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OIL MONOPOLY.

Birth and Progress of the Standard Oil Co. A Story of Business Tact and Careful Daring.

How a Day Laborer Achieved Triumph and Became a Millionaire.

In the latter years of the war, when the demand for petroleum suddenly became enormous, oil refineries suddenly sprung up all over the country and for a time made money. But the business was new. The laws of it had not been learned, and could be learned only by costly experience. The operators did not know how to refine oil, and the experiments in solving the problem of getting the most and best kerosene from crude petroleum were the ruin of many who went into the business. Besides, there was nothing like system about it. There came to Cleveland, Ohio, in those early days a young Englishman, Samuel Andrews by name, and a day laborer in refineries by trade. He was so poor that his wife took in sewing, and the family lived on a shilling a day. But the husband had a notion or two about refining oil, and he managed to set up a little ten-barrel still in the outskirts of Cleveland. He worked in his shirt sleeves day and night, and went home with greasy hands and his face begrimed. The notion that he had was a sound one. He found that he could get more and better oil by his process out of a barrel of crude than any other refiner, and get it cheaper too, and in six months he went home wild with delight one night and told his wife that he had found his profits to be \$500. Then he borrowed a little money and set up more stills, and found that he was making money hand over fist. There lived at this time in Cleveland

A Young Man of Thirty,

who began life as a bookkeeper somewhere on the Cuyahoga River. He was a plodding fellow, and was thought rather dull, but he knew how to keep his money when he got it, and was able in a few years to run a little flour store on River street, in Cleveland. Here, by the steadiest kind of drudgery and plodding, he added to his little property, and one day that Andrews called on him he had a few thousand dollars to the good. Andrews told him that there was money in oil refining, and suggested that they join forces. The young man always thought before he spoke, and it sometimes took him a good while to make up his mind; but, once made up, it seems that it was made up to last. He decided after much thinking to embark with Andrews, and the firm of Andrews, Rockefeller & Co. was started with a few thousand dollars capital. Thus the Standard Oil Company was begun. Today, John D. Rockefeller, the same young man then thought dull, is worth \$5,000,000, and a few weeks ago the English

laborer, Andrews sold his interest in the Standard for \$1,000,000, and during the summer subscribed for \$500,000 of the United States 4% bonds, paying for them with a portion of the income he had previously received. In those early days, however, the Standard was a bantling, and older refiners and businessmen were inclined to smile at the presumption of this grocer and laborer. The Standard held its own, however. Refineries started up East and West, and became strong or went under, while the Standard in a year or two got the reputation of making as much money as the best of them. In the years '68, '69 and '70 there were too many refineries for the business. So much money had been made that capital had been attracted to it, and

The Competition Was Ruinous.

But Andrews' practical management and Rockefeller's patient intention to the most trifling details of the business kept the Standard on its feet. It must have been about this time that Rockefeller saw the chance there was. Some visionary capitalists had conceived the idea of buying up all the oil lands in Pennsylvania. Speculators in Titusville and Oil City bought land right and left. Rockefeller's idea was, not to buy the oil territory, but to control it; and he believed he could do that without a penny's direct outlay. He saw that nature favored such a project, for almost the entire production of the world was confined to a comparatively restricted space in Pennsylvania. It wasn't like cotton growing, or grain harvests, spread over boundless stretches of country. Therefore, effort and plans could be concentrated. Then Rockefeller saw that the men who were sticking wells into the earth and selling oil right and left, were, as the Boston gentlemen had said some years before, acting on no sort of business principles; and accordingly they were in no condition to thwart any skillful plan for the control of their business. His agents made inquiries in New York. Scientific men told them that the bowels of the earth Western Pennsylvania were vast tanks containing oil enough for ages. Europe had learned that American oil burned like gas, and was cheaper than tallow dips, and the peasants were demanding it. Already it gave signs of becoming one of the chief staples of export of the United States. "Here is the chance," was, in effect, what Rockefeller said to his business associates. "The business is all chaos. It is bound to be immense. If we step in now quietly before the public knows what we are doing, and work quietly, we can control the petroleum business of the world." Meanwhile the Producers were selling all the oil they could pump, and living in clover, without a thought for the morrow, while this little cloud, then no bigger than a man's hand, was just appearing over the Cleveland bluffs that stand out into Lake Erie.

