

## Public Opinion, Government Intervention and PR: The Case of Standard Oil

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### Abstract

**A**t the turn of the 19th —20th century, big companies in the U.S. changed their approach to PR from “public be damned” to “public be informed”. According to my hypothesis, this shift in paradigm was driven by the intention to influence the government via public opinion under the conditions of unprecedented levels of state intervention in American economy. To illustrate this position, the method of verstehen (“interpretive understanding”, which is the foundation of the universal common-sense knowledge) is utilized to examine arguably the most notable page in the history of American enterprise and government intervention in economy - the breakup of Standard Oil Company by the government in the wake of the trust-busting crusades of Teddy Roosevelt in 1911.

**Keywords:** PR history, public opinion, government intervention, business communications, antitrust, regulation

## Introduction

In this paper I attempt to apply historical revisionism as an analytical tool to examine the history of business communication, and in particular - the origins of PR. At the turn of the 19th—20th century, big companies in the U.S. changed their approach from “public be damned” to “public be informed”. According to my hypothesis, this shift in paradigm was driven by the intention to influence the government via public opinion under the conditions of unprecedented levels of state intervention in American economy. I suggest it was the manipulated public that demanded state intervention which, in turn, was used by the government to implement policies and regulations. Hence, for corporations, PR was originally utilized as a tool to either respond to challenges posed by the state or to elicit state intervention to protect their own interests.

After introductory methodological remarks on the role of historical revisionism and interpretive understanding I shall argue that sometimes PR historians, in their attempt to make history of the profession more logical and relevant, insist on applying deterministic approaches and drawing questionable conclusions from historical facts and data. At the same time the scientific legitimacy of conclusions becomes an extremely important issue, especially when significant shifts in historic paradigms are concerned, including the crucial period in the history of PR: late 19th century - early 20th century.

I shall then propose and elaborate on the thesis statement that PR began to be used not by free-market companies but by political entrepreneurs who wanted to manipulate public opinion so as to get government to intervene on their behalf, and often to the harm of their competitors. In this way I attempt point out the roots of PR around that time of the Industrial Revolution.

I shall then illustrate my point by using an

example and examining arguably the most notable page in the history of American enterprise and government intervention in economy - the Standard Oil Company - and its breakup by the government.

In the final section I shall endeavor to show briefly how these early usages of PR can be equated to some of the things that are happening with the field today, and relate the historical context to the notion that PR is too often being used for many of a lot of the same purposes in our times.

## Methodology of historical revisionism

In this section I shall explain why historical revisionism has potential value as a research paradigm applied to the examination of PR history. As I shall further demonstrate in the next section, too often historians treat PR as an inevitable phenomenon, stemming from structural changes owing to industrialization. This paradigm suggests that the course of PR development was almost predetermined and realized with an iron necessity.

I believe that the diversity of each individual's activities is not predetermined or in any sense necessary in such a way that humans could not have chosen otherwise. Thus, if we take this stand and still want to understand why particular individuals started to utilize PR at a particular period of time, we need to examine conscious activity of men, their motives, and the goals of their activity. And for this purpose, I intend to utilize methodological approaches of historical revisionism and interpretive understanding, which I shall briefly outline below.

The term revisionism originated in reference to the historiography after the First World War, and since then it has been applied to a wide variety of historical questions. Today, revisionism is a broad concept which is utilized for constant re-examination and reinterpretation of views on evidence, motivations,

and decision-making processes of the past, while helping us to better understand historic events and trends. And indeed, if we want to use history as a means for analyzing the current state of affairs and the cause and consequences relationship in a broader social context, revisionism is indispensable in explaining how we got where we are now.

History deals with past events as well as with the discovery, accumulation, organization, examination and possible explanation of these events. Roy Childs defines it as a “selective recreation of the events of the past, according to a historian’s premises regarding what is important and his judgment concerning the nature of causality in human action” (Childs, 1971, p. 12). He points out that “selectivity is the most important aspect of history, and it is this alone which prevents history from becoming a random chronicling of events” (Ibid).

