Digital History
www.digitalhistory.uh.edu

Chapter 7
Robber Baron or Industrial Statesman

Many years ago the term 'robber baron' was applied to German lords who forcibly collected money from every ship passing by their castles on the Rhine River. The same term was later used to describe the captains of industry in America who were said to hold up commerce by controlling the rivers of trade. As one of the most powerful and wealthy businessmen, whose kerosene was used in practically every American home, Rockefeller often invited comparison to those German robber barons. However, a large number of people would disagree with this unfavorable portrait of the oil magnate. Rather than curse him as a pirate who drank deeply from the rivers of trade, admirers portrayed him as a great businessman who eliminated wasteful competition and provided the world with an excellent product at a reasonable price — someone they would rather call an 'industrial statesman.'

Robber baron or industrial statesman? This chapter presents two views of John D. Rockefeller and the Standard Oil Company. The reader is asked to decide which label fits him best.

George Rice on Railroad Rates

For twenty years George Rice attempted to remain in the refining business despite what he claimed was a determined effort by Rockefeller to wipe him out. In 1899, Rice was called to testify before the United States Industrial Commission. Sections of that testimony — much of it corroborated in independent investigations — are quoted below:

> *I am a citizen of the United States, born in Vermont, and have been refining oil for some 20 years. My business had been shut down for three years now, due to the methods that the Standard Oil Trust used to jack up my freight rates. I have been driven from pillar to post, from one railroad line to another, in a vain attempt to get fair railroad rates with the Standard Oil Trust, which I have been utterly unable to do. Consequently, I had to shut down with my business absolutely ruined and my refinery idle. I have done my best to stay in business, and have hoped that I would be saved by the fair and proper execution of the law, which, as yet has not come. But, I am still living in hopes, though I may die in despair.*
>
> *With their unlawfully acquired monopoly, Standard Oil Trust could cut customer's prices temporarily and sell to them below their costs. This they could easily do, and thus effectively wipe out all competition. Standard Oil's prices were generally so high that I could sell my goods at 2 to 3 cents a gallon below their prices and make a nice profit. But, I could not match their price cutting on my customers' goods, because unlike them, I had no other areas to make profits while losing money for the purpose of driving out competition. But, do not just accept my word. Allow me to read to you from a Federal court's decision, Judge Baxter presiding*
>
> *"It appears that the Standard Oil Company and George Rice were competitors in the business of refining oil in the neighborhood of Macksburg, Ohio, and each equally dependent on the same railroad. It further appears that Standard wished to 'crush' Rice and his business. Under the threat of building a pipeline to carry its oil, Standard was able to force the railroad to charge Rice 35 cents a barrel and Standard only 10 cents. In addition, the railroad had to pay Standard a drawback of 25 cents a barrel for every barrel shipped by Rice."*

Furthermore, Rockefeller made threats to my agents who were buying my oil. For instance, he told merchants in Nashville, if they continued buying oil other than Standard's, he would enter into competition on all articles sold in their grocery stores. In New Orleans, Standard offered to pay one merchant a total of $48,000 not to handle my oil. [13]

Rockefeller on Rockefeller

During several decades, when various employees of Standard Oil were hauled before the bar of public opinion, Rockefeller turned out to be the most persuasive witness in his own cause. In the excerpts quoted below, Rockefeller gives his explanation for his success in the oil business. •

Q. To what advantage, or favors, or methods of management do you ascribe chiefly the success of the Standard Oil Company?

A. I ascribe the success of the Standard to its consistent policy to make the volume of its business large through the merits and cheapness of its products. It has spared no expense in finding securing and using the best and cheapest methods of manufacture. It has sought for the best superintendents and workmen and paid the best wages. It has not hesitated to sacrifice old machinery and old plants for new and better ones. It has placed its manufacturers at the points where they could supply markets at the least expense. It has not only sought markets for its principal products, but for all possible by-products, sparing no expense in introducing them to the public. It has not hesitated to invest millions of dollars in methods of cheapening the gathering and distributions of oils by pipelines, special cars, tank steamers, and tank wagons. It has erected tank stations at every important railroad station to cheapen the storage and delivery of its products. It has spared no expense in forcing its products into the markets of the world among people civilized and uncivilized. . . .

Our first combination was a partnership and afterwards a corporation in Ohio. That was sufficient for a local refining business. But dependent solely upon local business we should have failed years ago. We were forced to extend our markets and to seek for export trade. This latter made the seaboard cities a necessary place of business, and we soon discovered that the manufacturing for export could be more economically carried on at the seaboard .

