John d. rockefeller on capitalism

ASSIGN BUSTER

John Davison Rockefeller, an industrialist, was born in July 8, 1839 in Richford, New York. He is the second out of the six children of William Avery Rockefeller and Eliza Davison. His parents were his primary influences during his early years. John's father did not live a good life. He was accused of rape in 1849, so their family left for Owego, NY so his father can escape the trial. His father also assumed different identities and skills. He estimated land and he also claimed that he is capable of curing cancer. He committed adultery by remarrying using a false name of Dr. Levingston, while he is still married to Eliza.

The only possible useful thing that his father is able to teach him is how to handle money. His father is an expert to anything that concerns cash. If not for his mother, John would not have been raised with good values. Eliza made up for what William Avery failed to teach his kids. Eliza taught his kids to be hardworking and god-fearing. This must have been the reason why John D. grew up to be charitable (Duroy, 1999, par. 1). John D. studied in Central High School, a school for the privileged. He was a quiet student and had a small circle of friends. Nevertheless he is a strong-minded individual and in the year 1855, he graduated. At the young age of 16, he worked as a book keeper for Hewitt and Tuttle, a commission house in Cleveland, Ohio. However, he deemed the salary insufficient so he put up his own commission house with the help of Maurice Clark in 1858. The business clicked because of rising prices of commodities brought about by the Civil war (Duroy, 1999).
Formation of the Standard Oil Company

Seeing the war as an opportunity to invest on a new business, Rockefeller and Clark considered the profitability of an oil business. Along came Samuel

Andrews, who convinced them to invest $4, 000 to start up an oil refinery business. Now, Andrews developed a refining process that is cost effective and yields quality oil. The venture grew and made the industry more attractive. The initially risky investment ended up to be an undoubtedly lucrative business. Rockefeller in response made a move and sold his share of the commission business and put it in the refinery (Tarbell, 1996, p. 42-43). In the year 1862 Rockefeller together with Henry Flagler and Samuel Andrews organized a firm named initially as Rockefeller, Andrews & Flagler. By the year 1870 they changed their name into Standard Oil Company or more commonly known as the Standard Oil Company of Ohio.

These three men, along with Rockefeller's brother William, run the firm (" Rockefeller," 2005). The firm branched out all over the state, developing and increasing its refineries. According to The Atlantic Monthly, Standard Oil has an estimated capital of $3, 500, 000 which is divided among its stockholders annually. It has refineries all over America, namely, Cleveland, Baltimore, and New York. This is how big Standard Oil is. Even if the company produces only about 20 percent of petroleum, it still can dictate the oil prices (1881). The company's success can be attributed to its efficiency. During this period, other refineries treat gasoline as wastes and disposed them in rivers. Standard Oil on the other hand makes use of this " waste" to fuel its own equipments. Rockefeller is able to minimize his costs through selling scrap metals in junk shop, buying oil directly from the wells, making his own barrels (Tarbell, 1996, p. 43). There is really a big effort to cut cost.

Formation of the south improvement company

The oil refining business boomed. It yielded high profit and has a very high demand. Due to this, many investors became attracted to the business and ventured into it. During this time there was an average production of three barrels for every refinery. Soon, the supply exceeded the demand (Tarbell, 1996, par. 54). This is a basic concept in economics. If there are initially few suppliers and there is a high demand for a specific good, the price of the commodity is higher.

The high profit that can be gained would then attract new entrants into the business and there will come a point when the supply of the good would higher than the actual demand. This would cause the price of the commodity to go down. This is what happened in the oil refining business, the entrance of other refining companies drove the price of refined oil down. There was a decrease in the selling price of refined oil from 58. 75 per gallon in 1865 to 26. 38 by the year 1870 (Tarbell, 1996, par. 54). The price was reduced by almost half of its initial selling price in just a span of five years. The price fall also affected Rockefeller's expenditures. In the year 1865 he gained an estimate of 73% on his sales. After deducting all his administrative and selling expenses, he is still gets an appealing operating margin. But come 1970, his revenues was cut back by 40% and naturally this would also affect his income. Another threat to the oil refining business is the increased consumption of crude oil of importing countries. Oil was one of the top commodities that America is exporting since its discovery 12 years from during that time.