The First Fine of Attack

that the Standard appears to have adopted was the capture of the small refineries, and they went to work at it in a systematic and businesslike way. Some they bought out; some, it is said, they squeezed out, whether in the manner subsequently adopted on a much greater scale, and to be described hereafter, is not known, for this was from eight to ten years ago. But in a few months' time the Standard had greatly strengthened itself by this policy, and was able in a year or two to feel confident of its control of all Cleveland refineries, and to make attacks on strong concerns outside. The leading house of Warden, Frew & Co., of Pittsburg capitulated, and its members were brainy enough for the Standard to want their aid; so they became a part of that company, and outside refiners, especially East, began to realize that a formidable rival was looming up in the West. The blue barrels of the Standard

began to appear in every grocery store of the country. In 1871 the Standard was strong enough to make a bolder move than it had yet done. All of its previous work had been carried out so quietly that hardly any one realized its strength until the organization of the new company, which was to carry out the final step in the great scheme of controlling the petroleum trade of the world.

The New Standard Oil Company

was organized with about \$500,000 of capital. John D. Rockefeller had \$100,000; H. V. Harkness, \$100,000; H. M. Flagler, \$25,000; Samuel Andrews, \$60,000; William Rockefeller, \$50,000; W. H. Bostwick, \$50,000, and O. H. Payne, son of ex-Congressman Payne, \$50,000. There were other stockholders who had smaller amounts. The company was in grand shape for the last step, as it hoped, before its scheme was realized, that step being the control of the famous *South improvement Company* of Pennsylvania. Peter H. Watson, once Assistant Secretary of War, and for a time President of the Erie Railway, gave John D. Rockefeller, President of the Standard oil Company, the hint, by which the absolute control of the petroleum trade of the world was to be secured. These two men got their head together some time in 1871. Watson was an expert in railroad management; Rockefeller had made himself feared by every oil refiner in the country, and had brought the little Standard Oil Company of Cleveland in five or six years to a position where it could dictate to the trade. He had arranged all of his preliminary plans well and carried them out thoroughly. He said, in fact, to the great refiners of Cleveland and Pittsburg; "*Gentlemen, we propose to take your business. We propose to buy you out, and will pay you cash or stock in the Standard.*" If the business gentlemen thus addressed resented this dictatorial manner, the Standard Oil Company took no offence. It simply said:

"Sell Out; Join Us or be Crushed Out;"

and it got hold of enough of the big refining interests in this way to squeeze the others. But with the smaller concerns few words were spent. They were offered so much for their establishments, and there are men now in other business who get very ugly when they speak of what they felt was the arrogant assumption of the Standard in calmly telling them: "*We pay you so much for your business. If you don't choose to take it, you must take the consequences.*" It was at this time that a prominent counsellor of Ohio said of it: "The Standard has been fostered and fostered until its managers have become dictators and possessors of princely fortunes by the ruin of all competitors." Before 1872 there were a dozen large refineries in Cleveland, with a crude oil capacity of 15,000 barrels. The Standard whipped all these into line, consolidated some, let the works of others stand still, and at last they were in undisputed possession of the field. Now the method of crushing out a rival was simple, as described to the writer. "I'll take the case of Galesburg, 111," said a gentleman. "Rival refineries were selling oil there at the market rate. An agent of the Standard appeared and offered Standard oil at half a cent, one cent, two cents—any price below the market rate. Of course the Standard got the trade, and the business of the other refinery crushed." So in one way and another the Standard was a strong team in 1872, doing an immense business, and was ready for its strike for the control of the export trade. New York refiners had allowed it to get its great strength, because they did not see how it would be possible for refiners at Cleveland, 150 miles west of the oil regions, to come into any ruinous competition with them for the export trade.

Rockefeller and Watson Combine Forces.

