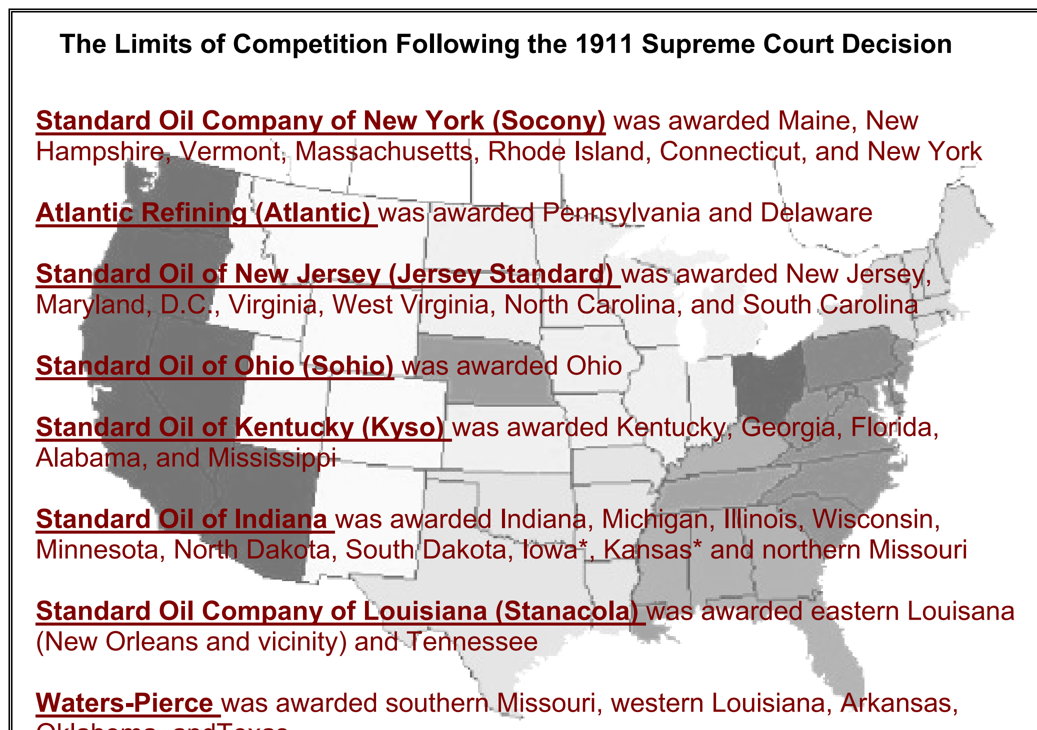
Digital History
www.digitalhistory.uh.edu

Chapter 10
The Supreme Court Decides

With justice Edward Douglas White writing the landmark opinion, the Supreme Court ruled on May 15, 1911 that Standard Oil and 33 other corporations were engaged in an unreasonable conspiracy to "restrain trade and commerce in petroleum, commonly called 'crude oil', in refined oil, and the other products of petroleum." Chief Justice White had taken great pains to distinguish between a "reasonable" and an "unreasonable" restraint of trade. The latter meant any contract that indicated an attempt to monopolize, fix prices, destroy competition, hold back production, or divide markets.

In its decision, the Supreme Court ordered that Standard Oil of New Jersey be separated into 33 different companies with different sets of directors and officers, and that these do not consult with one another. Holders of stock in the original company were to surrender their stock and be given, in exchange, a percent of stock in each of the 33 companies, equal to the percent they held in Standard Oil. Thus, Rockefeller and his partners, who had owned the majority of Standard of New Jersey's stocks, were to be assigned the majority of stocks in each of the 33 new companies. Rockefeller, who had once held 1/4th of Standard's stock, now was given 1/4th of the stocks in each of the 33. The decree did so little damage to the Standard Oil Empire that the value of its stock increased by some $200,000,000 shortly afterwards. The value of Rockefeller's shares increased from $300 million in 1906 to $900 million in 1913.



Digital History
www.digitalhistory.uh.edu

Competition in the Oil Industry 1911 -1950

According to one analyst, the long awaited decision regarding Standard Oil did little to increase competition in the industry:

> *. . . {F]or some time it carried little or no increase in competition. The various companies had divided their fields either territorially or functionally. They continued for years to respect the eleven old territorial divisions, though functional lines were less easily maintained. The Standard of Indiana long took pains not to cut into areas held by the Standard of Ohio, and vice versa. The Standard of New York (Mobil), which had been the great exporting agency of the combination, now increased its distributing business in New York State; but it and Standard of New Jersey (ESSO), tried not to trespass on each other's limits. The shares of the thirty-odd companies were so largely owned by the same small group that, in theory at least, the old chieftains could control the directorates and hence the policies…*
>
> *As the years passed, the units of the great Standard flotilla inevitably drifted apart. Stock ownership became widely diffused; old leaders gave way to new. As fields were opened in fresh areas, more capital came in, automobiles were sold in tens of millions, the world market expanded, and the industry became more competitive. The principal companies engaged in refining and marketing began to "integrate backward" and obtain direct control over crude oil; the production and transportation companies combated this by integrating forward to control their own markets. In short, economic developments brought about a breakdown of the old Standard Oil monopoly which laws and courts had been unable to attain. But it should be noted that the competition which resulted has been primarily a service competition, not a price competition. Reduction of charges, all factors considered, has been illusory. Any motorist who finds at his crossroads four service stations of four different companies, selling substantially the same gasoline at precisely the same prices, and battling for trade by variations in washroom facilities, has reason to ponder upon the proper limits of competition.*[19]

Suggested Student Exercises:

1. Summarize the effects of the Supreme Court's decision on competition in the oil industry.

2. Based on everything you know about the Standard Oil case, do you think the Supreme Court made the right decision? Can you think of an alternative?

19Quoted in Thomas Manning, et. al., op. cit., pp. 60-61

Thomas Ladenburg, copyright, 1974, 1998, 2001, 2007 t.ladenburg@verizon.net