Progressives and the Era of Trustbusting

During the Industrial Revolution, new machines and manufacturing methods ushered in the age of mass production for a growing country. By the end of the 19th century, this resulted in an explosion of competitive businesses in the United States. Competition, however, sometimes resulted in price wars, wasteful duplication of production, and bankruptcies. Profit-minded business leaders discovered that the way around the instability of competition was to dominate the market by creating bigger industrial organizations.

What problems sometimes occurred as a result of competition between businesses?

"Captains of industry" like John D. Rockefeller and J.P. Morgan formed huge corporations owned by stockholders. Defenders of "corporate bigness" claimed that the new super-corporations created jobs and efficiently produced and distributed goods and services at a lower cost. Others, however, attacked corporate abuses practiced by those they called "robber barons."

What were some arguments in favor of these new large corporations?

By 1880, John D. Rockefeller had merged about 100 independent oil refineries with his Standard Oil Company. He controlled about 90 percent of the U.S. oil business. (Oil was used to light kerosene lamps, utilized throughout the country.) In 1882, Rockefeller formed the Standard Oil Trust. He set up a board of trustees to take control of all the stock from his many connected companies. By forming the Standard Oil Trust, Rockefeller was trying to hide that Standard Oil was a monopoly. Soon corporate leaders in other industries such as railroads, cigarette making, and sugar refining organized their own trusts. The trusts speeded up mergers and eliminated competition among their members. They also concentrated control of national wealth in the hands of a few millionaire families. As monopolies, the trusts often could dictate whatever prices and wages they wanted with little fear of competition.

Why would smaller, independent oil companies be willing to merge with Standard Oil?

What were some of the effects of the creation of these trusts?

In the 1880s, the American public called for government control over the powerful trusts. Progressives demanded that states pass anti-trust laws to make monopolies illegal and regulate the rates charged for some goods. These laws, however, were ineffective because most trusts operated across state lines. Only the federal government could regulate interstate commerce.

Why were the first anti-trust laws mostly ineffective?

To address this issue, in 1890, Congress passed the first federal antitrust law, the Sherman Antitrust Act. It outlawed "every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade." The Sherman Act also made it a crime "to combine or conspire . . . to monopolize any part of the trade or commerce among the several states."

In your own words, explain the Sherman Antitrust Act.

Theodore Roosevelt: From "Trustbuster" to "Regulator"

To crack down on trusts like the Northern Securities Company, what did Teddy Roosevelt do?

Vice President Theodore Roosevelt became president in September 1901, following the assassination of President William McKinley. Despite his generally pro-business outlook, Roosevelt disliked the corruption and arrogance of the new class of super rich, especially those companies who were ignoring the new Sherman Act. In 1902, public demands for "trustbusting" (breaking up the monopolies) prompted him to file suit under the Sherman Act against the biggest railroad trust in the country, J.P. Morgan’s Northern Securities Company.

What reasoning did the Supreme Court give for why trusts (aka “combinations”) were bad?

Northern Securities lost in the lower courts and appealed to the Supreme Court, claiming that the Sherman Act violated the freedom to make contracts. In 1904 in a stunning opinion for the court, Justice John Marshall Harlan declared that "every combination" (aka trust) that eliminates interstate competition was illegal. The court included combinations of manufacturing companies and railroads. The court found that all monopolies tended to restrain trade and "to deprive the public of the advantages that flow from free competition." The court ordered the breakup of the Northern Securities Company into independent competitive railroads.

The voters returned Roosevelt to the White House in the election of 1904. In 1905, he authorized a federal investigation of John D. Rockefeller’s Standard Oil Trust. The investigators uncovered secret rebates Standard Oil was receiving from railroads and concluded that Standard Oil held "monopolistic control . . . from the well of the producer to the door step of the consumer." Roosevelt’s Justice Department filed an antitrust suit under the Sherman Act in 1906.

What kinds of unfair business practices were companies like Standard Oil and the American Tobacco Company engaging in?

The following year, the federal government filed a Sherman antitrust suit against the American Tobacco Company. This trust controlled almost 90 percent of U.S. cigarette, snuff, chewing, and pipe tobacco sales. American Tobacco had bought out over 200 competitors, using such tactics as "fighting brands." These were cigarettes sold at below cost in order to bankrupt competitors.

What were some difficulties/drawbacks of Teddy Roosevelt’s tactic of fighting trusts?

Even so, by the end of his second term, Roosevelt began to believe that not all trusts were bad, and that filing lawsuits against individual monopolies to break them up was a costly and slow process through the courts, he believed. Besides, he held the view that "good" monopolies benefited the public with efficient distribution of new products.