ANDREW W. MELLON, SECRETARY OF THE TREASURY 1921 - 1932 A STUDY IN POLICY

LAWRENCE LEO MURRAY III

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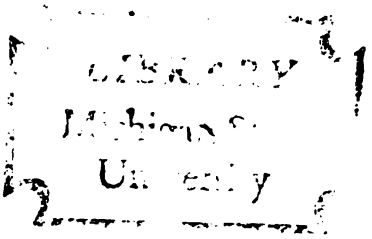
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ANDREW W. MELLON,

SECRETARY OF THE TREASURY, 1921-1932

A STUDY IN POLICY
presented by

Lawrence Leo Murray III

has been accepted towards fulfillment
of the requirements for

Ph.D. degree in History

Madison Kuhn
Major professor

Date May 18, 1970

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ABSTRACT

ANDREW W. MELLON,
SECRETARY OF THE TREASURY, 1921-1932
A STUDY IN POLICY

by

Lawrence Leo Murray III

The direction of this dissertation has been to examine, interpret, and evaluate the Treasury career of Andrew W. Mellon, with particular emphasis on his role in policy formation and development. Because a major goal of the Republican administrations in the Twenties was economy in government, he was involved in varying degrees with nearly every problem or issue that confronted the federal establishment. Rather than attempt to deal with every factor, this author has focused attention on those defined by the Treasury and its chief as the more paramount. Included are taxation, foreign and domestic debts, prohibition enforcement, public construction, the Secretary's role as a politician, the stock market spiral, crash, and subsequent consequences, and the general administration of the Treasury Department. Interwoven with these are a series of related issues such as the tariff and Federal Reserve Board activities. At all times, however, the attempt has been to maintain the Secretary as the center of attention and to probe

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The methodology employed has been the traditional approach of the historian, investigation of the relevant primary and secondary sources, and as far as is possible in the social sciences, the scientific method has been adapted to the research. Though the subject requires some use of figures and statistics, a quantitive or behavioral approach has not been employed. The principle source materials were the Official Correspondence of the Secretary of the Treasury, Record Group 56, National Archives and the Annual Report of the Secretary of the Treasury, 1921-1932. Because the heirs have declined public access, the Personal Papers of Andrew W. Mellon were not consulted. Other sources such as newspapers, magazines, personal papers and memoirs of related figures, and a wide variety of secondary works were also employed.

In general, the conclusions drawn are somewhat at variance with those generally accepted. Investigating taxation, for example, the evidence revealed that no effort was made to shift the burden. Instead, the common man paid little or no taxes, and the rate of taxation was lowered on the middle and upper classes in the face of government economy, an expanding gross national income, and with a design for encouraging capital investment. A constant policy of domestic debt reduction was pursued, and in the area of foreign debts, the Secretary followed a middle of the road course between the cancellationists and full

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payment groups. Prohibition was not zealously enforced, but Mellon endeavored to do his best within the economic and political limits set by Congress, while attempting to have the onerous task transferred to the Justice Department. As for the stock market, the sources indicate that the Secretary was not directly a major contributor to the speculative mania, but his response to the crash was antiquated, grounded in a nineteenth century laissez-faire philosophy. His administration of the Treasury Department was found to be very business-like, helping to streamline and modernize operations. The project in which he took the most personal pride was beautification of the city of Washington, and much of the physical plant of the government today, particularly the Federal Triangle, was his creation.

Of all the conclusions, the most important, and the one most in divergence with tradition, is that related to taxation. An effort was made to examine that issue in a statistical fashion so as to separate fact from rhetoric. Many conclusions must be tentative because of a shortage of collateral studies and the lack of the personal papers, but it is hoped that those pertaining to taxation will approach the definitive.

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A STUDY IN POLICY

by

Lawrence Leo Murray III

A THESIS

Submitted to

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for the degree of

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Department of History

1970

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ACKNOWLEDGMENTS

As an individual makes the transition from student to fledgling historian, the doctoral dissertation serves as an announcement of his professional debut. That first scholarly expression is necessarily the product of the efforts, assistance, and guidance of many others beyond himself. To my dissertation director, Dr. Madison Kuhn, is owed a debt that could never be adequately paid. His tremendous grasp of the sources and uncanny ability to question and probe my evidence and argumentation and to expose its weaknesses and strengths as well as to suggest new directions provided for both assistance and stimulation. Without his friendship and encouragement, the project may have floundered in inertia. To the other members of my committee, Dr. Robert E. Brown and Dr. Thomas Bushell, is offered an expression of appreciation for their training in the science of historical inquiry and the art of writing, as well as for their helpful comments as the dissertation matured. All three have provided a standard of excellence in their own scholarship that I sought to emulate.

My wife's contribution in producing the dissertation is inestimable. Her frequent suggestions, not always accepted

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in the best spirit, revealed many weaknesses and her clerical talents were irreplacable. To her and my two daughters, the women in my life, I would like to dedicate my first venture into the world of scholarship.

ACKNOWLEDGEMENT

INTRODUCTION

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INTRODUCTION

Several years ago, Burl Noggle issued something of a challenge to historians interested in America's recent past. In a brief but penetrating article, "The Twenties: A Historiographical Frontier," Professor Noggle pointed to that period as one in the process of revision and amplification.[1] Commenting on what had already been done, he suggested a variety of questions and figures that would afford scholars with many and varied opportunities to launch out in new directions. As a beginning graduate student interested in more contemporary history, the Noggle essay stimulated me to search the new frontier for a suitable research topic. Encouraged by my dissertation director, who also thought the Twenties to be an opportune area, I probed the issues and personalities, settling on some facet of the long business-government career of another Pittsburgher, Andrew W. Mellon.

A cursory examination of Mellon found that little had been done, but that the historical community was fairly unanimous in its interpretation of him as a man of wealth

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[1] Journal of American History, September, 1966, pp. 299-314.

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who used his post to conserve his wealth and that of his peers. Further investigation indicated that this stereotype was questionable and my curiosity to pursue Mellon's government service was intensified. The reason for this stereotype and for the lack of intensive examination soon revealed itself--his heirs were withholding his personal papers. Faced with what appeared to be an insurmountable handicap, my dissertation director suggested that other source materials, government records and the like, might offer an adequate detour. Joseph Brandes in his study of Herbert Hoover at the Commerce Department, Herbert Hoover and Economic Diplomacy (Pittsburgh, 1962), had overcome a similar obstacle and done a very credible job. Discovering that there was a variety of primary and secondary sources available and with more coming out regularly, I launched out in my new direction.

As was suspected in the early days of the project, the conclusions drawn were somewhat at variance with those generally accepted. The stereotypes and generalizations weakened when applied to the individual, and Mellon appeared as a complex figure with assorted motivating forces and goals. As is so often the case, the individual was not as consistent as the broad statements would indicate. The general character of the study grew in the direction of revisionism, but the intent was not to simply defend or rehabilitate. Nor was the intent to destroy generalizations, but to expand upon them, accepting those that the evidence

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supported and modifying or discarding those that it did not. In some instances, new generalizations were substituted for old. It is hoped that the reader will find the discussion and conclusions interesting and perhaps stimulating for much needs to be done on the issues and personalities surrounding Mellon to fully understand and appreciate the man and the period.

Lacking the private papers, one cannot, of course, make any claim at definitiveness. But if one looks upon historical research as a synthesis, the product of thesis and antithesis, the reader is asked to accept this different interpretation as part of the drive toward synthesis. The mere passage of time has enabled me to gain a perspective that was not possible before, to look at this man in a day not colored by partisan debate over his performance. Further generations with more perspective and more resources to call upon may discover weaknesses, but part of the thrill of being a historian is to try to come to grips with a subject at a time when revelations about that subject can be of assistance to society, even if the final word cannot be said. Yet one is forced to ponder the question, when can the final word be said?

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CHAPTER I

THE UNKNOWN SECRETARY

Just three days before he was to take that short ride up Pennsylvania Avenue from the White House, President-elect Warren G. Harding confirmed the fact that Andrew Mellon would be his Secretary of the Treasury. The announcement ended months of speculation as to who was going to receive that prestigious Cabinet position. Newspaper reporters had expected the nomination much earlier, at least before Harding went on his southern vacation in early February. The in-coming Republican administration had pledged itself to an austerity program and it was thought that the Treasury post would be one of the first filled, thus allowing plenty of time for the President-elect and his appointee to discuss thoroughly various policy problems before assuming office. Instead, the amiable Ohioan confounded expectations by waiting until the very last moment before divulging his preference.

When the disclosure came that A.W. Mellon was to be in the first Republican cabinet in eight years, it was not without some hesitancy on the part of the President-elect. The press was not summoned for formal notification. Instead, the reporters had to extract a confession from Harding after

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presenting him with information they had which pointed to the Pittsburgh banker.

Mellon himself had unintentionally alerted the press when he visited the Treasury Building on February 28. Intent on quietly touring the building and perhaps conferring with the outgoing Secretary, David F. Houston, Mellon was unable to avoid the Washington reporters. To his further embarrassment, the Secretary-designate lost his way twice while examining his future headquarters and had to postpone his meeting with Houston who was out of the building at the time. One of the Assistant Secretaries, S. Parker Gilbert, took Houston's place in chatting with Mellon.[1] That he met with Gilbert instead of Houston proved to be an unusual stroke of fate, for Gilbert was retained by the new administration and ultimately was made the first Under-Secretary of the Treasury.

Why was Harding hesitant in confirming Mellon's selection? Was it that he had not decided until March, or did he for some reason fear revealing his choice? None of the other Cabinet nominations, except perhaps Herbert Hoover's to the Commerce Department, assumed such an aura of mystery. To understand why Mellon, we must return to the immediate post-election period of November and December, 1920.

The formation of a Cabinet was bound to be a difficult task at best. The Republicans had recaptured the White

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[1] New York Times, March 1, 1921.

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House after two terms in the wilderness and a great many party workers sought to participate in dividing the spoils of victory. Those who expected the largest share were the conservative Senators who had worked together to defeat Wilson's Treaty of Versailles and to nominate Harding at Chicago. Penrose, Knox, Lodge, Brandegee and the others looked upon the Marion editor as their creation and they expected him to be responsive to their wishes.[2] In choosing his official family, no President has ever had a completely free hand and Harding was more restricted than most. His victory over Governor James Cox of Ohio was the most decisive to that time, but the price of the presidency was to prove high in terms of independence of action.

Before pressure was applied from the Congressional wing of his party, Harding's choice for the Treasury portfolio was Charles Gates Dawes.[3] Currently president of his own bank in Chicago, the Central Trust Company of Illinois,

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[2]Andrew Sinclair, in The Available Man (New York: The Macmillan Co., 1965), propounds the thesis that Harding was his own man and was not the creation of the senatorial cabal. Though he somewhat persuasively argues his case, Sinclair does not completely destroy the older interpretation. The circumstances surrounding the Mellon selection will illustrate that much can still be said for the first explanation.

[3]Charles G. Dawes, The First Years of the Budget of the United States (New York: Hayes and Brothers, 1923), p. 1; Bascom N. Timmons, Portrait of an American: Charles Gates Dawes (New York: Henry Holt and Co., 1953), pp. 200-03; H.L. Stoddard, As I Knew Them (New York: Harper and Sons, 1927), p. 522; and Samuel Hopkins Adams, Incredible Era, The Life and Times of Warren G. Harding (New York: Capricorn Books, 1939), p. 198.

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Dawes had gained something of a national reputation as General Pershing's supply officer with the Allied Expeditionary Force. His front line political experience was limited to the position of Comptroller of the Currency in the first McKinley administration. Harding had met Dawes at the Republican Convention, two days before he received the nomination. At Chicago, Dawes was actively campaigning for Governor Frank Lowden of Illinois.

Shortly after the election, Dawes was invited to Marion. Informing Dawes that he had been impressed by his article "How a President Can Save a Billion Dollars," Harding suggested that the Chicago banker join his new Administration and use his ideas to implement an economic austerity program.[4] Dawes politely informed the President-elect that he was in sympathy with the idea of economy in government, but that the Secretary of the Treasury was the wrong man to do the job.[5] A sound program, Dawes argued, could only function through a budget system, something that Wilson had recently vetoed because of a technicality. Furthermore, the chief budget officer should be a Presidential assistant, working directly under the President and not as a co-equal in the Cabinet. If austerity was to be accomplished, it must come from the top down. At a second meeting in January, Dawes formally declined the

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[4]New York Times, December 24, 1920 and Timmons, Charles Gates Dawes, 202.

[5]Dawes, The First Years, 1.

