John D. Rockefeller Biography

*Standard: US.6*

John D. Rockefeller was born July 8, 1839, in Richford, New York about midway between Binghamton and Ithaca. His father, William Avery Rockefeller, was a "pitch man" -- a "Doctor" who claimed he could cure cancers and charged up to $25 a treatment. He was gone for months at a time traveling around the West from town to town and would return to wherever the family was living with substantial sums of cash. His mother, Eliza Davison Rockefeller, was very religious and very disciplined. She taught John to work, to save, and to give to charities.

By the age of 12 he had saved over $50 from working for neighbors and raising some turkeys for his mother. At the urging of his mother, he loaned a local farmer $50 at 7% interest payable in one year. When the farmer paid him back with interest the next year Rockefeller was impressed and said of it in 1904: "The impression was gaining ground with me that it was a good thing to let the money be my servant and not make myself a slave to the money…"

From 1852 Rockefeller attended Owego Academy in Owego, New York where the family had moved in 1851. Rockefeller excelled at mental arithmetic and was able to solve difficult arithmetic problems in his head -- a talent that would be very useful to him throughout his business career. In other subjects Rockefeller was an average student but the quality of the education was very high.

In 1853 the Rockefellers moved to Cleveland, Ohio, and John attended high school from 1853 to 1855. He was very good at math and was on the debating team. The school encouraged public speaking and even though Rockefeller was only average, it was a skill that would prove to useful to him.

**Early Business Career: 1855-1863**

In the spring of 1855 Rockefeller spent 10 weeks at Folsom’s Commercial College -- a "chain College" -- where he learned single and double-entry bookkeeping, penmanship, commercial history, mercantile customs, banking and exchange. From his father he had learned how to draw up notes and other business papers. His father was very meticulous in matters of business and believed in the sacredness of contracts.

In August of 1855 at the age of 16 Rockefeller began looking for work in Cleveland as a bookkeeper or clerk. Business was bad in Cleveland at the time and Rockefeller had problems finding a job. He was always neatly dressed in a dark suit and black tie. Cleveland was not a large city in 1855 and Rockefeller could easily visit every business in under a week’s time. He returned to many businesses three times. Finally, on September 26, 1855, he got a job as an assistant bookkeeper with Hewitt & Tuttle, commission merchants and produce shippers.

Rockefeller soon impressed his employers with his seriousness and diligence. He was very exacting and scrupulously honest. For example, he would not write out a false bill of lading under any circumstances. He went to great lengths to collect overdue accounts. He was pleasant, persistent, and patient and he got the company’s money from the delinquents. (For all this work, he was not well paid. But whatever he was paid, he always gave to his Church and local charities.)

By 1858 Rockefeller had more responsibilities at Hewitt & Tuttle. He arranged complicated transportation deals that typically involved moving a single shipment of freight by railroad, canal, and lake boats. He began to engage in trading ventures on his own account. He was naturally cautious and only undertook a business venture when he calculated that it would be successful. After he carefully weighed a course of action he would then act quickly and boldly to see it through to fruition. He had iron nerves and would carry through very complicated deals without hesitation. This combination of caution, precision, and resolve soon brought him attention and respect in the broader business community in Cleveland.

On March 1, 1859 -- several months before his 20th birthday -- Rockefeller went into business for himself, forming a partnership with a neighbor, Maurice Clark. Each man put up $2000 and formed Clark & Rockefeller -- commission merchants in grain, hay, meats, and miscellaneous goods. At the end of the first year of business, they had grossed $450,000, making a profit of $4400 in 1860 and a profit of $17,000 in 1861. The commission merchant business was very competitive and Clark & Rockefeller’s success was due in large part to Rockefeller’s natural business abilities.

During the Civil War their business expanded rapidly. Grain prices went up and so did their commissions. Most of their selling was done on commission, so Clark & Rockefeller took no risks from price fluctuations. Rockefeller’s style was very precise and calculated. He was not a gambler but a planner. He avoided speculation and refused to make advances or loans.

Rockefeller was extremely hard working. He traveled extensively, drumming up business throughout Ohio, and then would go to the banks and borrow large sums of money to handle the shipments. This aggressive style built the business up every year.

However, by the early 1860s, Rockefeller realized that the future of the commission merchant business in Cleveland was going to be limited. He had become convinced that the railroads were going to become the primary means of transportation for agricultural commodities. This would be to the disadvantage of Cleveland, because its position as an important Lake Erie port was its primary transportation advantage. He saw that the rising grain output of the Midwest and the Northwest of J. J. Hill would change the nature of the business for good. The huge elevators on Lake Michigan and the flour-millers of Minneapolis would be the dominant players in the business. Rockefeller came to believe that the future of Cleveland lay in the collection and shipment of raw industrial materials -- not agricultural commodities. This would allow Cleveland to exploit its geographical advantages -- mid-way between the Eastern seaboard and Chicago -- and accessible to both rail and water transportation. He saw his chance in 1863 -- oil.