However, the foreign countries that initially imported refined oil shifted to buying crude oil and chose to refine the commodity locally. This would result

to cheaper refined oil compared to the ones they import from America. France even imposed tax on imported American refined oil to give support to its local oil refining companies (Tarbell, 1996, par. 54). The damaging effect of the intense and still growing competition to the profitability of the business lead Rockefeller and his partners to set forth a strategy that would eliminate competitors and bring the prices of refined oil back to its original level. The foremost effort of Rockefeller's intention to monopolize the crude market is revealed in his support in putting up the South Improvement Company in early 1872. Its purpose is to unite other oil refiners in Cleveland with the Standard Oil Company.

This is made possible by setting up an agreement with railroad conductors to charge high freight fees to non-members of the association and grant rebates to those who are. Rail road operators approved of this arrangement since it prevents price wars among rail companies. Another factor is that Standard Oil is a heavy user of their facilities, since it is their only way of transportation, and therefore one of their biggest clients (" Rockefeller," 2005). An unidentified group of Pennsylvanian refiners suggested a scheme to bring together secretly a large enough body of refiners and shippers and then persuade all the railroads that were handling oil, to give them a special rebate on its oil, the drawbacks of that on other people. With the rates that they got from special rebates and such, it was obvious that no one outside their company could compete with them and would eventually become refiners only.

This situation strengthened the formed company's hold in the oil industry, giving them the ability to limit the refiners output to actual demand, so as to

keep up prices of oil. With this kind of power over the oil industry, it was easy for the company to persuade railroad to transport no crude for exportation, so that foreigners would be forced to buy from them. They believed that an advancement of fifty percent on the price of oil would be easily implemented on the exportation of oil (Tarbell, 1996, par. 54). One specific railroad company that joined this agreement is the Pennsylvania Railroad. The contract of the rail company with Standard Oil states that the rail company would double its rates to other oil companies but would give one dollar rebate for every barrel of oil it ships and for every barrel Standard oil's competitors would transport (The Atlantic Monthly, 1881). This move shook the oil industry specially the small-scale refineries.

Many protested this agreement so after only three months of implementation, the agreement was called off. But it was already too late, for Standard's competitors were already bought by the company and by the year 1878, Standard Oil owned the refineries in New York, Pittsburgh and Philadelphia, Pennsylvania (" Rockefellers," 2005). With this kind of scheme, it was not long before the entire oil business was on their hand, being the only buyer and seller in the country (Tarbell, 1996, par. 54). Standard Oil company was paid by Mr. Vanderbilt, through an alias, the American Transfer Company. A thirty-five cent rebate on every barrel on all crude oil was given, whether it is a shipment by Standard or its rivals. In June 1879, when a connecting railway was built to the Reading Railroad to the seaboard, Mr. Vanderbilt lowered his charges from $1. 40 to $1. 25 a barrel to thirty-five and twenty-five cents. But the fee is still higher compared to the amount asked from Standard. It ranged from an initial amount of twenty cents, then

went down to fifteen and finally reached a very low price of ten cents per barrel (The Atlantic Monthly, 1881). A forty percent difference from its competitors.

For this amount Vanderbilt transports a three hundred-ninety pound of barrel from Standard for over 400 miles and brings back the empty containers. Mr. Vanderbilt made the use of his oil cars and oil terminal facilities exclusive to Standard Oil. This gave Standard the authority to impose on the rates of the use of the oil cars and oil terminal facilities (The Atlantic Monthly, 1881). Formation of the standard oil trust

Trust or also referred to as monopoly aims to remove any rivals in the industry in order to gain full control of the market (Peterson, 2005). In Standard's case, Rockefeller and his partners created the Standard Oil Trust in 1882. This is the primary corporate trust organized by the firm with the goal of unifying all oil business across the United States and naming them under one company (" Rockefeller." 2005). The formation of the trust was suggested by an attorney of Standard Oil, Samuel Dodd. Rockefeller convinced the shareholders of the 40 companies connected with his original firm, Standard Oil Company of Ohio, to hand in their common stock to nine trustees in exchange for trust certificates (Peterson, 2005).

