

The Family Heritage Series

A weekly discussion of Americanist truths and traditions for those "heirs of all the ages" who will have to preserve that most important inheritance of all – freedom.
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Volume II

Lesson Eighty-Four

John D. Rockefeller

LESSON IDEA

To examine the rise to wealth and power of John D. Rockefeller, and to see how he used capitalism to create a monopoly and an economic dictatorship.

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JOHAN DAVISON ROCKEFELLER, one of the world's most infamous capitalists, was born July 8, 1839, in a small farmhouse near the village of Richford, New York. His father was a glib-tongued, fast-traveling patent medicine man who claimed to be a "Celebrated Cancer Specialist" but who probably specialized in the proverbial "snake oil" cure-all and similar medicinal quackery. One thing is certain: Whatever the elder Rockefeller sold or did caused the family to move frequently from town to town – often on short notice under cover of darkness. And it was only after the head of the house did a con man's disappearing act that Mrs. Rockefeller and her two sons, John and William, were able to settle in one place for any length of time.

John D. finished his formal schooling in Cleveland, Ohio, and enrolled in a business course at B.S. Folsom's Commercial College. Graduating at the age of sixteen, he took a job in the office of Hewitt and Tuttle, commission merchants. (A commission merchant is anyone who buys or sells another's goods for a commission.) According to biographer Ida Tarbell, young Rockefeller was an admirable accountant, "one of the early-and-late sort, who saw everything, forgot nothing and never talked." His salary, \$3.50 per week or fourteen dollars per

month, was raised to twenty-five dollars a month after a year's employment; and from this meager sum, he was always "saving a little money to put away." In 1858, at the age of eighteen, he pooled his savings with an ambitious associate, Maurice B. Clark, and launched his own business as a commission merchant.

The new firm, Clark & Rockefeller, cleared \$4400 the first year and \$17,000 the second year. "When he was twenty," writes journalist John T. Flynn, "Rockefeller was a successful businessman and recognized as such in Cleveland. He was a quiet, handsome, dignified, serious, earnest young man, utterly absorbed in the important business of getting along. He had joined the church – the old Erie Street Baptist Church . . . where he acted as usher, took up collections, [and] taught Sunday School . . . He went to no plays, played no games, took part in no movements, acted on no committees, but resolutely 'minded his own business.'"

Had he bothered to venture from the small circle of his own self-interests, Rockefeller might have become involved in the political debates of that backwoods lawyer from the nearby state of Illinois – Abe Lincoln – or he might have joined the fortune-seekers' stampede to neighboring Pennsylvania where on August 21, 1859, oil – the product that was to make him a millionaire – was discovered. But he did neither.

A year passed, in fact, after the discovery of oil before John D. took any interest in the liquid gold that was gushing out of the Pennsylvania subsoil –

and then only because some Cleveland merchants commissioned him to investigate the possibilities of the infant industry. He spent two months touring the oil towns, poking into every detail of the drilling operation, taking notes, asking questions, and adding up the facts and figures. It would be near suicidal, he concluded, to invest or become involved in the oil business. All he could see, he told his associates, was "chaos and disorder, waste and incompetence, competition at its worst."

There were too many wells in and around Titusville; there was too much oil being pumped; the overabundance would lower the price and destroy the profit. And if that didn't happen, there was always the chance the wells might run dry and the whole madcap adventure end as abruptly as it began. In short, Rockefeller was unimpressed with the future of oil. And, the oil men of Titusville were equally unimpressed with John D., whom they referred to in their kindlier moments as "that bloodless Baptist bookkeeper."

BUT "THAT BLOODLESS Baptist bookkeeper" was right about one thing — oversupply sent the price of petroleum nose-diving from twenty dollars a barrel to twelve, to seven, to two; and in 1861, when the War Between the States began, it plummeted to ten cents a barrel.

"It was at this point," says Flynn, "that Rockefeller decided to go into oil. He was twenty-two. Lincoln was calling for men. But Rockefeller . . . had his own business to consider. He went on no committees, joined no movements, got mixed up in no wars."

Instead, he and his business partner, Clark, invested in a small Cleveland refinery which made kerosene for lamps. "After two years," comments Flynn, "both . . . saw the golden profits in oil. Rockefeller made up his mind he was done with [selling] vegetables [on commission]. He sold his interest in the commission business to Clark. He bought Clark's interest in the oil business for \$72,500 and paid for it in cash. That was in 1865. The circumstance that decided Rockefeller was the discovery of oil at Pithole. That revealed to him that there was plenty of oil in the ground . . . His amazing career was soundly launched."

