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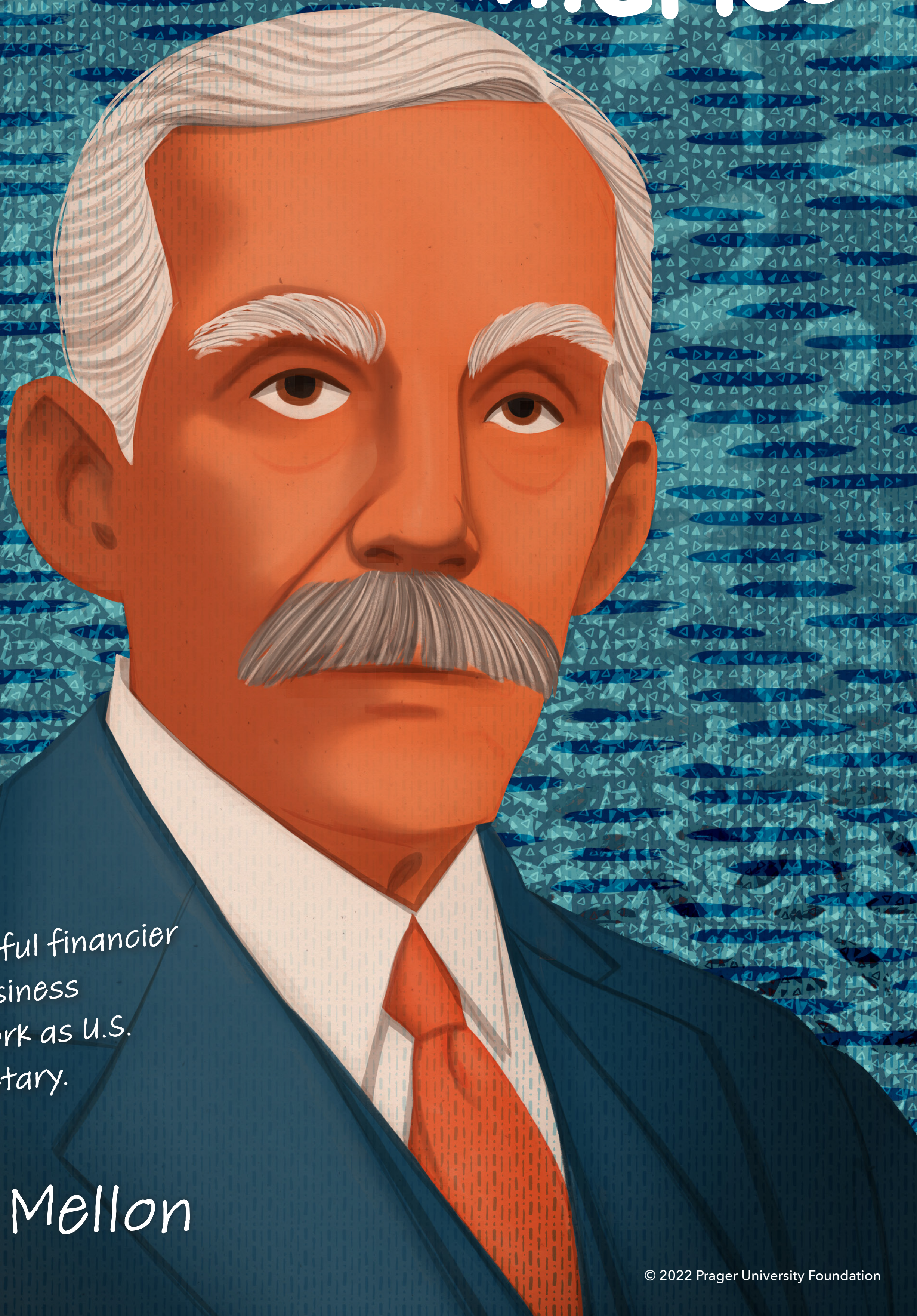
Builders of America



I was a successful financier who put my business expertise to work as U.S. Treasury Secretary.