**Oil Refining 1863-65**

On August 27, 1859, Edwin Drake struck oil near Titusville, Pennsylvania, setting off a frenzied oil boom in what soon became known as the "oil regions" of northwestern Pennsylvania. Drake was the employee of a group of New Haven, Connecticut, investors in the Pennsylvania Rock Oil Company. They had obtained a sample of the Pennsylvania oil and had a Yale University chemist analyze it. The chemist determined that the Pennsylvania oil was of very high quality and could be refined into a variety of useful products.

The technology used by Drake was not new. What was new was the idea of drilling for oil -- the idea that you could pump oil out of the ground like you could pump water.

The technology for drilling wells was quite advanced by 1859. To that time, wells were drilled for either water or salt (more accurately, brine which would be refined to get the salt). In the process of drilling for salt all over the United States in the early 19th century it was not uncommon -- especially in the Pennsylvania area -- to get oil seepage into the salt well. Most of the time this was regarded as a nuisance, but some enterprising merchants went into the business of selling the oil in small bottles as a "Natural Remedy" or "Curative Agent".

The technology for refining oil was also known by the early 1850s. Doctor Abraham Gesner, a Canadian, in August 1846 patented a method for distilling kerosene (a name he invented from the Greek "keros" -- wax -- and "elaion" -- oil) from coal. In 1850 a Scottish industrial chemist, James Young, patented a method of obtaining "burning oils" from petroleum through destructive distillation. In 1852 two Boston chemists, Luther and William Atwood, began making lubricants from coal tar. Finally, in 1856, Samuel Downer, a whale-oil merchant, bought out the Atwoods and boosted production to 650,000 gallons of refined oil a year. By 1861 coal-oil lamps were widespread and coal-oil was even made in Cleveland.

Rockefeller began investigating the feasibility of entering the oil refining business in 1862 and the firm of Andrews, Clark & Company was formed in 1863. (Samuel Adams had experience with shale-oil refining, and Clark brought in his brothers.) Probably figuring in Rockefeller’s decision to enter the business was the entry into Cleveland later that year of the long-planned Atlantic & Great Western Railroad. The A&GW line went east to Meadville, Pennsylvania, then northeast to Corry, Pennsylvania, and then across the border into New York state, where it connected to the Erie Railroad. The A&GW also had branches into the heart of the oil regions -- Titusville and Franklin. This gave Cleveland two routes to New York City -- the New York Central-Lake Shore system, and the A&GW-Erie connection. This immediately gave Cleveland a transportation advantage over Pittsburgh, which was dominated by the Pennsylvania Railroad.

The Pennsylvania oil was of high quality. One barrel yielded 60-65% illuminating oil, 10% gasoline, 5-10% benzoyl or naphtha (a volatile inflammable liquid used as a solvent in dry cleaning, varnish making, etc.), with the remainder tar and wastes.

Rockefeller abhorred waste and devoted considerable energy to increasing the efficiency of his refining business. He believed that the secret of success was attention to detail -- to wringing little efficiencies out of every aspect of his business. He hired his own plumber and bought his own plumbing supplies. He built his own cooperage shop and made his own barrels for the oil. He bought tracts of white-oak timber for making the barrels. Instead of transporting the freshly cut green timber directly to the cooperage shop, he had kilns built on the timber tracts to dry the wood on site, to reduce the shipping weight of the lumber. He bought his own wagons and horses to transport the wood to the cooperage shop in Cleveland. (We would call this" vertical integration" today.)

**Oil Refining 1865-1870**

In February 1865, at the age of 24, Rockefeller bought out the Clark brothers (Maurice Clark had brought his brothers into the refining business) for $72,500 and gained complete control of the business. The Clarks had resisted borrowing money to expand and Rockefeller was convinced of the correctness of his course, so he bought them out. He immediately moved to greatly extend his enterprise. He borrowed heavily and plowed all his profits back into the business in order to expand it further, and took decisive steps to strengthen and increase the efficiency of all aspects of the firm.

In 1866 John D. brought his brother William Rockefeller into the partnership and they built another refinery in Cleveland which they named the Standard Works. They also opened a New York City office with William Rockefeller in charge, to handle the export business, which eventually became larger than the domestic business.

**The Standard Oil Company: 1870-1882**

On January 10, 1870 the Standard Oil Company of Ohio was created by John D. Rockefeller (30%), William Rockefeller (13.34%), Henry Flagler (16.67%), Samuel Andrews (16.67%), Stephen Harkness (13.34%), and O. B. Jennings (brother-in-law of William Rockefeller, 10%). It held about 10% of the oil business at the time of its formation.

