Rockefeller and the Standard Oil Monopoly

Following the Civil War, few laws limited how businesses went about making money. In building the giant Standard Oil monopoly, John D. Rockefeller made up his own rules.

Born in 1837, John Davidson Rockefeller grew up in rural New York. His father was a peddler of doubtful medical cures, a bigamist, and possibly a horse thief. When he was around, however, "Devil Bill" (as the neighbors called him) carefully instructed John how to keep meticulous account of his money and to outwit any business competitor. John's mother, Eliza, had a far different influence on him. A deeply religious woman, she taught him to be charitable.

John lived in an age when owners of industries operated without much interference from government. Even the income tax did not exist. Rockefeller built an oil monopoly by ruthlessly eliminating most of his competitors. This made him the richest man in the world. But he spent his retirement years giving away most of his money. The unlikely match between "Devil Bill" and Eliza Rockefeller produced a son who would paradoxically become the most hated and admired man in America.

The Standard Oil Monopoly

Shortly before the Civil War, Rockefeller and a partner established a shipping company in Cleveland, Ohio. The company made much money during the war. In 1863, he and his partner invested in another business that refined crude oil from Pennsylvania into kerosene for illuminating lamps.

By 1870, Rockefeller and new partners were operating two oil refineries in Cleveland, then the major oil refining center of the country. The partners incorporated (under a charter issued by the state of Ohio) and called their business the Standard Oil Company.

To give Standard Oil an edge over its competitors, Rockefeller secretly arranged for discounted shipping rates from railroads. The railroads carried crude oil to Standard's refineries in Cleveland and kerosene to the big city markets. Many argued that as "common carriers" railroads should not discriminate in their shipping charges. But small businesses and farmers were often forced to pay higher rates than big shippers like Standard Oil.

The oil industry in the late 1800s often experienced sudden booms and busts, which led to wildly fluctuating prices and price wars among the refiners. More than anything else, Rockefeller wanted to control the unpredictable oil market to make his profits more dependable.

In 1871, Rockefeller helped form a secret alliance of railroads and refiners. They planned to control freight rates and oil prices by cooperating with one another. The deal collapsed when the railroads backed out. But before this happened, Rockefeller used the threat of this deal to intimidate more than 20 Cleveland refiners to sell out to Standard Oil at bargain prices. When the so-called "Cleveland Massacre" ended in March 1872, Standard controlled 25 percent of the U.S. oil industry.

Rockefeller saw Standard Oil's takeover of the Cleveland refiners as inevitable. He said it illustrated "the battle of the new idea of cooperation against competition." In his mind, large industrial combinations, more commonly known as monopolies, would replace individualism and competition in business.

Rockefeller planned to buy out as many other oil refineries as he could. To do this, he often used hardball tactics. In 1874, Standard started acquiring new oil pipeline networks. This enabled the company to cut off the flow of crude oil to refineries Rockefeller wanted to buy. When a rival company attempted to build a competing pipeline across Pennsylvania, Standard Oil bought up land along the way to block it. Rockefeller also resorted to outright bribery of Pennsylvania legislators. In the end, Rockefeller made a deal with the other company, which gave Standard Oil ownership of nearly all the oil pipelines in the nation.

By 1880, Standard Oil owned or controlled 90 percent of the U.S. oil refining business, making it the first great industrial monopoly in the world. But in achieving this position, Standard violated its Ohio charter, which prohibited the company from doing business outside the state. Rockefeller and his associates decided to move Standard Oil from Cleveland to New York City and to form a new type of business organization called a "trust."

Under the new arrangement (done in secret), nine men, including Rockefeller, held "in trust" stock in Standard Oil of Ohio and 40 other companies that it wholly or partly owned. The trustees directed the management of the entire enterprise and distributed dividends (profits) to all stockholders.