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Treasury post, though he did volunteer to serve as Budget Director if and when a budget system was instituted.[6] His rejection was not as gracious as his biographer might have us believe, in that several factors intervened to almost force a negative response. In an appearance before a Senate investigating committee, he assumed a very defensive attitude and his vitriolic responses put him in the bad graces of the Senate.[7] Secondly, the mayor of Chicago, William H. (Big Bill) Thompson, a major force in Republican circles, came out against the inclusion of either Dawes or Lowden in the Cabinet.[8] Finally, the Senatorial cabal was making its influence felt in Marion. Dawes was aware of the growing pressure, for Harding had told him that objections were being raised to the inclusion of Hoover in the Cabinet.[9]

The press was not ignorant of the fact that Harding was under great pressure, but they did not connect Dawes with the strain until early February.[10] Up to the fiery scene in the Senate, they had considered him a virtual certainty. When it became apparent that Dawes was not the choice, the newsmen turned their attention to Charles D. Hilles and John Hay Hammond, both of New York. Mellon was mentioned, but his

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[6]Timmons, Charles Gates Dawes, 202.

[7]New York Times, February 7, 1921.

[8]New York World, January 12, 1921.

[9]Timmons, Charles Gates Dawes, 201.

[10]St. Louis Post-Dispatch, January 8, 1921 and New York Times, February 7,1921

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The first inkling that Mellon was a contender for the Treasury post came New Year's Eve. Senator Philander Chase Knox (R.-Pa.), dean of the Senate and an integral member of the Chicago cabal, made public a meeting that he had had with the President-elect. The principle reason for his journey to Marion, he said, was to cut short any rumors that he was interested in returning to the State Department. Instead of offering himself, Knox announced that he had urged Harding to appoint his friend, Andrew W. Mellon, as Secretary of the Treasury.[11] In spite of Knox's prominence in party circles, none of the newsmen took the proposition seriously. Their favorite was Dawes, not the unknown Pittsburgher.

The decision to project Mellon as a Cabinet officer was not a hasty one. The idea seems to have originated during the campaign when John W. King, Republican National Committeeman from Connecticut and chief of the Wood forces at Chicago, suggested it to Senator Boies Penrose (R.-Pa.). When they talked of it at Atlantic City, Penrose scoffed at the ides, but apparently never put it out of his mind. Penrose broached the question with Mellon who responded somewhat lukewarmly. Sometime after the election, the senior Senator from Pennsylvania sent his personal representative, Joseph Grundy, to

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[11] New York Times, January 1, 1921 and New York World, December 31, 1920.

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Knox had also discussed the matter personally with Mellon during the Christmas holidays. Both Senators wanted to be certain that their man was available. It therefore came as no surprise to Mellon when Knox telegraphed him January 1, that Harding was considering him. The President-elect followed up the Knox telegram with one of his own, inviting Mellon to Marion for a conference.[13]

An amusing vignette is drawn of Mellon's first encounter with the Marion editor.[14] Arriving at the railroad station, Mellon was chagrined to discover that no one was there to meet him and there were no cabs. Taking his bags in hand, he walked the mile or so to the Harding home, something of a task for a man sixty-five years old. At the house, he introduced himself to the receptionist and took a place in the waiting room where he sat for the better part of an hour. Once it was discovered who he was and why he had come, Mellon was immediately ushered into the office, though he had told the receptionist that he did not mind waiting if the President-elect was busy.

As he was about to leave Washington for a new assignment

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[12]A.H. Hutton, The Pennsylvanian: Joseph R. Grundy (Philadelphia: Dorrance and Co., 1962), p. 179 and W.L. Mellon, Judge Mellon's Sons (n.p., 1948), pp. 397-99.

[13]Mellon, Mellon's Sons, pp. 395-99.

[14]Adams, Incredible Era, pp. 197-98.

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as Ambassador to Great Britain in February, 1932, Mellon recounted the story of his first meeting with the twenty-ninth President. The then outgoing Secretary remembered telling Harding that he could do better:

> On leaving, I said there was just one favor I would like to ask; that you will find someone who can take the position and I will be left out. I really didn't want to come to Washington. I did not want to absolutely refuse. There really was no substantial reason why I should refuse.[15]

Mellon also noted that even if he was inclined to accept, he believed that his business connections would make him ineligible according to the requirements of a 1789 statute which stated that the Secretary of the Treasury shall not "directly or indirectly be concerned or interested in carrying a business of trade or commerce...." As we evaluate the issue of Mellon's selection, it seems that an old man was caught up in a fit of modesty and a nostalgia as he reminisced on the happenings of a decade previous. He classified himself as so many politicians do--the reluctant candidate.

The matter of the legal impediment was also pointed out to Knox. Claiming that he had dealt with similar statutes while Attorney-General under Theodore Roosevelt, Knox reassured Mellon that he was eligible to hold the office. To add weight to his argument, the one-time attorney for steel

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[15] New York Times, February 5, 1932 and W.L. Mellon also describes a memorandum that A.W. Mellon wrote that says substantially the same thing. Mellon's Sons, 400-01.

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magnate Henry Clay Frick retained the Washington law firm of Faust and Wilson to investigate the situation. Their conclusion concurred with that of Knox, noting that Mellon need only resign his sixty-three directorships and sell his bank stocks to meet the 1789 law and the requirements of the Federal Reserve Act. Nevertheless, the issue of his eligibility to hold office was to crop up again and again.[16]

If anything was holding Mellon back, it was probably this old law. He obviously would not wish to be nominated and then have the Senate refuse confirmation. This had happened once before in 1869 when the Senate rejected President Grant's nomination of Alexander T. Stewart, a New York dry goods importer. With Penrose and Knox on his side, it was not likely that the Senate would balk, but it was not a possibility that could be overlooked.

While Knox was trying to shore up Mellon's resoluteness, others were making known their support. George S. Oliver, a Pittsburgh newspaper owner and Knox's predecessor in the Senate, and former Representative James F. Burke went to Marion January 15 to express their desire to see their friend in Washington.[17] Also pushing for Mellon were the small town bankers of western Pennsylvania and Eastern Ohio, men who were no doubt friends of Harding and who were cognizant of

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[16]Mellon, Mellon's Sons, 401-02.

[17]New York Times, January 15, 1921.

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the fact that the Mellon National Bank was the principle banking power in their area.[18]

Over six weeks intervened between Mellon's only interview with Harding, January 7, and the proffering of the position, February 24. In the interim, Dawes had been removed from contention and Hilles's candidacy never got off the ground. Mellon seemed to have a clear field, but Harding's hesitancy, coupled with the Pittsburgher's anonymity, inadvertently appeared to rule him out. The newspapers could not accept an obscure out-country banker as the logical choice.

Harding was balking. Mellon had been brought around to Knox and Penrose's way of thinking, why could they not convince Harding? For one, perhaps he was hoping for a change of heart by his original choice, Dawes. This can be ruled out, though, on the basis of his agreement to serve as Budget Director. A second possibility Harding pointed out to his friend Harry Daugherty and Senator Walter Edge (R-N.J.).[19] Would the public accept a man of Mellon's wealth in the Cabinet? Daugherty thought there would be no problem, that Mellon's wealth would be an asset rather than a liability. A third alternative was the growing criticism of the Pittsburgh banker on account of his holdings in a liquor concern.

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[18] Ibid., February 27, 1921.

[19] Harry Daugherty, The Inside Study of the Harding Tragedy (New York: The Churchill Co., 1932), p. 74 and Walter Edge, A Jerseyman's Journal (Princeton: University Press, 1948), p. 121.

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Having a liquor manufacturer as chief enforcement officer of prohibition was viewed skeptically by some dry organizations. The President of the New York Chapter of the Anti-Saloon League, William H. Anderson, telegraphed the potential Secretary, asking for a verification of the rumor that he had been engaged in the distilling business.[20] That criticism was partially blunted by a public statement from Penrose that in all probability, prohibition enforcement would be transferred to the Justice Department.[21] A little locally-inspired publicity helped too, when the Reverend Doctor Daniel L. Marsh of the Smithfield Street Methodist Episcopal Church in Pittsburgh preached from the pulpit that he had discussed the matter with Mellon and was satisfied that he was no longer in the liquor business. Marsh stated that the Treasury candidate had at one time owned an interest in the Overholt Distillery Co., but that the concern was now in the hands of trustees to be liquidated.[22]

The most likely reason for Harding's reluctance in nominating Mellon has to do with Herbert Hoover's appointment. As noted earlier, the President-elect mentioned to Dawes that resentment to Hoover in the Cabinet was growing. Harding's campaign manager and later Attorney-General, Harry Daugherty, reported that it was Penrose and Knox who were adamant against

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[20] New York Times, February 11, 1921.

[21] Ibid., February 14, 1921.

[22] Ibid., February 28, 1921.

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As a confidant of Harding, Daugherty liked to think of himself as the power behind the throne. To buttress his argument that he was the man who made and perhaps controlled Harding, Daugherty contended that he was the one who first suggested Mellon. Responding to a query by the President-elect as to what he thought of Dawes as Secretary of the Treasury, Daugherty supposedly said: "The one man in the United States in my opinion for the position is Andrew W. Mellon." As the story goes, the small town editor replied: "Mellon . . . Mellon. I don't know him." Daugherty rambled on:

> A man who can make the millions this modest looking man has gathered in is little short of a magician. If there is one thing that he knows, it's money. He will make for you the greatest Secretary of the Treasury since Alexander Hamilton and will render the nation an immense service if you can get him.[24]

Whether it was Daugherty, Penrose, or Knox who first suggested Mellon is a moot point. The crucial factor is that they all supported him until Hoover became a stumbling block. Wishing Hoover to be in the official family, Harding and Daugherty used Mellon as a bargaining point to win over the recalcitrant Senators.

Under directions from Harding, Daugherty met with Knox and Penrose in mid-February to iron out the difficulty. The

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[23]Daugherty, Inside Story, p. 98.

[24]Ibid., p. 74. That Daugherty would use the Hamilton comparison makes the quote suspect. The Hamilton comparison became very popular during the Coolidge years.

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Pennsylvania Senators were objecting to Hoover because he was not a good party man, that he had allowed his name to be entered in the 1920 Democratic primary in Michigan. The former Belgian relief director had also alienated these anti-Treaty Senators by joining the Committee of Thirty One, a Republican organization which said that a vote for Harding was a vote for the Treaty of Versailles. According to Daugherty, "Penrose got my ultimatum--no Hoover, no Mellon. And rose to heights of profanity I have never heard equalled."[25] Penrose was also fearful that if Mellon heard of any hesitancy, he would never take the job. Mellon's sponsors, however, yielded to Harding's demand for a seat for Hoover, and the Iowa engineer "was on his way to the White House."[26]

It is doubtful that the meeting went off quite that way.[27] As rash as he may have been, Daugherty would hardly risk the chance of alienating two of the most powerful men

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[25] Ibid., 98.

[26] Ibid., 100. Hoover also remembered that his appointment was held up by Senatorial opposition. Herbert Hoover, The Memoirs of Herbert Hoover, Vol. 2, The Cabinet and the Presidency (New York: The Macmillan Co., 1952), p. 36. See also the New York Times, January 19, 1921 for a report that Penrose was objecting to the inclusion of Hoover.

[27] According to Andrew Sinclair, Daugherty had informed Harding that the Old Guard was supported by the Progressive or Insurgent Senators in their objection to Hoover. Daugherty had thought it politic not to fight the Senators, but did as directed in making known Harding's wishes. Sinclair, Available Man, 184-85.

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in the Senate by making a grandstand play. Besides, Harding lessened the blow of appointing Hoover by giving Pennsylvania a second seat in the Cabinet. James J. (Puddler Jim) Davis, onetime Pittsburgh ironworker and national president of the Loyal Order of the Moose was made Secretary of Labor.

In the long run, the Old Guard Senators need not be too disappointed. With the exception of Charles Evans Hughes and Hoover, they either dictated or acceded to every choice. Harding could have a moment of independence if it would keep him happy and pliable under other circumstances. It is an interesting proposition to consider what might have happened had Penrose and Knox refused to yield. The structure of the Twenties would have been entirely different without Hoover and Mellon in Washington.

With the solution of the Hoover-Mellon confrontation, Harding went ahead and made a formal offer February 24, 1921.[28] Mellon immediately accepted and accelerated the process of divesting himself of his directorships, something he had begun a month earlier.[29] Why Harding had waited a week before making the appointment public and the manner by which he made it known remains a mystery.

The new Secretary arrived in Washington early Inauguration Day, accompanied by Senator Knox and a small retinue of

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[28]Mellon, Mellon's Sons, 402.

[29]Ibid. and New York World, January 13, 1921.

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Pittsburghers. After attending the Inaugural festivities, the group retired to Knox's office while the new President went to the Senate chamber to present the nominees for his Cabinet. He was the first President to do so personally since Thomas Jefferson and was indicative of his close relationship with his former colleagues. The selections were hurriedly approved without objection and Chief Justice White was called over to administer the oath of office to Mellon. Later in the day it was brought to the Secretary's attention that the Chief Justice could not properly administer the oath because he was not a notary public and Mellon was resworn the following day by a clerk at the Treasury Department.[30]

Andrew W. Mellon's appointment was now a fait accompli before the American public, yet the man on the street still had no real knowledge as to whom the man was. The other Secretaries were reasonably well known, with a few like Hoover, Hughes and Will Hays having something of a national reputation. Only with Mellon did the public draw a total blank.