Countless things occur each day and it is impossible to retell all of them at a later time. History is thus already selective by default. This principle of “voluntaristic selectivity” is the reason why some scholars claim that the methodology of history is entirely different from the methodology of other sciences (see Cleland, 2001). Although history is indeed different in many ways from other sciences, the methodology of all sciences remains fundamentally identical – it is based on logic. As Murray N. Rothbard (2007) puts it:

The nature of history as social science rests on the axiom of human action. In human history we, as humans ourselves, are in a position to know the cause of events already, the primordial fact that human beings have goals and purposes and act to attend them. (p. xv) Thus history does not merely selectively narrate events for a particular gain or make selection a “tool” to shape the present and the future. Selection is a tool that is used to encourage understanding of the decisions men made in the

past. Roy Childs (1971, p.13) describes the task of a historian in the following manner:

History deals with the ends that men have held in the past, and the means that they have adopted to attain these ends. Since we have no direct awareness of the contents of anyone’s consciousness but our own, we must rely on inference from what a person says, and what he does. [...] Thus, all that one can do is to collect evidence concerning the context of individual men, their ideas and their actions, using a theory or model of the nature of causality in human action that interprets or selectively reconstructs events in the past, omitting what one judges to be unimportant, and offering an explanation for what one does consider to be important, in light of the evidence available.

In history, the first fundamental axiom for the study of man is the universal fact that all people use means to attain chosen ends. The second axiom is the existence of individual consciousness. “Not being omniscient, a man must learn; he must ever adopt ideas and act upon them, choosing ends and the means to attain these ends” (Rothbard, 1960, p. 170). Or, as Rothbard explains elsewhere:

the knowledge that human beings have goals and act purposively to attain them rests, not simply on observing that human beings exist, but also on the introspective knowledge of what it means to be human possessed by each man, who then assents to this knowledge. While this sort of empiricism rests on broad knowledge of human action, it is also prior to the complex historical events. (Rothbard, 1977, p. 31)

If we want to explain the changing nature of US corporations in the first half of the 20th century, we cannot simply assume that the changes of attitude towards communicating with the public was an inevitable phenomenon owing to social structural change. Rather, it was brought about by

decisions made by particular people in particular circumstances, and these decisions, as well as the motives and circumstances that were surrounding them, are what needs to be understood. Alfred Schütz (1964) identified and explained the interaction between people as “interpretive understanding” or *Verstehen*, which is the foundation of the universal common-sense knowledge and understanding. For Schütz, this knowledge is empirical, provided that we do not restrict this term to sensory perceptions of objects and events in the outer world but include the experimental form, by which common-sense thinking in everyday life understands human actions and their outcome in terms of their underlying motives and goals (p. 65).

Of all social sciences, history, perhaps, is the one that has to most rely on the principles of *verstehen*. History is constantly trying to select, describe and understand the motives and actions of people. “The evaluation of the relative importance of historical factors is an art, not a science, a matter of personal judgment, experience, and *verstehende* insight which will differ from one historian to another.” (Rothbard, 1977, p. 37) Thus, if the goal is to understand (*verstehen*) the decisions that were crucial to the early development of public relations, then it is then necessary to examine the context, circumstances and environment of that time, as well as the evidence of the thoughts and views of the individuals that made these decisions.

### **PR in the U.S. at the turn of the century**

In this section I shall question the widely accepted deterministic approach to the history of PR origins in the U.S. and propose the hypothesis that PR began to be used not by free-market companies but by political entrepreneurs who wanted to manipulate public opinion so as to get government to intervene on their behalf, and often to the harm of their competitors.

My concern with historical determinism applied to the history of PR is that sometimes PR historians, in their attempt to make history of the profession more logical and relevant, insist on drawing questionable conclusions from historical facts and data.

An example of what I consider a non-historic deterministic approach can be seen where Baskin, Aronoff & Lattimore (1997) mention in their textbook that “industrialization altered the structure of society and gave rise to conditions requiring public relations expertise” (p. 29), as if PR became “necessary”. Apart from the problem of defining “requiring conditions” as such, here we seem to face more than a strictly historic judgment.

Some authors go even further and claim that “the expert in the field of public relations was an inevitable phenomenon in view of the need for the services he or she could provide,” (Curti, 1964, p. 634). But what does it mean to talk of an “inevitable phenomenon”? What is an objective “need for the services he or she could provide” and how does one determine the objectivity of it? What are the “requiring conditions”?

At the same time, the scientific legitimacy of conclusions becomes an extremely important issue, especially when significant shifts in historic paradigms are concerned, including the crucial period in the history of PR that is the focus of this paper. Its importance is widely recognized by researchers of the U.S. public relations history, who indicate that this period - the turn of the century - was a watershed moment that divides two clearly defined periods: the era of publicity (early 19th century - the end of 19th century) and then the following information era. (see Smith, 2014). The first of these periods is usually characterized as a period when the “proto-PR” was popular and PR as a communication instrument was not widely

utilized by businesses. Pochevaev (2007) notes that in this period “the owners of the majority of large U.S. companies showed reluctance to liaise with the public, believing that the less the public would be aware of what is going on in the corporation, the more effective its activities and correspondingly the higher profits would be” (p.157).

