Standard Oil and the Sherman Anti-Trust Act

In 1863, Samuel Andrews developed an effective way to change, or refine, oil into Kerosene. John D. Rockefeller, who had accumulated some wealth in the produce business, invested in Andrews' business. Rockefeller played a significant role in helping Andrews buy additional refinery equipment and advising him on how to grow an effective business. Over time their business, called Standard Oil, became very successful. The company wanted to control all of the oil business in the United States. In order to gain additional customers and business, Standard Oil bought up many other oil companies. The company also cut the price of oil in half between 1865 and 1870 in order to attract new clients. Over time Standard Oil developed contracts with railroad companies that allowed it to ship oil across the country for very low prices. Through its efforts the company came to control all aspects of the oil industry, including the mining of oil, the transportation of oil and the refining of oil. Since Standard Oil controlled the oil industry they could now charge higher prices for oil and force customers to pay the prices. After all, if customers did not pay the prices charged by Standard Oil they did not get oil.

Soon, critics of Standard Oil Company, and other companies that had similar practices, protested that the practices were not fair. They argued that when companies held monopolies and/or trusts they could charge unreasonable prices for the products or services they sold. A trust is a combination of firms that have joined together for the purpose of reducing competition and controlling prices throughout a business or an industry.

In 1890, the United States Congress passed the Sherman Anti-Trust act. It was named for United States Senator John Sherman. The act, based on the constitutional power of Congress to control trade between businesses that occurs across state borders, declared contract or business partnerships that sought to limit trade between customers and other companies illegal. Monetary fines and prison time could be imposed for violating these laws.

Though Standard Oil Company has sought to create a profitable monopoly for itself, the company's actions instead led to the outlawing of monopolies.

1. What was John Rockefeller's role in the Standard Oil Company?
   John Rockefeller invested in the Standard Oil Company so that the company could afford to expand its operations.

2. How did lowering prices help Standard Oil Company attract new customers?
   Standard Oil Company had more money than its competitors. Therefore, they were able to survive on less income. Standard Oil could afford to cut their prices. Other companies that lacked financial infrastructure could not afford to reduce their prices. Consquently, when Standard Oil cut their prices other companies' customers purchased Standard Oil.

3. How did buying other oil company's help Standard Oil gain control of the oil industry?

   Standard Oil Company not only bought the other companies' oil, they also bought the other companies' customers. As Standard Oil added to its customer base it increased its control of the oil industry.

4. Why do you think that the United States Congress prohibited monopolies and trusts?