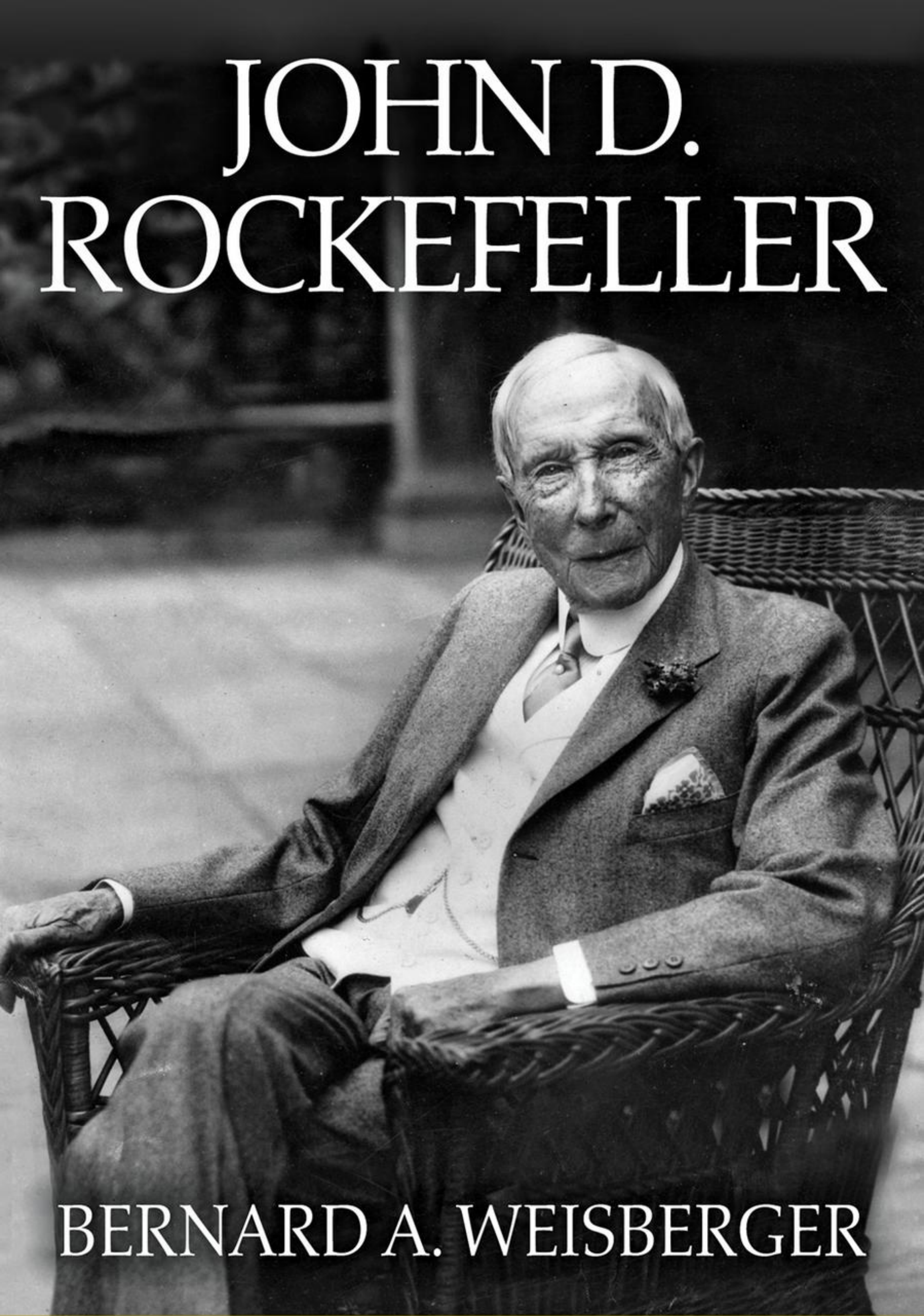
JOHN D. ROCKEFELLER



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The biggest business success story of the nineteenth century began in 1859 in the little Pennsylvania town of Titusville. There, a former railroad conductor and hotel clerk named Edwin L. Drake drilled the first successful oil well. Science had just discovered that petroleum was potentially much more than a thick, smelly black liquid sometimes used in patent medicines. Benjamin Silliman, a famous chemist on the faculty at Yale, had pointed out that refined oil yielded many possibly valuable products. Lubricating grease for machinery, kerosene for lamps, and paraffin for waterproofing were only a few of them. Petroleum was really liquid gold. When Drake showed how it could be extracted by drilling, instead of being laboriously scooped out of pools of seepage from the earth, an invasion like the gold rush began. By 1861, the Titusville area was packed with oil derricks, shanties, tents, and saloons. On every street, workmen in grease-blackened clothes jostled promoters and bankers in top hats. Men grew rich, or went broke overnight, as the big boom in oil roared on.

News of the oil region's progress was reported in newspapers across the country. In Cleveland, Ohio, the accounts were read by a successful young businessman doing well in wartime trade as a partner in the wholesaling firm of Clark and Rockefeller. But John D. Rockefeller craved something bigger. The oil industry attracted him. It was like a powerful giant, able to make an emperor out of a man clever enough to become its master. Rockefeller was convinced he was such a man.

Though still only in his twenties, Rockefeller had already learned a good deal about discipline and hard work. He was born in 1839 on a New York farm. His father was a man of miscellaneous and nondescript occupations who traded in salt, lumber, and horses, and later sold herbal medicines. He taught his three sons to enjoy bargaining and to get the most possible from it. John's mother, Eliza Davison Rockefeller, emphasized the virtues of working hard and saving money. A strict Baptist herself, she brought up her children to believe that whatever they owned came from the Lord. A tenth, or tithe, must always be paid back to Him in charitable gifts.