Watson knew how it could be done. How he and Rockefeller came together is not known, but his scheme led to a good deal of activity. Between them both they discovered how they could lay down refined oil in New York and Philadelphia, and sell it even at an apparent loss, and yet be getting profits to the extent millions, and at the same time controlling the trade. There were numerous conferences. Rockefeller met Watson in Cleveland, and Watson met Rockefeller in New York. Hints of what was coming reached Cleveland, and a prominent newspaper man called upon Rockefeller. He found that although he and the President of the Standard had grown up together, he now had met a graven image, so far as talk was concerned. Then he said that unless he had an explanation he should be obliged to publish the rumors that came, and then he was told that the scheme was one that would be beneficial to all. It would help the producers, the refiners and the consumers, because it would steady trade and stop over-production at the wells and over-production at the refineries. Early in February 1872, a little rumor started in the Oil Exchange at Oil City, and before night had spread to every part of the oil region. The rumor was that the railroads that reached either by main line or feeder into the oil region had come to an agreement and had bound themselves by it to advance the freight on crude and refined oils from the oil region to the seaboard. The Producers were then pumping and drawing out 16,000 barrels of oil a day. Spring was coming, the market was already depressed, and operators ran and telegraphed hither and thither. The instinct of union for self-preservation came to them, but when two or three days passed by and there was no confirmation of the rumor, they settled down to their old ease and thought the story was started to bear the market. A week or so afterward there circulated another rumor. A businessman, who said he knew what he was talking about, told the Producers that a company, with the singular name of

The South Improvement Company,

had bought the right to ship every barrel of petroleum produced, and that an immediate advance of 50% was to follow, and later a still higher rate. The project seemed so absurd that producers laughed at it, though some of the shrewdest of them scented danger. "There's a nigger in the woodpile, gentlemen," said Captain Hassen, a clear-headed producer of Oil City, "and he'll show his head soon." The head appeared soon after. A telegram reached all railroad agents simultaneously, announcing an advance of 100% on all freight charges. There was no doubt about it this time. "My God!" said Captain Hassen, "It'll paralyze the trade and ruin the oil country." The people of the North did not rise more suddenly after Sumter than did those producers of oil. They could scarcely be restrained from violence. They suspended business, and held excited meetings. In every town and village preparations were made for resistance. "What can we do?" asked a timid operator in the Oil Exchange. "Do! man," was Producer Patterson's reply. "Do? We own the wells. We can prevent their having any oil at all. We shan't lose so much money in that way as in what they purpose." In the town of Tidioute, a mass-meeting was called. It was densely thronged by maddened producers, and they determined, without dissent, to shut down their works and never begin until old rates were restored or a new route opened to the seaboard. Another mass-meeting was called at Titusville "to consider," to quote from the resolutions, "the necessity of constructing a railway from Erie, by way of Titusville, into the oil region, connecting with water communication to New York." These producers meant business, for when the Titusville

meeting was held they were ready with plans and surveys for railroads to the lakes and to Southern trunk lines not in the combination; and these were accompanied with careful estimates of the cost. They would have organized a company, subscribed the capital, and gone to work on the spot. Many of the refiners of the oil region acted with the Producers, for the Standard had not at that time absorbed the whole refining interest there. The success of the railroad scheme meant death to them. It required pluck and skill to control some of the Producers, and to get order and system into a business which every man had conducted on his own hook. Without perfect union the Producers were helpless; and they were within an ace of becoming a mob.

The Producers' Union Formed.