Newspaper information on the man who was to hold the Treasury reins for over a decade was meager. Usually referred to as a "Pittsburgh banker" or a "Pittsburgh financier," it was rumored that Mellon was one of the richest men in America. No one except William Anderson at the Anti-Saloon League did much digging and how he obtained his information is not known, for the usual sources of information were lacking. The

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[30]C.S. Hamlin MSS, Index-Digest, Library of Congress, Vol. 6, p. 141.

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Secretary was not listed in Who's Who in America until the 1918-1919 volume, and the citation was rather cursory. His name had not appeared in the New York Times Index until the Knox-Harding meeting of New Years Eve, 1920. Journalists could not resort to their financial editors for source materials because he was not particularly well-known among the business segment of the population. Two of the more popular financial writers of the time, B.C. Forbes and John Moody, did not see fit to include him in their books on significant businessmen, though Forbes included such notables as August Heckscher, William T. Gaston, and H.P. Davidson.[31] Even in Republican Party circles, Mellon was an unknown quantity except among the reigning figures in his home state. The country had a man thrust upon it who was familiar only to the men that counted, the powers that be who put him in the Cabinet.

By the time he had left office in 1932, the public knew more about Andrew Mellon. As the country became more aware of his fiscal and monetary policies, his name and reputation grew. Though he was to become very prominent as a public figure, the populace was to learn little of his private life. He had a "fetish" for privacy and did a remarkable job of maintaining it in spite of the harsh glare of life in the

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[31]B.C. Forbes, Men Who Are Making America (New York: B.C. Forbes Publishing Co., 1916-1917) and John Moody, The Masters of Capital (New Haven: Yale University Press, 1919).

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Mellon, as the papers described, was a banker by profession, the chief executive officer of the Mellon National Bank and its parent concern, the Union Trust Company. His chief investments included the Aluminum Company of America, Gulf Oil Corporation, Koppers Company, and the Carborundum Company. All were headquartered in Pittsburgh and were ones in which Mellon was a principle stockholder and director. The total worth of the man is inestimable because it was not public information and could vary significantly on how the stock market went that day. It was traditional Mellon family policy to live without ostentation and to keep the fortune invested in lucrative enterprises. Suffice it to say that when he died in 1937, he left an estate of about $37 million to the A.W. Mellon Educational and Charitable Fund. This was after he had divested himself to his son and daughter and had presented the United States government with its largest gift from a private donor in the form of the National Gallery of Art, whose value, including contents, was variously estimated between $50 and $70 million. The rumor that he was one of the richest men in America was quite true.

How Mellon came to command an industrial and financial empire of gigantic proportions is an incredibly simple story. To begin with, he was no Horatio Alger, but was born to a wealthy family. His father, Judge Thomas Mellon, former attorney and Judge of the Common Pleas Court, had amassed a small

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fortune by prudently investing in commercial real estate and coal lands. Retiring from the bench in 1869, he formed the banking house of T. Mellon and Sons to service the burgeoning coal and steel industries.[32] Andrew was the fourth son of a family of six sons and four daughters.[33] Except for short periods in private schools or with tutors, the Mellon children attended the "Thomas Mellon school of finance," from which Andrew graduated summa cum laude. Andrew's attendance at public institutions was limited to just short of four years at the Western University of Pennsylvania (now the University of Pittsburgh). Fearful for his son's health, Judge Mellon had Andrew withdraw from the Class of 1873 before commencement, thus depriving him of a degree until the University of Pittsburgh granted him an honorary doctorate in 1921.

To fortify his son's health (he had already lost two boys in childhoon), Judge Mellon helped set up Andrew and his younger brother Richard in the real estate and lumber business in Mansfield (now Carnegie), Pa., a suburb of Pittsburgh. It was the father's belief that working in the out-of-doors would develop Andrew's constitution before he brought him into the bank. Also in the Judge's mind was to test the boy's business

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[32]For the growth of Thomas Mellon from farmer to capitalist see his autobiography Thomas Mellon and his Times (n.p., 1885).

[33]For a complete family tree of the Mellons see William Murphy, "The Mellon's of Pittsburgh", Fortune, October, 1967, pp. 123-4.

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For eighteen months their business flourished, but they were forced by the Panic of 1873 to cut short the venture. Selling out with a tidy profit before the panic hit bottom was described by the Judge as "a masterly stroke of business policy." Sensing that the depression would be lengthy, the boys had retired from the field rather than trying to weather the storm. Escape through liquidation remained a vivid memory to Andrew when the 1929 crash came.

All of the sons returned to the bank to help stave off a run, but only Andrew remained when the bank was safe, the others leaving for various enterprises. Until 1880, when the Judge decided that he was sufficiently able to take over the operation, Andrew continued under his father's tutelage. The Judge gave Andrew power of attorney and retired to write his autobiography in the hope that it would prove an inspiration for young boys as Benjamin Franklin's had for him.[34]

The most fortuitous event in Andrew Mellon's life, short of being born to wealth, came in 1877 when the Judge introduced him to one of their clients, Henry Clay Frick. Frick had come to the Mellon bank several years earlier to obtain a loan of $10,000 to start a coke business south of Pittsburgh.

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[34]All of the information as to Mellon's formative years comes from his father's autobiography.

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Impressed by Frick, the Judge had stood by him with additional loans through the depression years. This proved to be a wise decision in that before the decade had ended, Frick was a millionaire and was destined to become a partner of Andrew Carnegie and a moving force in the steel industry for over forty years.

Having accumulated his first million, Frick decided it was time for a vacation, perhaps a grand tour of Europe. He invited the younger Mellon to accompany him and the two bachelors triumphantly crisscrossed the Continent, coming to like it so much that afterwards they returned many times. On that journey, an intimate, lifelong friendship was formed.[35]

As Pittsburgh prospered, so did the banking house of T. Mellon and Sons. When his younger brother Richard returned to Pittsburgh after a business venture in Bismarch, North Dakota, Andrew invited him to come into the bank as an equal partner. No formal papers were drawn to legalize the arrangement until March 1, 1918, when a wartime law required it. The two could have rested on their laurels and maintained a steady growth along with the industry of the region, but it was not in the Mellon tradition to remain contented merely managing what they had. Moreover, their ever-increasing capital required new outlets, two of which returned their original investment a thousandfold.

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[35]George Harvey, Henry Clay Frick, the Man (New York: Charles Scribner and Sons, 1928), pp. 71-2.

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Their first major investment came in 1889 when Captain Alfred E. Hunt and George H. Clapp of the Pittsburgh Reduction Company came to them in the hope that they would take up a $4000 note that they owed another bank. Following an extensive investigation, Andrew and Richard (known respectively as A.W. and R.B. to their business partners) accepted their note and offered to provide additional financing for a share in the company. What had once been a garage-sized factory on Smallman Street in Pittsburgh blossomed into the Aluminum Company of America and, in 1925, the Mellon brothers owned 35,22% of the business.[36]

A second significant investment appeared in 1901 when J.M. Guffey approached the Mellons for financial assistance in developing his holdings in the Spindletop oil field of east Texas. When Guffey seemed unable to fully capitalize on the investment, they replaced him with their nephew, William Larimer Mellon, who had experience in the Pennsylvania oil business. With $18 million of new capital, W.L. Mellon launched the Gulf Refining Company whick later merged with the J.M. Guffey Petroleum Company to form the Gulf Oil Corporation. In spreading the risk of the investment, the Mellon brothers invited participation by two men who later proved

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[36]Charles C. Carr, Alcoa, An American Enterprise (New York: Reinhart and Co., Inc., 1951), pp. 40-9 and Roy A. Hunt, The Aluminum Pioneers (Princeton: Princeton University Press, 1951), pp. 14-15. The latter is a publication of the Newcomen Society written by the President of Alcoa.

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valuable partners in the political arena. Judge James H. Reed, law partner of Philander C. Knox, and William Flinn, sometime political boss of Pittsburgh with Christopher Magee.[37]

Frick, Alcoa, and Gulf Oil were only three of many lucrative investments made by T. Mellon and Sons. The Mellons branched out into railroads, public utilities, coal and other mining, chemicals, and eventually airlines among others. Each time an investment was made, it was done in equal amounts for the two brothers who shared the risks and profits together. Until Andrew went to Washington, nothing was done separately and whenever discussing any matter, either brother would preface his remarks with "My brother and I . . ."

Though the Mellons financially backed a large number of concerns, they rarely if ever participated in the active management. Alcoa was a good example of their methodology, wherein Andrew and Richard sat on the board of directors, but Hunt, Clapp, and A.V. Davis directed operations. Sitting on the board, they could see that their interests were protected and could participate in major policy decisions, yet refrain from management duties. When the Mellons engaged in a business, one could be certain that well-trained, reliable underlings would be on hand or brought in.

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[37]Sidney Swensrud, Gulf Oil: the First Fifty Years (Princeton: Princeton University Press, 1951), pp. 9-10 and Craig Thomapson, Since Spindletop (n.p., 1951), pp. 9-24. The former is a Newcomen Society pamphlet written by the president of the Gulf Oil Corporation.

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The Mellon philosophy of investment and corporate management was well expressed by John K. Barnes.

> Find a man who can run a business and needs capital and either start or expand it. Furnish the capital and take shares in the business, leaving the other man to run it except when it is in trouble. When the business has grown sufficiently to pay back the money, take the money and find another man running a business and in need of money, and give it to him, on the same basis. If the choosing of the men and the enterprises is wise in a growing community, this rolls up wealth in a cumulative fashion, but not ill wealth. The essence of the plan is that it gives opportunity to men of special ability in the community. And they in turn give employment to great numbers of men. The Mellon fortune has grown as kind of a revolving fund for the promotion of enterprises and the employment of workers.[38]

An important corollary was their full investigation of all potential borrowers and the selection of only the most conservative. T. Mellon and Sons was never known for wildcatting and had a loan policy sufficiently reliable that it never lacked for ready partners should it see fit to share the windfall. Frank R. Denton, Vice-Chairman of the Board of Mellon National Bank in the 1940's, took a different view, praising the "Mellon's willingness for risk-taking" and placed Alcoa, Gulf Oil, and Koppers in that category.[39] If those investments were risks beyond the sense that any investment is a risk, what did they consider a nice, safe

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[38]John K. Barnes, "What Manner of Man is Mellon?," Worlds Work, March, 1924, p. 542.

[39]Frank R. Denton, The Mellons of Pittsburgh (Princeton: Princeton University Press, 1948), pp. 16-19.

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venture? Because risk was always minimized, there is no record of a Mellon investment collapsing. If bankers are supposed to be conservative, the Mellons were reactionary.

Despite their importance in the world of high finance, the Mellons possessed a penchant for anonymity. With the exception of the bank and the Mellon-Stuart Company, a construction concern, the family name did not appear on any of the holdings. Because of that desire to maximize their privacy, the Mellon name was unfamiliar to the general public when Andrew was named Secretary of the Treasury. Even in the Pittsburgh area, where the name was widely known, few people knew much about the Mellons or their private lives.

One Pittsburgh newsman of the day wrote that the Mellon name was on "the sacred cow and golden calf list in every newspaper office in our city. . . ."[40] Because every editor or publisher was either a family friend or a borrower from one of the Mellon banks, the papers printed no unauthorized Mellon news.[41] This served Andrew Mellon well during his divorce trial in 1911. Only when word leaked to the Philadelphia North American, did the Pittsburgh reading public discover that Andrew was in the midst of a sordid divorce case. To prevent any more leaks, Mellon, with the assistance of Boies Penrose, had the Pennsylvania legislature pass a

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[40]George Seldes, Tell the Truth and Run (Greenberg Publishers, 1953), p. 26.

[41]Will Irwin, "The American Newspaper," Colliers, July 22, 1911, p. 26

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divorce law which provided for a master, not a judge, to hear evidence in his chambers, far from the peering eyes of a jury or the public. The law was repealed shortly after the divorce decree was granted.[42]

Andrew Mellon was a little better known in business circles, but the practice of dealing through managers preserved most of his privacy while retaining his power behind the scenes. The managers, men like A.V. Davis at Alcoa and W.L. Mellon at Gulf Oil, drew the praises of the business community, but they also received the brunt of any critical attention. Preferring privacy to glory, Mellon was surely known in the top echelons of the business world, to men like J.P. Morgan or George Baker, but it was only to them that he was familiar. And even where he was known, the extent of his empire probably was a well kept secret.

What was true of Mellon's familiarity among businessmen applied also to politicians. Knox and Penrose certainly knew him as intimately as one could, but they were almost alone. In politics, Mellon took a back seat to Frick, who along with Joseph Grundy, President of the Pennsylvania Manufacturers Association, visibly dominated Pennsylvania politics by holding the purse strings. Informed politicians, however, knew that if they could have Frick contribute, Mellon would probably

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[42]Seldes, Tell the Truth, 6-10 and Harvey O'Connor, Mellon's Millions, the Biography of a Fortune, The Life and Times of Andrew W. Mellon (New York: Blue Ribbon Books, Inc., 1933), pp. 113-15.