Young John worked hard and soon learned to make and save money. One of his first ventures consisted of finding out where a hen turkey was hiding her eggs. If he did so, he was promised, he might raise and sell the chicks. John concealed himself in the tall weeds near the barnyard and spied on the lady gobbler, until he tracked her to her nest. The money he earned was carefully put away in a blue china crock. Later on, his extra farm jobs helped to fill the crock. Then one day, he lent a neighboring farmer $50, and received it back, in due time, with $3.50 in interest. He had learned to let money work for him, even as he was working for money.

The family moved to Cleveland in 1853. John went to high school and then to a business school. He found that he liked commercial subjects, and especially bookkeeping. He was quiet and reserved, and one of his sisters was sure he was thinking of ways to get ahead. If it ever rained porridge, she said, John's dish would be sure to be right side up. Soon after completing his studies, he found a job with a firm of merchants where he kept books and did other chores for $3.50 a week. So frugal was he in his habits that within four years, he had saved up enough to go into business on his own with Maurice Clark. But even from his tiny starting salary, he regularly set aside at least a tenth to give to what he felt were deserving causes. He supported various organizations trying to improve the lot of blacks, and made regular donations to Catholic charities as well as to the funds of the Baptist church that he faithfully attended.

In 1863, Rockefeller began his close study of the oil business. At the time, oil was more of a game than a business - and a very risky one. Just a few lucky finds by "wildcat" drillers would bring a flood of oil out to market and prices would tumble. Then there might be a spectacular fire that would wipe out a few wells, or some trouble would develop over hauling barrels of oil to the rail depots. The result would be a shortage of oil and prices would rocket overnight. The railroads that ran into the fields were competing frantically for the freight, and their rates bounced up and down wildly. One day it would be cheapest to ship oil to Pittsburgh, the next day to New York, and the day after to Cleveland. Long-range planning was impossible. Oil refining. Rockefeller learned, was an easy business to get into - equipment cost little. But it was also easy to lose one's shirt.

