**Progressives and the Era of Trust-Busting**

Theodore Roosevelt is often given credit for launching the era of trust-busting, but he preferred government regulation of monopolies. “Captains of industry” like John D. Rockefeller and J. P. Morgan formed huge corporations owned by stockholders. The companies grew through two strategies — vertical integration and horizontal integration. In vertical integration, a company operates on more than one stage of production and distribution. For example, the Pabst Brewing Company owned breweries, saloons, and even forest lands for the wood to make beer barrels.

In horizontal integration, a company expands by merging, usually by buying out rival firms. Between 1897 and 1901, more than 2,000 mergers took place in the United States.

This horizontal integration reduced the number of competitive companies in an industry.

Defenders of “corporate bigness” claimed that the new super-corporations created jobs and efficiently produced and distributed goods and services at a lower cost. They further argued that property and contract rights permitted businesses to pursue their economic interests as they saw fit without government interference. This reflected the *laissez faire* (let business alone) idea of capitalism.

Others, however, attacked corporate abuses practiced by those they called “robber barons.” The large corporations sometimes would sell their products below cost until they drove competitors into bankruptcy or forced them to merge. Once a dominant firm eliminated most of its competition, it became a monopoly that could charge whatever prices and pay whatever wages it wanted.

By 1880, John D. Rockefeller had merged about 100 independent oil refineries with his

Standard Oil Company. He controlled about 90 percent of the U.S. oil business. (Oil was used to light kerosene lamps, utilized throughout the country.) In 1882, Rockefeller formed the Standard Oil Trust. He set up a board of trustees to take control of all the stock from his many vertically and horizontally connected companies.

**The Progressives Demand Antitrust Laws**

By forming the Standard Oil Trust, Rockefeller was trying to hide the fact that Standard

Oil was a monopoly. Soon corporate leaders in other industries such as railroads, cigarette making, and sugar refining organized their own trusts.

The trusts speeded up mergers and eliminated competition among their members. They also concentrated control of national wealth in the hands of a few millionaire families. As monopolies, the trusts often could dictate whatever prices and wages they wanted with little fear of competition.

Newspapers and magazines wrote stories raising questions about the trusts. As public criticism mounted during the 1880s, the American public called for government control over the powerful trusts. Reformers, called Progressives, demanded that states pass antitrust laws to make cartels and monopolistic practices illegal and to regulate railroad rates. These laws, however, were ineffective because most trusts operated across state lines. Only the federal government could regulate interstate commerce.

In 1887, Congress passed the federal Interstate Commerce Act. This law required interstate railroads to charge “reasonable and just” rates. But the Interstate Commerce

Commission, which monitored the railroads, ended up with little authority to enforce its rulings.

In 1890, Congress passed the first federal antitrust law, the Sherman Act. It outlawed “every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade.” The Sherman Act also made it a crime “to combine or conspire . . . to monopolize any part of the trade or commerce among the several states.” In the decade following passage of the Sherman Act, the generally pro-business presidents did little to enforce it. In fact, during this period, more mergers occurred and trusts were formed than ever before.

In 1895, the U.S. Supreme Court ruled that the Sherman Act could regulate interstate sales and transportation. But the court said the act could not ban the merger of manufacturing assets themselves, even by companies operating in interstate commerce who established monopolies. The court reasoned that manufacturing was not part of interstate commerce. In another case that year, the Supreme Court decided that the Sherman Act could bar union strikes that interfered with interstate commerce. Ironically, while Congress intended the Sherman Act to combat the big trusts, it was becoming a major weapon against organized labor.

**Theodore Roosevelt: From “Trustbuster” to “Regulator”**

Vice President Theodore Roosevelt became president in September 1901, following the assassination of President William McKinley. In his First Annual Message to Congress, Roosevelt expressed his admiration for the “strong and forceful men” who had “done great good” by building up the commerce of the nation. But he also observed that “there are real and grave evils” that needed to be corrected.

Roosevelt told Congress he opposed banning monopolies. Instead, he preferred that the federal government “assume power of supervision and regulation over all corporations doing an interstate business.”

Despite his generally pro-business outlook, Roosevelt disliked the corruption and arrogance of the new class of super rich. In 1902, public demands for “trust-busting” (breaking up the monopolies) prompted him to file suit under the Sherman Act against the biggest railroad trust in the country.

In 1901, James J. Hill, E. H. Harriman, and J. P. Morgan had made a secret deal to combine their railroad stocks in a “holding company,” another type of trust. Their new company, the Northern Securities Company, controlled all the major railroads in the Northwestern states.

News of Roosevelt’s antitrust lawsuit shocked business leaders. J. P Morgan went to the White House to meet with Roosevelt. “If we have done anything wrong,” Morgan said, “send your man to my man and they can fix it up.”

“That can’t be done,” Roosevelt replied. Morgan asked if Roosevelt was going to attack his steel trust and other interests. “Certainly not,” the president said, “unless we find out that in any case they have done something that we regard as wrong.” Northern Securities lost in the lower courts and appealed to the Supreme Court, claiming that the Sherman Act violated the freedom of contract. In 1904 in a stunning opinion for the court, Justice John Marshall Harlan declared that “every combination” that eliminates interstate competition was illegal. The court included combinations of manufacturing companies and railroads. In separate opinions, however, a majority of justices indicated that they believed that the Sherman Act only banned unreasonable combinations.

The Supreme Court majority found that all monopolies tended to restrain trade and “to deprive the public of the advantages that flow from free competition.” The court ordered the breakup of the Northern Securities Company into independent competitive railroads. The voters returned Roosevelt to the White House in the election of 1904. Early the next year, Ida Tarbell and other Progressive journalists, whom Roosevelt later called “muckrakers,” condemned secret railroad rebates to Standard Oil and other big companies. The rebates had drawn controversy for years.

In December 1905, Roosevelt called on Congress to empower the Interstate Commerce

Commission (ICC) to ensure reasonable railroad rates for all. Congress responded with the Hepburn Act, which authorized the ICC to set maximum rail rates after finding that current ones were unreasonable. Thus, Roosevelt, the “trustbuster,” tried to shift to his preferred role as federal “regulator.”

Public pressure, however, forced Roosevelt to continue trust-busting. In 1905, he authorized a federal investigation of John D. Rockefeller’s Standard Oil Trust. This trust then controlled about 80 percent of U.S. oil refining, which produced most of the nation’s kerosene for lamps. The investigators uncovered secret rebates from railroads and concluded that Standard Oil held “monopolistic control . . . from the well of the producer to the door step of the consumer.” Roosevelt’s Justice Department filed an antitrust suit under the Sherman Act in 1906.

The following year, the federal government filed a Sherman antitrust suit against the

American Tobacco Company. This trust controlled almost 90 percent of U.S. cigarette, snuff, and chewing and pipe tobacco sales. American Tobacco had bought out over 200 competitors, using such tactics as “fighting brands.” These were cigarettes sold at below cost in order to bankrupt competitors.

Even so, by the end of his second term, Roosevelt remained convinced that federal regulation of big business was the best way to tame the trusts. Filing lawsuits against individual monopolies to break them up was a costly and slow slog through the courts, he believed. Besides, he held the view that “good” monopolies benefited the public with efficient distribution of new products.