

The History of the Standard Oil Company

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Introduction

The beginning of the twentieth century witnessed the creation of a new form of investigative magazine journalism—muckraking. The muckrakers sought to expose corruption and maladministration in government and business with the hope that public indignation would lead to progressive reform. Ida B. Tarbell's *The History of the Standard Oil Company*—first serialized in *McClure's* magazine in 1903 and then published as a book in 1904—was an early example of muckraking. Tarbell's work exposed the machinations that allowed John D. Rockefeller, the founder of Standard Oil, to disadvantage his competitors and build an oil monopoly. The publication of Tarbell's *The History of the Standard Oil Company* tarnished Rockefeller's reputation and helped launch the federal prosecution of Standard Oil for antitrust violations.

Source: *Ida B. Tarbell, The History of the Standard Oil Company, Briefer Edition, edited by David M. Chalmers. (New York: W. W. Norton & Company, 1966), 34–45.*

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It was not until after the middle of February, 1872 that the people of the Oil Regions heard anything of the plan which was being worked out for their "good." Then an uneasy rumour began running up and down the creek. Freight rates were going up. Now an advance in a man's freight bill may ruin his business; more, it may mean the ruin of a region. Rumour said that the new rate meant just this; that is, that it more than covered the margin of profit in any branch of the oil business. The railroads were not going to apply the proposed tariffs to everybody. They had agreed to give to a company unheard of until now—the South Improvement Company—a special rate considerably lower than the new open rate. ...

On the morning of February 26, 1872, the oil men read in their morning papers that the rise which had been threatening had come; moreover, that all members of the South Improvement Company were exempt from the advance....

In twenty-four hours after the announcement of the increase in freight rates a mass-meeting of 3,000 excited, gesticulating oil men was gathered in the opera house at Titusville. Producers, brokers, refiners, drillers, pumpers were in the crowd. Their temper was shown by the mottoes on the banners which they carried: "Down with the conspirators"—"No compromise"—"Don't give up the ship!" Three days later a large a meeting was held at Oil City, its temper more warlike if possible; and so it went. They organised a Petroleum Producers' Union, pledged themselves to reduce their

production by starting no new wells for sixty days and by shutting down on Sundays, to sell no oil to any person known to be in the South Improvement Company, but to support the creek refiners and those elsewhere who had refused to go into the combination, to boycott the offending railroads, and to build lines which they would own and control themselves. They sent a committee to the Legislature asking that the charter of the South Improvement Company be repealed, and another to Congress demanding an investigation of the whole business on the ground that it was an interference with trade. They ordered that a history of the conspiracy, giving the names of the conspirators and the designs of the company, should be prepared, and 30,000 copies sent to "judges of all courts, senators of the United States, members of Congress and of State Legislatures, and to all railroad men and prominent business men of the country, *to the end that enemies of the freedom of trade may be known and shunned by all honest men.*"

They prepared a petition ninety-three feet long praying for a free pipe-line bill, something which they had long wanted, but which, so far, the Pennsylvania Railroad had prevented their getting, and sent it by a committee to the Legislature; and for days they kept 1,000 men ready to march on Harrisburg at a moment's notice if the Legislature showed signs of refusing their demands. In short, for weeks the whole body of oil men abandoned regular business and surged from town to town intent on destroying the "Monster," the "Forty Thieves," the "Great Anaconda," as they called the mysterious South Improvement Company. Curiously enough, it was chiefly against the combination which had secured the discrimination from the railroads—not the railroads which had granted it—that their fury was directed. They expected nothing but robbery from the railroads, they said. They were used to that; but they would not endure it from men in their own business....

Naturally the burning question throughout the Oil Regions ... was, Who are the conspirators? Whether the gentlemen concerned regarded themselves in the light of "conspirators" or not, they seem from the first to have realised that it would be discreet not to be identified publicly with the scheme, and to have allowed one name alone to appear in all signed negotiations. This was the name of the president, Peter H. Watson. However anxious the members of the South Improvement Company were that Mr. Watson should combine the honours of president with the trials of the scapegoat, it was impossible to keep their names concealed. The Oil City Derrick, at that time one of the most vigorous, witty, and daring newspapers in the country, began a black list at the head of its editorial columns the day after the raise in freight was announced, and it kept it there until it was believed complete.