When the Standard Oil Trust was formed in 1882, it produced most of the world's lamp kerosene, owned 4,000 miles of pipelines, and employed 100,000 workers. Rockefeller often paid above-average wages to his employees, but he strongly opposed any attempt by them to join labor unions. Rockefeller himself owned one-third of Standard Oil's stock, worth about $20 million.

During the 1880s, Standard Oil divided the United States into 11 districts for selling kerosene and other oil products. To stimulate demand, the company sold or even gave away cheap lamps and stoves. It also created phony companies that appeared to compete with Standard Oil, their real owner. When independent companies tried to compete, Standard Oil quickly cut prices--sometimes below cost--to drive them out of business. Then Standard raised prices to recoup its losses.

Much of the trust's effort went into killing off competition. But Standard Oil while Rockefeller was in command also usually provided good quality products at fairly reasonable prices. Rockefeller often declared that the whole purpose of Standard Oil was to supply "the poor man's light."

The Antitrust Movement

By 1900, the Standard Oil Trust had expanded from its original base in the East to new oil regions further west. At the same time, a wave of anti-monopoly sentiment swept the United States. Farmer organizations, labor unions, muckraking journalists, and many politicians attacked such combinations as the sugar and tobacco trusts. But they especially targeted the "mother trust," Standard Oil.

By this time, nearly 30 states and the federal government had passed antitrust laws that attacked monopoly abuses. These laws usually rested on a set of legal and economic assumptions:

1. The common law, inherited from England, condemned the restraint of trade.
2. Monopolies tended to restrain trade by keeping prices high, suppressing product improvements, and making excessive profits.
3. Competition among many independent firms was necessary to assure fair prices, high-quality products, and reasonable profits.

Starting with Ohio in 1887, 10 states and the Oklahoma Territory filed 33 separate lawsuits against companies affiliated with the Standard Oil Trust. In most cases, Standard lost in court. But Standard's directors reorganized the trust shifted operations from state to state, and otherwise evaded court rulings to maintain their monopoly.

Since state lawsuits against Standard Oil were going nowhere, muckraking journalists pressed for federal action against the trust.

Starting in November 1902, Ida Tarbell wrote a series of 19 carefully researched articles in *McClure's Magazine*. She detailed how John D. Rockefeller ruthlessly forced his competitors to "sell or perish." She correctly identified railroad discounts, specifically outlawed by the Interstate Commerce Act of 1887, as key to creating Rockefeller's Standard Oil monopoly.

Called "Miss Tarbarrel" and "this poison woman" by Rockefeller, Tarbell helped push the federal government to investigate the Standard Oil Trust. While publicly attacking Standard Oil and other trusts, President Theodore Roosevelt did not favor breaking them up. He preferred only to stop their anti-competitive abuses.

On November 18, 1906, the U.S. attorney general under Roosevelt sued Standard Oil of New Jersey and its affiliated companies making up the trust. The suit was filed under the Sherman Antitrust Act of 1890. Under this federal law, "Every contract, or combination, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal."

Standard Oil v. United States

The Standard Oil trial took place in 1908 before a Missouri federal court. More than 400 witnesses testified. The government produced evidence that the Standard Oil Trust had secured illegal railroad discounts, blocked competitors from using oil pipelines, spied on other companies, and bribed elected officials. Moreover, the government showed that from 1895-1906 Standard's kerosene prices increased 46 percent, giving enormous profits to the monopoly.

Although Rockefeller was technically president of Standard Oil, he had retired from active management in 1895. But he remained the single largest stockholder. Rockefeller testified that Standard Oil achieved its position because its combination of cooperating companies was more efficient and produced a better product than its rivals. When cross-examined on how Standard Oil grew so dominant, the 71-year-old Rockefeller frequently stated that he could not remember.

Attorneys for Standard Oil contended that the large combination of companies making up the trust had developed naturally and actually saved the industry from destructive price wars. They also argued that since Standard Oil was a *manufacturing* business, it was exempt from the Sherman Act, which only addressed *interstate commerce*.