We soon discovered as the business grew that the primary method of transporting oil in barrels could not last. The package often cost more than the contents, and the forests of the country were not sufficient to supply the necessary material. Hence we devoted attention to other methods of transportation, adopted the pipeline system, and found capital for pipeline construction equal to the necessities of business. To operate pipelines required licenses from the states in which they were located. To perfect the pipeline system of transportation required in the neighborhood of fifty millions of capital invested. This could not be built or maintained without industrial combination. The entire oil business is dependent upon this pipeline system. Without it every one would shut down and every foreign market would be closed to us. The pipeline system required other improvements, such as tank cars upon railways, and finally the tank steamer. Capital had to be

13 Quoted in Thomas Manning E. David Cronon and Howard Lamar, The Standard Oil Co., Holt, Rhinehart, and Winston, New York, 1960, pp. 24-25 (edited)

• Rockefeller could also be very forgetful on the witness stand. In one case in 1908, it took him a full minute to remember he was in the oil business.

furnished for them and corporations created to win and operate them. Every step taken was necessary in the business if it was to be properly developed, and only through such successive steps and by such an industrial combination in America today enabled to utilize the bounty which its land pours forth, and to furnish the world with best and cheapest light ever known [14]

Rockefeller as Industrial Statesman

The most thorough study of John D. Rockefeller's career was made by the noted historian, Alan Nevins. In his generally favorable biography, Nevins excused what he considered to be occasional questionable practices by Rockefeller because he had to "use the weapons and instruments of his time," and concluded that his motives were to "impose a more rational and efficient pattern" on the oil industry. Nevins believed Rockefeller was "an organizing genius" who "looms up as one of the most impressive figures of the century" and that those who objected to the methods he used were not engaged in "a struggle against" wrongdoing, but "a struggle against destiny."

It is plain that the place Rockefeller holds in American history is that of a great innovator. His vision brought order to an industry bloated, lawless, and chaotic. Pursuing his vision, he devised a scheme of industrial organization which was magnificent in its symmetry and strength, world-wide in its scope, possessed of a striking novelty.

Rockefeller was a realist.. . . . Partly by intuition, partly by hard thought, he understood the real nature of economic forces, and the real motives operative in American industry. He and the other leaders of the "heroic age" in American business development thus constituted the guiding elite, in a modern sense, of our industrial society. Many of the forces and elements in that society were irrational and wasteful. Rockefeller wished to impose a more rational and efficient pattern, answering to his own intuitions and conclusions. Behind this desire he placed an intellectual keenness, a skill in organization, and a dynamic personal force which were not surpassed, and possibly not equaled, by those of any other industrial captain in history. It is true that some of his methods were open to criticism; but then it must be remembered that he had to use the weapons and implements of his time.

We have said that his place in the history of business was that of a great innovator; and that is also his place in the history of philanthropy. This man who remolded one industry and offered a design for remaking others crowned his activities by the colossal grant of some $550,000,000 to various objects. But the unexampled scale of his gifts is not their most striking feature. What made his donations arresting and memorable was in larger part the skill with which he planned and organized them. He devoutly believed that God had made him a trustee for these hundreds of millions, not to be kept but to be given wisely and carefully. [15]

Rockefeller as Robber Baron

The author of a book on the business captains of the 19th century was so convinced that Rockefeller and other successful monopolists of the time were dishonest and grasping exploiters that he entitled his work, *The Robber Barons*. Matthew Josephson found that Rockefeller's "margin of profit" was consistently controlled by the monopoly and amounted to "grotesques figures." Rockefeller's control over industry,

---

14 Quoted in Thomas Manning E. David Cronon and Howard Lamar op. cit., pp. 25-26 (edited)
15 Allan Nevins, John D. Rockefeller, Volume II, quoted in Earl Latham, ed., John D. Rockefeller: Robber Baron or Industrial Statesman , DC. Heath, Lexington, Mass., 1949, pp. 78-82 (edited)

Josephson suggested, was not the result of superior efficiency, but "of the secret aid of the railroads and the espionage of their freight agents." And the so-called benefits to the consumer, he argued, were but "accidental by-products" of an organization that was clearly "out for the dollar."