The end of the War Between the States would be

the beginning of another great oil boom, Rockefeller decided. It would also be the beginning of another wild roller-coaster ride in oil prices. Too many men would go into the business; too much oil would be produced; surpluses would mean low prices; and low prices would mean low profits. It would be another vicious circle of feast and famine. But John D. meant to short-circuit the circle. He meant to control production, limit competition, and to keep prices up so there would be a profit for all. According to Flynn: "Rockefeller looked upon the small oil producer and refiner first as a shockingly wasteful and inefficient businessman. Second, he regarded him as upsetting the whole industry. Next, he felt that the industry as a whole could be operated upon a more secure and efficient basis if the small producer were eliminated. And finally he disliked, was indeed horrified at, the losses suffered by these little men and the losses of profits suffered in consequence by the larger producers."

The "bloodless Baptist bookkeeper" had no stomach for the zestfulness of competition, or for the rugged individualism of the oil men. His gods were efficiency and profit. In the interests of both, he resolved to eliminate all competitors. [*Discuss the importance of competition. Show how consumers benefit from lower prices and better service when there are competing businesses. Rockefeller, of course, had no interest in anything except his own profits. He was never a competitive, free-enterprise capitalist, but always a monopolistic capitalist, aiming for economic dictatorship.*]

THE ROCKEFELLER march toward monopoly and economic dictatorship took several different paths, the first being a conspiratorial scheme with other refiners to fix prices and control production. The weakness of this idea, and of similar schemes, was the lack of enforcement power. If one refiner in the group deviated from the dictated prices, the association had no means to force the offender into

FOR SERIOUS STUDENTS

We recommend reading John T. Flynn's *Men Of Wealth* for a well-rounded history of capitalism and capitalists; and Ida Tarbell's two-volume study of *The History Of The Standard Oil Company* for a detailed account of Rockefeller's rise to power.

line. Rockefeller soon realized that the control he wanted could not be achieved by voluntary combination. It had to be done by outright corporate monopoly; and in 1870 he turned his business into a corporation called the Standard Oil Company.

According to Flynn's account: "He went to the leading refiners in all the large centers with a new proposition. It was not that they would join an association, but that they would merge their companies with his Standard Oil. He proposed they turn their plants over to the Standard, receive Standard Oil stock instead of their own stock, and become corporate partners with him, taking their places on the directorate of the Standard Before long, all the important refiners in the industry were Rockefeller's partners in a corporate organization They then set out to crush all competition so that they could make laws for the oil industry in their board rooms, with no one to question them save their employees. They succeeded in this — in building the nearest approach to outright monopoly yet known in America."

How was this accomplished? Flynn gives us a summary of the Rockefeller methods:

"He told rivals whose refineries he coveted that they could have cash or Standard stock for their properties, that if they were wise they would take the Standard stock, that if they did they would be rich, but that if they refused to surrender they would be crushed, and he crushed them. He undersold them. He intrigued to cut their credit. He put obstacles in their way. He made profit impossible to them. And he did it without a flutter of the spirit as he knelt in the Euclid Avenue Baptist Church on Sunday.

"He used — though he did not invent — the system of rebates to crush rivals. That is, he made arrangements with the railroads to pay the published freight rates but got back secretly a large rebate [*or refund*] on his freight bills, receiving as high as fifty per cent from some roads. The man who had to pay a dollar a barrel freight on his shipments could not contend with a competitor who shipped to the same point for fifty cents a barrel. What this meant to Rockefeller may be surmised from a report revealing that in the six months preceding March, 1879, the Standard shipped 18,556,000 barrels of oil on which it got an average rebate of over fifty-five cents, amounting to something over \$10,000,000. Rocke-

feller defended the rebate on the principle of the quantity discount." [*Imagine a conversation between a Standard Oil representative and a railroad executive, in which the Rockefeller agent argues that Standard's shipments are so vast that they will fill an entire train, thus eliminating the costs involved in loading a car or two from smaller refineries in various locations. If you were a railroad official, would you give Standard a better rate because of its big volume? Is this a logical approach? What effect would this have on small refiners?*]

ROCKEFELLER'S ARGUMENT that his company deserved quantity discounts might have been more plausible if the same discounts had been open to other large-volume shippers. But they were not, except in a few isolated instances. Which gave Standard, the would-be dictator of oil, an unfair advantage over all other oil producers and refiners.