But they were held and organized into a Producers' union, with a capital of \$1,000,000, and a mutual pledge with a view of controlling the sale and transportation of their oil. The Legislature was in session at Harrisburg at the time, and a strong and determined body of producers went there. They said they hadn't come to fool, and did not propose to be overridden by the Pennsylvania Railroad ring. They wanted a tree pipe bill, and were going to have it. Word reached Harrisburg of the great excitement in the oil region, and the danger of any temporizing by the Legislature, and in three days the producers' committee went home with a copy of a free pipe bill, passed by the Assembly and signed by the Governor, in their pockets. Meanwhile the producers had found out just what the secret combination was, and they went straight to Washington with their troubles. They told Congressmen that it was a compact by the side of the possibilities of which Credit Mobilier was a small thing, for it was possible under it for the railroads and any combination to control every great exporting staple of the country; so Congress granted them the investigation they asked. Some years before, when the Pennsylvania Legislature were peddling out special charters granting great privileges—among others they passed one of extraordinary privileges, which allowed the corporators to do almost every kind of business, and this charter, Sam Moon, the legislative agent of the Pennsylvania Railroad, with others, owned. Peter H. Watson heard of this charter, called upon Moon, and read it. It was just what he wanted. There was nothing in his way that he could not do under it, and for a consideration Moon transferred it to him. Watson, with this in his pocket, got to Cleveland, and closeted himself with John D. Rockefeller. The grim President of the Standard was too slow for the nervous Watson, but Rockefeller never did anything in a hurry. He never moves until he sees his path as clear as daylight will show it, and he wanted time to examine this apparently intricate charter.

The Railroad in League with the Monopoly.

Watson assured him that under it every barrel of refined oil shipped could be controlled, and that by it a system of rebates could be obtained from the railroads which would kill every outside interest. Rockefeller at last made up his mind. He saw that Watson was right, and on January 2, 1872, the corporators met in Philadelphia and organized. Among them were John D. Rockefeller, T. A. Bostinck, William Rockefeller, O. H. Payne, H. M. Flagler, W. G. Warden, Charles Lockhardt, William Frew—every one heavy shareholders in the Standard Oil Company. When the producers found this out, they learned who their enemy was. "Gentlemen," said Captain Hassen, "you've got the Standard Oil Company to fight. They are the men who are doing this thing." The producers soon learned that this South Improvement Company had made secret contracts with all railways leading from the oil regions to the

seaboard, by which, in addition to the 100% advance in freightage, there was to be an average rebate or drawback to the members of the monopoly of \$1 a barrel, and this was to be allowed to them not only on all oil shipped by these persons, but also on all oil shipped by everybody else. That is, Rockefeller & Co. were to get a rebate of a dollar a barrel on every single barrel of oil carried, no matter for whom. The aggregate of this would have amounted to \$7,000,000 a year—this item alone in the carrying trade; but it would also lead to a monopoly of the entire refining and marketing of oil, a business then amounting to a little short of \$100,000,000 a year. “Prove such a contract,” said the attorney of the Producers, “and we send every one of them to State Prison for conspiracy.” “We are going to prove it before a committee of Congress,” was the reply. Producers say that the attorneys of the South Improvement Company told the gentlemen who had secured the contract that under it every one of them, and the officials of the railroads who had signed it were liable to indictment for conspiracy.

The Groat Fight of '72.

But President Rockefeller had managed stubborn refiners before, and brought them to their knees. When expostulated with concerning the contract that the South Improvement Company had with the railroads, he said that he did not propose to make any war upon the producers. He even intended to make an agreement with them, by which they were to receive for the crude oil a price proportionated to the market rate of refined. The producers sneered when they heard this proposition. “What!” they said. “He will make no war on us if we agree to his terms. That isn’t the way we do business in a free country.” Then Mr. Rockefeller and those associated with him saw that the producers were not only goaded to madness, but also had put out their money like water to defend themselves; had tent committees to Harrisburg whose determination had cowed the Pennsylvania Assembly; had sent a committee of stern men to Washington, and Congress had granted them an investigation; were holding mass-meetings everywhere, and creating an irresistible public sentiment—all this, together with the knowledge that their contract with the railroads was said to be illegal, showed the Standard people that they had gone too far, and so there was thrust from the Cleveland office a white flag. The Producers were asked to meet them by committee in New York. The producers and refiners had published their ultimatum: “All oil must be shipped through the Executive Committee of the Producers’ Union; and equitable rates of freight must be established, with no drawbacks. If the railroads cannot be induced or compelled to cancel their contracts with the South Improvement Company, in ninety days we will have a line of our own running to water communication with the seaboard.” Agents of Rockefeller, who

Travelled Secretly Through the Oil Region,

reported daily to him the state of feeling, and at length there came word that the producers had carried the war into Africa. They made a strong effort to bring the New York, Boston, Philadelphia and Baltimore refineries into their movement, and telegraphed to them the following message:

The petroleum producers ask your co-operation by refusing to buy any oil or sell any person or persons in any way connected with the South Improvement Company.

