argued that the low price of crude was due to decreased consumption as well as over-production, and their ill will against Mr. Rockefeller flared up anew.

In the meantime the Refiners’ Association was having trouble of its own. The members were not limiting their output as they had agreed—that is, it was discovered every now and then that a refinery was making more oil than Mr. Rockefeller had directed. Again, what was more fatal to the success of the association, members sometimes sold at a lower price than that set by Mr. Rockefeller. These restrictions were fundamental to the success of the combination, and the members were called together at Saratoga in June, 1873, and after a long session the association was dissolved.

### *A Few Figures Concerning Standard Oil in 1873*

There was loud exultation in the unthinking part of the Oil Regions over the dissolution of the refiners. The “Junior Anaconda” was dead. The wiser part of the region did not exult. They knew that though the combination might dissolve, the Standard Oil Company of Cleveland still controlled its one-fifth of the capacity of the country; that not only had Mr. Rockefeller been able to hold the twenty refineries he had bolted so summarily at the opening of 1872, but he had assimilated them so thoroughly that he was making enormous profits. Mr. Rockefeller’s

contracts with the Central Railroad alone in 1873 and '74 obliged him for seven months of the year to ship at least 100,000 barrels of refined oil a month to the seaboard. As a matter of fact he never shipped less than 108,000 barrels, and in one month of the period it rose to 180,000. Now in 1873 he made, at the very lowest figure, three cents a gallon on his oil. Estimating his shipments simply at 700,000 barrels a year—and they were much more—his profits for that year were \$1,050,000, and this accounts for no profits on about 35 percent of the Standard output, which was sold locally or shipped westward. Little wonder that the Cleveland refiners who had been snuffed out the year before, and who saw their plants run at such advantage, grew bitter, or that gossip said the daily mail of the president of the Standard Oil Company was enlivened by so many threats of revenge that he took extraordinary precautions about appearing unguarded in public.

#### *How Mr. Rockefeller Employed His Profits*

It is worth noticing that these great profits were not being used for private purposes. They were going almost solidly into the extension and solidification of the business. Mr. Rockefeller was building great barrel factories, thus cutting down to the minimum one of a refiner's heaviest expenses. He was buying tank cars, that he might be independent of the vagaries of the railroads in allotting cars. He was gaining control of terminal facilities in New York. He was putting his plants into the most perfect condition, introducing every improved process which would cheapen his manufacturing by the smallest fraction of a cent. He was diligently hunting methods to get a larger percentage of profit from crude oil. There was, perhaps, ten percent, of waste at that period in crude oil. It hurt him to see it unused, and no man had a heartier welcome from the president of the Standard Oil Company than he who would show him how to utilize any proportion of his residuum.

#### *How the Railroads Kept Their Pledges*

In short, Mr. Rockefeller was strengthening his line at every point, and to no part of it was he giving closer attention than to transportation. With the enormous freight at his disposal, he demanded as a right the lowest rate. During this period—1873-1874—he had from the Central a rebate of from ten cents to forty-five cents a barrel—usually it was twenty-five cents on the open rate for refined oil to the seaboard. He was not the only oil shipper by any means that had a rebate, nor was the Central the only one of the railroads which had broken the contract of March 25, 1872. The Pennsylvania was giving rebates within two weeks after it had signed that document, and early in 1873 the Erie made contracts for rebates with some of the very men who had acted for the independent oil producers and refiners when they compelled the railroads to revise the South Improvement charter. It can safely be said, however, that Mr. Rockefeller's rebate was always as great, if not a little greater, than that of his neighbors; as it should be, so he would contend. Was he not the biggest shipper in the land?

#### *Mr. Rockefeller Meditates Plan Number Three*

It was not to be expected that Mr. Rockefeller, having reaped such rewards from his connection with the short-lived South Improvement Company, would give up the idea of combination because the National Refiners' Association had failed. As a matter of fact, he was

about to enter on a bolder scheme of conquest than either of the others in which he had been a guiding spirit in the last eighteen months.