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follow suit.[43] Having trusted Frick's political judgment, Mellon was placed in an awkward position when the steel magnate died shortly before the 1920 presidential campaign.

Why did the party regulars, in particular Knox and Penrose, want this man Mellon for the Treasury post? Moreover, what was it that could persuade Mellon to sacrifice his beloved privacy and far flung empire for the political world?

An answer to the first query was that the Old Guard realized that he would be "safe." Mellon and Frick had consistently adhered to the regular or conservative party line, as evidenced in their support for Taft in 1912 and their aid to the Irreconciables in the fight against the League of Nations. Because of his business involvement, especially in aluminum, the expectation was that he would be high tariff and tend to view favorable all issues relative to the world of finance. Finally, Mellon's experience in banking made him an ideal candidate for the job, meeting President Harding's first qualification for a Cabinet seat, fitness for public service.

A great many men could be considered as ideal as Mellon, but the Pittsburgh banker had one more asset, personal friendships with Knox and Penrose. He was particularly close to Knox, who had been Frick's attorney and whose law firm of Knox and Reed had handled the Mellon account for years. The junior Senator also served as a director of the Mellon National

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[43]Harvey, Henry Clay Frick, 326.

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Deciding that Mellon was their candidate, the Senators still had to persuade him to accept. As is the case with most men, little prompting was necessary to convert him to their way of thinking. Instead of being a reluctant candidate, Mellon seemed to be amenable to their offer.

The question of why he came to Washington was put to Mellon on two different occasions. Leaving office in 1932, the retiring Secretary said that he had viewed the Treasury job as something that would provide a transition to retirement. He anticipated returning home in 1924 to "meddle with business as I liked without being tied down to it."[44] The second time that he was asked, under oath at his tax evasion trial in 1935, Mellon was much more reticent to reveal his motivation, implying perhaps that there was more to his coming to Washington than simply a good citizen who asked to serve his government in his waning years.[45]

Possibly Penrose and Knox did not so much pick Mellon as support him in his ambition to become Secretary of the Treasury. W.L. Mellon and Harry Daugherty both testified that the banker had asked Harding to give the post to someone else, but two things seem to indicate differently. The

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[44] New York Times, February 5, 1932.

[45] Official Report of the Proceedings before the U.S. Board of Tax Appeals, A.W. Mellon vs. Commissioner of Internal Revenue, Docket #76499, pp. 4645-6.

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six week delay between the Mellon-Harding meeting and the offer of the Treasuryship must have indicated to Mellon that the President-elect was not firm in his selection. Daugherty had said that Penrose feared that if "Uncle Andy" heard of any hesitation, he would never accept. Yet Mellon was willing to allow Harding to dangle him on the line for six weeks. A second item was a revelation by the New York Times during the waiting period that the Mellon National Bank had underwritten a part of the Republican campaign debt. The figure cited was $1.5 million, though it was scaled later to $150,000.[46] Coupling that with Mellon's personal contribution to the Republican war chest, one wonders what prompted such generosity.[47] There were reports too that Frick and Mellon had bankrolled the Irreconcilables a year earlier in their fight against the Treaty of Versailles.[48]

Another feature of a less tangible nature that deserves consideration was Mellon's personification of the Protestant work ethic. Schooled by his father to work hard and succeed, the banker might have been looking for new worlds to conquer by 1920. Having reached the pinnacle in the business world, government service offered a different challenge. His friend

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[46] New York Times, February 7, 1921.

[47] Ibid., February 16, 1921 and Ferdinand Lundberg, America's Sixty Families (New York: The Vanguard Press, 1937), pp. 154-56.

[48] Harvey, Henry Clay Frick, 324. Mellon would later deny that his bank underwrote the debt or that his contribution was overly large. New York Times, March 14, 1928.

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Charles Schwab, founder of Bethlehem Steel Corporation, commented that: "No first rate businessman is ever satisfied with what he accomplishes. He is always straining for the unattainable."[49] Mellon was that kind of businessman, one who was not contented to rest but always sought productive enterprises.

Frank Kent, political analyst for the Baltimore Sun, took a less charitable view of Mellon's motivation, but the point is similar.

> There are men of larger means, who having reached middle age, having achieved success in finance or business and there being no further thrill nor sense in the mere piling up of millions, develop a yearning for some sort of public honor and prestige. The organization has the power to provide the position or at least to open the way for a chance at what they want. On the other hand, these capitalists have what the organization needs - money to finance the campaign. Such men are known in political circles as 'fat cats' and they are as welcome to the organization as the flowers in May. . . . The late John Weeks qualified in this class and if Andrew W. Mellon is not the finest 'fat cat' they have had in Pennsylvania since anyone can remember, then every sign fails.[50]

Assuming for a moment that Mellon campaigned for the job, or at least was not as reluctant about accepting it as he would have us believe, let us examine how much of a

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[49]Charles M. Schwab, "What I've Learned About Business," Nation's Business, February, 1930, p. 36. For an extended discussion for this matter of businessmen seeking power, see James W. Prothro, Dollar Decade, Business Ideas in the 1920s (Baton Rouge: Louisiana State University Press, 1954), pp. 54-59.

[50]Frank Kent, "Fat Cats and Free Rides," American Mercury, June, 1928, pp. 130-1.

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sacrifice he made. For most men, assuming a public office usually means a financial loss, but in Mellon's case, this was not true. His relationship with his brother Richard guaranteed that his accounts would be taken care of and it was to Richard that Andrew divested himself. With his son Paul coming of age and the Mellon tradition of beginning their children in business early in life, his immediate heir could be depended upon for assistance. Also, the 1920's promised to be a boom period, and with most of his resources invested in stocks and bonds, they were likely to increase in value in spite of him. He might have made more by remaining in Pittsburgh, but he lost nothing until the crash.

The only real sacrifice was the element of privacy. As member of the President's official family, Mellon was sure to be in the public eye. The risk element involved was minimal, however, in that businessmen were fast becoming idols and as Secretary of the Treasury, he would be the nation's leading financier. With the country just coming out of a recession, Mellon had every reason to believe that his reign would be in the most fortuitous circumstances, particularly if intended to stay only four years. What publicity there would be promised to be of a favorable nature.

Nor can one ignore the possibility that Mellon may have been seeking public adulation at the close of his business career. In the twilight of his life, he may have been after recognition of his accomplishments. Privacy and

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anonymity are not synonymous; one can maintain their personal privacy, as Mellon did, while achieving public recognition for a successful career.

Another element in the argument that the potential prestige outweighed the loss of privacy was the fact that the Treasuryship promised to be the most significant position in the Harding cabinet. With the country desirous of an isolationist foreign policy, the Republicans had campaigned on a platform primarily economic in nature. Economy was promised, taxes were to be reduced, the internal and external debt questions were to be settled, and a new tariff had to be written. The Secretary of the Treasury was responsible for chairing the Federal Reserve Board, supervising public construction, enforcing prohibition and a host of other miscellaneous duties. The job was going to be demanding, but the prestige element could swing the balance out of the loss column.

The Senators who proposed Mellon promised to cooperate in seeing that his administration would be the focal one and that it travel only on smooth waters. When the matter of who was going to be Secretary of State, ordinarily the paramount Cabinet post, was being discussed, Penrose blithely announced that it made no difference, for the Senate would lead the way in international relations.[51] When Mellon

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[51] New York Times, January 3, 1921.

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[52] Ibid.
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mentioned that prohibition enforcement might prove onerous, they promised him that it would soon be transferred to the Justice Department.[52] It was a classic example of the Mellon philosophy of minimizing risk before venturing into the "unknown".

In this same line, we cannot omit the possibility that Mellon may have wanted the position to protect his empire. Access to information and participation in the decision making process would enable him to judiciously guard and further his investments. Evidence to be presented later indicates that Mellon did not use his position for personal aggrandizement, that he did not use his power to directly benefit his purse. Nevertheless, the element of protection was there in that he would not use his post to diminish his empire.

Finally, Mellon may have been partially prompted to seek the post out of a spirit of noblesse oblige. Our destines have more often than not been guided by politicians who have the financial wherewithal to take an active interest. This type of individual surely examines the situation to determine if it is in his best interest, but it would be naive to think that was all he considered. As James Prothro said: "The elite is moved primarily by a desire to advance civilazation."[53] This is particularly true of a man like Mellon who

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[52] Ibid., February 16, 1921 and Mellon, Mellon's Sons, 412-13.

[53] Prothro, Dollar Decade, 54.

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subscribed to the tenets of Social Darwinism. Like Harding, Mellon was part of an era that defined the best minds according to the degree of financial success. If the best minds, i.e. the rich, would not rule, who would? Therefore, as his father before him, Mellon stepped into the political arena to do what he could for the improvement of society. We should not scoff at this kind of thinking for it was common of businessmen and others who had grown to maturity in the late nineteenth century.

For a man who began his governmental career in a rather inauspicious and somewhat confusing fashion, Mellon left an indelible imprint on the Twenties. Though said in a derrogatory manner, it was not entirely without truth when George Norris and others commented that Andrew W. Mellon "was the only man under whom three Presidents served."

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CHAPTER II

POLICY MAKING

The most important period of any administration is the first year for that is when policy decisions are made and precedents established. What a few months earlier had been vague campaign promises are now transformed into concrete proposals for action and a detailed program must be sent to Congress. This period is particularly crucial when the incoming administration is returning from the political wilderness of opposition. Criticism is no longer adequate; it must be replaced with action. As quickly as the new leaders implement their program, the electorate begins to evaluate their choices. In turn, the administration modifies its program according to the initial response of the public, as expressed directly or through Congress.

This pattern was especially clear when the Harding Administration took office in the early spring of 1921. Having spent eight years as a vocal opposition, the Republicans must now come forth with a viable program. Four months of campaign promises needed to be redeemed and whatever the advocates of League membership might think, to Harding and most of his party's leaders, the most important

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promises were those to reduce taxes, raise tariffs, and deflate the budget. To Treasury Secretary Andrew W. Mellon fell the demanding task of formulating programs to satisfy those promises.

The situation facing Mellon was difficult at best and perhaps impossible. Though the war had ended two years earlier, the Democrats had not adjusted to peacetime circumstances, as the Wilson Administration suffered paralysis along with the President. A caretaker attitude prevailed, particularly after the Republicans gained control of the legislative branch in the 1918 election. Congress and the President neutralized one another by the one's failure to consider executive plans and by the other's vetoes of Republican-sponsored measures.

When the deadlock broke in 1920, the people hoped that the country would begin moving again. In the financial area, the movement was expected to be backward, a return to "normalcy." Every segment of the population desired a recurrence of the pre-war situation when taxes, for example, were minimal and, in many instances, nonexistant. The Republican campaign was directed to convincing the public that this return to normalcy was possible, though no specific proposals were ever offered. Suddenly Andrew Mellon was expected to reproduce a bygone era by means that he must discover.

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of confidence, but these qualities evaporated during the interregnum. Harding's procrastination in selecting his official family was a visible sign that the new administration was becoming lethargic even before it assumed office. The expectation that he would choose his Cabinet with haste so as to begin preparation for the day when they assumed power was dashed. That Mellon was not given his appointment until less than a week before the Inauguration precluded any possibility of drawing a financial program. The President's limited understanding of fiscal affairs, coupled with his "belief that the very rich really did have the best minds of all", restricted the direction that would be coming from the White House.[1]

While the executive branch seemed to be aimlessly floundering, Congress was making extensive preparations for the special session. Tax reduction and tariff revision were high on their list of priorities. Representative Joseph Fordney (R-Mich.), Chairman of the powerful House Ways and Means Committee, was certain of what Congress should do: repass his Emergency Tariff Bill that Wilson had vetoed in February. The farm bloc was demanding assistance, particularly through greater tariff protection to agriculture. Unless Harding, Mellon, and the rest of the administration moved quickly, the likelihood of Congress seizing the initiative

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[1]Andrew Sinclair, The Available Man (New York: The Macmillan Co., 1965), p. 185.

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was in the offing. Rather than plan their own programs, they may very well have to respond to those of the legislative establishment.

When Mellon arrived at the Treasury building to meet his responsibilities, no task force accompanied him; he came alone. At a meeting with his predecessor, David F. Houston, he disavowed any knowledge of department matters.[2] If Mellon expected to grasp the initiative from Congress, if the Treasury Department was indeed to be the "hub of the government immediately after Harding was installed," it was a very feeble beginning.[3]

The traditional method in Mellon's business operations had been to appoint reliable aides to key administrative positions while he sat at the head and co-ordinated activities. It was out of character for him to come to a new position without a cadre of able personnel about him. Harding's hesitation in deciding on Mellon had robbed the Secretary of valuable time necessary for recruiting capable underlings.