Andrew Mellon

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Meet Andrew Mellon

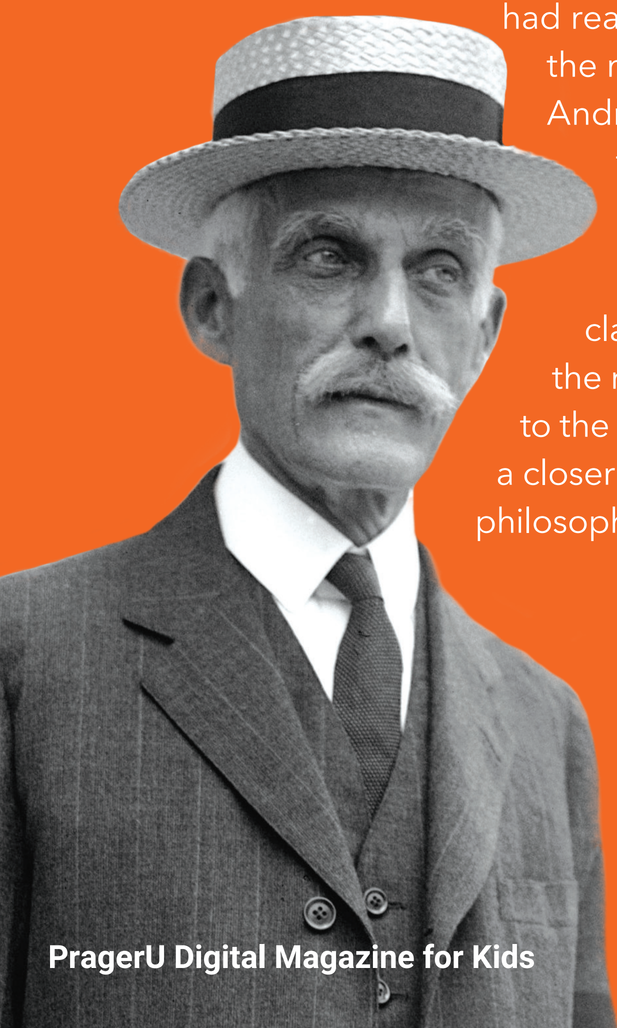
One of the most misunderstood men in American history, Andrew Mellon contributed greatly to America's prosperity during the 1920s.

The son of respected judge and bank owner Thomas Mellon, young Andrew learned about **economics** around the family dinner table. His father began sending him on business trips when he was just a teenager. At 18, Andrew joined T. Mellon & Sons, where he granted loans to start-up ventures. Andrew proved so capable that in 1882, Thomas turned the entire bank's operation over to him.

Through his investments, Andrew rose to become one of the wealthiest businessmen in America, establishing leading corporations in industries such as steel, aluminum, insurance, railways, and oil.

In 1921, President Warren Harding appointed Andrew to Secretary of the Treasury to address the national debt, which had reached an all-time high due to the massive cost of World War I. Andrew proposed a controversial tax policy: lower taxes to increase **revenue**.

Many modern textbooks claim that Andrew only aided the rich, and that his actions led to the Great Depression. However, a closer exploration of Andrew's tax philosophy reveals a different narrative.



At-a-Glance

- Born on March 24, 1855 in Pittsburgh, Pennsylvania
- American **financier** and **philanthropist**
- U.S. Secretary of the Treasury (1921-32) under three successive administrations
- Reformed the tax structure of the U.S. government in the 1920s
- Major art collector who donated his collection, valued at $25 million, to the U.S. government in 1937
- Founded the National Gallery of Art in Washington, D.C.
- Died on August 26, 1937 in Southampton, New York

Early Life

Andrew William Mellon was born in 1855, the sixth of eight children to Judge Thomas Mellon and Sara Jane Negley. Two sisters died in infancy, while Andrew's older brother Selwyn died in childhood, leaving five sons.