Rockefeller was no gambler, yet he found a friend who possessed some capital and was skillful in chemistry and mechanics. John D. induced this man - Sam Andrews - to join him, along with Maurice Clark and Clark's two brothers, in starting a refinery. Why did Rockefeller take the plunge? Because he could, in the words of an associate, "see farther ahead than anybody else and then around a corner." The market for oil products would be as limitless as a growing country's needs.

Cleveland, close to the oil fields and with good rail and water connections to the industrial markets, was an ideal refining center. Oil had a future in Cleveland, if it could be put on a sound business basis. This would mean stabilizing prices, transportation rates, and output. To tame the wildcat, competition would have to be controlled or eliminated. Some company would have to seize leadership by superior strength and organization and keep that leadership by constantly exerting pressure on other refineries, or absorbing them if necessary. This became Rockefeller's long-term goal. His initial objective, in 1863, was the conquest of Cleveland; it took him nine years.

He began by a hard-driving campaign to become the best refiner in the city. This involved heavy borrowing. Cleveland bankers were willing to deal with the pious and persuasive Mr. Rockefeller, and he used their money to expand. He bought a second plant, built warehouses, gathered in tankers and wagons, started the manufacture of barrels, and even bought timber lands to guarantee a supply of wood. The Clark brothers, who lacked the nerve for big-time investing, were soon persuaded to sell out their share of the business. Rockefeller brought his own brother, William, into the firm (renamed Rockefeller and Andrews) and sent him to New York to look for foreign customers. But still more money was needed. In 1867, Rockefeller invited into the company Henry M. Flagler, a wealthy Cleveland merchant as hardheaded as John D. himself. Other investors were attracted, and by 1870, Rockefeller felt it was time to incorporate his business and sell shares of stock to raise the capital. The Standard Oil Company of Ohio was created, and 10,000 shares were offered at $100 each.

By that time, Rockefeller's tight control of the business of making and selling refined oil from the well to the customer was already showing impressive results. As early as 1865, Rockefeller and Andrews were refining 500 barrels a day, more than any of the thirty other Cleveland refineries. By 1870, the figure was up to 3,000 a day, an amount that gave Rockefeller the chance to make his biggest move up to then.

First, he went to the Lake Shore Railroad (controlled by Vanderbilt's New York Central) and promised to give up shipping oil products by water and to provide sixty railroad carloads daily, in return for considerable rate reductions by the Central-Lake Shore management. This gave the railroad the advantage of regular oil traffic, and gave Rockefeller an extra edge on other shippers of refined oil. Next, he entered another railroad deal - this one devised by a railroad president and carried out in the utmost secrecy. (Rockefeller did not disapprove the principle of the arrangement; he considered it too limited in scope.) Under this plan, Standard and several other leading Cleveland refineries would agree to divide up all their traffic evenly among the three main railroads serving the city - the Pennsylvania, the Erie, and the Central. In return, the refiners' combination (chartered as the South Improvement Company) would receive rebates, or kickbacks, on the freight rates charged for their oil and also on oil shipped by refiners outside the combination. In addition, member firms in the South Improvement Company would receive information on all shipments of their business enemies. Those not in the combine would be hard put to survive.

Such arrangements have a basic unfairness about them, given our present belief that railroads, as common carriers, should deal equally with all customers. But railroading is also a business, and in the 1870s, it was a savagely competitive one. The roads themselves welcomed, and often initiated, such arrangements to even traffic by rewarding, with rebates, those who would agree to furnish regular shipments. As one railroad man put it in testimony before a Senate committee, "A man may say, 'I can give you so much business.' If you can depend on that you may make definite arrangements accordingly." Railroaders got the blessings of regular planning from such "evener pacts" - and were not concerned about the disadvantages experienced by shippers who were not participants in them.

As it happened, news of the South Improvement Company plan leaked out. There was such public outrage and fury at the prospect of a big refiners' pool squeezing out smaller independent firms that the plan was dropped.