Instead of bringing his own assistants, the Secretary asked Houston if he would have the existing people remain, at least temporarily. He was aghast when he discovered that all of the assistant secretaries held recess appointments

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[2]Charles S. Hamlin MSS, Index Digest, Manuscript Division, Library of Congress, Vol 6, p. 141.

[3]quoted in Randolph E. Paul, Taxation in the United States (Boston: Little, Brown and Co., 1954), p. 124.

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which Congress had refused confirmation. If Houston would convince them to stay on, Mellon promised that he would have the President renominate them.[4] A bargain was struck and three assistants, including Parker Gilbert, were retained. The New York Times interpreted this move, along with other statements by the Secretary, to mean, at least for the time being, there would be no significant changes in policy.[5] As events materialized, there was more truth in that statement than the Times realized.

Following his conference with Houston, Mellon was introduced to the Federal Reserve Board, an agency that by virtue of his position as Secretary he would be chairman ex-officio. The members were favorably impressed, especially when he promised to clear with them all new appointments.[6] Since its inception, the Board had operated in the shadow of the Treasury Department and he was a Secretary who appeared willing to work with it rather than dictating to it, as William G. McAdoo and Carter Glass had done.

Though Mellon retained some of the old officialdom, he did not hesitate in seeking out new people. J. Frank Drake, former assistant to the Secretary's nephew, W.L. Mellon, at Gulf Oil Corporation, was summoned to Washington to coordinate

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[4]Hamlin MSS, Index Digest, Vol. 6, p. 141

[5]New York Times, March 11, 1921 and April 3, 1921.

[6]Hamlin MSS, Index Digest, Vol. 6, p. 142.

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a hunt for qualified individuals. He was to work in a "private and confidential capacity" as the Secretary's personal assistant and apparently was not on the government payroll.[7]

The most important post that Drake must fill was that of Commissioner of Internal Revenue. This was an exceptionally delicate post, for he not only supervised tax collection, but attempted to enforce prohibition. Though personally not sympathetic to the dry cause, Mellon realized that if he wished to avoid charges of lacksadaisical enforcement, he must find an efficient Commissioner.[8] Manned by a temporary official, the Bureau was in a state of disarray.

The newspapers favorite was Representative C. Bascom Slemp (R-Va.), a man to whom the President owed a debt for help at the convention, but Mellon confounded observers by nominating a political unknown, David H. Blair, a Winston-Salem, North Carolina attorney. Long identified with the Republican party in his home state, Blair had been a Lowden supporter at Chicago but had switched to Harding at an appropriate time. Though a Harding creditor, Blair was carefully investigated by Drake, who determined that the Dixie

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[7]W.L. Mellon, Judge Mellon's Sons (n.p., 1948), pp. 411-16 and U.S. Congress, Senate, Hearings Before the Select Committee on the Investigation of the Bureau of Internal Revenue, 68th Congress, 2nd Session, 1924-26, p. 37.

[8]Mellon, Mellon's Sons, 413.

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Republican was adequately qualified for the post.[9]

Mellon may have been satisfied that Blair was his man, but Senator Hiram Johnson (R-Calif.) was unhappy with the choice and attempted to block confirmation. The California Progressive had won the North Carolina presidential preference primary and was upset with Blair for not having voted his way at the convention. Furthermore, Johnson argued, the prospective appointee's father-in-law had a major tax suit pending, and the choice of Blair might create a conflict of interest.[10]

Knowing that his friend wanted Blair, Boies Penrose did all that he could to see that the new Commissioner was confirmed. Johnson was able to stall the nomination once, but Penrose and his Senate Finance Committee reported favorably a second time and the Chairman argued the case on the floor to a successful conclusion.[11] Though Mellon had his way in his first encounter with Congress, the victory required the dogged assistance of Penrose, and the fact that a fight ensued over the appointment of one of his key assistants did not bode well for future relations with the legislative branch.

Other appointments were made with less controversy. Roy C. Haynes, editor of a small town Ohio newspaper and

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[9] Ibid., 415-17.

[10] New York Times, May 4, 1921.

[11] Ibid., May 18 and 27, 1921.

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friend of Harding, was selected as Chief of the Prohibition Unit. At the War Risk Insurance Bureau, Charles R. Forbes, another friend of the President and later a principal in one of the major scandals of the Harding era, was made director. Two of the assistant secretaries from the Houston administration were replaced by Eliot Wadsworth and Edward Clifford, men noted more for their financial acumen than political affiliation or friendship with the President. Of the key people who had stayed on temporarily, only Parker Gilbert was permanently retained, though very few changes were made in the lower echelons of the department.

Of all the selections that first year, one in particular stands out. Elmer Dover, former secretary to Mark Hanna and Republican National Committeeman, was brought in as an assistant secretary. The New York Times reported that Mellon had requested Dover, but it soon became apparent that he was a charter member of the "Ohio Gang."[12] In six months on the job, Dover devoted most of his time to sacking longtime Internal Revenue Bureau employees, replacing them with political appointees.[13] Blair had enough problems with his department without making it a political merry-go-round and he tried to force Dover out by firing his assistant under

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[12]Ibid., December 16, 1921. Before the Couzen's Committee J. Frank Drake denied having anything to do with the selection of Dover and implied that the appointment came from outside the Mellon circle. Investigation of Bureau of Internal Revenue, 48.

[13]Sinclair, Available Man, 195.

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Congress reacted to support Dover and the concept of including more Republicans in Treasury offices. Over 150 senators and representatives petitioned Harding to that effect and a list of Democratic officeholders was circulated on Capitol Hill.[15] Parker Gilbert's name was included in the list of enemy infiltrators. Mellon defended his administration, emphasizing that business organization must prevail over party loyalty. Though many Democrats had been retained, the legislative wing need not be alarmed for "the Treasury is in the hands of Republicans and is governed by Republican policies."[16]

Forced into an awkward decision, Harding "chose to keep the best mind of Mellon rather than the spoils system of Dover."[17] Along with Hughes, Hoover, and Wallace, Mellon has been praised for making appointments on the basis of merit rather than of political spoils.[18] Essentially this

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[14]See Blair's testimony before the Couzen's Committee that he fought Dover, making appointment in spite of him. Investigation of Bureau of Internal Revenue, 63-64.

[15]New York Times, June 28, 1922.

[16]Washington Post, June 17, 1922 and in later years, Mellon was to lament the high turnover in personnel cause by low salaries. He claimed that as soon as a man was trained, he was pirated by private concerns for use in their cases against the Treasury Department, especially the Bureau of Internal Revenue.

[17]Sinclair, Available Man, 195 and Mellon, Mellon's Sons, 418-19.

[18]Sinclair, Available Man, 195.

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was true, but the Secretary was by no means oblivious to political considerations. One cannot appraise the choice of Blair, Forbes, Haynes, and Dover, for example, without examining the political ramifications.[19] Harding or the "Ohio Gang" were having some say in who received positions at the Treasury. It was only at the assistant secretary level, Dover the lone exception, that we really see an omission of political consideration. For his immediate aides, Mellon demanded talent as the chief requisite.

While Mellon was developing his own organization within the department, Congress forged ahead and the Secretary was required to make some important policy judgments. More and more he came to rely on the advice of Parker Gilbert. The memoranda from Gilbert to Mellon and the latter's subsequent actions indicate that Gilbert exerted a tremendous influence. The Secretary must have been satisfied with Gilbert's counsel for he persuaded Congress to create the position of Under-Secretary and nominated Gilbert for it.

Parker Gilbert was an interesting figure and is deserving of some attention. Brought into the government by Russell C. Leffingwell, chief assistant to Houston and later a partner in J.P. Morgan and Company, the Harvard Law School graduate moved rapidly from a minor post with the

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[19]When speaking of a candidate's qualifications, Parker Gilbert always informed Mellon as to his party allegiance.

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War Loan Staff to assistant secretary.[20] Leffingwell and Gilbert kept in contact during the Mellon years, with the former offering advice on a variety of issues. A case in point was Leffingwell's interest in a constitutional amendment to prohibit tax-exempt securities issued by the states and their subdivisions. Writing frequently to the Under-Secretary about it, a channel of influence developed from Leffingwell to Gilbert to Mellon to Congress.[21] Gilbert also regularly corresponded with a New York banker, Paul Warburg, and often wrote other members of the banking fraternity concerning government matters. When his career in government ended later in the decade, he was welcomed into the Wall Street community, joining Leffingwell at Morgan's.

In establishing policy, the first significant item that required Mellon's attention was whether the special Congressional session would first consider taxation or the tariff. The House, under pressure from Ways and Means Chairman Joseph Fordney and the farm bloc, seemed to place a priority on tariff revision. Throughout March, however, the Congressional leadership vacillated, keeping a wary eye on the White House for a push in one direction or the

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[20] New York Times, June 28, 1921.

[21] Leffingwell to Gilbert, March 5 and 15, 1921; Gilbert to Leffingwell, May 28, 1921; Gilbert to Mellon, March 26, 1921; Mellon to Fordney, April 30, 1921. Taxation of State and Municipal Bonds file, Official Correspondence of the Secretary of the Treasury, Record Group 56, National Archives, Box 158.

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other. Harding seemed to be leaning toward the tariff, but would not commit himself. Mellon kept publicly silent, but his underlings made it known that the Treasury Department wanted tax reduction first. With the economy in the trough of the cycle, Thomas S. Adams, economics professor at Yale and Treasury advisor, announced that the tax question should proceed the tariff if the administration expected to stimulate business as quickly as possible. Gilbert and others echoed similar sentiments.[22]

Gilbert sent Mellon several strongly worded memoranda arguing for the tax reduction before tariff revision. "I am convinced that there is ten times more demand for tax revision from the people generally and especially the business interests than there is for tariff revision. The question of precedence between tariff revision and tax reduction is clearly the most important domestic question before the administration. . . ." Pointing to the promises of the party platform, Gilbert noted that a case could be made for postponing tariff considerations until the world economy had readjusted. The Under-Secretary, recognizing that Congress was looking to the President for leadership, urged Mellon to nudge Harding in the right direction and to expect help from Hoover and Hughes.[23]

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[22]New York Times, March 12, 1921.

[23]Gilbert to Mellon, March 15, 1921, Tariff (General 1919-1921 file, Official Correspondence, Box 127. See also memorandums from Gilbert to Mellon on March 14, 16, and 31, 1921, Tax (General) January-April, 1921 file, Official Correspondence, Box 132.

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The argument for a priority on taxation was buttressed by a poll of newspapers which found a majority, regardless of party, of nearly five to one, in favor of a reversal of the program, with precedence given to the readjustment of "our galling tax burden."[24] Bringing the poll to Mellon's attention for use with the President, Gilbert also reminded the Secretary that a prolonged fight over the tariff could delay taxation until the regular session and that revenue considerations dictated first attention for taxes.[25]

In his opening address to the special session, the President came out in support of handling the tariff initially, though "it is of less concern whether internal taxation or tariff revision shall come first than has been popularly imagined, because we must do both. . . ."[26] Mellon salvaged something out of the confrontation, however, when his ally Senator Penrose decided that the Finance Committee would conduct hearings on taxation while the Ways and Means Committee worked on the tariff. Once more, Penrose was fulfilling his promise to Mellon that he would help to make his job easier.

The Treasury Department did all that it could to avoid

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[24]"Tax Relief Demanded before Tariff Revision," Literary Digest, April 2, 1921, p. 7.

[25]Gilbert to Mellon, March 31, 1921 and April 5, 1921, Tax (General) January-April, 1921 file, Official Correspondence, Box 132.

[26]New York Times, April 13, 1921.

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entanglement with the tariff bill. With the advent of the income tax, the tariff lost much of its revenue importance, and to become involved in an emotional fight over protection would not benefit the Treasury. What suggestions it might have could best wait for calmer times.

While the discussion of priorities was going on, the Treasury was preparing a tax program. In late April, Mellon took advantage of the Secretary's annual letter to the Ways and Means Committee on expected revenue and expenditure to lay out general guidelines for tax reduction.[27] As part of a five point program, the Secretary recommended repeal of the wartime excess-profits tax, with the loss in revenue made up by a modified corporate profits tax or an addition to the flat rate corporation tax. The maximum surtax rate on personal incomes should be reduced from 67% to 40% for 1921 and to 33% thereafter. A few minor "nuisance" taxes could be repealed, but the transportation tax should be retained unless Congress could prescribe an acceptable alternative. Additional revenue might be raised by increasing the price of stamps and instituting an automobile tax. Finally, Mellon suggested a series of technical amendments to simplify the administration of tax laws. Included was a plan to allow the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, to make final

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[27] Annual Report of the Secretary of the Treasury, 1921, pp. 349-55.

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determination and settlement of tax cases, a provision which would give a tremendous assist in bringing up to date all tax returns.

