George Gunton, “The Economic and Social Aspect of Trusts,” 1888.

"What shall we do with trusts?" has of late become an absorbing theme of public discussion. Indeed, the public mind has begun to assume a state of apprehension, almost amounting to alarm, regarding the evil economic and social tendencies of these organizations. Nor is this apprehension limited to professional agitators and chronic alarmists. It is shared in by all classes. Our foremost journalists, essayists, orators and publicists unite in warning us against the evil consequences to be expected from the organization of trusts, syndicates and the like. … Commissions of investigation have been appointed and in some instances restrictive legislation has already been adopted. In obedience to this feeling, one of the great political parties has actually made opposition to trusts a national issue. The interests of industrial and social freedom demand that a truce be called; at least, until we ascertain whether we are really engaging a public enemy or simply pursuing an industrial phantom. In order to do this, it is necessary carefully to consider what the economic and social aspects of trusts are.

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It is a well-established principle, both in economics and practical business, that capital is most effective in producing consumable wealth where it is most concentrated. The modern factory and railroad systems, which have done so much to cheapen wealth and increase the comfort and convenience of society during the present century, would have been absolutely impossible upon any other principle than that of colossal aggregation of capital.

That the concentration of capital into large enterprises is an economic and social advantage, tending to increase production, to lower prices, and to raise wages, is demonstrated in the history of every progressive country and every successful manufacturing establishment in the world. In short, the use of large capital, the specialization of labor, and the concentration of productive power are the infallible evidence, not only that wealth is being more economically and abundantly produced, but that the community in general, and the wage-receivers in particular, are obtaining a constantly increasing proportion of the product. Large establishments sustain the same economic relation to small ones that steam and electricity sustain to hand labor. The railroad supplanted the pack-horse and stage coach for no other reason than that it served the community better. When the small farm or factory is driven from the field by the larger one, it is always because the latter does the work better and cheaper than the former.

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When corporations were isolated they were in competition with each other, not only in the selling market, but in the productive process also, and each one who discovered an improvement in the manufacture naturally took special pains to keep it from all competitors. Under trust companies this is reversed. No sooner is an improvement found by any one corporation, than it is, from common interest, applied to all; hence the economy which was previously confined to a single corporation now becomes a part of the process of the whole product in the market, at least, so far as the trust is concerned. Again, when corporations combine they are enabled to manufacture all their own supplies on the largest possible scale, and are thereby enabled to employ the most improved method of production in every department. This is exactly what has been accomplished by trusts. For example, before the organization of the Standard Oil company in 1872, oil had to be transported from the wells to the market by the railroads in small quantities, in barrels, tanks, etc. After the organization of that company, these various methods were superseded by one general pipe line, which takes the oil directly from the well to the market. There are two such lines reaching New York, with a capacity of 25,000 barrels per day. There is also one such line to Philadelphia, one to Baltimore, another to Buffalo, another to Cleveland, and another to Pittsburg[h], and one is now being laid to Chicago. This was an undertaking absolutely impracticable for any of the smaller corporations. The result is a saving of 66 2/3 per cent on the cost of transportation alone. In 1872 it cost $1.50 to transport a barrel of oil to New York; today it costs only 50 cents. In 1872, barrels cost $2.35 each; today the Standard Oil trust manufactures them for its own use at $1.25 each, a reduction of 47 per cent, or a saving of nearly $4,000,000 a year. In the cost of the manufacture of tin cans, a saving of 50 per cent has been made, the price having been reduced from 30 to 15 cents per can since 1874. As this company uses about 30,000,000 tin cans a year, that makes a saving of over $4,500,000 annually. The same is true of wooden cases, which in 1874 cost 20 cents each. The company now manufactures them for itself at a cost of 13 cents each, being an annual saving of about $1,250,000.