Every exporter who was not in the Standard combination promised to help the Producers in this way, for it was a matter of life or death with their business whether the South Improvement scheme succeeded or not. Meanwhile the whole scheme was being laid bare by the Congressional Committee, and when the newspapers published the contracts there was a burst of indignation all over the country. Heavy shippers in other lines, such as grain and lumber, saw that the success of the scheme made it only a question of time when all the great staples freighted to the seaboard would be similarly controlled by a little ring of railroad managers and a single corporation. Gentlemen now tell of how the members of the combination evaded and struggled when pressed by the Congressional Committee to tell all the facts, but they had to do it and produce the contract, which Representative Conger said "was the most damnable and startling evidence yet produced of the possibilities of railroad monopoly." Peter H. Watson barely escaped committal for contempt, and only saved himself by producing the contract. His explanations, he was told while on the stand, were foolish exhibitions of disingenuousness, for he deliberately asserted—although a lawyer—that a verbal contract could alter the meaning of a written one. This was when pressed for an explanation of how it was possible for the South Improvement contract not to injure producers and he said that the company had a verbal understanding with the railroads that the contracts were not to go into force until arrangements had been made with the producers. Watson admitted the fearful excitement that the South Improvement contract had caused in the oil regions, and that the life of no one concerned in it would be safe in that region; also, after great pressure, he admitted that had the scheme been carried out nobody else could have shipped oil, because the South Improvement Company was to have a rebate greater than that allowed to anyone else. When asked whether, with this secret and exclusive rebate, the South Improvement Company could not have bought oil and shipped it on terms that nobody else could compete with, he waited a long time before giving a direct answer, but at last admitted that such would have been the case. He would not admit, however, that by such an arrangement the producers were entirely at the mercy of the South Improvement Company. And yet the contracts showed that the South Improvement Company had the advantage of 40 cents a barrel to Cleveland and Pittsburg, and \$1.06 to New York, Philadelphia and Boston, on crude oil—while on refined there was an advantage of 50 cents to New York and other seaboard cities. It was developed at this time that

The Erie Had Been Giving Rebates

and that there was no doubt that the Standard got them, and this explained why the Standard had been able to carry on a winning fight with outside refineries. That was why no refinery could live in Cleveland. W. H. Doane, a large Cleveland dealer in oil, said that crude oil went down from \$4.15 to a fraction over \$3 a barrel, and without corresponding advantage to consumers; and for this state of affairs he held the Standard Oil Company to blame. It had stagnated business and thrown thousands out of employment. He said the Standard had bought up or crushed out all refineries that it could then reach. Mr. Alexander of Cleveland told how his refinery had been crushed by the Standard. He knew that the Standard had been getting rebates, thus giving them power, and when he tried to get the same the railroads told him they would give it when he shipped as much oil as did the Standard. "A pressure was brought to bear on us," he added, "that if we didn't sell out we'd be crushed out, and I knew the Standard could do it. They said they had a contract with the railroads by which they could crush us if they pleased. I was obliged to accept their terms.

My refinery cost \$150,000, and I had made money, but I was obliged to accept \$65,000, and the concern passed into the hands of John D. Rockefeller.”

How the Railroads Were Whipped Into Line.

It was developed that the means by which all the railroads were whipped into line were something similar to those by which refineries were crushed. With the Erie road there was no question but that the contract with the South Improvement Company would be carried out. So when the officials of other roads were visited, it is believed they were told: “Gentlemen, sign this contract or we ship all our oil by the Erie; you won’t get a barrel.” Several of the newspapers have insisted that there was added bribery as an extra inducement, and have never been called to account for the assertion. At all events, President Watson showed the Congressional Committee contracts with the Pennsylvania Railroad Company, the New York Central, the Erie and the Atlantic and Great Western. The contracts provided that the secret rebate to the South Improvement Company for freights to New York, Philadelphia and Boston on crude oil should be \$1.06 per barrel, and on refined from 50 cents to \$1.32, and that this rebate should also be allowed to the South improvement Company on all oil shipped by anyone else! The fund that such a pool would have made footed up to about \$7,000,000 a year. It is believed that the pool was to have been managed by a trustee, and the proceeds divided pro rata. In Pennsylvania it was at the time openly asserted that some of the officials of the road were to be pecuniarily benefited by the arrangement. The Committee appointed by the Producers and Refiners found when they got to Philadelphia that the railroad managers were decidedly willing to treat with them. They had met first of all Colonel Scott of the Pennsylvania Railroad, who was so courteous as to seek out the committee at their hotel. He was suave and the committee dignified and determined.