Woven in with these five basic provisions were two other items. "The Treasury is not prepared to recommend at this time a general sales tax, particularly if a general sales tax were designed to supercede the highly productive sales taxes now in effect on relatively nonessential items."[28] A large segment of the business community, especially manufacturers as opposed to retailers, preferred a sales tax to the excess-profits levy, and Senator Reed Smoot (R-Utah) was defending their position on Capitol Hill. Mellon also proposed that Congress give consideration to the possibility of prohibiting the issuance of tax-exempt securities, something he argued was providing a haven for high income people who avoided the surtaxes by investing in these bonds.[29]

The Secretary's ideas on taxation were not received well by the press. The New York Times had long championed the sales tax and was disturbed that he had rejected it.[30] Plans for increasing stamp duties and the proposed auto tax were objected to by the St. Louis Post-Dispatch.[31] The

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[28] Ibid., 354.

[29] Ibid.

[30] New York Times, May 3, 1921.

[31] St. Louis Post-Dispatch, May 3, 1921.

organ of the administration, the Washington-Post, noted that the recommendations "display a remarkable grasp of the financial condition of the government and no doubt they will have the careful consideration . . . to which they were entitled." That was the most the Post thought it could say.[32]

Overall public response was something of a letdown. Most had hoped that Mellon and the Republican administration would initiate a program that would somehow return taxation to its pre-war level. Since the fixed cost of government had increased tremendously during the war and since Congress gave no indication of an appreciable reduction in appropriations, it simply was not feasible to return to such prewar rates as a 1% corporation tax and a maximum surtax of 13% on personal incomes. In trying to establish a plan which would provide material reductions for all parts of the economic community, Mellon pleased no one group.

The most interesting aspect of Mellon's first tax program was that it was Democratic or Wilsonian in origin. Repeal of the excess-profits tax, for example, had been suggested shortly after the war ended, by the then Secretary of the Treasury, Carter Glass. Wrote Glass:

> The Treasury objections to the excess-profits tax even as a war expedient (in contradistinction to a war profits tax) have been repeatedly

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[32]Washington Post, May 3, 1921.

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> voiced before the committees of Congress. Still more objectionable is the operation of the excess-profits tax in peacetimes. It encourages wasteful expenditures, puts a premium on overcapitalization and a penalty on brains, energy and enterprise, discourages new ventures, and confirms old ventures in their monopolies.[33]

Glass went on to request an increase in the normal tax, but to leave the surtax alone for the "upmost brackets of the surtax have already passed the point of productivity" and any increase would drive those of great incomes to invest more in tax-exempt securities. In addition, a constitutional amendment should be passed to prevent issuance of tax-exempt securities.[34]

In the last year of the Wilson administration, David Houston reiterated most of the Glass arguments. Refining his predecessor's case by suggesting that the excess-profits tax be replaced by a flat-rate tax on profits in excess of distributed earnings, Houston claimed that the tax had failed because it was based on invested income.[35] Houston also proposed lowering the maximum surtax rate to about 50%, agreeing with Glass that they could not be collected. "The simplest remedy for the situation would be a general reduction of higher surtaxes, accompanied by

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[33] Annual Report, 1919, p. 23.

[34] Ibid., p. 34.

[35] Ibid., 1920, p. 39.

increases in lower surtax rates."[36]

Wilson's last Secretary of the Treasury continued his arguments for lower surtaxes and repeal of the excess-profits tax after leaving office.[37] His chief assistant, Russell Leffingwell, went even further, suggesting to Gilbert that normal taxes were too low and that individuals should pay taxes comparable to corporations, perhaps as much as 12%.[38] Perhaps if Cox were elected in 1920, the tax program presented to Congress may have been more "reactionary."

Exposed to these arguments while working in the Wilson administration, Gilbert sent Mellon a detailed memorandum on tax revision ten days after the latter took office.[39] Gilbert's ideas were a distillation of the Glass-Houston program, with the emphasis on repealing the excess-profits tax and lowering the surtaxes. Mellon's letter to Fordney, probably drafted by Gilbert, was simply an elaboration of earlier proposals. Recognizing the Democratic origins of

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[36] Ibid., p. 37.

[37] David F. Houston, Eight Years with Wilson's Cabinet, Vol. II (Garden City, New York: Doubleday, Page and Co., 1921), p. 101 and David F. Houston, "Taxes--Which and Why," Worlds Work, November, 1921, 103ff. This last source indicated a closeness of viewpoint between Mellon and Houston sufficient for the editors of Worlds Work to preface the article by saying that "Mr. Houston's views on taxes have been adopted by his successor, Mr. Mellon."

[38] Leffingwell to Parker Gilbert, April 29, 1921, Tax (General), January-April, 1921 file, Official Correspondence, Box 138.

[39] Gilbert to Mellon, March 16, 1921, Tax (General), January-April, 1921 file, Official Correspondence, Box 132.

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his program, the Secretary later defended it on the basis that its provisions were bi-partisan in nature. Mellon was annoyed that dissidents in his own party, as well as the opposition, would object to policies that had been drafted by the best minds of two administrations.

The Democratic antecedents of Mellon's tax policy have been virtually ignored by historians. Most secondary accounts give the illusion that had a Democratic administration been in office, tax revision would have proceeded much differently. This is doubtful, for the most consistent opposition to Mellon's ideas on taxation came from within his own party, the Insurgent or Progressives. With the exception of a small cadre from urban areas, most of the members of the party of Jefferson and Jackson had come by 1926 to support the Secretary's concepts so much so that Senator Irving Lenroot (R-Wisc.) accused the opposition of trying to "out-Mellon Mellon," and his sentiments were echoed by more consistent Democrats.[40] The only contemporary writers to grasp the significance of the Democratic background and the role Gilbert played in transmitting them were Drew Pearson and Walter Lippmann.[41]

While Mellon and the Treasury Department were formulating

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[40]David Burner, The Politics of Provincialism (New York: Alfred A. Knopf, 1968), pp. 165-66 and 173.

[41]Drew Pearson and Robert S. Allen, Washington Merry-Go-Round (New York: Horace Liveright Inc., 1931), p. 172 and Walter Lippmann, Men of Destiny (New York: The Macmillan Co., 1927), p. 188. Though this writer takes issue with historians on this point, most economists have recognized the parallel.

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a tax program, and Fordney and the Ways and Means Committee were rewriting the Underwood Tariff, the two appropriations committees were acting favorably on the Budget Bill. The Sixty-sixth Congress had passed the McCormick-Good Bill providing for a Budget Bureau, but Wilson had vetoed it over a technicality. Altering it to suit Wilson's desires, Congress lacked sufficient time to repass it.

The Budget Bill vetoed by Wilson had been highly satisfactory to the Treasury Department for it placed the Director of the Budget Bureau under control of the Secretary. The House version of the bill, the Good Bill, had proposed that the Director be responsible to the President. When the Good Bill was being considered, Leffingwell wrote Glass that "it is grotesque to turn the thing over to a bureau chief in the office of the President. . . ."[42] In his annual report, Glass emphasized that the "supervision of the preparation of the Budget should be vested in the Secretary of the Treasury."[43]

When questioned by Senator Medell McCormick (R-Ill.) about his version (Director responsible to the Secretary of the Treasury), Mellon replied that the bill has "my hearty approval." He went on to add that he hoped it would

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[42]Leffingwell to Glass, May 26, 1919, Budget, 1919-1921 file, Official Correspondence, Box 17.

[43]Annual Report, 1919, 116ff.

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be the first item passed by Congress.[44] In the meantime, Gilbert was warning the Secretary about the inadequacies of the Good Bill.

Echoing sentiments expressed by his colleagues in the Wilson administration, Gilbert argued that putting the Budget Bureau in the President's office (Good Bill) would transform the Treasury into "a minor executive department charged merely with matters of administration. . . ." With so much power in the hands of the Budget Director you could never recruit a strong and capable man for Secretary. The Under-Secretary also mentioned that the Good version was a violation of the Hamiltonian law that the Secretary should suggest means of raising revenue. In the process of decentralization, they had lost control of expenditures; soon they would have no control.[45]

In late April, Mellon informed Gilbert that a White House conference had resolved the matter in the direction of the McCormick version.[46] The Budget Director was to be under the Secretary in a fashion similar to the Commissioner of Internal Revenue. Something went awry after the conference, for Congress began moving in the direction of the Good version and the White House remained silent. McCormick

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[44] New York Times, April 9, 1921.

[45] Gilbert to Mellon, May 8 and 28, 1921, Budget, January-June, 1921 file, Official Correspondence, Box 17.

[46] Gilbert to Mellon, April 27, 1921, Ibid.

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sent a plea to the President to intervene on behalf of his bill and Mellon wrote Senator William King (D-Utah) asking for assistance.[47] The letters were to no avail, however, as Congress passed the Good version and the Director of the Budget Bureau was incorporated into the executive offices. Simultaneous with the signing, Harding appointed Charles Gates Dawes as Director. If we are to believe Dawes's statement that he promised to serve six months before the bill was passed, it is only logical to assume that Harding would champion his preferences for a strong director and that Mellon had been misled.[48]

For the second time, the President had failed to cooperate with his secretary in the latter's attempt to formulate lasting policy decisions. To assuage his feelings, the President asked Mellon to draw up the rules and regulations for operations of the Bureau. Congress also threw a sop to Mellon by placing the Bureau within the Treasury, though under the direction of the President. In the ensuing years, there was more than one clash between Mellon, Dawes, and his successor, Brigadier General H.M. Lord, as to who was running the financial affairs of the

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[47]Mellon to Senator William King, May 20, 1921, Ibid., and New York Times, May 11, 1921.

[48]Charles G. Dawes, The First Year of the Budget of the United States (New York: Harper and Brothers, 1923), pp. 1-2 and 63 and Bascom M. Timmons, Portrait of an American, Charles G. Dawes (New York: Henry Holt and Co., 1953), p. 201.

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By late July, the Ways and Means Committee had finished its work on the tariff and was turning its attention to the tax problem. Though definite that the Committee would lower taxes, how they would do it was uncertain. Except for the excess-profits tax repeal, Congress had no mandate. The most likely thing was that the Fordney Committee would quickly approve the Treasury recommendations, allowing the Senate Finance Committee to write the details. With Penrose as Chairman, it appeared that Mellon would have a free hand to dictate terms.

Appearing before the House committee to express his views on taxation, Mellon, much to the surprise of everyone, warned that taxes might not be significantly reduced until Congress and the new Budget Bureau reduced expenditures below the current level.[50] At a second appearance two weeks later, he presented a budget estimate of $4.6 billion and offered revisions of his April proposal for lower taxes. Abolishing the excess-profits tax would necessitate a 15% corporate income tax, and increase from 10%. If surtaxes were to be lowered, he recommended a $10 tax on all automobiles, a one-cent increase in first class postage, and

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[49]For a detailed discussion of the formation of the Budget Bureau and the first years of its operation, see W.F. Willoughby, The National Budget System (Baltimore: Johns Hopkins Press, 1928).

[50]New York Times, July 23, 1921.

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a two-cent tax on all bank checks.[51] Fordney declared that Mellon was exaggerating and that his committee would report a significantly lower tax package.[52] The Congress was not about to accept a program that would require $260 million more than the Revenue Act of 1918 could provide.

The reason for such a drastic program seems to be power politics. Mellon wanted as much as anyone to lower taxes, but he knew they could not be unless expenditures were. Neither Dawes, who had been on the job almost two months, nor Congress gave any assurance that expenditures were going to be reduced. To produce economy in government, Mellon used scare tactics. If he could not reduce expenditures by direct control of the Budget Bureau, then he would do so indirectly. The Secretary was willing to do what was necessary to redeem the campaign promises of economy and reduction while at the same time preserve the sanctity of the balanced budget.

For the next ten days, Washington was a flurry of activity. Fordney and House Floor Leader Martin Madden (R-Ill.) went to the President to ask him to talk sense to Mellon. Summoning Mellon and Dawes to a conference, Harding directed them to prepare a more realistic, i.e., politically feasible, program. With an assist from the Budget Director, the Secretary proposed a third estimate, reducing

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[51] Annual Report, 1921, pp. 362-69.

[52] New York Times, August 2, 1921.

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expenditures in the executive departments, particularly military appropriations, and lowering the amount to be spent for debt retirement.[53] In view of these economics, the Treasury believed that the corporate income tax need only be increased to 12½%, that surtaxes could be cut to a maximum of 32% for 1921 and 25% for 1922 instead of 40% and 33% respectively as originally suggested, and that the transportation tax could be halved as of January 1, 1922 and discontinued the following year. The Secretary also requested authorization to issue additional Treasury certificates in the event of a budget imbalance. "In other words, the Administration was willing to borrow if necessary, but tax rates had to be lowered."[54] That Mellon was willing to resort to deficit spending in order to lower taxes is hard to imagine in view of his reluctance a decade later to unbalance the budget in the face of economic disaster. Instead, it appeared to be a hedge in the event of a deficit caused by bill written to suit Fordney, not Mellon.