Andrew's mother was a devout Presbyterian who organized church attendance and oversaw the household. Although the family had a small domestic staff, Sara Jane baked and cooked most of the family's meals.

An Irish immigrant, Thomas was a well-educated, successful lawyer, businessman, and banker who also served as a judge in Allegheny County. He was convinced that his sons were destined for a life in business, so they were taught about money-making from a young age.

Early on, determined young Andrew exhibited an aptitude for business. As a child, he cut grass from his family's meadows and sold it to passing farmers for horse feed. He also sold produce from the family garden to local shops. In addition, Andrew developed a keen interest in his father's banking business.

At age fourteen, Andrew entered Western University (now the University of Pittsburgh). Remembered by his classmates as painfully shy and deeply **pensive**, he received good grades but was not a stand-out student.

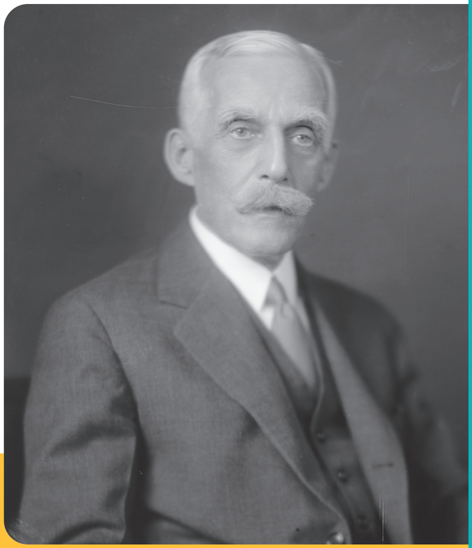
Meanwhile, Judge Mellon retired from the bench in 1869 and opened a second small bank in Pittsburgh that focused on mortgages, property investments, and business loans. Andrew learned the banking business by working on Saturday mornings and during school breaks.

Chaos ensues at the stock exchange during the Panic of 1873.

Making Change

Andrew left university early to establish a lumber business with his brother, Richard. The brothers obtained a loan from their father for the start-up **capital** and participated in every aspect of the business. Their success enabled them to repay the loan quickly. Anticipating an approaching economic downturn, they leased a part of the business at a profit before the Panic of 1873.

The brothers' keen judgment impressed Thomas, who offered 19-year-old Andrew a full-time position at the bank for a salary of $75 a month. By now, T. Mellon & Sons had become a respected financial institution in Pittsburgh that granted loans to aspiring businessmen. They were in turn given free rein to conduct their affairs as they saw fit. In his new position, Andrew was given the authority to grant loans at his discretion.



"I have never viewed taxation as a means of regarding one class of taxpayers or punishing another.

If such a point of view ever controls our public policy, the traditions of freedom, justice, and equality of opportunity, which are the distinguishing characteristics of our American civilization, will have disappeared, and in their place we shall have class legislation with all its attendant evils."

Andrew Mellon

Banking on Success

In 1882, Thomas turned over the entire management of the bank to Andrew, who broadened the family's financial operations beyond T. Mellon and Sons.

From 1890 onward, Andrew was given authority over his father's investments in real estate, mortgages, bonds, and coal fields. He was also charged with managing and dividing the fortune among his siblings.

Over the next few decades, the Mellon empire expanded as Andrew supplied capital to Pittsburgh-based industrialists who had innovative ideas, but lacked the funding to get them off the ground.

Andrew's masterful ability to assess entrepreneurs and new technologies, along with his willingness to take financial risks, contributed greatly to his success. He helped develop Pittsburgh's aluminum, steel, oil, coal, and coke industries, and later founded the Aluminum Company of America (Alcoa) and Gulf Oil Corporation. By 1920, Andrew had become one of the richest men in America and had captured the attention of political leaders, including President Warren Harding's advisors.