Tom Scott Interviewed.

They told Colonel Scott that they wanted him to fix the lowest maximum rate for freight that should apply equally to everyone, and he did so. In New York they met Commodore Vanderbilt, and he seemed to take great interest in them. He told them in his bluff way that they were quite right, and if all they asked was a tariff without rebate that would pay a fair profit to the railroads, he would do all he could to help them. He showed them an offer from the South Improvement Company looking toward co-operation. “No, sir,” said Captain Hassen, “we decline to treat with that concern or anyone connected with it, and we refuse to recognize its existence.” They met Jay Gould, then of the Erie road; Horace Clark of the Lake Shore, and General McClellan, then President of the Atlantic and Great Western. The New York and Boston refiners were with them, and, to put it in a few words, they left New York with what they regarded as a fair contract with the roads, signed by the officials and themselves, and they brought back proof to the oil regions, further, that the contracts with the South Improvement Company were cancelled by all the railroads, and that the great scheme was upset. Therefore, Congress dropped the investigation, and the Producers celebrated their first great victory over the Standard Oil Company. Looking back now over the history of the oil trade, it is easy to see that, had the South Improvement contracts remained in force, the company would not only have received \$10,000,000 a year back from the railroads on freight charges, but with this immense sum it would have been enabled to crush out every rival refinery at the seaboard, because the company could have sold oil at an

apparent loss, and yet be making a princely profit; and it would at once have been the only buyer, because the only user of crude oil, and therefore the only exporter of an article whose extort value was in the neighborhood of \$100,000,000 a year.

The Second Great Fight.

Such is the history of this great monopoly up to its first rebuff. How it recovered itself and why the Producers are now for the second time arrayed against it in a deadly struggle, I have yet to tell you. The story is a long one, full of episodes and dramatic incidents, exhibiting a superb amount of business tact and nerve on the part of this little company of men. Briefly I may sketch its outline. After its defeat President Rockefeller kept cool, and things went on swimmingly for a while. By and by the Standard oil again began to appear in places where there were other refineries, and to be sold way under market rates. The company was selling, too, in the open market at a rate upon which there was no possible chance for profit at the open rates for freight. The refiners outside felt sure, therefore, that Mr. Rockefeller was again getting rebates from the railroads, but that he had been shrewd enough this time to leave no loophole for exposure. On a shipment of 30,000 barrels a day, at an open rate of \$1.40 and at a rebate of 60 cents, it was easy to see where the Standard's profit came from. It was not long before every refinery in the country, with one or two exceptions, gave up the fight. Many of them, it is asserted, the Standard simply destroyed; others they consolidated. Next, it is charged, they got the United Pipeline under their control—a line that Producers are absolutely dependent upon for getting oil to cars from wells. Then they built and run all the tank cars used for carrying crude oil to refineries. Here was another chance for limitless profits. Owning their own tank-cars, they could run them with crude oil to the seaboard, instead of to Cleveland. They were again in a position to dictate the price to the railroads. Thus the company practically got control of the entire trade. There was no other buyer to speak of, although there is money enough in refining to flood the market with buyers were it not for the secret rebate. Given only one buyer, and he pays pretty much what he pleases when there are 5,000 sellers. Meanwhile the Standard is a second time confronted with failure. If the result of the future hearing will be the enjoining of the Pennsylvania Railroad from discriminating, and should the charter of the United Pipeline be hereafter taken away, as is now threatened, the producers will have gained their second victory. Failing that, I do assure you that there are open threats that the producers mean to take the law into their own hands.