Twenty stock certificates were granted to each stockholder for every Standard Oil stock owned. Shortly, Rockefeller was able to take hold of 90 percent of the oil refineries in the states. The board of nine trustees is under Rockefeller and has jurisdiction over the firm's properties and affiliates (The Linux Information Project [LINFO], 2006). However many protested the

control, including journalists and the small players in the oil refining industry (Peterson 2005). Not only does monopoly reduce job opportunities, but it also increase cost because of lack of competition (LINFO, 2006, par. 25).

This led to its dissolution in the year 1892 as ordered by the Ohio Supreme Court. Standard was separated from the trust and became a stand alone business. Rockefeller and his associates regrouped the Standard oil companies into 20 businesses (Peterson, 2005). The unified organization of the trust generated a disciplined regulation of production levels on oil, making owners of oil companies gain complete control over prices. This was due to the fact that the U. S. oil industry knew well the great profit potential and also due to the fact that they are aware of the power of monopoly.

The disciplined regulation of the levels of oil production also came into action also because profits were so high that even fluctuations in the prices of oil didn’t deter some oil producers in cheating their outputs (LINFO, 2006, par. 22). Three reasons are identified as to how Standard Oil obtained their massive and unprecedented profits, these are; (1) the complete control over the prices of oil, consequently giving them the power to steer the prices of oil in the market thus maximizing their profits; (2) economies of scale that were huge, which was obtained from the complete control over the prices of oil and the control of U. S. refined oil, and lastly; (3) obtaining bargain rates from railroads and other suppliers of goods and services thru pressure (LINFO, 2006, par. 22).

But good control over the oil industry and gaining unparalleled power and wealth didn’t stop the desire of Standard Oils to obtain more money and

power, which made them expand to a wider market which includes Western Europe and Asia. This move made an unexpected result; Standard Oils was selling more oil to their new market than that of their market in the U. S. With the boost garnered in venturing into overseas trading, Rockefeller invested in different companies that encompass industries in manufacturing, transportation and other industries. Also, Rockefeller gained ownership of major iron mines and huge tracts of timberland (LINFO, 2006, par. 22). With the unstoppable progress shown by Standard Oil in terms of success, different companies were encouraged to adopt the style of the Rockefeller Company, particularly during the last few decades of the 19th century.

And with a company as big as Standard Oils, it was not hard for them to establish close bonds with different industries, mainly railroads, coal, steel, tobacco, sugar and meatpacking. However, none of these other companies reached the level of profitability and growth of Standard Oils (LINFO, 2006, par. 22). Anti trust law With the obvious monopoly of power by Standard Oils and the American Tobacco Company, a major court decision was made that these companies would be broken down into smaller, competing firms. This was done in 1911 regard to the Sherman Act. On May 15, the Supreme Court pronounced that Standard Oil company along with its nineteen subsidiaries committed a " conspiracy and combination in restraint of trade" (" Rockefeller," 2005). The combining of the stocks of the Standard Oil New Jersey and its subsidiaries is an act of restraint and reveals an intention to monopolize the industry making it therefore a violation of the Anti-trust Act.

" The decree was against seven individual defendants, the Standard Oil Company of New Jersey, thirty-six domestic companies, and one foreign

company which the Standard Oil Company of New Jersey controls by stock ownership (LINFO, 2006).” The “ rule of reason” principle shall be applied with respect to industrial combination. The Sherman Act gave the Antitrust Division of the Justice Department the litheness in passing business practices that might violate antitrust statutes (Peterson, 2005).

The policy pronounced illegal “ every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations.” Offenders will be prosecuted with criminal penalties and the aggravated parties will receive up to three times the amount of the inflicted damages done caused by the antitrust violations (LINFO, 2006).