> *In the field of retail distribution, Rockefeller sought to create a great marketing machine delivering directly from the Standard Oil's tank wagons to stores in towns and villages throughout the United States. Where unexpected stout resistance from competing marketing agencies was met, the Standard Oil would simply apply harsher weapons. To cut off the supplies of the rebel dealer, the secret aid of the railroads and the espionage of their freight agents would be invoked again and again.*
>
> *The documents show that the independent oil dealer's clients were menaced in every way by the Standard Oil marketing agency; it threatened to open competing grocery stores, to sell oats, meat, sugar, coffee at lower prices. "If you do not buy our oil we will start a grocery store and sell goods at cost and put you out of business." By this means, opponents in the country at large were soon "mopped up;" small refiners and small wholesalers who attempted to exploit a given district were routed at the appearance of the familiar red-and-green tank wagons, which were equal to charging drastically reduced rates for oil in one town, and twice as much in an adjacent town where the nuisance of competition no longer existed.*
>
> *They found ways of effecting enormous economies and always their profits mounted to grotesque figures. Though raw materials declined greatly in value, and volume increased, the margin of profit was consistently controlled by the monopoly; for the service of gathering and transporting oil, the price was not lowered in twenty years, despite the superb technology possessed by the Standard Oil.*
>
> *While the policy of the monopoly, as economists have shown, might be for many reasons to avoid maximum price levels such as invited the entrance of competition in the field, it was clearly directed toward keeping the profit margin stable during a rising trend in consumption and falling "curve" in production costs…As often as not it happened that technical improvements were actually long delayed until, after a decade or more, their commercial value was proved beyond a doubt. It was only after rivals, in desperation, contrived the pumping of oil in a two-hundred mile-long pipeline that Rockefeller followed suit. So it was with the development of various by-products, the introduction of tank cars, etc. The end in sight was always increase of ownership, and of course, profits rather than technical progress in the shape of improved workmanship or increased service to the community. These later effects were also obtained. But to a surprising degree they seem accidental by-products of the long-drawn-out struggles for control over the industry.*[16]

Production, Prices and Profits

The following statistics may help you decide if Rockefeller was an industrial statesman or a robber baron. The figures themselves were gathered by the U.S. Government while preparing its case against Rockefeller's giant oil corporation.

16 Mathew Josephson, The Robber Barons quoted in Earl Latham ed., op. cit. p. 39 (edited)

Standard Oil's Profits — 1883-1906[17]						
Year	**$ Invested**	**$ Profits**	**Barrels**	**Profits on investment**	**Price per gallon**	**Profit per gallon**
1883	72,869,000	11,231,000	16,137,000	15.4%	7.4	5.6
1885	76,762,000	8,382,000	17,578,000	10.9%	8.3	6.3
1887	94,377,000	14,026,000	20,471,000	14.8%	7.1	5.4
1889	101,281,000	14,845,000	27,165,000	14.7%	7.5	5.4
1891	120,771,000	16,331,000	35,997,000	13.5%	7.3	5.3
1893	131,886,000	15,457,000	41,083,000	11.7%	6.1	4.8
1895	143,295,000	24,078,000	40,772,000	16.8%	5.2	3.2
1900	205,480,000	55,501, 000	47,237,000	27.0%	8.5	5.2
1902	231,758,000	64,613,000	50,452,000	27.9%	7.4	4.4
1904	297,489,000	61,570,000	56,204,000	20.7%	8.3	4.4
1906	359,400,000	83,122,000	63,856,000	23.1%	?	?
Totals:	**359,400,000**	**790,000,000**				
1883	72,869,000	11,231,000	16,137,000	15.4%	7.4	5.6

Note the amount of money made by Standard Oil. Does it seem that Standard passed its efficiencies on to the consumer, or that Standard kept the savings in profit? Note also the price of a gallon of oil between 1883-1906. Between 1883-97, prices in general were going down, and between 1893-97, there was a serious depression. Note also that independent refineries claimed that 1/2 cent per gallon was a reasonable profit. Someone might argue that Rockefeller deserved to make these profits as a reward for superior business skills. Read the figures and draw your own conclusions: Rockefeller's private fortune was estimated at $300 million in 1906; in 1913, his fortune was estimated at $900 million – but that was a time when total production in the US (GNP) was about $40 billion. In 1998 it was $7 trillion – almost 200 times more than in 1913

Suggested Student Exercises:

1. Evaluate the evidence presented by Rice and Rockefeller. What light do they shed on the Robber Baron Industrial Statesman debate?

2. After summarizing the main arguments of Nevins and Josephson, explain whether you think the statistics on this page support either historian.

3. Based on all of the information you have on Rockefeller's career, do you think he was a 'Robber Baron' or an 'Industrial Statesman'? Explain.

17Manning et. al. op. cit., pp. 32-34