All of these refineries had their buyers on the creek, and all though several of them were young men generally liked for their personal and business qualities, no mercy was shown them. They were refused oil by everybody, though they offered from seventy-five cents to a dollar more than the market price....

The stopping of the oil supply finally forced the South Improvement Company to recognise the Producers' Union officially by asking that a committee of the body be

appointed to confer with them on a compromise. The producers sent back a pertinent answer. They believed the South Improvement Company meant to monopolise the oil business. If that was so they could not consider a compromise with it. If they were wrong, they would be glad to be enlightened, and they asked for information. First: the charter under which the South Improvement Company was organised. Second: the articles of association. Third: the officers' names. Fourth: the contracts with the railroads which signed them. Fifth: the general plan of management. Until we know these things, the oil men declared, we can no more negotiate with you than we could sit down to negotiate with a burglar as to his privileges in our house.

The Producers' Union did not get the information they asked from the company at that time, but it was not long before they had it, and much more. The committee which they had appointed to write a history of the South Improvement Company reported on March 20, and in April the Congressional Committee appointed at the insistence of the oil men made its investigation. ...

Bad as the charter was in appearance, the oil men found that the contracts which the new company had made with the railroads were worse. These contracts advanced the rates of freight from the Oil Regions over 100 per cent.—an advance which more than covered the margin of profit on their business—but it was not the railroad that got the greater part of this advance; it was the South Improvement Company. Not only did it ship its own oil at fully a dollar a barrel cheaper on an average than anybody else could, but it received fully a dollar a barrel “rake-off” on every barrel its competitors shipped. It was computed and admitted by the members of the company who appeared before the investigating committee of Congress that this discrimination would have turned over to them fully \$6,000,000 annually on the carrying trade. The railroads expected to receive about one and a half millions more than from the existing rates. That is, an additional cost of about \$1.25 a barrel was added to crude oil, and it was computed that this would enable the refiners to advance their wholesale price at least four cents a gallon. It is hardly to be wondered at that when the oil men had before them the full text of these contracts they refused absolutely to accept the repeated assertions of the members of the South Improvement Company that their scheme was intended only for “the good of the oil business.” The committee of Congress could not be persuaded to believe it either. “Your success meant the destruction of every refiner who refused for any reason to join your company, or whom you did not care to have in, and it put the producers entirely in your power. It would make a monopoly such as no set of men are fit to handle,” the chairman of the committee declared....

No part of the testimony before the committee made a worse impression than that showing that the chief object of the combination was to put up the price of refined oil to the consumer, though nobody had denied from the first that this was the purpose.... It was robbery, cried the newspapers all over the land. “Under the thin guise of assisting in the development of oil-refining in Pittsburg and Cleveland,” said the New York Tribune, “this corporation has simply laid its hand upon the throat of the oil traffic with a demand to ‘stand and deliver.’” And if this could be done in the oil business, what was to prevent its being done in any other industry? Why should not a company be formed to

control wheat or beef or iron or steel, as well as oil? If the railroads would do this for one company, why not for another? The South Improvement Company, men agreed, was a menace to the free trade of the country. If the oil men yielded now, all industries must suffer from their weakness. The railroads must be taught a lesson as well as would-be monopolists.

The oil men had no thought of yielding. With every day of the war their backbone grew stiffer. The men were calmer, too, for their resistance had found a ground which seemed impregnable to them, and arguments against the South Improvement Company now took the place of denunciations. On all sides men said, This is a transportation question, and now is the time to put an end once and forever to the rebates....

The railroads tried in various ways to appease the oil men. They did not enforce the new rates. They had signed the contracts, they declared, only after the South Improvement Company had assured them that all the refineries and producers were to be taken in. Indeed, they seem to have realised within a fortnight that the scheme was doomed, and to have been quite ready to meet cordially a committee of oil men which went East to demand that the railroads revoke their contracts with the South Improvement Company....

