Monopolies, Trusts, and Pools

Business Giants

During the late 1800s and early 1900s, big businesses grew even larger through mergers and takeovers. Captains of industry, such as Rockefeller and Carnegie, expanded their control through the creation and expansion of monopolies, trusts, and pools.

Monopolies

A monopoly exists when a person or business exercises complete control over a resource, industry, or market. During the 1800s and 1900s, two distinct types of monopolies developed: vertical and horizontal.

In a vertical monopoly, the person or business controls the entire supply chain of an industry. This is sometimes called vertical integration. Andrew Carnegie, the first to use vertical integration, used this business practice to dominate the steel market.

In a horizontal monopoly, or horizontal integration, the person or business controls one step of the supply chain or production process. This what John D. Rockefeller did by acquiring and controlling American oil refineries.

Today, both vertical and horizontal integration are illegal business practices.

Trusts

In the days of the robber barons, a trust was, in essence, a group of companies acting together as one. These companies, bound by a legal agreement, often worked to reduce—or threatened to reduce—competition in an industry.

Pools

Today, the term *pool* refers to a resource management tool where assets, equipment, personnel or other resources are grouped together to maximize advantage or minimize risk. In the days of the robber barons, however, pooling was a different type of business practice now considered to be unfair. Then, businesses operating in the same area agreed to stop competing with one another, instead working out a plan so that each company controlled one portion of the market. For example, railroad companies using the same route agreed that each company would control traffic on one portion of that route.

Regulating Big Business

In response to public outcry to the unfair dealings of big businesses, the U.S. government took measures to better regulate businesses.

Sherman Antitrust Act

The Sherman Antitrust Act, named after Senator John Sherman, was passed by Congress in 1890. The act contains two main provisions. The first provision makes it illegal to form businesses, corporations, or trusts that restrict interstate trade or trade between the United States and other countries. This provision also precludes businesses from colluding to fix prices or engage in other unfair practices like sharing markets or altering industrial production. The second provision makes monopolies on trade or commerce illegal. As a part of the act, courts have the power to dissolve business entities that break these laws.

Though well intentioned, the Sherman Antitrust Act had limited success in the first few decades following its passage. Not only was it used infrequently against monopolies, it largely proved ineffective save for its use against trade unions. Theodore Roosevelt was an avid supporter of the act and promoted its enforcement throughout his presidency. The Sherman Antitrust Act was strengthened in 1914 after the passage of the Clayton Antitrust Act, which clarified the original act, and by the creation of the Federal Trade Commission (FTC), which gave the federal government greater ability to investigate suspected violators.

Interstate Commerce Act

Congress passed the Interstate Commerce Act in 1887 in response to the unchecked power of railroad companies across the United States. At the time, railroads offered preferential rates to corporations, while small businesses and farmers generally paid exorbitantly higher rates, especially for short-distance hauls.

The Interstate Commerce Act was not the government's first attempt at regulating the railroads. In 1874, the House passed a bill that provided for the creation of a federal railroad commission, though it failed to pass the Senate. Many states attempted to create their own railroad commissions. However, their efforts were thwarted by the Supreme Court, which ruled that such measures by the states inadvertently infringed upon the federal government's authority to regulate interstate commerce.

As a part of the Interstate Commerce Act, railroads were required to establish rates that were "reasonable and just." Railroads were prohibited from increasing the rates of short-distance hauls relative to long-distance hauls and giving high-volume customers preferential rates. The Interstate Commerce Act also created the Interstate Commerce Commission (ICC) to rule on cases related to violations of the act. The ICC was abolished in 1995.

The Gilded Age and Philanthropy

Aptly nicknamed the "Gilded Age" by Mark Twain, the late 1800s marked a period of immense socioeconomic change. Industrialization and mass production meant that a growing number of Americans had access to unprecedented conveniences. So-called captains of industry, such as Andrew Carnegie and John D. Rockefeller, grew exceedingly rich due to their unrivaled foresight and business acumen. However, beneath this rosy picture, this gilded façade, existed a far grimmer reality for the majority of people living in the United States. While men like Carnegie and Rockefeller brought in millions of dollars annually, many American families struggled to make ends meet after toiling for twelve hours a day, six days a week. In addition to the long workdays, workers faced innumerable challenges, including hazardous conditions and low wages, leading some to recast the “captains of industry” as “robber barons” who benefited at the expense of others.

In light of the immense socioeconomic gap, men like Andrew Carnegie and John D. Rockefeller committed large percentages of their vast fortunes to help improve society.

Andrew Carnegie

Andrew Carnegie donated more than $350,000,000 to charity, the majority of that figure to benefactions in the United States. Among his charitable foundations are the Carnegie Institute of Pittsburgh (1896), the Carnegie Institution of Washington (1902), the Carnegie Endowment for International Peace (1910), and the Carnegie Corporation of New York (1911), which works for “the advancement and diffusion of knowledge and understanding among the people of the United States.”

John D. Rockefeller

Philanthropy was John D. Rockefeller’s full-time occupation beginning in 1897. Rockefeller is responsible for the founding of the University of Chicago (1892); he donated more than $30 million to the institution before the end of his life. Rockefeller is also responsible for starting the General Education Board (1902) and the Rockefeller Foundation (1913). Rockefeller donated more than half a billion dollars to various organizations and institutions before his death in 1937.