Fordney and his chief associate, Representative William Green (R-Iowa), were much more amenable to the revised program. Reverting to the pre-war practice of excluding the opposition from the formative committee stage, the Ways and

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[53]Dawes, First Year, 83-86 and Annual Report, 1921, 369-71.

[54]R.G. and G.C. Blakey, The Federal Income Tax (New York: Longmans, Green, and Co., 1940), p. 204.

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Means Committee Republicans wrote a bill accepting Mellon's proposals for the corporation tax and the surtaxes. When the farm bloc objected to repeal of the excess-profits tax, a bargain was struck wherein personal exemptions were increased from $1000 and $2000 to $1500 and $2500 respectively for single and married men. In return, the excess-profits tax was retained until January 1, 1922. Green shepherded the bill on the floor and, after four days of vocalizing by the opposition, it passed as it had come from committee. The Revenue Act of 1921 passed the House by an almost straight party vote, 274-125.

The Senate, however, would prove to be a different story. In the upper house, the farm bloc was better organized and held the balance of power as well. Dissatisfied with the Harding administration's handling of the agricultural depression, they often retaliated by voting with the Democrats. If Mellon was to see the bill emerge as written by the House, he would have to depend upon Penrose to push it through.

True to his earlier promises about smoothing the way for Mellon, Penrose decided that during the fall recess, the Finance Committee would drop consideration of the permanent tariff and take up tax reduction so that it could report to the Senate as soon as it reconvened. Having received most of what he wanted from the House and with Penrose supporting him, the Secretary grew more daring in his recommendations to the upper chamber. Asking for repeal

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of the excess-profits tax effective January 1, 1921, instead of the following year as voted by the House, he argued that it was the most important step that the government could take to revive business. Strangely, however, Mellon also reverted to his earlier suggestion that the corporate tax be 15% and that high surtaxes be retained for 1921 and then cut to 25% for 1922, thus omitting the House decision to set the maximum surtax rate for 1921 at 32%. The increased personal exemptions authorized by the House should also be kept. Apparently, business wo to pay for the increased allowances on personal incomes and the upper brackets were to wait a year for relief.

The program as a whole resembled the suggestion of April, indicating that the August alterations for the House were not taken seriously by the Secretary, but rather were a product of the President's wishes after consulting with Fordney and Madden. With a responsibility to pay the governments bills, Mellon wanted the higher rates as suggested to the Senate. He had recommended the lower ones only out of necessity, to mollify Fordney, and had no intention of deficit spending. The tactic was to accept what he had to from the House and make up the difference in the Senate where Penrose would help. The Secretary's feeling seemed to be that taxes should be lowered, but only as far as a balanced budget would permit. He was still following the tactics he had employed in driving down government expenditures.

Penrose, fought every step of the way in committee by Robert La Follette (R-Wisc.) and former chairman Furnifold Simmons (D-N.C.), pressed for Mellon's recommendations, but was only able to obtain an increase in the corporation tax and repeal of the excess-profits tax. As passed by the Finance Committee, the bill was substantially the same as the House version. When it came to the floor, Penrose, realizing that the Farm Bloc-Democratic coalition intended to significantly amend the bill, declined to give the customary speech of explanation. He was political enough to know that if he could not win in his own committee, a floor fight could only bring disastrous results.

Seeing the logic of Penrose's position, the Republican leadership met with the President and agreed to let the coalition alter the bill without a floor fight. An amendment for a maximum surtax rate of 50% on incomes in excess of $200,000 was substituted for 32% rate on those over $66,000. As Mellon requested, the reduction would not go into effect until 1922. A tax on gifts designed to halt income and inheritance tax evasion was also included in the bill. Considering the power the coalition had, the bill as passed by the Senate reasonably resembled what had come from the committee.

A compromise solution was worked out in the Conference Committee. When the House accepted the surtax rates imposed by the upper chamber, the Senators agreed to their colleagues wishes on the corporation tax (12½%) and LaFollette's

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gift tax was mutually rejected. The final version, providing for tax reductions of $70 million for 1921 and $835 million for 1922, was signed into law shortly before Thanksgiving.

No one was particularly satisfied with the bill; it was nobody's child and everybody's stepchild. Expressing his disfavor in his first annual report which appeared a week after the law went into effect, Mellon called for additional lowering of the surtaxes.[55] Though he had received most of what he wanted, it was certain that he would soon be back. Ill and irritable, Penrose called it a "transitional or temporary measure. It does not place the tax system on a stable or scientific basis."[56] The New York Times agreed with Penrose that it was a "temporary makeshift" and the St. Louis Post-Dispatch said that "we need go not further than Congress itself to be informed that the work was poorly done."[57] On the other hand, accepting the maxim that a good compromise is one that satisfied no one, we might describe the Revenue Act of 1921 as the perfect compromise.

Who benefitted by the tax program? Obviously the business interests and the very wealthy gained most. Because of the increase in exemption rates, the little man fared

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[55] Annual Report, 1921, 14-15.

[56] New York Times, November 23, 1921.

[57] St. Louis Post-Dispatch, November 26, 1921.

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well. It was the middle income group that received only minor revisions on its surtaxes that received the least.

Examining the act in a more detailed fashion, we find that business had a very heavy excess-profits tax, graduated as high as 65%, replaced by a modest increase in the corporate tax from 10% to 12½%. The very wealthy had their surtaxes reduced from 65% on incomes over $1 million to 50% on those in excess of $200,000. On incomes of less than $100,000, however, the reduction averaged about 1%, not 15%. As had been traditional in the history of American taxation, it was the man in the middle income bracket that bore the brunt on the income tax. The citizens on the lower end of the economic scale, those who earned under $5000, benefitted handsomely by the increase in the exemption allowance. On incomes of $4000 and less, the average family of four paid a maximum tax of $12 and $80 per thousand above that. What appears to have happened was that the government lowered its costs somewhat and that reduction was passed on to those at the extreme ends of the taxable population, those under $5000 and over $100,000. There is no evidence to warrant the traditional charges that Mellon was trying to shift the burden of taxation or that his program was designed simply to lower taxes on the rich.[58]

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[58]This writer has relied heavily on Blakey, Income Tax, 189-222, for details concerning the passage of the Revenue Act of 1921 through Congress. For an adequate, though not as detailed, discussion of the bill, see Sidney Ratner, Taxation and Democracy in America (New York: John Wiley

Simultaneous with the battle over taxes, Mellon waged another fight with Congress of a more personal nature. In late June, he informed the President that just over $10 billion was outstanding in loans to foreign governments and he requested full authority to collect it, including decision as to the form and terms of settlement. The differing situation of the various debtor nations required extended negotiations and particular concern for each individual country. Harding agreed and forwarded the Secretary's request to Congress, suggesting "the grant of broad powers to the Secretary of the Treasury to handle the problem. . . ."[59] Introducing a bill tailored to Mellon's request, Penrose opened hearings in early July.

Initial reaction in the Senate was highly negative. Senators McKellar (D-Tenn.) and LaFollette believed that he sought this power in order to cancel the debts.[60] Echoing populist sentiments, LaFollette envisioned a conspiracy of international bankers, Mellon included, to have the public debt cancelled so that the private debt, estimated around $4 billion, might become collectable. Articles in banking

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[58](cont.) and Sons, 1942 and 1967), pp. 400-421 and R.G. Blakey, "The Revenue Act of 1921," American Economic Review, XII (March, 1922), pp. 75-108.

[59]Annual Report, 1921, 40-42.

[60]New York Times, June 24, 1921 and Belle Case LaFollette and Fola LaFollette, Robert M. LaFollette, Vol. II (New York: The Macmillan Co., 1953), p. 1031-32.

journals such as "Cancellation of the Allied Debt Would be the Greatest Possible Panacea" seemed to confirm their fear.[61]

There were other criticisms too. McKellar suspected that Mellon might exchange worthless German reparations bonds for the notes of the Allies, leaving the United States with nothing. The Allied governments were having little success seeking buyers for these bonds, and the New York Times editorialized that giving such sweeping powers to the Secretary of the Treasury was "contrary to the public interest and insulting to the dignity of Congress."[62]

Mellon did all that he could to rebutt the criticisms. Appearing before the Finance Committee, he denied outright any intention of cancelling the loans.[63] The Adminstration had been on record as early as April to that effect.[64] Reading into the Congressional Record the exchange of letters between Wilson, Houston, and Lloyd-George denying the British request for cancellation, Senator Henry Cabot Lodge (R-Mass.) implied that the Republican administration would continue the precedent as it had in so many other matters.[65]

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[61] Banker's Magazine, June, 1921, pp. 997-1001.

[62] New York Times, June 25, 1921.

[63] Ibid., July 15-16, 1921.

[64] Ibid., April 2, 1921.

[65] U.S., Congressional Record, 67th Congress, 1st Session, 1921, LXI, Part 1, pp. 3950-51.

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At a second meeting with the Senate, Mellon pleaded that he not be hindered by Congressional guidelines which might embarrass the country or delay settlement. Ultimate legislative approval or review might also discourage debtors familiar with the Senate's reluctance to ratify the Treaty of Versailles.[66] Apparently convinced by his arguments, the Finance Committee voted to grant his request for freedom of action.

When the Ways and Means Committee took up consideration of the request in the fall, Chairman Fordney surprised Mellon by declaring that the Committee would recommend that the power of settlement be given to a commission of which the Secretary would be chairman. Harking to McKellar's fears, the House group also provided that the bonds of one debtor could not be substituted for those of another. In addition, a minimum interest rate of 5% and a maximum maturity date of twenty-five years for all bonds was established. Two days later, the White House announced acceptance of the House plan.[67] The President had paid lip service to the Secretary's request, but as happened on several other issues, as soon as Congress indicated disagreement, he retreated, leaving Mellon to fend for himself.

Senator Penrose was visibly disturbed by the House changes and proceeded to hang the bill up in committee.

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[66]New York Times, July 19, 1921.

[67]Ibid., October 15, 1921.

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Meeting with Mellon in early December to plan strategy, he invited the Secretary to restate his case before the Finance Committee.[68] Following that appearance, the Chairman suspended the hearings so that his colleagues could devote full time to the seating of Senator-elect Truman Newberry (R-Mich.). Penrose died suddenly New Year's Eve and the new chairman, Reed Smmot, after conferring with the President, agreed to the commission plan, the twenty-five year maturity date, but an interest minimum of 4¼%.

On the floor of the Senate, the bill was amended so as to prohibit completion of the debt settlements until after Congress had given its assent. The Senators also provided a three year life for the committee and demanded an annual report to Congress. As amended, the bill passed the upper chamber 39-26 and was returned to the House which accepted the Senate version after Mellon agreed to the interest and maturity provisions. There was little choice but to accept the provisions if he expected to play any role whatsoever in debt funding, for his eligibility to sit on the commission had been challenged in the Senate, and if the bill was not passed soon, he may have been omitted entirely.[69]

Another area to be considered in examing Mellon's

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[68] Ibid., December 13, 1921.

[69] U.S., Congressional Record, 67th Congress, 2nd Session, 1922, LXII, Part 4, pp. 3510-11.

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policy formulations was his role vis a vis the Federal Reserve Board. The favorable impression he gave the Board at their first encounter evaporated in less than a week when he recommended Donarl R. Crissinger for the post of Comptroller of the Currency, an ex-officio member of the Board, without clearing the appointment with them. A life-long friend of the President whose banking experience was extremely limited, Crissinger embarrassed Mellon, but the Secretary was forced to abide by Harding's wishes.[70] The Secretary further alienated himself from the Board when he told them that he would check with the President concerning their plan to send David Houston abroad on Federal Reserve business. Adolph Miller, the only economist in the group, thought it scandalous for the Secretary to refer a Board matter to the President, and his colleague C.S. Hamlin concluded that the Treasury Department would be run from the White House with Mellon as a figurehead, though Mellon could have stopped the Crissinger appointment with a threat of resignation.[71]

In his first few months with the Federal Reserve Board, Mellon helped form a majority group which instituted what was to be a decade-long program of low discount rates. Governor W.P.G. Harding argued against the reduction policy, emphasizing a fear of stock market speculation because of

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[70]Hamlin MSS, Index Digest, Vol. 6, 142.

[71]Ibid.

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cheap money, but Mellon and his group believed that a little speculative activity would not be harmful.[72] Within three months the record high rate of 7% was reduced to 5%. One can only imagine the ire of the Board when President Harding proclaimed that one of the major accomplishments of the first four months of his administration had been the lowering of the discount rate.

While struggling for its independence from the executive branch, the Board came under fire from Congress. The Joint Commission on Agricultural Inquiring examined the Boards high rate policy of 1919-1920. Many people in the farm areas blamed the agricultural depression on that policy, focusing criticism on Governor Harding for instituting it.

