



THE ANDREW MELLON CASE

Lesson Plan for Grades II-12

The Economist: Andrew Mellon: Made it, Bought It, Ran It, Gave It
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OF ALL America's great men, Andrew Mellon is arguably the least-known and most under-appreciated. Yet the life of this banking tycoon, politician and philanthropist was remarkable, and its impact on his country wider and far more beneficial than those who know of him generally believe. And it is a life that deserves to be studied more than ever, since so much of it raised issues that are relevant today.

"It was a different time from ours. Or was it?" asks David Cannadine nearly half way through his superb biography of a man whose story prompts that question many times over. Mellon was one of America's richest men during the roaring 1920s, that gilded age to which today's increasingly unequal society is often compared. The debate that raged during his lifetime over the relationship between inequality and wealth-creation, and the responsibility of the rich winners to poorer folk, still rages today, though America now offers some mechanisms for redistribution and a social safety-net of kinds, both strongly opposed by Mellon.

His business empire, which combined huge industrial enterprises such as Gulf Oil and the aluminium giant, Alcoa, with a powerful bank, Union Trust, was privately held. It resembled, in a purer and family-owned form, today's increasingly powerful private-equity firms, such as Kohlberg Kravis Roberts and the Blackstone Group. But Mellon was more than a mere shareholder in blue-chip businesses or a supplier of loans to them. He was the leading, risk-taking, venture capitalist in Pittsburgh, the Silicon Valley of its day.

During the burst of industrialisation between the 1860s and 1920s that transformed America into the world's leading economic power, Pittsburgh led the way. It was the home of Andrew Carnegie, Henry Frick, George Westinghouse and Henry John Heinz, as well as Mellon. The "Mellon system" involved identifying new industries, often by backing research that led to scientific breakthroughs, and then vertically integrating these businesses under a dominant company. As Mr Cannadine notes, although a believer in the market, Mellon, like many businessmen of the time, also "rather liked monopolies". Mr Cannadine finds no evidence to support the widely believed story that Mellon turned down the chance to back the young Henry Ford. But he might have done so, had the opportunity arisen: he had an eye for an invention.

Mellon's belief in free enterprise, self-reliance and the virtues of inequality owed much to the combination of his strict Presbyterian Ulster heritage and his powerful father, Thomas "the Judge" Mellon. This helped him succeed in business, but let him down in both his personal and his public life. According to Paul Mellon, in his memoir "Reflections in a Silver Spoon", his father Andrew entered adulthood as a "thin-voiced, thin-bodied, shy and uncommunicative



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man”. According to one contemporary, he was so closed that, had he got religion, he would not have “told it to God”. He broke off an engagement, on his father’s orders, after discovering that his fiancée was dying of consumption. When he did marry, it was in his 40s to a wholly unsuitable girl from England, “his one open rebellion against his father and his family”. The marriage, which Mr Cannadine likens to that of Prince Charles and Lady Diana Spencer, soon ended in scandalous divorce—not surprisingly, as Mellon treated his needy young wife “like a client at the bank, seeking a loan to finance an ill-conceived venture”. His relations with his children were also blighted.

Mellon’s beliefs may also account for the disastrous end to his career as treasury secretary, a post now held again by one of the country’s richest bankers. Mellon took the job reluctantly aged 65, and pioneered the supply-side reforms still favoured by some today. He wrote a best-selling book, “Taxation: The People’s Business”, which argued that cutting tax rates for the rich would increase their revenue (familiar?), and that many more people should be entirely exempted from paying federal income tax. When his reforms were (mostly) implemented, in 1926, he was vindicated: a man earning \$3,000 a year paid no income tax, compared with \$40 in 1920, and yet the rich did indeed pay more overall.

As treasury secretary, Mellon secretly continued to run his business empire with his brother Dick, despite publicly stating that he had severed all links with it, a conflict of interest beside which any relationship between Dick Cheney and Halliburton seems trivial. Despite this, and despite persistent allegations that his failure to enforce Prohibition effectively may have owed something to his past ownership of a distillery, by 1929 Mellon was regarded with a degree of admiration nowadays reserved for people like Alan Greenspan at his zenith as chairman of the Fed.

Yet when boom led to crash and then the Depression, the same instincts that had made Mellon a fierce opponent of trade unionism made him unsympathetic to the plight of the millions of unemployed workers. Instead of helping, he preferred to weather the economic storm confident that before long things would improve, as they always had in the past. He soon became a hate figure, and was shipped off as ambassador to Britain, where he devoted his time to increasing his collection of great art and successfully lobbying the British to sign over their oil rights in the Middle East to Gulf Oil.

As soon as Franklin Roosevelt became president, he set out to make Mellon a prime example of the “great promoter or the financial Titan” whose day he intended to ensure was past. Mellon was accused of tax fraud, and in his early 80s had to endure a humiliating trial, which exonerated him only after his death. In fact, during his life Mellon paid far more in tax than he needed to, says Mr Cannadine, who also finds not a “shred of evidence” that the gift of his art collection to the nation was part of a secret deal connected with the tax



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trial. Mellon had, it is now clear, been planning to create the National Gallery of Art since his time as treasury secretary, when he was also overseeing the design and construction of Washington's magnificent neo-classical Federal Triangle.

Mellon's philanthropy has echoes today. It is not so much that giving by the rich is fashionable again; rather it is that at least some acts of generosity are carried out without much self-aggrandisement. Mellon did not insist on his name adorning the National Gallery, an act of self-effacement that was not surpassed by any philanthropist until this year, when Warren Buffett chose to give most of his fortune to the Bill & Melinda Gates Foundation rather than create one of his own.