## AP USH: Unit 6

## John D. Rockefeller

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…"

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.)

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.

Oil Refining 1863-65

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.

# 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.

# 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.

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. <http://www.pbs.org/wgbh/amex/rockefellers/peopleevents/p_rock_jsr.html> 