Digital History
www.digitalhistory.uh.edu

# Chapter 2
# Rockefeller's Millions

*I had no ambition to make a fortune. Mere money-making has never been my goal; I had an ambition to build.* — *John D. Rockefeller*

A little over one-hundred years ago most Americans lived in small villages or worked on the family farm. They depended mainly on themselves for their food, and they did not spend more than a few hundred dollars a year. Even workers did not labor in large factories but practiced some kind of skilled trade in small shops catering mainly to people who lived in the same town or county. Generally, they knew the people who purchased the things they made, and they took pride in what they produced.

Today the face of America is quite different from what it was so many years back. Few of the products we eat, wear, or use are made anywhere near our homes. We are dependent on businesses and workers in other states and even other countries to supply us with the necessities of life. We no longer live in small villages, and few of us are farmers. Even our local drug stores and food markets are part of national chains that are dependent on loans from large banks and on a huge network of roads and rails to get their products to us. While we undoubtedly enjoy better food and more of life's luxuries than our forefathers, we may occasionally bemoan the fact that impersonal corporations rather than local workers supply these to us. Life has become much more complicated; we feel ourselves far too dependent on people whom we don't know, and we miss the many personal contacts that have tied us to the people who supply our needs.

This incredibly complicated series of changes, which has altered not only our lives but the lives of many of the people throughout the world, began in earnest sometime shortly before the Civil War. During the 1840's, Americans began to tie their nation together in a huge network of railroads. These railroads made it possible for businesses to produce for a national rather than a local or regional market. It also made it possible for the great efficiencies of mass production to bring us cheaper goods from all corners of the country. As businessmen began to produce for national markets, they were able to expand in size to the point that fewer and fewer companies were needed to produce the necessities of life. Even our definition of what goods were necessary to live changed very radically. For instance, where at one time people were content to light up their homes with candlelight, they later became dependent on whale oil, and then the kerosene lantern, and finally the electric light bulb. Each of these improvements was made possible by a huge network of changes in the methods of producing power, refining oil into kerosene, and manufacturing such products as copper wire, tungsten filaments, and glass bulbs.

The use of kerosene as a means of lighting our homes was only one of the many thousands of small changes that accompanied the Industrial Revolution in the United States. Yet, this single example had important effects on the methods of doing business and the rules of fair competition. It gave rise to a powerful monopoly, organized and controlled by John D. Rockefeller. In studying the rise of Rockefeller's monopoly in the refining and transportation of oil, we will come to better understand the process of organizing businesses for national markets that was taking place throughout the United States and the Western world. We will learn not only how businessmen succeeded in providing for the needs of America, but also how they were able to destroy those who competed with them in meeting these needs.

And, finally, we will begin to understand some of the difficult problems we face today — how to enable energetic and talented men like John D. Rockefeller to harness the forces of nature so that they serve us and not exploit us. This unit traces the career of one man in one industry. By shedding light on the techniques he employed, we will be helped to understand how a whole generation of equally talented industrial giants changed the face of the nation and came to accumulate great wealth and power in the process.

## The Early Days of the Oil Industry

In the 1840's whalers from New England roamed the seas in search of the creature of the deep who provided the oil that lit lamps in millions of homes. The discovery by a Canadian geologist that an equally efficient illuminate could light these lamps by distilling kerosene from oil ended the importance of the whaling industry. The search for whales was replaced by a search for oil. This substance had often been seen leaking from the surfaces of the earth in the western parts of Pennsylvania. There, in 1859, 'Colonel Edwin Drake sank the first oil well some sixty feet into the ground. Drake was able to extract, store, and finally sell some $500 worth of this substance every day, an amount that represented an average man's yearly salary. The boom in this part of the country was not interrupted by the guns that fired at Fort Sumter or the bloody Civil War that followed. Hundreds of men made their pilgrimage to the western parts of Pennsylvania. Forty-niners who had failed to find their fortune in California some ten years earlier came to try their luck. Men experienced in drilling for salt sought to make far more money in oil. Young farm boys left their homes with a team of oxen and a wagon to haul the 'black gold' to railroads some twenty miles from the fields. All were looking for the miracle of instant wealth and were lured on by tales of easy riches.

As money was sunk into oil, quick fortunes were made. Farmers charged thousands of dollars for the privilege of sinking wells on their land. Claims were jumped. Empty holes were filled with oil and sold as good wells. Men drilled at an angle in order to draw oil from the underground pools beneath their neighbor's property. Teamsters charged hundreds of dollars to haul heavy barrels of oil to the railroads and then tore up pipelines designed to circumvent having to pay these bills. Armed guards were hired to protect private property.

The price of oil rose and fell. A 42-gallon barrel of oil once sold for $20. Two years later, the same barrel sold for $12.00 and six months later for 10 cents. When prices fell, hundreds of prospectors were forced out of business. When prices recovered, quick fortunes were made.

**John D. Rockefeller**

## John D. Rockefeller in the Oil Business

John D. Rockefeller wisely avoided the oil rush of the early 1860's. He also avoided serving in the Civil War. Born in 1839, Rockefeller quit school and began to work at age 17. His mother was a religious woman who attended church regularly and insisted her children do the same. His father, a jovial bigamist, lived by his wits, disappearing for months in a row, engaging in a number of businesses, including selling patented medicine cures for cancer. The father sharpened his son's wits by lending him money at 10% interest, and took a delight in cheating both him and his brother William. John learned bookkeeping in high school and never attended college because his father was engaged to another woman and could not afford to educate his son. Although he had hoped to become a minister, John enthusiastically entered the business world. As a $25.00 a month bookkeeper, Rockefeller began the practice of donating one tenth of his salary to the church, saving most of the rest, and teaching Sunday school. Over his lifetime he had given away

$530 million dollars (many billions by today's standards), and though he was once the richest man in the US, he died with an estate worth less than $27 million.