The communication practice of that period is sometimes referred to as “the public be damned” phase of PR, as it reflects the general lack of concern and interest in communicating with the general public. The phrase itself was uttered by William Vanderbilt and is often used to illustrate the attitudes that business leaders of that time had towards ordinary people; that is the interests of the company’s share-holders are the top priority, and that businesses are not run as “social enterprises”. These companies used press agents or publicists to communicate for them and their role was to try to restrict and control the activities of the media, functioning more like gate-keepers (see Toth & Heath, 1992). They limit their presence in the media to advertising and promotion, trying to avoid public disclosures about their operations as either dangerous or simply unnecessary.

However, only a few decades later the attitude of large corporations towards the public and the value of working with it changed dramatically. The “public be damned” phase was over and the new “public be informed” phase, or “information era” is said to have begun (Hiebert, 1966). This Information era is often referred to as the era of formation of PR as a profession and discipline, or the “American boom” (beginning of the 20th century - the mid 40s) (Wilcox, Ault, Agee & Cameron, 1999).

When trying to find explanations to this change in attitudes, deterministic historiographical tradition suggests the above criticized answers of “requiring conditions” for the emergence of

“inevitable phenomenon” of public relations. These, together with phrases like “increased readership, the rise of free enterprise competition, and the need to intensify efforts to promote products, the emergence and growth of large corporations” (Pochevaev, 2007) do not add much to our understanding of the historic trends and events, being nothing more but a collection of platitudes.

The point, however, is not to turn to skepticism, but rather to ask if the issue of conditions and circumstances in which public relations originated and developed can be examined and described from the historical point of view. In order to attempt to understand why the approach to public opinion changed so dramatically the relevant question to ask would be why particular individuals made a decision to turn their attention to PR as a means to achieve particular ends, and what these ends could possibly be.

Of course, at some point, PR became something of an industrial norm, and companies simply had to start practicing it actively in response to their competitors’ actions. They could not afford to stay behind their rivals, and for those “latecomers” adopting PR policies was a responsive action. But prior to that there were also pioneers - people who were the first in introducing professional management of public communication.

In this paper I explore the hypothesis that captains of the industry turned towards PR not because they recognized that “deception, manipulation, and self-serving half-truths were inappropriate responses to challenges raised by media and government”, as some authors suggest (Baskin, Aronoff, Lattimore, 1997). I argue that PR was chosen as a means to

influence the actions of the U.S. government that were threatening for business. Or, alternatively, companies used PR techniques to promote and enact legislation or regulation that harmed their competitors.

I suggest that PR was utilized as a method of influencing the government's decision concerning regulation. By changing public opinion, companies (big businesses mostly) attempted to change current political agenda. In some cases, it was a part of mercantilistic attempts to introduce further regulation in favor of certain groups; in other cases, PR was utilized to protect companies from governmental interference in their operations.

Methodology of this hypothesis is based on the principles of an intuitive understanding of some of the structural features of human actions (*verstehen*), such as the fact that people make choices, or the fact that they use their chosen means to achieve their chosen ends. Therefore, the validity of the theory does not depend on empirical research. In fact, the whole methodology of *verstehen* is based on the possibility of applying the deductive method for formulating further conclusions.

According to this hypothesis, rapport and understanding achieved by business with the public via PR was not an end but a means to influence the government decisions and actions. The main reason why businessmen developed the need to influence the government via public opinion was an unprecedented levels of government intervention in the American economy at the turn of the century. What happened in the U.S. was that free competition was overtaken by state interventions. The final result was that free-market laissez-faire capitalism became more and more restricted by regulation and the threats of further interventions.

Of course no completely free market has ever existed in the human history. Governments always

try to interfere to a certain degree. But as Mises states, "What determines the course of a nation's economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology" (Mises, 1963, p. 850).

Turning to PR was the response of the business to the changing environment - from a certain moment in history the price of remaining in the business started to include the costs associated with influencing public opinion. Unless a company would pay this price, its competitors would use the opportunity to turn public opinion against the company and then reach for the government to use its newly acquired power to harm the competitor.

### **The Standard Oil breakup**

In this section, I shall illustrate my hypothesis and apply the method of *verstehen* to examining arguably the most notable page in the history of American enterprise and government intervention in economy - the Standard Oil Company - and its breakup by the government in the wake of the trust-busting crusades of Teddy Roosevelt, the Muckrakers and other Progressives.