Who was benefited by all this economy? is the question that naturally arises in this connection. Did it go into the pockets of the Standard Oil company as profits, or did it accrue to the community in the reduced price of oil? That question can best be answered by the facts, as shown in the following table:

Year.	Shipments from wells. Bbl.	Stock of crude oil on hand. Bbl.	Price of crude oil per gallon at wells.	Price per gallon of refined oil for export.
1871	5,667,891	568,858	10.52 cts.	24.24 cts.
1872	5,899,942	1,174,000	9.43	23.75
1873	9,499,775	1,625,157	4.12	18.21
1874	8,821,500	3,705,639	2.81	13.09
1875	8,924,938	2,751,758	2.96	12.99
1876	9,583,949	1,926,735	5.99	19.12
1877	12,496,644	2,857,098	5.68	15.92
1878	13,750,090	4,307,590	2.76	10.87
1879	16,226,586	8,094,496	2.09	8.08
1880	15,839,020	16,606,344	2.24	9.12
1881	19,340,021	25,333,411	2.30	8.05
1882	22,094,209	34,335,174	1.87	7.41
1883	21,967,636	35,715,565	2.52	8.14
1884	24,053,902	36,872,892	1.99	8.28
1885	24,029,424	33,836,939	2.11	7.86
1886	26,332,445	33,395,885	1.69	7.07
1887	26,627,191	28,310,282	1.59	6.75

It will be seen by the above that from 1871, the year before the Standard Oil company was organized, to 1878, the year before the pipe line was laid, the price of refined oil fell 13.37 cents per gallon. From the laying of the pipe line to the organization of the trust in 1881 it fell 2.82 cents per gallon, and from the organization of the trust to 1887 it fell 1.30 cents per gallon. Thus, through the economies introduced into the production and transportation of petroleum since 1871, the price of refined oil has been reduced 17.49

cents per gallon, or 72 per cent, being a saving to the consumers of the 998,953,011 gallons of refined oil last year alone of $174,716,881.

It may be said that this great fall in the price is partly the result of the fall in the price of crude oil. That is true, but much of this fall is also due to the improved facilities applied at the wells by this company. But were it true that this reduction is all attributable to causes over which the Standard Oil trust has no control, which is absurd, that cannot be said of the fall in the price of refined oil in excess of that of the crude. It will be seen from the table quoted above, that since 1871 the price of crude oil has fallen 8.93 cents per gallon, leaving a net fall in the price of refined oil, over and above that of the crude, of 8.56 cents per gallon, or 1.81 cents per gallon more than the total price now paid for it. This reduction in price is due exclusively to the improved methods introduced into the various processes of refining and transporting oil. If the price of refined oil had only fallen in the same ratio as that of crude, it would today cost the consumer 15.30 cents per gallon instead of 6.75 cents, the price at which it was sold in 1887. It will thus be seen that, giving the opposition the full benefit of all the doubts, the consumers of refined oil in 1887 had a clear gain, of $85,410,482 as the result of the efforts of the Standard Oil company; and still we are told that trusts tend to advance prices to the consumer.

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It may perhaps be said, that, although these trusts have constantly resulted in reducing prices, should the government run the business, a still greater saving would be accomplished. This idea has been so extensively and favorably received that the demand for government ownership of railroads and telegraphs has become one of the stock resolutions in all industrial reform movements, and the proposition for the government to take possession of the telegraphs is actually before Congress in a bill introduced in the Senate.

There are many reasons why this, in the nature of things, would not be an improvement. Arbitrary monopoly is the natural harbinger of irresponsibility, incompetency and waste, and hence naturally tends to give inferior products at maximum prices. While this is true of all artificial monopoly, it is especially true of government monopoly. The head of a government enterprise, having no interest in the profit, has no necessary incentive for developing improved methods of service. On the contrary, he has a direct interest in keeping the number of employees at the maximum, because, by the disposition of industrial favors, he can command political allegiance, which is the power he chiefly relies upon to retain his position. And this tendency is strongest under democratic institutions, because it is there that the political potency of the laborer is the greatest. Under a system where political influence, rather than economic efficiency, is thus the condition of employment, and where there is little responsibility and no redress for the injury and loss caused by delay and blunders through incapacity, poor, or at best mediocre service must necessarily result.