In the year that Colonel Drake drilled his first oil well, John D. Rockefeller and a partner set up a business buying and selling farm products. During the Civil War, they made a small fortune selling flour to the Union army. By 1863, Rockefeller was ready to go into a new business. After careful investigation, he decided to start refining oil. With crude or unrefined oil selling for 40 cents a barrel in Pennsylvania and kerosene selling for 40 cents a gallon, Rockefeller thought that he could make a fortune by processing or refining the oil. He would thus avoid the wildcat speculation in the oil fields and seek to make money in the more predictable business of distilling oil into kerosene.

Rockefeller was also determined that his business would not be a shoestring operation. He planned to build an efficient and modern plant equipped with the best machinery money could buy. Furthermore, Rockefeller planned to cut expenses in every way possible. Rather than pay a plumbing contractor to build his plant, Rockefeller hired his own plumbers. Rather than buy oil barrels at high prices, Rockefeller hired workmen to make his own. Rather than buy the wood needed to make the barrels, Rockefeller bought an entire forest. When he learned that it cost him too much money to haul the green wood for barrels to his shop, Rockefeller had kilns built in the woods and brought in the cured and (therefore) lighter lumber. Rockefeller himself arrived at his shop at 6.30 in the morning to supervise his workers and often lent a hand in order to speed production. He took great pains to see that there was no waste. No detail was too small to escape his sharp eyes. Savings of only a few cents per barrel would eventually be translated into millions of dollars in profits.

Rockefeller wanted to know:

*« Last month you reported on hand, 1119 bungs*. 1o,ooo were sent you beginning this month. You have used 9,527 this month. You report 1092 on hand. What has become of the other 500?»*

*Small cork used to close a barrel

Rockefeller's care and shrewdness soon paid dividends. In 1865 he was able to buy out one of his partners for $72,000. Together with his brother William and with Mr. Andrews and Mr. Flagler five years later, Rockefeller formed a corporation. This corporation, Standard Oil, was worth one million dollars at the time of its founding, and evolved into Eastern Seaboard Standard Oil (Esso) and is now known as Exxon.

This huge organization earned over $790 million profits by 1906 and made the name Rockefeller synonymous with wealth and power. Indeed the family has prospered over several generations with grandson Nelson having been governor of New York for sixteen years and Vice-President for two, and Nelson's son Jay, governor of and later senator from West Virginia. Another grandson, Winthrop, became governor of Arkansas, and yet another, David, president of the Chase Manhattan, the Nation's third largest bank. A granddaughter served on the governing board of the Rockefeller Foundation which dispenses about $400 million a year in charitable contributions. In addition to the foundation, the more noteworthy contributions of the Rockefeller family included the University of Chicago, Spellman College, the restoration of Williamsburg, Virginia and numerous medical schools. Eighty percent of the Rockefeller wealth went to advance medical research and to build medical facilities over the entire world.

Among the more important family holdings was Rockefeller Center in New York City, which was later sold to Japanese investors.

| Descendants of Standard Oil in 1986 | | | |
|---|---|---|---|
| Original Name | Now called | Value ( in 1986) | Size* (in 1986) |
| Eastern Seaboard Standard Oil (ESSO) | | 70 bil | # 2 US |
| Standard Oil Company of New York (Socoy-Mobil)❋ | * | 45 | # 5 US |
| Standard Oil company of California (Calso ) | | 24 | # 10 US |
| American Oil Company (Amoco) | | 18 | # 13 US |
| Standard Oil Company of Ohio (SOhio) | | ? | ? |
| Atlantic Refinery (now with Richfield Arco) | Arco | ? | ? |

[2]

## Rockefeller in 1870

In 1870, the millions which Rockefeller would earn were still far in the future. Then, in Cleveland, he faced a difficult situation. Although his refinery was the largest and most modern in the country, he was faced with cutthroat competition and his success certainly was not a foregone conclusion. The industry had the ability to refine three times as much oil as was demanded. The presence of so much more supply than demand threatened to bring prices down to the point that no refinery could make money. All this competition, Rockefeller believed, was wasteful, inefficient and foolish. He thought that it could not continue without destroying the industry so he set out to see that it would not continue.

The next chapter carefully explains the situation Rockefeller faced in Cleveland and presents a simulation which puts you in the competition for profits. Afterwards, you will study Rockefeller's career and the rules that were developed to prevent others from controlling single industries as oil.

## Suggested Student Exercises:

1. Briefly list the extent of the Rockefeller family's wealth and power.

2. Does it make sense for one person to acquire so much wealth and power? Which of the following answers comes closest to representing your view on the subject. Support your answer.

a. Yes, everyone is entitled to what he or she can earn.
b. No, money and power should be more evenly distributed in a just society.
c. It depends entirely on how the money is made and how the power is used.

---

❋ Mobil and Exxon reunited through a merger in 19999
2 Fortune, April 27, 1987, p. 390.