The reason why I am interested in Standard Oil in the context of public relations history is, of course, the fact that Standard Oil is probably the most famous business that fell the victim of the government intervention supported by an intensive media campaign against the company and the family behind it.

Standard Oil was being severely attacked in the media, demonised by journalists and writers, and portrayed mostly in negative light as a notorious monopoly. Standard Oil was being accused of having too much control over the market and monopolization of the industry. These accusations

led to one of the most well-known examples of state interventions in free market economy - the Standard Oil anti-trust case, which destroyed the company after accusing it of being a “monopoly”.

First, I shall analyze the core argument of the attacks on the Standard Oil Company to prove that the accusation was not supported by evidence. Then, I shall turn to examining the attackers and their relationships with competitors and the public. After that I shall explain how the government used public opinion in favor of the Standard Oil competitors to implement policies in their favor and the benefit of politicians themselves.

As I shall demonstrate below, the sentiment against Standard Oil was produced by sensational news stories that presented the company’s affairs as a tale of “good guys” versus “bad guys”, and in most cases were based on false speculations and total lack of facts. The company and its founder, Rockefeller Sr., was the target of Progressives, Populists, Socialists, and others discontented with the new American capitalist order. Robert La Follette, the powerful governor of Wisconsin, called him (Rockefeller Sr. - P.S.) the “greatest criminal of his age” (Rockefeller, 2002).

The tabloid press attacked Standard’s business practices and accused it of all possible crimes—including murder—in the company’s efforts to eliminate all competition and perfect its monopoly of the oil industry.

But the truth is that in the oil industry, where Standard Oil was dominant, no situation close to monopoly existed by the beginning of the 20th century. The number of petroleum refiners in the US in 1899 was 67; ten years later, in 1909, there were already 147 refiners. In 1911 the company’s market share was 64 percent, which hardly constitutes a monopoly by any definition.

Standard Oil was the most efficient - it prospered in the “intensely competitive industry due to the economic excellence of its entire operations” (Armentano, 1982, p. 58). Standard Oil acquired many of unsuccessful businesses and put their assets to far better use. As Thomas J. DiLorenzo (2005) noted:

There was never any threat that these “horizontal mergers”—the combination of two firms that are in the same business—would create a monopoly, for Standard Oil had literally hundreds of competitors, including such oil giants as Sun Oil, not to mention its many large competitors in international markets.

Because of Standard Oil’s superior efficiency (and lower prices), the company’s share of the refined petroleum market rose from 4 percent in 1870 to 25 percent in 1874 and to about 85 percent in 1880 (Armentano, 1982, p. 58). However, the company did not abuse its position. Due to the economies of scale and business efficiency, the Standard Oil reduced its cost of refining a gallon of oil from 3 cents in 1869 to less than half a cent by 1885. What is important is that Rockefeller passed these savings along to the consumer, “as the price of refined oil plummeted from more than 30 cents per gallon in 1869 to 10 cents in 1874 and 8 cents in 1885, and to 5.9 cents in 1897” (Armentano, 1982, p. 59).

Although in this aspect Standard Oil was clearly, on balance, good for society, the reaction would be that its business practices were “still wrong”: Net economic benefits to consumers were far from the minds of journalists and politicians, who used inappropriate criteria to excite popular agitation against Standard Oil. At best, politicians and intellectuals measured the plight of businesses displaced or harassed by Standard Oil against the success of Standard Oil, rather than measuring the plight against the advantages

of a non-antitrust policy to the public. Standard Oil was and is judged not on the basis of whether it was, on balance, good for society, but whether it adhered to a moral obligation to refrain from eliminating competition. (Baylor, 2001).

In 1890, during the debate over the Sherman Act, Representative William Mason argued that : trusts have made products cheaper, have reduced prices; but if the price of oil, for instance, were reduced to one cent a barrel, it would not right the wrong done to people of this country by the ‘trusts’ which have destroyed honest men from legitimate business enterprise (Congressional Record, 1890, p. 4100, cited in Chernow, 1998).

In fact, he argued that the trusts put honest competitors out of business, which presumed that the trusts were not honest and it was wrong of them to outcompete other companies. He insisted on this because he, along with some other congressmen at the time, wanted to protect less efficient companies in their districts from the more efficient competition of the trusts. Economic policy actions are almost always taken for political reasons (DiLorenzo, 2000).

Later in the debate, Senator George F. Edmunds argued that despite the fact that “the oil trust has reduced the price of oil immensely, that does not alter the wrong of the principle of any trust” (Congressional Record, 1890, p. 2558).