Help Wanted: Secretary of the Treasury*

Overview:

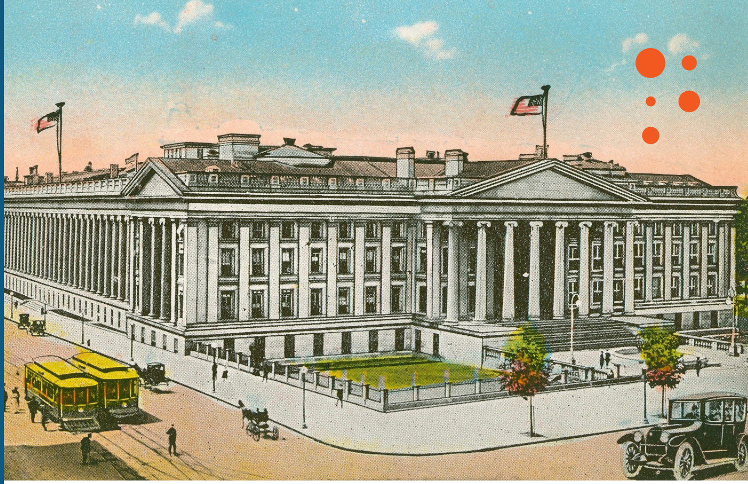
Established by the First Session of Congress in 1789, the Treasury Department is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States.

The U.S. Department of the Treasury's mission is to maintain a strong economy and create economic and job opportunities by promoting the conditions that enable economic growth and stability at home and abroad, strengthen national security by combating threats, and protect the integrity of the financial system, and manage the U.S. Government's finances and resources effectively.

Job Duties:

- Manage the national finances
- Oversee collection of revenue
- Grant warrants for money drawn from the Treasury
- Direct forms of keeping and rendering public accounts
- Prepare plans for the improvement of the revenue and for the support of public credit
- Submit an annual report to Congress on the condition of public finances and the results of activities under your supervision
- Control construction and maintenance of public buildings
- Control coinage and printing of money

*home.treasury.gov/about/general-information/role-of-the-treasury



From Capital to the Capitol

By the time Warren Harding was elected president, the national debt had ballooned to a then record of almost $26 billion. Americans were burdened by oppressive taxes and a sluggish economy. Accordingly, Harding sought a highly competent Treasury Secretary who could reduce the massive debt and improve the economy. Harding sought an unusual man for the job – someone outside politics – and selected wealthy businessman, Andrew Mellon.

At his family's urging, Andrew accepted the challenge, bringing his real-world business experience to the government. In order to accept the appointment, he had to resign his positions on the boards of directors of 60 corporations, and accepted a meager salary of $12,000-a-year. In 1921, Andrew relocated from Pittsburgh to Washington, D.C.

Many people voiced concerns about Andrew's potential loyalties given his reputation as a very wealthy man. Would he be able to approach his new post with a disinterested attitude of service?

Taxing Work

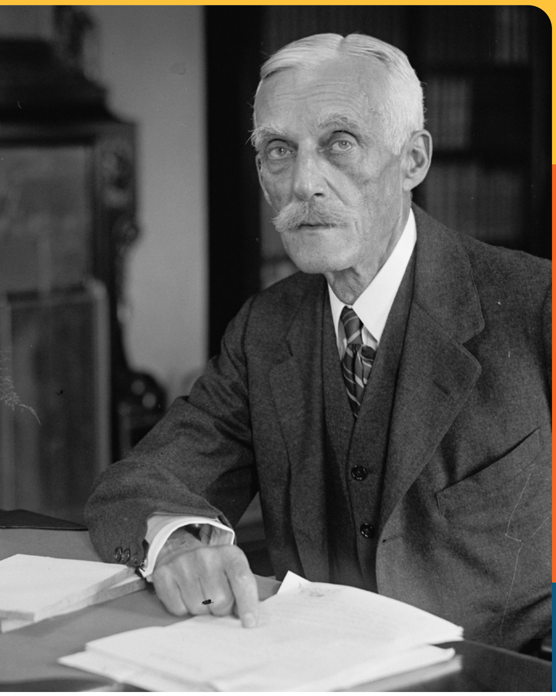
Americans had long debated the idea of taxing income. During the Civil War, Congress passed a three percent tax on all incomes over $800, but repealed the tax in 1872. In 1894, Congress passed a flat two percent tax on incomes over $4,000. However, the Supreme Court declared the law unconstitutional the following year.

