



Standard Oil Company v. United States (1911)

The Supreme Court decision that established the “rule of reason” in antitrust law and demonstrated the government’s power to regulate monopolies and increase competition

Background

In 1870, at the start of the **Gilded Age**, John D. Rockefeller founded Standard Oil Company in Cleveland, Ohio. During this period of mass industrialization, unprecedented economic growth, and technological advancements, **entrepreneurs** like Rockefeller used new business strategies to grow their companies rapidly. Standard Oil squeezed out its competitors by purchasing all of the means of production and driving smaller oil refineries with less money out of business. Rockefeller also negotiated private deals with railroads, resulting in low shipping rates and **kickbacks** exclusive to Standard Oil. As small oil refineries approached bankruptcy, Standard Oil bought them out and consolidated the stocks into **trusts**. This strategy gave Standard Oil a **monopoly** over the oil industry and led to a massive concentration of wealth. Rockefeller was worth \$1.5 billion when he died in 1937, becoming the world’s first billionaire.

In 1890, Congress attempted to limit monopolies’ power and promote fair competition by passing the **Sherman Antitrust Act**. The act was initially applied to labor unions, however, as courts ruled that boycotts and strikes restrained trade. It was rarely enforced against industrial monopolies. In 1895, the Supreme Court’s decision in *EC Knight Company v. United States* narrowed the scope of the act’s power by exempting manufacturing companies. As a result, the antitrust act had limited reach and big businesses continued to dominate the economy.

In the early 1900s, a growing number of reformers fought to reclaim economic power from Rockefeller and other so-called “**robber barons**.” Ida Tarbell, for example, became one of several “**muckraker**” journalists whose research and writing exposed the harm caused by some American capitalists. Her 1904 book, *The History of the Standard Oil Company*, revealed the business’s corrupt tactics and generated public outrage. Even President Theodore Roosevelt (1901-1909) joined the **Progressive Movement**, leading a crusade against what he called the “bad trusts”—trusts that grew their wealth through exploiting consumers and destroying small businesses. Under Roosevelt’s direction, the Department of Justice brought a number of cases against large corporations under the Sherman Antitrust Act. In 1905, he ordered an investigation of the Standard Oil Trust.

Facts

The United States Department of Justice sued Standard Oil Company in 1906 for violating the Sherman Antitrust Act. The government filed a massive report—about 12,000 pages—detailing 40 years of **nefarious** business dealings that purposefully and illegally excluded competitors from the market. These findings, the government argued, proved that the trust was “in restraint of trade and amounted to the creation of an unlawful monopoly.” A federal **circuit court** agreed in 1909, holding that Standard Oil violated the Sherman Antitrust Act. The court ordered that the company be dissolved. Standard Oil appealed the decision to the Supreme Court of the United States.

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Issues

1. Did Standard Oil Company violate the Sherman Antitrust Act?
2. Did the Sherman Antitrust Act prohibit all restraints on trade or only “unreasonable” restraints on trade?

Summary

In *Standard Oil Co. of New Jersey v. United States* (1911), the Supreme Court unanimously upheld the lower court’s decision to dissolve Standard Oil. Writing for the majority, Chief Justice Edward D. White reasoned that the company’s monopoly was “*the inevitable result*” of combining the stocks of so many corporations. He said that Standard Oil intended to dominate the oil industry “*not as a result of normal methods of industrial development, but by new means of combination... with the purpose of excluding others from the trade.*”

The justices then weighed a company’s **right to contract** against the potential harm caused by its monopolistic behavior. They reviewed the scope of the Sherman Antitrust Act, which broadly outlawed “*every contract, combination...or conspiracy in restraint of trade or commerce.*” According to the Court, a company had “*unduly*” restrained trade only if its actions resulted in one of three outcomes: higher prices, reduced output or reduced quality. Therefore, the antitrust law needed to be viewed “*in light of reason,*” and not necessarily applied to every large corporation with a monopoly. The Court ruled that the Sherman Antitrust Act barred only monopolies that placed *unreasonable* restraints on trade—a qualification that applied to Standard Oil. As a result, the decision dissolved the trust into 34 independent companies, split geographically, that would compete with each other.

Precedent Set

Standard Oil created a framework for evaluating whether a corporation violates the Sherman Antitrust Act. This principle, known as the “rule of reason,” continues to be used in antitrust cases.

Additional Context

In his retirement, John D. Rockefeller became a **philanthropist** and used his fortune to create foundations to advance public health, education, and medical research. Though the Court dissolved Standard Oil in 1911, some of the spun-off companies have recombined. ExxonMobil and

Chevron, two of the top three largest oil companies in the world, are direct descendants of Standard Oil.

Progressive reformers and politicians continued to advocate for limits on corporate power. In 1914, the **Clayton Antitrust Act** and the **Federal Trade Commission** (FTC) strengthened the Sherman Antitrust Act. The FTC provided an expert agency to enforce the antitrust laws, while the Clayton Act outlawed practices that reduced competition. Not everyone, however, supported these reforms. Many disagreed over the government's role in the economy. Business owners, especially, argued that **laissez-faire** policies with minimal government intervention were best for the economy as they would allow companies to achieve economies of scale and be competitive on the world market.

Discussion Questions

1. How did John D. Rockefeller build a monopoly over the oil industry?
2. How do monopolies impact consumers?
3. Did Standard Oil violate the Sherman Antitrust Act? Explain.
4. The Supreme Court held that the Sherman Antitrust Act needed to be reviewed “in light of reason.” What do you think this means?
5. Why do you think business owners preferred laissez-faire policies to Progressive reforms?

Vocabulary

- **Gilded Age** – a period of rapid industrialization, economic growth, and significant social and political change.
- **Entrepreneurs** – people who organize and operate a business or businesses, taking on greater than normal financial risks in order to do so.
- **Kickbacks** – an illegal practice where someone in a position of power or influence accepts money or something of value in exchange for awarding a contract or preferential treatment to another party
- **Trust** – a trust is a relationship in which one person holds title to property, subject to an obligation to keep or use the property for the benefit of another.
- **Monopoly** – a market structure where a single seller or producer controls the entire supply of a particular good or service, eliminating competition and giving the monopolist significant control over price and availability.
- **Sherman Antitrust Act of 1890** – a federal law that prohibits activities that restrict interstate commerce and competition in the marketplace. It was put in place to address monopolies.
- **Robber Barons** – American capitalists of the latter part of the 19th century who became wealthy through exploiting resources, governmental influence, and labor.
- **Muckraker** – a journalist who uses a form of investigative reporting that aims to expose corruption, injustice, and societal issues.
- **Progressive Movement** – was a turn-of-the-century political movement interested in furthering social and political reform, curbing political corruption caused by political machines, and limiting the political influence of large corporations.

- **Nefarious** – criminal or corrupt.
- **Circuit court** – a court with the authority to review disputes brought up in a previous trial.
- **Right to contract** – the freedom to enter into employment or conduct business without interference from the state or federal governments
- **Clayton Antitrust Act** – a U.S. federal law that aims to prevent anti-competitive practices and promote fair competition among businesses.
- **Federal Trade Commission** – an independent U.S. government agency that is responsible for protecting consumers and promoting competition in the marketplace.
- **Laissez faire** – an economic theory where there is minimal government interference in the economy
- **Philanthropist** – a person who seeks to promote the welfare of a good cause, especially through charitable donations

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