Now I shall turn to the attackers and try to understand (*verstehen*) the motives of the journalists and their relationship with competitors, public and the government in order to explain how they led public opinion and helped the government to gain support for implementing policies against Standard Oil.

Obviously, the less efficient competitors always wanted to attack their more successful rivals. Apart from lobbying, they started to look for new ways to

awake “ the public” to impeding subjugation at the hands of more successful businessmen. The public was to be stirred by the injustice of it all to demand actions, thus freeing the hands of populist -minded politicians to smash the monopolists with regulation on behalf of the ever-suffering “little man” who was saved thereby from certain doom” (Childs, 1971, p. 14).

Usually these attacks took the form of an “organized crusade” to get the government to pass laws that would harm the more successful competitor. In economics this process is called “rent seeking” ; in the language of economics, “rent” means a financial return on an investment or activity in excess of what the activity would normally bring in a competitive market. This sort of political crusade by less successful rivals is precisely what crippled the great Rockefeller organization (DiLorenzo, 2005).

Public opinion was mobilized against Rockefeller, who was in fact retired by 1897 at the age of 58. From the mid-1890s until his death in 1937, he was engaged solely in philanthropic activities, and from 1899 did not take any part in management of the company. However, that did not spare him from severe criticism in the media. The most notorious amongst those attacks were Henry Demarest Lloyd’s *Wealth Against Commonwealth* and Ida Tarbell’s reports in *McClure’s Magazine*. Along with the stories of unfair business practices, both works included severe personal attacks on Rockefeller. *Wealth Against Commonwealth* falsely accused Standard Oil keeping the prices high and entering agreements with European competitors. Neither was true. Chernow writes that Lloyd “filled notebooks with flaming diatribes against . . . a cruel, selfish, carnivorous, short-sighted herd” and “ennobled any businessman, however greedy or inept, who opposed Rockefeller” (Chernow, 1998, pp. 340-341, 437). The book became popular

among politicians, becoming “the bible of Washington trustbusters”, and it was “the final straw that motivated Ida Tarbell to launch her attacks on Standard Oil” (Chernow, 1998, pp. 340-341, 437).

Ida Tarbell was one of Rockefeller’s harshest critics, and she was directly affiliated with the company’s competitors. Her brother was the treasurer of the Pure Oil Company, which failed to compete with Standard Oil’s low prices. Prior to that Ida Tarbell had watched Rockefeller put her father and other independent oil refiners out of business in her hometown of Titusville.

Her motive was not to indict Rockefeller for his impact on consumers at large, then, but on other oil refiners. Chernow writes that “It revolted Ida that the trust could turn proud, independent entrepreneurs into beaten men taking orders from distant bosses” (Chernow, 1998, p. 436). Tarbell wrote a series of articles in McClure’s magazine in 1902 and 1903, which she later published as a book “The History of the Standard Oil Company” (Tarbell, 1950), sometimes referred to as a “classic of antibusiness propaganda”.

Tarbell’s writings were very emotional, often illogical, and “lacking in any serious attempt at economic analysis” (DiLorenzo, 2005). Tarbell also attacked Rockefeller’s personality and presence. She called him as a “living mummy” and a man whose habits of going to church regularly were only a “hypocritical facade brilliantly created by the predatory businessman” (cited in Chernow, 1998, p. 453). She described his appearance as a physically unpleasant elderly man:

The disease which in the last three or four years has swept Mr. Rockefeller’s head bare of hair, stripped away even eyelashes and eyebrows, has revealed all the strength of his great head.... The big cheeks are puffy, bulging unpleasantly under the eyes, and the skin which covers them has a curiously unhealthy pallor. It is this puffiness, this unclean flesh, which repels, as the thin slit of a mouth terrifies... (Ibid).

Tarbell had also poured “dirt” on Rockefeller’s family, including his bitter and paranoid brother Frank, who called John a “monster”, even though he depended on him for loans to finance his spending habits (Chernow, 1998, p. 455). Most devastating to Rockefeller himself was the publication about the life of his father, “Doc” William Avery Rockefeller, who took the name Dr. William Livingston after he left his first wife for a younger woman (Ibid).

When Rockefeller read the Tarbell book, he remarked to everyone’s consternation that he “rather enjoyed it” (Rockefeller 2002). Rockefeller Sr. refused to respond to the accusation of “Miss Tarbarrel”, as Rockefeller referred to her.