In general, Conservatives opposed an income tax, while Progressives favored it as a means of increasing government revenue. In 1913, they secured the 16th Amendment, enabling Congress to tax personal incomes. Initially, the income tax was only one percent, but then it became progressive, with rates increasing as income increased. When the cost of running the government was small, rates ranged from two to seven percent. As the size of government grew, more income was needed to operate it.

On March 4, 1921, Andrew entered his new office at the Treasury Building and began carefully collecting and reviewing data on the American economy. He approached his new position from a business perspective, viewing the Treasury Department as a large corporation of which he was the chief executive.

Andrew quickly recognized that World War I had been a turning point for the government's role in economic life. Before the 1910s, the government played a small part in operating, regulating, and taxing American business. Federal budgets amounted to less than $1 billion per year, so taxes were easier to collect.

When the country entered World War I, expenses soared. To cover the costs, the highest **marginal tax rate** was raised to 77%. By the end of the war, the national debt had increased from $3.6 billion in 1916 to almost $26 billion in 1920.



"The government is just a business, and can and should be run on business principles."

Andrew Mellon

The Mellon Plan

Andrew developed a plan to lower the national debt, reduce taxes, and balance the budget. Known as the Mellon Plan, his tax reform program was presented in his 1924 book, *Taxation: The People's Business*. Andrew's four main points were:

1) **Cut the top income tax rate to 25 percent**. Andrew argued that 25 percent was the most that investors would pay before sheltering their money in tax-free bonds. He believed that this tax-cut would attract large fortunes back into enterprise, and generate a **surplus** for the government.

2) **Cut taxes on low incomes.** Andrew believed that tax policy "must lessen, so far as possible, the burden of taxation on those least able to bear it." He proposed a twenty-five percent credit on earned income – that is, income earned by wages would be taxed less than income earned through investments. He also suggested a repeal of federal taxes on movie tickets, telegrams, and telephones.

3) **Reduce the federal estate tax.** Andrew opposed the Progressive Party's desire to increase taxes on estates. He thought the states should receive revenue from such taxes. He contended that high estate taxes would tempt the wealthy to shift their fortunes into tax-exempt shelters.

4) **Government efficiency.** Andrew sought to lower the federal budget from $18 billion to around $4 billion. In his department, Andrew pursued cost-cutting measures. Since fewer people were needed to process tax returns, he decreased his Treasury staff by an average of one person per day during the 1920s. He also reduced the size of paper bills to fit wallets more easily, saving on printing expenses for paper and ink.

NATIONAL DEBATE

Andrew's tax plan became the subject of intense debate during the 1920s, as two political theories clashed. Progressives opposed lowering taxes, even on lower-income groups. They wanted to collect massive tax revenues to expand government spending.

By contrast, Andrew and the Republicans wanted to use any surplus tax revenue to pay down the national debt. Andrew believed that the Progressive party's agenda took "money out of the pockets of all the people in order that it would find its way back into the pockets of some of the people," which he believed was wrong.

The debate continued until President Harding died and Calvin Coolidge took office in 1923. In Coolidge, Andrew had a strong ally, and Congress passed most of the Mellon Plan in 1926.

Political cartoon showing President Calvin Coolidge riding in a car with Treasury Secretary Andrew Mellon.

Calculating the Difference

The result? From 1921 to 1926, tax revenue increased as the tax burden shifted toward the rich. In 1921, people who earned less than $10,000 paid almost as much as those who earned over $100,000 per year. In 1926, those who earned over $100,000 per year paid over ten times as much as those who earned less than $10,000 per year.