Both the trial judge and a unanimous federal appeals court agreed that Standard Oil was a monopoly violating the Sherman Antitrust Act. They also supported the government's recommendation that the trust should be dissolved into independent competing companies. Standard Oil then appealed to the U.S. Supreme Court.

On May 15, 1911, the Supreme Court unanimously upheld the federal appeals court and ruled that the Standard Oil Trust was a monopoly that illegally restrained trade. All but one justice, however, went on to hold that only monopolies that restrained trade in "unreasonable" ways were illegal. Although it found that Standard Oil did, in fact, act unreasonably, the Supreme Court's use of the "rule of reason" made it more difficult for government to prosecute other monopolies. [*Standard Oil of New Jersey v. United States*]

The Supreme Court justices concluded that to restore competition in the oil industry, the Standard Oil Trust would have to be broken into independent companies. But the government permitted Standard Oil stockholders to each receive fractional shares in all 34 companies that were formed. This meant that each of these companies had exactly the same stockholder owners. These companies were then supposed to compete with one another. In reality, the companies had little real incentive to do this and acted together in setting prices for a decade or more.

Following new petroleum discoveries in the United States and abroad, independent oil companies finally brought real competition to the industry. But the former Standard Oil companies, with modern names like Exxon, Mobil, Amoco, Chevron, ARCO, Conoco, and Sohio, continued to exercise significant influence on oil pricing.

When the Supreme Court broke up the Standard Oil Trust in 1911, electric lights were rapidly replacing kerosene lamps. But the gasoline-driven automobile was just beginning to appear. Gasoline, up to that time a useless byproduct of oil refining, made the companies formed from the trust wealthier than they had ever been. Rockefeller, owning a 25 percent share in each of the new companies, was worth $900 million in 1913 ($13 billion in today's dollars). This made him the richest man in the world.

In retirement, Rockefeller made a science of philanthropy. He and his son gave away most of the Rockefeller millions, mainly to medical research, public health, and educational institutions. Even so, he bitterly objected to the federal income tax when it began in 1913.

Economist Robert Heilbroner once described John D. Rockefeller as "an agent for better and worse in the immense industrial transformation of America." Outliving most of his business associates and critics, John D. Rockefeller died in 1937, a few weeks short of his 98th birthday.

For Discussion and Writing

1. Explain why John D. Rockefeller was "an agent for better and worse" in American history.
2. Do you agree with the Supreme Court's decision in 1911 that the Standard Oil Trust had violated the Sherman Antitrust Act? Why or why not?
3. In 1911, the Supreme Court ruled that only monopolies "unreasonably" restraining trade were illegal. Today, do you think that all monopolies should be illegal? Why or why not?

For Further Reading

John D. Rockefeller: A Photographic History

John D. Rockefeller and the Standard Oil Company

Chernow, Ron. *Titan, The Life of John D. Rockefeller, Sr.* New York: Vintage Books, 1998. First Chapter

ACTIVITY

Money, Money, Money

Many Americans seek great wealth. Some, like John D. Rockefeller, achieve it. After Rockefeller got his fortune, he spent the rest of his life giving his money away. In this activity, students will research other highly successful American business people and report back to the class on (1) how they made their fortune, (2) what they did with it, and (3) why. Each student should select a person to report on from the list below. For students using the Internet to research, CRF's research links is a good place to start.

Andrew Carnegie
Walt Disney
Henry Ford
James Gamble
J. Paul Getty
Samuel Goldwyn
Amadeo Giannini
Hetty Green
William Randolf Hearst
William R. Hewlett
Howard Hughes
H. L. Hunt
Joseph P. Kennedy Sr.

Ray Kroc
Estee Lauder
Daniel K. Ludwig
John D. MacArthur
Louis B. Mayer
Andrew William Mellon
Charles Merrill
J. Pierpont Morgan
Jay Pritzker
David Sarnoff
Charles M. Schulz
Cornelius Vanderbilt
Samuel M. Walton