The final all-important conference with the railroad men was held on March 25, at the Erie offices. ... The meeting had not been long in session before Mr. Watson, president of the South Improvement Company, and John D. Rockefeller presented themselves for admission. Up to this time Mr. Rockefeller had kept well out of sight in the affair. He had given no interviews, offered no explanations. He had allowed the president of the company to wrestle with the excitement in his own way, but things were now in such critical shape that he came forward in a last attempt to save the organisation by which he had been able to concentrate in his own hands the refining interests of Cleveland. With Mr. Watson he knocked for admission to the council going on in the Erie offices. The oil men flatly refused to let them in. A dramatic scene followed, Mr. Clark, the chairman, protesting in agitated tones against shutting out his "life-long friend, Watson." The oil men were obdurate. They would have nothing to do with anybody concerned with the South Improvement Company. So determined were they that although Mr. Watson came in he was obliged at once to withdraw. A Times reporter who witnessed the little scene between the two supporters of the tottering company after its president was turned out of the meeting remarked sympathetically that Mr. Rockefeller soon went away, "looking pretty blue." ... So well did the committee fight its battle and so strongly were they supported by the New York refiners that the railroads were finally obliged to consent to revoke the contracts and to make a new one embodying the views of the Oil Regions. The contract finally signed at this meeting ... agreed that all shipping of oil should be made on "a basis of perfect equality to all shippers, producers, and refiners, and that no rebates, drawbacks, or other arrangements of any character shall be made or allowed that will give any party the slightest difference in rates or discriminations of any character whatever." It was also agreed that the rates should not be liable to change either for increase or decrease without first giving William Hasson, president of the Producers' Union, at least ninety days' notice. ...

It was inevitable that under the pressure of their indignation and resentment some person or persons should be fixed upon as responsible, and should be hated accordingly. Before the lifting of the embargo this responsibility had been fixed. It was the Standard Oil Company of Cleveland, so the Oil Regions decided, which was at the bottom of the business, and the “Mephistopheles of the Cleveland company,” as they put it, was John D. Rockefeller.... But what did more than anything else to fix the conviction was what they had learned of the career of the Standard Oil Company in Cleveland. Before the Oil War the company had been known simply as one of several successful firms in that city. It drove close bargains, but it paid promptly, and was considered a desirable customer. Now the Oil Regions learned for the first time of the sudden and phenomenal expansion of the company. Where there had been at the beginning of 1872 twenty-six refining firms in Cleveland, there were but six left. In three months before and during the Oil War the Standard had absorbed twenty plants. ... “Why,” cried the oil men, “the Standard Oil Company has done already in Cleveland what the South Improvement Company set out to do for the whole country, and it has done it by the same means.”

By the time the blockade was raised, another unhappy conviction was fixed on the Oil Regions—the Standard Oil Company meant to carry out the plans of the exploded South Improvement Company. The promoters of the scheme were partly responsible for the report. Under the smart of their defeat they talked rather more freely than their policy of silence justified, and their remarks were quoted widely. Mr. Rockefeller was reported in the Derrick to have said to a prominent oil man of Oil City that the South Improvement Company could work under the charter of the Standard Oil Company, and to have predicted that in less than two months the gentlemen would be glad to join him. ... The effect of these reports in the Oil Regions was most disastrous. Their open war became a kind of guerilla opposition. Those who sold oil to the Standard were ostracised, and its president was openly scored.

If Mr. Rockefeller had been an ordinary man the outburst of popular contempt and suspicion which suddenly poured on his head would have thwarted and crushed him. But he was no ordinary man. He had the powerful imagination to see what might be done with the oil business if it could be centered in his hands—the intelligence to analyse the problem into its elements and to find the key to control. He had the essential element of all great achievement, a steadfastness to a purpose once conceived which nothing can crush. The Oil Regions might rage, call him a conspirator, and all those who sold him oil, traitors; the railroads might withdraw their contracts and the Legislature annul his charter; undisturbed and unresting he kept at his great purpose. Even if his nature had not been such as to forbid him to abandon an enterprise in which he saw promise of vast profits, even if he had not had a mind which, stopped by a wall, burrows under or creeps around, he would nevertheless have been forced to desperate efforts to keep up his business. He had increased his refining capacity in Cleveland to 10,000 barrels on the strength of the South Improvement Company contracts. These contracts were annulled, and in their place was one signed by officials of all the oil-shipping roads refusing rebates to everybody. His geographical position was such that it cost him under these new contracts fifty cents more to get oil from the

wells to New York than it did his rivals on the creek. True, he had many counterbalancing advantages—a growing Western market almost entirely in his hands, lake traffic, close proximity to all sorts of accessories to his manufacturing, but this contract put him on a level with his rivals. By his size he should have better terms than they. What did he do?