Historically, Rockefeller was no different from other big businessmen of his time in ignoring the importance of public opinion in general (“public be damned” approach). For example, Chernow points out that Rockefeller “had long maintained a policy of active silence with the press” and “Rockefeller’s official policy remained one of obdurate silence” (Chernow, 1998, p. 212). There is evidence that the Rockefellers had not formulated policies with the public in mind prior to 1914 (Atwater 1967, p. 57, as cited in Hallahan, 2002). When attacked in the press, Rockefeller Sr. thought that he should not dignify the charges with a response. That was a firm position of the company for many decades. Only as late as 1905, Rockefeller Sr. began to redress his silence - he slowly allowed press people to interview him, gave some speeches, and provided his reminiscences to *World’s Work* magazine, which later were reprinted in a book (J. D. Rockefeller, Sr., 1909/1933 in Hallahan, 2002, p. 305). And although by 1905-07 Rockefeller had more avenues of press access than he admitted, the company and Rockefeller himself still paid little attention to public relations. He greatly underestimated the growing influence of the press during the Progressive Era.

The public was offended by Rockefeller's refusal to answer to the writers' charges.

I shall now explain how the government used public opinion in favor of the Standard Oil competitors to gain support for further intervention in the economy. I am, however, far from believing that the government was a puppet in the hands of other companies. Rather, the government found it beneficial for its own interests to use the changes in public opinion, evoked by Standard Oil competitors, in order to take the actions against the company. Indeed, responding to the demands of the press and taking actions against individuals who are an object of mass-hatred have tremendous populistic perspectives for politicians. President Roosevelt recognized such possible benefits and initiated the campaign to break up Standard Oil. He used Rockefeller "as a whipping boy in his effort to bring the industrial monopolies to heel" (Rockefeller, 2002). Roosevelt declared that he was not against trusts per se, but trusts used their competitive advantages to increase prices. He favored maintaining trusts "which offered fair prices and good service" (Chernow, 1998, p. 433). Although the price of Standard Oil products fell during the nineteenth century, the new boss, John Archbold, had slightly raised prices during Roosevelt's time to increase average dividends to larger figures than Rockefeller would have permitted, keeping the twenty five-year average at 13.86 percent, while Rockefeller's average had been 8 percent. It gave the government a formal excuse to start the crusade. But as we have shown above protecting consumers from price gauging was never the top priority of the government.

The mechanism that was chosen to harm and eventually kill Standard Oil in its original form was antitrust regulation. The legislation was the design of the company's less successful competitors. Standard Oil's rivals succeeded in

getting the federal government to file an antitrust suit against the company in 1906, after they had persuaded a number of states to file similar suits in the previous few years (DiLorenzo, 2005).

It is hardly a coincidence that exactly in the very same year Rockefeller Sr. started to give his first interviews and public speeches, and generally redressing his silence. Probably the decision to pay more attention to communicating with the public on his part was more of a response to the legal actions taken by the government, rather than acknowledging the attacks of muckrakers, whom he never seemed to have taken seriously. It seems to give an additional proof to my initial hypothesis that for business corporations PR is more of a tool to either respond to challenges posed by the state or to elicit the state intervention.

In the final part of this section I shall briefly outline the counterargument against the antitrust regulation: that it was used to cripple Standard Oil. I shall demonstrate that the justification for this legislation does not withhold any critique and could be considered convincing only within the context of populistic discourse under the conditions of widely held misconceptions in public opinion.

The purpose of antitrust regulation (at least on paper) is to protect consumers, and in this light the case against Standard Oil seems to make little sense. Because of Standard Oil's efficiencies, the costs of kerosene and other products dropped significantly. Kerosene became available everywhere for everyone, and Standard Oil's products were cheaper and better, generating great benefits for consumers and making competitors to reduce their prices too to remain on the market. Product quality was constantly improving, production volumes increasing, innovations flourishing. There were almost 150 competitors, and their number was constantly growing. After the price increase

the market share fell significantly, and was continuing to decline. Nothing in these facts allows a conclusion that Standard Oil was a monopoly or that it abused its position. In fact, before the government intervened, the trend was towards growing competition.

Because the policies of Standard Oil did not pose any clear and immediate threat to consumers, to rationalize the anti-trust lawsuit the so-called “predatory pricing” theory was invented. According to it, a firm that possesses a “war chest” of profits can lower the prices to destroy all the competitors. Then, when no rivals exist anymore, it will raise the prices enjoying the benefits of monopoly. This theory is based on a false assumption that no new competitors will enter the market, where huge profits are being made by a monopolist, to drive the price back down. This obvious risk eliminates any benefits of the predatory pricing in the long run.