By 1929, income tax revenue surpassed $1 billion, and Americans earning $100,000 or more paid 65% of it. Those earning under $10,000 paid only 1.3 percent of the total tax.

The Progressives could not challenge the Mellon Plan's actual success, so instead they challenged Andrew's integrity. They accused him of manipulating tax audits and refunding $3.5 billion to Republican friends.

In reality, Andrew had little to do with refunds, which were assessed and ruled on by a Board of Tax Appeals. Records show that during the same period, the Treasury department collected more revenue despite its loss in reassessments.

The Sum of Andrew's Life

During Hoover's presidency, Andrew continued to serve as Treasury Secretary, but the two men had different opinions about how to respond to the Great Depression. In 1932, Andrew resigned and served as Hoover's Ambassador to Great Britain until 1933.

After Andrew left the Treasury Department, the government again raised taxes, at a rate of nearly eighty percent on top earners during the late 1930s. As Andrew had predicted, investors avoided the heavy tax burden by sheltering their investments. Congress passed excise taxes on movie tickets, telephone calls, gasoline, tires, cars, and electricity, mostly to fund President Roosevelt's New Deal.

Even though Andrew's tax policies were overturned, he hoped that history would prove his strategies correct. He retired from politics, donated his extensive art collection to found the National Gallery of Art, and died in 1937.

True or False?

1

Born in 1855, Andrew Mellon was raised by poor farmers in Pittsburgh, PA.

TRUE FALSE

2

Andrew had a knack for investing in businesses run by capable men with innovative ideas.

TRUE FALSE

3

Andrew became one of the richest men in America by developing Pittsburgh industries, and founding the Aluminum Company of America (Alcoa) and Gulf Oil Corporation.

TRUE FALSE

4

The high cost of the Civil War caused the national debt to balloon to nearly $26 billion.

TRUE FALSE

5

The Mellon Plan included four main points: cut the top income tax rate to 25%; cut taxes on lower incomes; reduce the federal estate tax; and increase government efficiency.

TRUE FALSE

6

Andrew's controversial tax policies helped the rich,hurt the poor, and decreased national tax revenue, increasing the national debt.

TRUE FALSE

Answer key on page 10

Fascinating Facts about Andrew

- At age 45, Andrew married Nora McMullen in 1900, but they divorced 13 years later. They had two children, Ailsa and Paul.
- Andrew and Richard founded The Mellon Institute of Industrial Research in 1913, as a memorial to their father. The Institute benefited American manufacturers through research and investigation.
- Andrew spoke in a soft, whisper-like voice, yet his mental acuity always commanded respect.
- Andrew was known for his low-key personality. In one example, he was mistakenly called to the phone at a press banquet. The caller asked him to take a long message for a reporter named George. He proceeded to take three pages of notes from the stranger, and later delivered them to George.
- As Treasury Secretary, Andrew's signature can be found on much of the U.S. paper currency printed from March 1921 to February 1932.

H	G	R	U	B	S	T	T	I	P	Q
S	S	T	E	T	B	E	D	L	N	T
E	I	R	S	I	Q	T	J	Z	D	Y
C	G	E	E	N	C	B	D	E	M	C
R	N	A	I	R	D	N	G	P	A	B
E	A	S	C	N	E	D	A	P	J	N
T	T	U	I	T	I	V	I	N	O	M
A	U	R	L	L	A	T	E	L	I	B
R	R	Y	O	N	A	X	L	N	M	F
Y	E	O	P	L	B	E	E	X	U	R
T	C	Q	Z	B	M	Y	D	S	N	E