Far worse than the rebate, however, was the "drawback" — which Flynn calls "an instrument of competitive cruelty almost unparalleled in industry. It amounted to this: the road allowed Rockefeller a rebate on his own shipments and paid him also a similar sum on his competitor's shipments. The railroad paid rebates on competitor shipments but the rebate went to Rockefeller and not to the shipper. Thus, on every barrel a rival shipped, Rockefeller made a profit. In March, 1878, H.C. Ohlen shipped 29,876 barrels of oil to New York. Ohlen paid \$1.20 a barrel freight. Rockefeller collected from the road twenty cents on each of these barrels — a squeeze of \$5975 out of one rival in a single month."

Why do you suppose the railroads agreed to these drawbacks? What persuasive arguments could have been used by Standard Oil agents? [*Family members should be able to recognize the threat inherent in this situation — that is, Standard's threat to withdraw its big-volume shipments from one railroad and give them to another if drawbacks were not granted. This threat would not have been effective if there had been no competing railroads. In other words, Rockefeller used competition to destroy competition.*]

"Rockefeller's competitors long felt that some cruel and mortal force was killing them," says Flynn, "but did not know what it was. When they

discovered it, words cannot describe the fury of their hatred.”

Many fought the power of Rockefeller and Standard — men of courage and determination like George Rice, a refiner and producer of Macksburg, Ohio. Rockefeller crushed Rice on the distribution front, through local grocery stores, which were the retail outlets for kerosene. “Grocers who carried Standard Oil,” explains Flynn, “were supplied with groceries at low prices in order to undersell those who dared to buy from Rice. Rice paid fifty cents a barrel freight to the railroads on his oil, the Standard paid twenty-five cents. On another road Rice paid thirty-five cents a barrel, the Standard paid twenty-five cents and collected ten cents on every barrel Rice shipped.” Using such economic pressure, Rockefeller eventually ruined Rice — as he did every other refiner, distributor, and producer who dared challenge Standard’s monopoly.

Bribery of public officials and the press was also part of Standard’s equipment in its rise to power. When state and national laws or even city ordinances stood in its way, it bought mayors, common councils, state legislators, and even some of the most important statesmen in Washington. For example, the Ohio legislature was bought up to defeat an early antitrust bill, and Henry B. Payne was elected to the United States Senate from Ohio with votes paid for openly by Rockefeller dollars.

When indicted for illegal actions, Standard officials did not hesitate to lie under oath in defense of their projects. John D. himself swore that he was not interested in gas and copper, though he well knew Standard owned a dozen subsidiary corporations that produced natural gas.

To evade the legal roadblocks of anti-monopoly laws, the trust was invented by Rockefeller’s lawyer, S.C.T. Dodd. When this was declared illegal, the holding company — the corporation to own corporations — was adopted as the means of creating a monopoly without violating the antitrust laws. This too was outlawed in 1911. But by this time the Standard monopoly was firmly established and too strong to be uprooted. When its creator retired, the Standard Oil Company was one of the most powerful corporations in the world. Its tanks were to be seen not only at every railroad station in America but all over Europe and Africa, wherever boats, pipes, railroads, or wagon wheels could carry his oil.

Concluding Thought

Many modern writers have tried to equate the ethics and philosophy of John D. Rockefeller with the economic system called capitalism, condemning capitalism by condemning Rockefeller. The identification of the system with the man is not only unfair, it is also an oversimplification. Rockefeller was a monopolist whose zeal for profit and efficiency caused him to seek economic dictatorship, which is based on the same philosophy as political dictatorship. It is the direct opposite of free-enterprise capitalism, whose hallmark is competition and individual freedom. Henry Ford, for example, was a great American capitalist whose fortune was comparable to Rockefeller’s, but whose goals, ethics, and philosophy were totally different. Ford was a competitive capitalist; Rockefeller, a monopolistic capitalist. Next week we’ll study the growth of the Ford fortune and contrast it with the Rockefeller monopoly.

DURING THE WEEK

To illustrate the effects of a monopoly, give each member of your family the imaginary sum of fifty dollars to buy dinner each night during the week. Let each pick a restaurant and order his or her favorite foods, keeping track of the amount spent for each meal. Since this spending is pretend and not real, who is getting how much food for how much money can be the subject of family discussions. On Friday or Saturday, announce that all restaurants in the city have been sold to the one recognized as the most expensive; and the prices in all are now the same: ten dollars for a peanut-butter sandwich, twenty dollars for a hamburger, and five dollars for a glass of milk, etc. The point to be made is that the restaurant owner, his employees, and even his stockholders will profit from this food monopoly, but the diners will suffer. Which system of capitalism — monopolistic or competitive — would your family like best? Is there any similarity between the two?

The Family Heritage Series

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