In Rockefeller’s eyes, the state of the oil business was chaotic. Because entry costs were so low in both oil drilling and oil refining, the market was glutted with crude oil with an accompanying high level of waste. In his view, the theory of free competition did not work well when there was a mix of very large, efficient firms and many medium and small firms. His view was that the weak firms, in their attempts to survive, drove prices down below production costs, hurting even the well-managed firms such as his own.

Although his economics may be suspect in modern eyes, his solution -- a market with a few (maybe one!) large, vertically integrated firms -- in effect an oligopolistic market -- was what other industrial sectors eventually evolved into. What makes oil stand out is that it happened by design -- as the result of a plan formulated by a single person -- John D. Rockefeller.

During 1871 Rockefeller formulated his plan for consolidating all oil refining firms into one great organization with the aim of eliminating excess capacity and price-cutting. Although no written records exist, both Rockefeller and Flagler 30 years later claimed this was when they worked out the master plan which they later implemented. That the plan was formulated in 1871 is evidenced by the fact that all the major Cleveland banks joined the Standard Oil organization in 1871 and later backed Rockefeller and Flagler to the hilt in their rapid expansion.

In December 1871, Rockefeller and Flagler set in motion their plan to consolidate the industry. They begin by buying up all their competitors in Cleveland. The strategy and tactics were Rockefeller’s and he handled the negotiations with the rival refiners personally. He began with the strongest refineries first. He believed that if he had bought up the weak refineries first then he would be faced with higher prices later and stiffer resistance. Consequently, he approached the strongest first and bought them out.

His technique was always the same. The merger would be effected by an increase in the capitalization of The Standard Oil. The rival refinery would be appraised and the owners would be given Standard Oil stock in proportion to the value of their property and good will and they would be made partners in Standard Oil. The more talented owners would also be brought into the Standard Oil management. If they insisted upon cash they received it.

Later some owners who had been bought out complained to the press that they had been treated unfairly. The evidence is overwhelming that the Standard’s rivals were paid fair -- even generous -- prices for their property, and if they had the wisdom to take Standard Oil stock, they ended up very rich indeed.

By March or April 1872 Rockefeller had bought up and/or merged with almost all the refineries in Cleveland. The inefficient and poorly constructed refineries were dismantled, while the better-quality ones were upgraded to Rockefeller and Flagler’s standards.

After the conquest of Cleveland, the Standard inexorably expanded. All the transactions were kept as secret as possible. The leaders of the Standard were so successful in this secrecy at times that many rival independent refiners were totally unaware of what was going on.

By 1879 the Standard Oil Company did about 90 percent of the refining in the United States, with almost 70 percent being exported overseas. The business had become so large and so complex that Rockefeller only dealt with the major problems and the larger outlines of his affairs. Rockefeller was only 40 years old.

**The Standard Oil Trust: 1882-1892**

On January 2, 1882 the Standard Oil Trust was formed. Attorney Samuel Dodd came up with the idea of a trust. A Board of Trustees was set up and all the Standard properties were placed in its hands. Every stockholder received 20 Trust certificates for each share of Standard Oil stock, and all the profits of the component companies were sent to the nine trustees who determined the dividends. The nine trustees elected the directors and officers of all the component companies.

The Trust was capitalized quite conservatively at $70,000,000 -- the true value was about $200,000,000 (no stock watering at the Standard!). The nine Trustees controlled 23,314 of the 35,000 shares with J.D. Rockefeller holding 9585 shares.

Rockefeller, at age 43, was the leader of the Trust because he was "primus inter pares" (first among his peers), not a dictator. As such, he could not dictate policy even when he felt strongly that he was right. An example of this was the Lima Oil field in Ohio. The field had been discovered in the early 1880s. The problem was that the oil was "sour" -- that is, it had a very high sulfur content so it smelled like rotten eggs. Even worse, when it was refined into kerosene and used in lamps it produced too much soot, which coated the lamp chimneys. Rockefeller wanted to buy up as much of the oil as possible and worry about solving the sulfur problem later. The other directors were unenthusiastic about this policy and John Archbold began quietly selling some of his Trust shares in the Standard. By 1888 the Standard owned 40,000,000 barrels of the Lima oil, which were stored in huge tank farms at the fields. Rockefeller hired a great chemist, Herman Frasch, who, with the aid of talented Standard engineers, devised a process using copper oxides to remove the sulfur from the oil. The result was a bonanza for the Standard, vindicating Rockefeller’s judgement.

