Oliver Hazard Payne's Business Activities

Standard Oil. When Payne returned to Cleveland in 1865, he established a company with the Clark brothers, *Clark, Payne & Company* and entered the oil refinery business. He had plenty of company. By 1872 there were 36 refiners in Cleveland, with John D Rockefeller owning the largest and Payne the next largest. Payne lost money in 1871, so when Rockefeller suggested they join forces, he listened. Rockefeller offered $400,000 for Payne's business, which Payne took as stock in Standard Oil of Ohio. He immediately became the third largest stockholder, after Rockefeller and Henry Morrison Flagler. The latter was nine years older than either Rockefeller or Payne, and his entry money was put up by a relative by marriage, Stephen Harkness. Later, in 1874, Charles Pratt of New York joined the group. The four major partners: Rockefeller, Flagler/Harkness, Payne/Whitney and Pratt dominated the company, although there were about seven other members of the inner circle.

For someone wishing to see the detailed history of Standard Oil, I recommend "Titan" by Ron Chrernow. Standard of Ohio was prohibited from owning assets outside of Ohio, so the group circumvented this ban by establishing a trust composed of several lesser employees. The companies added to Standard Oil were purchased by the individuals of the inner group; in many cases the original owners were left substantial shares in the companies, but the major decisions came from Rockefeller and his inner circle. From 1872 to 1884 they worked out of the same office space, and had breakfast or lunch daily. The entrepreneurial Flagler often did the seamy work, with Payne quietly on working the political arena, although at times he participated in discussions with the railroads, which were an important cog in the Standard Oil schema.

Standard had grown so large by 1884 that it was doing business more in New York than in Cleveland. So the three Clevelanders moved to New York City. About that time, Oliver Payne resigned from his treasurer's job, and gradually began divesting his immense holdings in the combine. Until his death he remained a principal stockholder, and was named when the government instituted its anti-trust actions around 1910. The ironic result of the breakup was a doubling or tripling of the value of Standard Oil stock, so the breakup benefited most those who had organized the trust! It is estimated that by 1910, Payne received $5 million annual dividends from Standard Oil.

After 1884, the partners looked for ways to invest their wealth. Rockefeller had always distrusted banks, and insisted on keeping a substantial cash reserve in the company. In effect, Standard financed itself. In the last half of the 19th century, railroads were considered a reliable investment (just as stock in the 'telephone company' was considered the safest investment in the 1940s). Henry Flagler decided to run a railroad from Georgia down the length of Florida, which at that time was considered a swamp and wilderness. When he reached St. Augustine, he gave Carrère and Hastings their big break to design two hotels and three churches.

Railroads. One of the Standard Oil inner circle was Johnson Newlon Camden, who was Senator from West Virginia from 1881 to 1887. He kept his association with Standard Oil secret, and this obvious conflict of interest was never exposed. He probably was awarded his Senate seat in much the same manner as Harry B. Payne, except the money came from other sources in Standard Oil. He wangled a rebate structure out of the Baltimore and Ohio Railroad positioning himself as a competitor of Standard Oil. He extended his refinery interests from West Virginia to Baltimore, where he controlled the largest oil depot and shipping center in Maryland.

Camden also pioneered in development of central and northern West Virginia's railroads and coal fields. He played a leading role in such enterprises as the Ohio River Railroad which started in Wheeling in 1882 and reached a terminus in Huntington in 1888; the West Virginia and Pittsburgh Railroad, which sought to link the Baltimore and Ohio and the Chesapeake railroads; and the Monongahela Railroad which developed the Upper Monongahela Valley in the 1880s. A good part of the financing of these enterprises came from Oliver Payne. Baseball fans among us will recognize the name Camden Yards as we watch the Baltimore Orioles in their new stadium.

American Tobacco Company. James Buchanan Duke (1856 - 1925) was a young man at the conclusion of the Civil War. His father had operated a tobacco farm, and through some fluke of fate, the Union troops had missed a storage barn while all others in the area were burned. James, his brother Benjamin, and his father Washington Duke, sold their tobacco door to door. James decided to enter into packaged cigarettes, and a friend of his invented a cigarette rolling machine. At the time, pre-rolled cigarettes were looked upon suspiciously by most citizens, who were habituated to 'rolling their own'. Within a few years, the tobacco industry had shaken out to five or six major manufacturers. In 1884 James B Duke moved to New York and opened a cigarette factory, intending to develop the tobacco market in the North. Shortly thereafter, he met Oliver Payne, who suggested that instead of fighting his North Carolina competitors, he buy them out. Using New York city financiers, especially Oliver Payne and William Collins Whitney, he did this, and American Tobacoo Company was the result. Some time after, Duke made an arrangement with British Tobacco, agreeing not to invade the Europe market if British Tobacco agreed not to invade the USA market. Eventually this was declared illegal, and American Tobacco was broken up in 1911. As with Standard Oil, the breakup profited the original stockholders who saw the value of their holdings double when the stock went public.

United States Steel. Oliver Payne was a major stockholder in Tennessee Coal and Iron Company. During the 1907 panic, several banks were shaken and Moore & Schley, a speculative brokerage house was $25 million in debt. This was Payne's major stockbroker. Moore & Schley had used a gigantic majority stake in Tennessee Iron and Coal as collateral against loans. It looked as if the brokerage would have to place the bloc of stock on the market, which would have collapsed the market and ruined Moore & Schley, severely damaging Payne's finances. At Payne's either acquiescence or urging, J Pierpont Morgan hatched a scheme that would save Moore & Schley by eliminating its need to sell the Tennessee stock on the market; instead it would be sold to United States Steel. Meanwhile other trusts partners were expected to prop up the other weak banks. The scheme succeeded with a wink and a nod from the US President, and Payne's fortune remained intact, or else increased!

References:

Ron Chernow, "The House of Morgan, An American Banking Dynasty and the Rise of Modern Finance", New York, Atlantic Monthly Press, 1990, 812 pp.
Ron Chernow, "Titan, the life of John D. Rockefeller, Sr.", New York, Random House, 1998, 774 pp.
Articles on James Buchanan Duke, Johnson Newlon Camden and Oliver Hazard Payne in American National Biography

return to Payne page to home page