

Railroad Rebates — Fair Competition or Monopolism?

Critical Thinking: In this section you will analyze opposing viewpoints on the fairness of granting rebates.

6 In 1898 the American industrialist John D. Rockefeller (1839–1937) declared that “the day of individual competition [in the oil business] . . . is past and gone.” Rockefeller himself had done as much as anyone to end it. His own corporation, Standard Oil of Ohio, was refining almost 84 percent of the nation’s oil during the last decade of the 19th century. The oil business was not the only area of the American economy that was tending toward monopoly during this period. In 1870 more than 800 iron and steel companies had competed for business in the United States. By 1900 the number had shrunk to fewer than 70. The individuals who, like Rockefeller (one of the first billionaires in U.S. history), built vast fortunes in the latter half of the 19th century, have been labeled “robber barons” by some historians, “economic statesmen” by others. The writer Mark Twain dubbed the era the “Gilded Age,” a period when the vulgar display of the newly rich masked the dog-eat-dog economic struggle that had produced their wealth. Rockefeller’s business practices were typical of his time. One practice that was particularly controversial was the granting of rebates by the railroads to Standard Oil. The rapid growth of the railroads between 1870 and 1900 had led to intense competition among them for freight business. During this period the railroads gave large customers discounts in the form of secret rebates. This meant that they would return to a company part of the money charged for the shipment of goods. Of course, this put small shippers at a great disadvantage; but in an age when monopoly, rather than competition, was what many a great industrialist desired, Rockefeller was a master of what has come to be known as “the art of the deal.” In the first of the following readings, an excerpt from his autobiography, Rockefeller gave his version of the rebate system.

0 f all the subjects which seem to have attracted the attention of the public to the affairs of the Standard Oil Company, the matter of rebates from railroads has perhaps been uppermost. The Standard Oil Company of Ohio, of which I was president, did receive rebates from the railroads
5 prior to 1880, but received no advantages for which it did not give full compensation.

The reason for rebates was that such was the railroads’ method of business. A public rate was made and collected by the railroad companies, but, so far as my knowledge extends, was seldom retained in full; a portion of it was
10 repaid to the shippers as a rebate.

By this method the real rate of freight which any shipper paid was not known by his competitors nor by other railroad companies, the amount being a matter of bargain with the carrying company. Each shipper made the best

bargain that he could, but whether he was
15 doing better than his competitor was only a matter of conjecture [guesswork]. Much depended upon whether the shipper had the advantage of competition of carriers.

The Standard Oil Company of Ohio, being
20 situated at Cleveland, had the advantage of different carrying lines, as well as of water transportation in the summer. Taking advantage of those facilities, it made the best bargains possible for its freights. Other companies sought to do the same.

The Standard gave advantages to the railroads for the purpose of reducing
25 the cost of transportation of freight. It offered freights in large quantity, carloads and trainloads. It furnished loading facilities and discharging facilities at general cost. It provided regular traffic, so that a railroad could conduct its transportation to the best advantage and use its equipment to the full extent of its hauling capacity without waiting for the refiner’s convenience.
30 It exempted railroads from liability for fire and carried its own insurance. It provided at its own expense terminal facilities which permitted economies in handling. For these services it obtained contracts for special allowances on freights. But notwithstanding these special allowances, this traffic from the Standard Oil Company was far more profitable to the railroad companies
35 than the smaller and irregular traffic, which might have paid a higher rate.

To understand the situation which affected the giving and taking of rebates, it must be remembered that the railroads were all eager to enlarge their freight traffic. They were competing with the facilities and rates offered by the boats on lake and canal and by the pipe lines. All these means of transporting oil
40 cut into the business of the railroads, and they were desperately anxious to successfully meet this competition. . . .

The profits of the Standard Oil Company did not come from advantages given by railroads. The railroads, rather, were the ones who profited by the traffic of the Standard Oil Company, and whatever advantage it received in
45 its constant efforts to reduce rates of freight was only one of the many elements of lessening cost to the consumer which enabled us to increase our volume of business the world over because we could reduce the selling price.

I well remember a bright man from Boston who had much to say about rebates and drawbacks. He was an old and experienced merchant, and looked
50 after his affairs with a cautious and watchful eye. He feared that some of his competitors were doing better than he in bargaining for rates, and he delivered himself of this conviction:

“I am opposed on principle to the whole system of rebates and drawbacks — unless I am in it.”