By 1890 The Standard had set up an elaborate nationwide distribution system that reached nearly every American town. By 1904 80% of American towns were served by Standard Oil carts that delivered the various products directly to businesses and homes. Standard Oil’s campaign to dominate even the smallest of the retail markets is probably the single most important reason that company became so disliked by the American public. The Standard was aggressive in its marketing practices and tried to force all grocery and hardware stores that sold kerosene and lubricants to sell only Standard products. This policy -- though successful in the short run -- made the Standard widely unpopular and simply increased its vulnerability to political attack.

On March 21, 1892 the Trust was formally dissolved. The Attorney General of Ohio had brought suit against the Trust in 1890 and it lost in 1892. Each trust certificate was to be exchanged for the proportioned share of stock in the 20 component companies of the Standard. The irony is that this had no practical effect on the Combination. The same men were still in charge, only now they were simply the majority shareholders of all the component companies.

**Rockefeller Exits: 1892-1897**

During 1891-92 all the evidence suggests that Rockefeller had a partial nervous breakdown from overwork. He lost all of his hair, including his eyebrows, and suffered from ill health in the early 1890s.

During this period Rockefeller’s wealth had increased to such an extent that his major problem was what to do with it all. He solved this problem by hiring Frederick T. Gates in September of 1891 as a full-time manager of his fortune. By this time, Rockefeller was literally inundated with appeals from individuals and charities for funds. Gates not only removed this burden; he also oversaw all of Rockefeller’s investments, which were becoming huge in their own right. For example, by 1897 Rockefeller owned large holdings of the Missabe iron range in Minnesota, a railroad to carry the ore to Lake Superior, and a fleet of huge ore-carrying lake steamers. In 1901 Rockefeller sold his iron ore-related business to J.P. Morgan for $80,000,000 with an estimated profit of at least $50,000,000 -- a huge fortune in its own right, but it was just one of his investments. Morgan added the Rockefeller properties to the U.S. Steel Corporation.

By 1896 Rockefeller stopped going to his office daily and in 1897 he retired, at the age of 58. He took part in some management activity until 1899 but none to speak of thereafter. John Archbold ran Standard Oil from the mid-1890s onward. Archbold disliked prominence and asked Rockefeller to remain as the nominal president of Standard. Not publicly announcing his retirement was a great mistake on Rockefeller’s part. Rockefeller had resisted the temptation to exploit the Standard’s near-monopoly position by raising prices "too" much. Although Rockefeller’s pricing policies did result in some "monopoly profits" for the Standard, they were fairly mild. Not so Archbold. He raised prices aggressively, and the dividends rolled in. The consequence was that Rockefeller got all the blame for the policies even though he had almost no further role in management.

**Retirement and Philanthropy**

From the mid-1890s until his death in 1937, Rockefeller’s activities were philanthropic. Rockefeller’s fortune peaked in 1912 at almost $900,000,000, but by that time he had already given away hundreds of millions of dollars. His son, John D. Rockefeller Jr., in 1897 joined Gates in the full time management of the fortune.

The University of Chicago -- which Rockefeller was largely responsible for creating -- alone received $75,000,000 by 1932.

He set up, at the urging of his son, the Rockefeller Institute for Medical Research (now Rockefeller University) and his gifts to it totaled $50,000,000 by the 1930s.

He founded the General Education Board in 1903 (later the Rockefeller Foundation). The General Education Board helped to establish high schools throughout the South by providing free professional advice on improving instruction and education. The effort was a cooperative one, and local money was used to build the high schools. In 1919 Rockefeller donated $50,000,000 to the Board to raise academic salaries, which were very low in the wake of WWI.

The Rockefeller Foundation was officially established in 1913 and Rockefeller transferred $235,000,000 to it by 1929.

In 1909 Rockefeller established the Rockefeller Sanitary Commission which was largely responsible for eradicating hookworm in the South by 1927.

When Rockefeller died, on May 23, 1937, his estate totaled only $26,410,837. He had given most of his property to his philanthropies and to his son and other heirs.

Rockefeller was a visionary entrepreneur. He clearly changed "the stream of the allocation of resources over time by introducing new departures into the flow of economic life" by creating the modern oil industry. His emphasis on size and efficiency and the use of modern chemistry resulted in the development of a wide variety of new products that made the lives of ordinary people better as a consequence. He made light cheap for untold millions and his great creation was ready, willing, and able to provide the cheap gasoline when it was needed, thus ushering in the age of the automobile in America.

Last, but not least, he set the standard for philanthropy. Just the eradication of hookworm in the South alone would merit his place as one of the great humanitarians of the 20th Century. But his reputation was so sullied that he never received the credit that he was due for this great act on behalf of humankind.

John D. Rockefeller

|  |  |
| --- | --- |
| How he acquired his wealth |  |
| How he (or his related industries)  treated workers |  |
| How he spent  His money |  |
| How he donated  His money |  |
| Robber Baron or Captain of Industry? |  |