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It should always be remembered, that capital is one of the most sensitive things in the world; it has been well said that nothing is so cowardly as a million dollars, except two million dollars. Capital always shrinks at the sight of losses, and it will run almost any risk for probable profits. Knowing this as no others do, the monopolists, so called, see very clearly that if they put their prices so high that the margin of profit is abnormal, capital will at once leave other industries and rush into theirs. Capital is ever waiting for just such opportunities.

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They have therefore a direct interest in keeping prices at least sufficiently low not to invite the organization of counter enterprises which may destroy their existing profits. If the gates for the admission of new competitive capital are always open, the economic effect is substantially the same as if the new competitor were already there; the fact that he may come any day has essentially the same effect as if he had come, because to keep him out requires the same kind of influence that would be necessary to drive him out. And as the latter always involves greater risks than the former, on the principle of self-interest the former is most likely to be adopted. (Author Footnote: This is clearly shown in the history of the Standard Oil company. During the last ten years this company has had practically no competitor. Still the price of oil has steadily tended downwards.) There is really little to fear, in this line, so long as arbitrary barriers are kept out of the way, because in the absence of legal restrictions the active influence of the potential competitor is ever present.

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The next charge against trusts is that, through their immense wealth, they are obtaining an increasing control over the government, and are thereby tending to become not only industrial monopolists, but political dictators also, the latter being the natural consequence of the former. … Notwithstanding the wholesale complaints that legislation is all in their interest, the statute books of the various states show no evidence of this fact. Instead of laws being enacted to grant special favors to these corporations, the books bristle with enactments directed against them. It is true that they have lobbyists, and perhaps spend large sums of money during the legislative sessions; but any one who will investigate the matter will find that it is almost invariably to defeat legislation directed against them, and not to enact new laws in their favor. They need no legislation in their favor. They are strong enough, by virtue of their concentrated capital and improved methods of production, to their place in the industrial world.

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Manifestly, therefore, the charge that the concentration of capital in the form of trusts and syndicates, necessarily tends to produce monopoly (in the obnoxious sense), destroy competition, increase prices, oppress labor, or to put the government into the hands of an industrial oligarchy, is without any real foundation in fact, or justification in reason. On the contrary, these institutions, instead of being the evidence of industrial abnormity and economic disease, are the natural consequence of modern industrial differentiation, and in their nature are economically wholesome, and politically and socially harmless.

In taking this view of the economic and social aspects of trusts, I do not assume the moral sponsorship of all that is done in their name and behalf. I am not unmindful of the fact that many evils have grown up with the development of these organizations, which demand the most serious consideration and vigorous treatment. But I insist that this is not an inseparable part of these institutions, and hence that it is not necessary to check their economic development in order to suppress the moral and social evils that have become associated with them. The corruption of the lobby and the coercion of competitors are no more necessary to trusts than venal voters are to democratic institutions, than mercenary decisions are to the jury system, than blatant demagogy is to free speech, or than superficial, sensational and fawning journalism is to a free press.

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As the evils associated with trusts are mainly ethical in their nature, their elimination should not be sought in any arbitrary limitation of trusts as industrial institutions, but it should be sought in the direction of a more perfect administration of the criminal law and in increasing the influences which tend to improve the social condition, and develop the intellectual and moral character of the great mass of the people, who constitute the only power that can make such evils impossible. It must not be inferred, however, that the economic phase of trusts and similar organizations is necessarily outside the pale of state action. But if the community is to secure the best economic results from the use of capital and obtain the maximum production at lowest prices, the state should promote rather than restrict the free movement and safe concentration of capital in productive enterprise.

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George Gunton, "The Economic and Social Aspect of Trusts," Political Science Quarterly, 3:3 (September 1888): 385-408.