In the second reading, oil man George Rice, one of Rockefeller’s competitors put out of business by Standard Oil, denounced the granting of rebates and other monopolistic business practices in an excerpt from his testimony before the U.S. Industrial Commission in 1899.

The reason for rebates was that such was the railroads’ method of business.

I am a citizen of the United States, born in the state of Vermont. Producer of petroleum for more than thirty years, and a refiner of same for twenty years.

But my refinery has been shut down during the past three years, owing to the powerful and all-prevailing machinations [schemes] of the Standard Oil Trust, in criminal collusion and conspiracy with the railroads to destroy my business of twenty years of patient industry, toil, and money in building up, wholly by and through unlawful freight discriminations.

I have been driven from pillar to post, from one railway line to another, for twenty years, in the absolutely vain endeavor to get equal and just freight rates with the Standard Oil Trust, so as to be able to run my refinery at anything approaching a profit, but which I have been utterly unable to do. I have had to consequently shut down, with my business absolutely ruined and my refinery idle.

This has been a very sad, bitter, and ruinous experience for me to endure, but I have endeavored to the best of my circumstances and ability to combat it the utmost I could for many a long waiting year, expecting relief through the honest and proper execution of our laws, which have [has] as yet, however, never come. But I am still living in hopes, though I may die in despair. . . .

Outside of rebates or freight discriminations, I had no show [chance] with the Standard Oil Trust, because of their unlawfully acquired monopoly, by which they could temporarily cut only my customers' prices, and below cost, leaving the balance of the town, nine-tenths, uncut. This they can easily do without any appreciable harm to their general trade, and thus effectually wipe out all competition, as fully set forth. Standard Oil prices generally were so high that I could sell my goods 2 to 3 cents a gallon below their prices and make a nice profit, but these savage attacks and [price] cuts upon my customers' goods . . . plainly showed . . . their power for evil, and the uselessness to contend against such odds. . . .

I have been driven from one railway line to another to get equal and just freight rates . . .

CRITICAL THINKING ABOUT CONTROVERSIAL ISSUES

PART A ANALYZING THE READINGS

Answer each of the following questions.

- Identifying central issues.** How did John D. Rockefeller justify his corporation's practice of receiving rebates from the railroads?
- Identifying central issues.** What were George Rice's views about how competition functioned in the American oil business in the late 19th century?
- Determining relevant information.** How important was free and fair competition to Rockefeller? How important was it to Rice?
- Drawing conclusions.** Judging by both accounts, what was the impact of Standard Oil's practices on the prices paid by consumers?

- Recognizing values.** What attitude toward business ethics is reflected in the remark of the "old and experienced merchant" quoted by Rockefeller?

PART B EXPRESSING OPINIONS

Determine your opinion of each of the following statements, indicating the response that best expresses your view. Be prepared to defend your opinion in classroom discussion.

- Most people in business would rather have a monopoly on the products they sell than have real competition.
a. strongly agree b. agree c. disagree d. strongly disagree
- If their competitors operate outside the regulations set by the government, business people have no choice but to break the law in order to survive.
a. strongly agree b. agree c. disagree d. strongly disagree
- Small businesses are obsolete in an American marketplace that is dominated by giant corporations — they should accept their fate and retire from competition.
a. strongly agree b. agree c. disagree d. strongly disagree
- The greatest problems currently faced by the American economy are the result of monopolistic practices by corporations.
a. strongly agree b. agree c. disagree d. strongly disagree
- The growth of monopolies served a useful purpose in the late 19th century by strengthening a few American companies to adequately compete in the world market.
a. strongly agree b. agree c. disagree d. strongly disagree

PART C WRITING ABOUT CONTROVERSIAL ISSUES

Select one of the following writing projects and complete it in a brief composition (three to five paragraphs).

- Making comparisons.** Contrast the picture of economic competition in the American oil business in the late 19th century presented by John D. Rockefeller with that presented by George Rice.
- Expressing problems.** Write an editorial in which you support or attack the position expressed in number three of Part B above.
- Expressing problems.** Argue for or against the position that government anti-trust actions — as in the court-ordered breakup of Bell Telephone in the 1980s — have gone too far and no longer serve the best interests of the U.S. economy and American consumers.