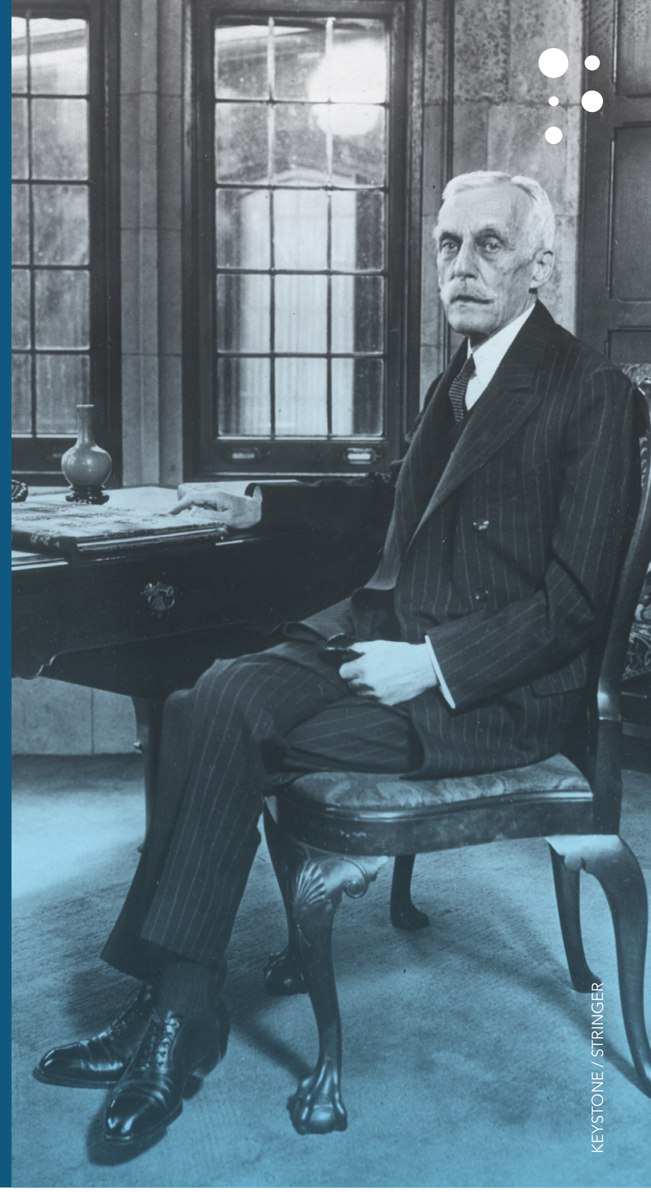
Word Search

REVENUE	DEBT
PITTSBURGH	POLICIES
TREASURY	SECRETARY
MELLON	FINANCIER
CAPITAL	SIGNATURE
TAXES	COOLIDGE

Answer key on page 10

Glossary

- **Capital**: The money invested in a business venture, including debt and equity.
- **Economics**: The social science that deals with the production, distribution, and consumption of goods and services, and with the theory of monetary systems.
- **Financier**: One who engages in investing or raising large amounts of money.
- **Interest**: An amount paid or charged for borrowing money.
- **Marginal Tax Rate**: The rate at which income over a certain amount is taxed by the federal government.
- **Pensive**: Engaged in deep and serious thought.
- **Philanthropist**: One who helps others and society overall through charitable aid or donations.
- **Revenue**: Total income produced by a given source.
- **Surplus**: An amount in excess of what is needed.



KEYSTONE / STRINGER

H	G	R	U	B	S	T	T	I	P	Q
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E	I	R	S	I	Q	T	J	Z	D	Y
C	G	E	E	N	C	B	D	E	M	C
R	N	A	I	R	D	N	G	P	A	B
E	A	S	C	N	E	D	A	P	J	N
T	T	U	I	T	I	V	I	N	O	M
A	U	R	L	L	A	T	E	L	I	B
R	R	Y	O	N	A	X	L	N	M	F
Y	E	O	P	L	B	E	X	E	U	R
T	C	Q	Z	B	M	Y	D	S	N	E

TRUE OF FALSE KEY: 1–F. 2–T. 3–T. 4–F. 5–T. 6–F.

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