



John D. Rockefeller and His Enemies

BY BURTON FOLSOM, JR.

One hundred years ago John D. Rockefeller, America's first billionaire and the head of Standard Oil, faced a critical issue: what should he do about the criticisms of investigative journalist Ida Tarbell?

To Rockefeller, the solution was simple—ignore her. He was marketing 60 percent of all oil sold in the whole world. His company was popular with consumers everywhere. Therefore, let his actions speak for themselves.

Rockefeller had entered the raucous oil business during the Civil War, when oil often sold for a dollar a gallon. While most refiners dumped oil byproducts into nearby rivers, Rockefeller wisely hired research-and-development men to produce waxes, paving materials, and detergents from the seemingly unmarketable sludge that was discarded. He also developed the technology to get more kerosene out of a barrel of oil than anyone else. Rockefeller had become a billionaire by making a fraction of a cent per gallon selling millions of gallons of kerosene to illuminate every civilized part of the earth.

The result was often win-win for everyone. The U.S. became a major industrial country, and inefficient refiners in the United States sold out for Standard Oil stock, which often made them comfortable for life. As one editor in oil-rich Titusville, Pennsylvania, exclaimed, "Men until now barely able to get a poor living off poor land are made rich beyond their wildest dreaming."

However, even with cheap oil and the prospering of the United States, Ida Tarbell was unhappy. In 1904 she wrote *The History of the Standard Oil Company*, which complained loudly about Rockefeller and his company.

He was a cutthroat competitor, she insisted, who relied on rebates to outsell his rivals. "The ruthlessness and persistency with which he cut and continued to cut their prices drove them to despair," she wrote. Furthermore, he low-balled those whom he sought to buy out. Innuendo became a powerful Tarbell weapon: "There came to be a popular conviction that the 'Standard would do anything.'" She concluded that Rockefeller "has done more than any other person to fasten on this country the most serious interference with free individual development."



Ida Tarbell, critic of John D. Rockefeller and author of *The History of Standard Oil Company*
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How might we explain Tarbell's astonishing animus? The motivating force seems to be that her father, whom she adored, chose to compete with Rockefeller rather than sell to him. When Franklin Tarbell proved unable to market oil for eight cents a gallon, he brooded at home and Ida's blissful childhood was diminished. Her brother became an officer for a competing oil company, so when Ida was growing up she heard much grumbling about Standard Oil.

Tarbell serialized her book in *McClure's* magazine, which was a prominent publication of the early 1900s. The timing of her attacks meshed well with certain fears that were growing in America about large companies and their potential for monopoly and price-fixing. In 1901, for example, U.S. Steel had become the first billion-dollar corporation and it controlled more than 60 percent of the steel market. Would monopolies prevail and competition be diminished? Tarbell suggested that Standard Oil's sinister rise to power was dangerous and undesir-

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able. President Theodore Roosevelt agreed, and with his blessing the Justice Department began a lengthy assault on Standard Oil that resulted in its break up into more than 30 companies.

Beware Muckraking

The Wal-Marts of the world need to take note: Political agitation plus muckraking can defeat a competitive product enjoyed by millions of consumers. Rockefeller's decision to "let the facts speak for themselves" was naïve. His "facts" were dwarfed by the negative publicity from *McClure's*, from editorial pages, and finally from the White House. In 1911 the Sherman Anti-Trust Act was used against Standard Oil.

If Rockefeller had chosen to challenge Tarbell, he could have made two useful points. First, Standard Oil rose to economic power not on rebates but on providing cheap oil to the general public. "We must ever remember," Rockefeller told one of his partners, "we are refining oil for the poor man and he must have it cheap and good." Or as he put it to another partner, "Hope we can continue to hold out with the best illuminator in the world at the *lowest* price."

Rockefeller did receive large rebates, but he earned them by supplying the largest shipments of oil. Without the large shipments, which came through low costs of production, he would not have had any leverage to win low shipping rates from the railroads. In any case, those low costs were mainly passed along to consumers by further reducing the price of his oil.

Second, Rockefeller avoided predatory price-cutting because it tended to hurt him more than his competitors. That point is often hard to understand, but economist John S. McGee did extensive research on Standard Oil's pricing policies and discovered that predatory price-cutting was an anathema to Rockefeller.

As McGee and others have pointed out, since Rockefeller did most of the oil business in the United

States, if he cut prices he would be losing the small profits he was earning on the lion's share of the business he was already doing. Also, even if he gained a 100 percent market share, that gain would be temporary. The moment he tried to raise prices, other competitors would re-emerge, the price would fall again, and Rockefeller would (at best) be back where he started.

The charges that Rockefeller thrived on "unfair rebates" and that he was eagerly waiting to employ predatory price-cutting did him a great deal of damage and offset the favorable opinion many Americans had of him and of his oil.

Tarbell also attacked Rockefeller's character. She wrote that his "big hand reached out from nobody knew where, to steal their conquest and throttle their future. The suddenness and the blackness of the assault on their business stirred to the bottom their manhood and their sense of fair play."

Even Rockefeller's relatively modest house, Tarbell claimed, was "a monument of cheap ugliness." Yes, she conceded, his frugality was "a welcome contrast to the wanton lavishness which on every side of us corrupts taste and destroys a sense of values." However, she noted, "One would be inclined to like Mr. Rockefeller the better for his plain living if somehow one did not feel that here

was something more than frugality, that here was parsimony . . . made a virtue."

If Rockefeller instead had built a magnificent mansion and had spent money lavishly, she could then have attacked him for wasting the money he greedily extracted from others. Rockefeller could not win, and that was, in part, the problem of allowing Tarbell to go unchallenged.

Sometimes Tarbell must have been perplexed. Rockefeller, she admitted, was a stable family man who was loved by his wife and children. By contrast, her boss, S. S. McClure, was a chronic adulterer. But she chided McClure in private and Rockefeller on the pages of her bestseller.

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