And this, by the way, is exactly what happened to Standard Oil. When John Archbold decided to increase the prices in order to raise the dividends, Standard Oil’s share of the market decreased in next few years from 88 percent in 1890 to 64 percent by 1911. It is difficult to find a better proof that predatory pricing never works; immediately after the “monopolist” attempts to raise the prices, the company’s market share fell.

Moreover, there is no convincing evidence that either Standard Oil, or any other company in known history has ever attempted to practice predatory pricing. The scheme of predatory pricing is both irrational and risky, with no potential reward:

The would-be “predator” stands to lose the most from pricing below its average cost, since, presumably, it already does the most business. If the company is the market leader with the highest sales and is losing money on each sale, then that company will be the biggest loser in the industry (DiLorenzo, 2005).

It is also impossible to predict how long this

scheme may take - few years possibly - and businesses are not likely to willingly lose money on every deal for years in hopes of monopolizing the market in a distant future.

Thomas DiLorenzo points out that to economists predatory pricing is theoretical nonsense and has no empirical validity: “it has never been demonstrated that a monopoly has ever been created in this way” (DiLorenzo, 2005). And predatory pricing definitely was not a strategy used by Standard Oil. It was the company’s policy “to lower prices, believing that the less expensive the product, the more of it people would buy; and the larger the market, the more economies of scale Standard would be able to employ” (Rockefeller, 2002).

John S. McGee (1958) studied the Standard Oil antitrust case and came to a conclusion that there was no evidence at all presented at trial that Standard Oil had even attempted to practice predatory pricing. What it did practice was competitive price cutting, driven by its quest for efficiency and customer service (DiLorenzo, 2005).

The whole idea that a gigantic company, like Standard Oil, when left unchecked, would abuse its monopolistic position to smash the “weak”, to control the life of the country, does not stand any critique. However, in 1911 the U.S. Supreme Court reaffirmed the lower court finding that Standard Oil was guilty of monopolizing the petroleum products industry (Armentano, 1982, p. 68-73). The court did not mention supposed predatory pricing or any harm done to consumers:

The court argued, in essence, that Standard Oil was a “large” company with many divisions, and if those divisions were in reality separate companies, there would be more competition. The mere fact that Standard Oil had organized some thirty separate divisions under one consolidated management structure (a trust) was sufficient reason

to label it a monopoly and force the company to break up into a number of smaller units. (DiLorenzo, 2006)

The organizational structure of Standard Oil that brought the company's efficiency, lower prices and innovations was destroyed. As a result, Standard Oil became less efficient - that harmed consumers, but benefited competitors.

### PR aftermath

In the final section I shall endeavor to show briefly how these early usages of PR can be equated to some of the things that are happening with the field today, and relate the historical context to the notion that PR is too often being used for a lot of the same purposes nowadays as well.

The Standard Oil case is an example of how a free market was destroyed by state interventions. There are several elements that make this case important for the history of public relations. The case has a tremendous historic significance not only for the oil industry, but also for the communication industry and public relations. It showed that attacks in the press can help the government to justify severe actions in favor of competitors and against free enterprise. But more than that, the general public and consumers will support the actions as beneficial, without even realizing their harmful effect on their own well-being. The people will truly believe in justice that "squashed the greedy monopolists" and "restored competition, equality of opportunity" and the like, which were oppressed in the wild unregulated free-market economy. With the public believing it's in their interest for government to protect them with more regulations on business, they begin supporting policies that not only actually fail to protect them, but harm them.

DiLorenzo (2005) insists on making an important distinction that became particularly relevant in the end

of 19th century at the time of increased state intervention in the economy - the distinction between what might be called a market entrepreneur and a political entrepreneur: A pure market entrepreneur, or capitalist, succeeds financially by selling a newer, better, or less expensive product on the free market without any government subsidies, direct or indirect. The key to his success as a capitalist is his ability to please the consumer, for in a capitalist society the consumer ultimately calls the economic shots. By contrast, a political entrepreneur succeeds primarily by influencing government to subsidize his business or industry, or to enact legislation or regulation that harms his competitors.

Ed Younkins (2000) wrote: "Political entrepreneurs seek and receive help from the state and, therefore, are not true entrepreneurs". Standard Oil's rivals, who with their sniping lobbying were the main initiators of the legal prosecution, are an example of political entrepreneurs - connivers and manipulators. With the assistance of "muckraking" journalists like Henry Demarest Lloyd and Ida Tarbell, they succeeded in using political entrepreneurship to cripple a superior market entrepreneur.

Standard Oil prosecution gave a clear signal that government relations as a tool of political entrepreneurship, together with public relations as a means to achieve mercantilistic ends, become more important than market entrepreneurship.