He got a rebate. Seven years later Mr. Rockefeller's partner, H. M. Flagler, was called before a commission of the Ohio State Legislature appointed to investigate railroads. He was asked for the former contracts between his company and the railroads, and among others he presented one showing that from "the first of April until the middle of November, 1872," their East-bound rate was \$1.25, twenty-five cents less than that set by the agreement of March 25th, between the oil men and the railroads. ... How had Mr. Rockefeller been able to get this rebate? Simply as he had always done—by virtue of the quantity he shipped. He was able to say to Mr. Vanderbilt, I can make a contract to ship sixty carloads of oil a day over your road—nearly 4,800 barrels: I cannot give this to you regularly unless you will make me a concession; and Mr. Vanderbilt made the concession while he was signing the contract with the oil men. Of course the rate was secret, and Mr. Rockefeller probably understood now, as he had not two months before, how essential it was that he keep it secret. His task was more difficult now, for he had an enemy active, clamorous, contemptuous, whose suspicions had reached that acute point where they could believe nothing but evil of him—the producers and independent refiners of the Oil Regions. ...

They believed in independent effort—every man for himself and fair play for all. They wanted competition, loved open fight. They considered that all business should be done openly; that the railways were bound as public carriers to give equal rates; that any combination which favoured one firm or one locality at the expense of another was unjust and illegal. This belief long held by many of the oil men had been crystallised by the uprising into a common sentiment. It had become the moral code of the region.

Mr. Rockefeller's point of view was different. He believed that the "good of all" was in a combination which would control the business as the South Improvement Company proposed to control it. Such a combination would end at once all the abuses the business suffered. As rebates and special rates were essential to this control, he favoured them. Of course Mr. Rockefeller must have known that the railroad was a common carrier, and that the common law forbade discrimination. But he knew that the railroads had not obeyed the laws governing them, that they had regularly granted special rates and rebates to those who had large amounts of freight. ... Moreover, Mr. Rockefeller probably believed that, in spite of the agreements, if he did not get rebates somebody else would; that they were for the wariest, the shrewdest, the most persistent. If somebody was to get rebates, why not he? This point of view was no uncommon one. Many men held it and felt a sort of scorn, as practical men always do for theorists, when it was contended that the shipper was as wrong in taking rates as the railroads in granting them. ...

This lack of comprehension by many men of what seems to other men to be the most obvious principles of justice is not rare. Many men who are widely known as good, share it. Mr. Rockefeller was "good." There was no more faithful Baptist in Cleveland than he. Every enterprise of that church he had supported liberally from his youth. He gave to its poor. He visited its sick. He wept with its suffering. Moreover, he gave unostentatiously to many outside charities of whose worthiness he was satisfied. He was simple and frugal in his habits. He never went to the theatre, never drank wine. He gave much time to the training of his children, seeking to develop in them his own habits of economy and of charity. Yet he was willing to strain every nerve to obtain for himself special and unjust privileges from the railroads which were bound to ruin every man in the oil business not sharing them with him. He was willing to array himself against the combined better sentiment of a whole industry, to oppose a popular movement aimed at righting an injustice, so revolting to one's sense of fair play as that of railroad discriminations. Religious emotion and sentiments of charity, propriety and self-denial seem to have taken the place in him of notions of justice and regard for the rights of others.

Unhampered, then, by any ethical consideration, undismayed by the clamour of the Oil Regions, believing firmly as ever that relief for the disorders in the oil business lay in combining and controlling the entire refining interest, this man of vast patience and foresight took up his work. That work now was to carry out some kind of a scheme which would limit the output of refined oil. He had put his competitors in Cleveland out of the way. He had secured special privileges in transportation, but there were still too many refineries at work to make it possible to put up the price of oil four cents a gallon. It was certain, too, that no scheme could be worked to do that unless the Oil Regions could be mollified. That now was Mr. Rockefeller's most important business. ...