Businesses always strive to attain success, but in a free-market economy, the only way to do it is by offering more competitive products at more competitive prices - basically, being more efficient. This is what market entrepreneurs do. But a free market always poses risks even to the largest companies. Markets are never secure and profits are under constant threats. Staying on top may be very challenging, and making it to the top even

more so. Competition tends to increase, and most efforts to control the free market are likely to fail. Gabriel Kolko (1967) describes the reaction of businessmen at the turn of 19th - 20th century:

Competition was unacceptable to many key business and financial leaders, and the merger movement was to a large extent a reflection of voluntary, unsuccessful business efforts to bring irresistible trends under control. ... As new competitors sprang up, and as economic power was diffused throughout an expanding nation, it became apparent to many important businessmen that only the national government could [control and stabilize] the economy. ... Ironically, contrary to the consensus of historians, it was not the existence of a monopoly which caused the federal government to intervene in the economy, but the lack of it. (p. 4-5)

Effective power depends on control of the leaders and conduits of public opinion. All the conclusions that can be drawn from the example of Standard Oil are still relevant today - and this is the reason why history is so important in understanding not only the events of the past, but also in explaining the current state of affairs.

If that was the reaction of businessmen then, is it any different now? They turned and still continue to turn to the power of the state to achieve their goals. They cannot get what they want in a free market by successfully competing with rivals and attracting consumers by voluntary means. So instead, they turn to political pressure, legal prosecution and coercion. And often these attempts are supported by large-scale, long-run ideological campaigns - business leaders do not merely come with proposals for further regulations, but with a sophisticated comprehensive ideology on interventionism. This "information" targeted at the general public promotes statism and further support of government intervention.

The consequence is that the brainwashed public begins to demand more regulation in order to fix the problems that were either not problems at all (like predatory pricing), or were problems created by some previous state actions in the first place. And the government gladly responds to these demands, understanding the enormous electoral benefits of such actions and further regulation that expands its powers.

In a mixed economy, the government and its interference are the sources of most problems. But so are the businesses that are willing to turn to government for help, protection, favors, privileges and security. Political entrepreneurs at all times try to reach for the levers of power for protection against the risks of free market enterprise and "to stultify competition by imposing business costs they have already absorbed onto their less-lucrative competitors, and destroy the more successful ones" (Tucker, 2011). The threats and prosecution first were turned on those businessmen who did not participate much in calling for more regulation and did not support the initiatives for further state intervention in economy - Rockefeller was one of them.

In a truly free market and unfettered competition, the entrepreneur is usually indifferent to his public image and public opinion - as long as it does not affect the market demand. Market entrepreneurs are concerned with consumers' opinion - a factor that can influence sales and profit. General public and press image come second, as long as the products and services continue to sell well.

However, the violation of the principles of capitalism leads to imbalance and the predominance of non-market incentives (mercantilism), which in turn forms a whole new group of risks - the risks of government interference and prosecution.

In a free-market laissez-faire economy the state does not have the power to break up companies,

dictate prices, set barriers and so on. In a truly free market environment the public can have only one means to influence entrepreneurs - by making purchasing decisions either to buy or not to buy particular products. In such ideal circumstances companies do not need to mediate the relations with general public. In fact, they do not need (and for a long time they actually did not need) public relations. They could safely rely on marketing for all their communication needs.

#### Conclusion

The lesson to be learned here is that in examining the origins of PR function in companies at the turn of the centuries, PR historians perhaps need to pay more attention to a wider range of political and economic circumstances that surrounded these companies. In the example of Standard Oil, the events of 1905 and 1911 prosecution undoubtedly influenced the public policy decisions. In the same way, a deeper study of the events that took place in other U.S. companies in the early 20th century will probably allow us to understand the reasons why other influential businessmen changed their opinion on public relations, thus contributing to the development of the field of PR.

Examining the history of PR in the U.S. by exploring historical revisionism as an analytical tool opens new perspectives for understanding the roots of public relations origins. The urge to mediate relations between business and public became apparent only as a means to get support for influencing the government policies by giving them additional public support "calling for more actions". By appealing to the public opinion via mass media, companies influence the government to make decisions on implementing policies and regulations. The state is in turn willing to step in, acknowledging the electoral benefits of populistic gestures. This cooperation clearly threatens free enterprise and harms the interest of consumers.

It is my firm belief that the enormous role of the U.S. government in the history of public relations is yet to be fully investigated. With a general assessment of what this means to PR ethics in today's society, I think that by applying historical revisionism to the history of PR we can start reevaluating the origins of PR, to offset to the often too rosy portraits of the early days of the profession.

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