Throughout the investigation, Mellon remained silent. Having his hands full with the farm bloc on other matters, he was not going to open a new front. Defense of the Board fell to Governor Harding and Benjamin Strong of the New York Federal Reserve Bank as Mellon abdicated his leadership role. That the Board was severely sanctioned for the high rate policy for stemming post-war inflation made an indelible mark which was to haunt the country a decade later. Had Mellon stood by his Board and their policies, perhaps they would have taken a stronger position in 1928 and 1929. But with the fear of a Congressional inquiry and a weak

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[72] Ibid., 143-44 and Lester V. Chandler, Benjamin Strong, Central Banker (Washington, D.C.: The Brookings Institution, 1958), pp. 174-75.

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leader, they were hesitant to raise rates when the stock market appeared out of control.

As a result of the inquiry, Senator William Kenyon (R-Iowa) suggested that a farm member be added to the Board. On the point, Mellon took a position, objecting to the inclusion of a sixth appointive member. "I feel that the existing organization of the Federal Reserve Board and Federal Reserve Banks assure adequate representation to agricultural interests. . . ." The President appoints five members and the law directs him to have due regard to the different commercial, industrial, and geographical regions of the country.[73] Congress was not swayed and a farm member was added to the Board.

Another duty of the Secretary that required a leadership role in policy formation was the enforcement of prohibition. Anticipating that it would be transferred to the Justice Department, Mellon was slow in developing a policy. But when Penrose suggested a transfer, the Anti-Saloon League and other dry groups reacted negatively.[74] With no support from the White House forthcoming and with more

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[73]Mellon to Senator J.S. Frelinghuysen, July 15, 1921, Federal Reserve Board--Farm Member on Board, 1921-1923 file, Official Correspondence, Box 59.

[74]In his Prohibition, the Era of Excess (Boston: Little, Brown and Co., 1962), p. 191, Andrew Sinclair argued that Wayne Wheeler and the Anti-Saloon League wanted to keep enforcement in the Treasury which was too busy to adequately cope with the problem and therefore gave them a better chance to influence appointments.

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pressing matters demanding attention, the junior Pennsylvania Senator abandoned the plan.

Faced with the problem of enforcement, Mellon limited his program to appointing two capable men to key positions, Blair and Haynes. No new ideas on improving enforcement were instituted and the first year was spent developing an organization. Lacking serious intent, the Secretary established a precedent that in many respects justifies critics claims that prohibition never had a chance for it was not vigorously enforced.[75]

The last area for policy formulation dealt with the domestic debt. The banker in Mellon viewed the domestic debt, and the foreign debt for that matter, as a solemn obligation that must be paid. The Wilson administration had had limited success in refunding and the short-dated debt stood at $7⅛ billion when Mellon assumed office and a total debt of over $23 billion. The constant maturation of short-date notes was draining the Treasury, and Mellon with the assistance of Parker Gilbert, instituted a program of extending maturity dates to more manageable periods. This extension was combined with a progressive diminution of the interest rate, a reflection of the confidence in Mellon possessed by the investing public as well as a savings to

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[75]In his Annual Report for 1921, Mellon's discussion on prohibition enforcement was limited to two vague paragraphs on the difficulties of the job.

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In sum, what were the policies established by Mellon in his first year? In terms of staff, Mellon retained most of the old personnel while gradually incorporating new people. Never an advocate of the spoils system, Mellon included political considerations in filling positions. In the realm of taxation, Mellon relied on old hands and old ideas. He was more openly pro-business than his immediate predecessors, but hardly inventive in his ideas. The most that can be said is that Mellon modified the ideas of Gilbert, Houston, and Glass. In the area of the Budget Bureau and the payment of international debts we see a strong personality grasping for power and being frustrated. Someone else would make policy. At the Federal Reserve Board there was an abdication of the chairman's leadership and to a certain degree a prostitution of the system by campaigning for a lowering of the discount rate. As for prohibition enforcement, Mellon simply went through the motions; no policy was established. Rather than formulating methods of operation, Mellon tried to avoid his responsibility by passing it on to the Justice Department. It was only in funding the domestic debt that Mellon totally succeeded in creating the policy he wanted. The investing public cooperated as the Congress had not.

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[76]For a description of the funding of the short-dated debt, see Annual Report, 1921, 3-6.

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In a larger sense, probably the most important thing that was determined in Mellon's first year was that he could not rely on the President to support his policy making. Mellon's policy decisions were always controversial and the dissident Farm Bloc-Democratic coalition usually opposed them. As soon as Congress or anyone else exhibited a willingness to fight, Harding withdrew his support and let Mellon fend for himself. Only Boies Penrose, the man who had picked him for the job, came to his aid, but Penrose was not enough to assure success. With the death of Penrose and Philander Knox, Mellon was stranded politically. The remainder of his tenure looked to be difficult. Throughout 1921 there had been rumors of his resignation everytime one of his policy ideas ran afoul. Without Penrose to salvage something for him, the likelihood of one of those rumors coming true was good.

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CHAPTER III

PROTECTING THE TREASURY AND REASSERTING POLICY

Andrew Mellon spent his first year as Secretary of the Treasury frantically trying to establish policy guidelines in the face of an uncooperative Republican Congress and a vacillating President. Not as yet familiar with the ramifications of Washington politics and lacking the support of his superior in the White House, the new Secretary was often frustrated. The hectic pace of the initial period forced him to rely heavily on Parker Gilbert and the program they put forth appeared in a trial-and-error fashion. It was not in Mellon's nature, however, to yield in the face of opposition and he displayed a remarkable consistency in expressing and defending his plans and ideas. With each issue, it became more and more apparent that the Secretary was being guided by a simple and pragmatic philosophy of economy in government and a smaller tax burden, a low cost program which one might expect from a conservative banker.

With the Revenue Act of 1921 and the reductions in the budget, Mellon received a portion of what he wanted. Though

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not the most cooperative group, Congress was at least moving in the same direction as the Secretary. The legislative branch deviated from that bit of harmony, when in the midst of their deliberations on taxes and the tariff, the House decided to act on a soldiers bonus bill. The Republican majority felt obligated to fulfill its campaign promise to the veterans immediately and had little difficulty in attracting support for such a popular idea from their Democratic colleagues. A raid on the Treasury was in the offing.

Though attuned to the popularity of the bonus scheme, the Harding administration, and Secretary Mellon in particular, voiced strong objections. Perceiving a threat to any plans for tax reduction and the continued return of the economic structure to peacetime conditions, Mellon warned Congress of the consequences of such an expensive project, variously estimated to cost between $1½ and $5¼ billion.[1] It would be impossible, he said, to have both a bonus and tax reduction, the money simply was not there. Furthermore, it would be necessary to issue bonds to pay for a bonus, thus glutting the bond market, disrupting the government's funding program, and increasing its expenses, for the bonds would force a continuation of high interest rates to make them saleable. There was also the danger that a bonus

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[1] Annual Report of the Secretary of the Treasury, 1921, pp. 229-31.

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might stimulate an inflationary spiral in the economy which had turned up after a two year recession, that commodity prices might increase, and that business conditions, already tenuous because of apprehension over tariffs and taxes, might be further disturbed. The argument was couched in purely economic terms, though he opposed and would continue to oppose any bonus design on the grounds that it was a raid on the Treasury for the benefit of only a fraction of American society, five million veterans and their dependents.

Two weeks after Mellon's warning, President Harding, in a rare display of public support for his Secretary, spoke personally before his former colleagues in the Senate. Urging that they defer action on the bonus, Harding expressed that "there is confessed disappointment that so little progress has been made on the readjustment and reduction of the wartime tax burden."[2] Shortly thereafter the Senate sent the bill back to committee, thus killing the measure for the special session.

With the dawn of the new year, tax reduction behind them and an election in front of them, Congress again focused its attention on the bonus. In the interim, Mellon had remained steadfast in his opposition, but the President had altered his, letting it be known that he would sign a bonus bill so long as Congress provided a means of payment. With the chief executive vacillating, the Secretary sought to

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[2]New York Times, July 13, 1921.

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pre-empt consideration of the veterans program by informing the legislature that a deficit of around $300 million was anticipated for the next two fiscal years. If there was to be a bonus, "it is clear that it must be provided for through taxation, and through taxation in addition to the taxes imposed by the existing law."[3] Like Harding, Mellon was putting the Congress on notice that they and not the Treasury Department would be responsible for financing any loan to the veterans. The President's opinion to the contrary, the Pittsburgh banker was developing into something of a practical politician.[4]

Realizing that Congress would not easily yield to his arguments, Mellon began a public relations campaign in support of his case. The Treasury Department sent out 120,000 copies of his letter to Chairman Fordney, 30,000 to all of the banks in the country and 90,000 to a select list of those who paid taxes in excess of $1,000.[5] In addition, twenty-five to fifty copies each of a favorable New York Evening Post editorial were sent to the governors of the Federal

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[3]Annual Report, 1922, 329-33. See also a second letter to Joseph Fordney, March 11, 1922, ibid., 340-45.

[4]Harding had once told C.S. Hamlin of the Federal Reserve Board that Mellon "didn't know a damn about politics." C.S. Hamlin MSS, Index-Digest, Manuscript Division, Library of Congress, Vol. 6, p. 145.

[5]Unsigned inter-office memorandum to Under-Secretary Gilbert, January 26, 1933. Fordney letter of January 24, 1922 (Soldier's Bonus) file, Official Correspondence of the Secretary of the Treasury, Record Group 56, National Archives, Box 115.

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Reserve banks.[6] Propagandizing Treasury views through letters to Federal Reserve governors was a method frequently employed in later years.

Congress was surprised at Mellon's handling of the issue, not anticipating that he would put them in the quandary of repudiating their promise to the veterans or raising taxes and anger the tax paying public. An easy solution was to ignore the dire warnings and that is what they did. No comment was heard from Capitol Hill.

Meeting twice with the Ways and Means Committee on possible ways of raising the necessary revenue, the Secretary mentioned that he thought a sales tax might fill the gap, though he was quick to point out that he was not recommending such.[7] The President had already accepted the sales tax idea, repeatedly making it known that he thought it the best method.[8] A sales tax, however, lacked adequate support either with the general public or with Congress. Much of the opposition to the sales tax emanated from the fear expressed by Representative James Frear (R-Wisc.) that Mellon was preposing the tax basically to establish it as part of the revenue system. Eventually, Frear argued, Mellon and the other protectors of the rich would substitute the sales tax for the graduated income tax and other

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[6] Ibid.

[7] New York Times, February 22, 1922.

[8] Ibid., February 17, 1922.

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Ignoring Mellon's warnings of deficits or higher taxes and the "reported impending veto," the House simply passed the bonus bill and provided no means of payment. Consideration had been given for raising revenues from the receipts of the Allied war debts, but administration objections to such an uncertain source caused this plan to be abandoned.

When the Finance Committee considered the measure, Mellon continued his program of discrediting it. In January, the Treasury Department Actuary, Joseph McCoy, presented figures anticipating a budget deficit of $300 million over the next two years. Three months later, the figures had swollen to show a deficit of $215 million for fiscal 1923 alone.[10] Simultaneously with a Republican caucus directive to the Finance Committee to report a bonus bill, a third estimate predicted revenues for fiscal 1923 to fall short by $480 million.[11] Accompanying the last set of figures was Mellon's ultimate threat; word was leaked that tax increase might be necessary even without a bonus.[12] As he had before with Congress on the Revenue Act of 1921, Mellon

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[9]U.S., Congressional Record, 67th Congress, 2nd Session, 1922, LXII, Part 1, pp. 710-27.

[10]New York Times, April 4, 1922.

[11]Ibid., April 19, 1922.

[12]Ibid., April 21, 1922.

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Reporting the state of the nation's finances at the end of the fiscal year, Under-Secretary Gilbert announced that the anticipated deficit of $25 million turned out in fact to be a surplus of $310 million.[13] In some people's mathematics, this amounted to a "mistake" of $335 million and caused many proponents of the bonus to accuse Mellon of purposefully juggling figures. The Secretary might be excused in this instance, uncertainty as to the new revenue act and the industrial revival could easily disturb his calculations. Unfortunately, he repeated the "mistake" several times in the Twenties. When a spending program with which he was unsympathetic was proposed, he spoke of deficits, yet the talk was of surpluses when he requested tax reduction. That every year in the decade produced a surplus made the periodic warnings of an unbalanced budget most susceptible to criticism. Reliable statistical information was difficult to accumulate and the statistical section of the Treasury found it hard to retain competent men because of the low salaries, but the "coincidence" of spending-deficit and tax reduction-surplus was more than one could honestly expect Mellon's opponents to believe.

With the Secretary's warnings mitigated by the huge surplus for fiscal 1922, the Senate concurred with the House in late August and passed the bonus bill. Unlike the lower

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[13] Ibid., July 1, 1922.

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chamber, the Senate ignored the objections to paying for it with the receipts from the Allied war debts and authorized such a program. The Democratic-Farm Bloc coalition viewed it as serving the dual function of paying the bonus and at the same time guaranteeing that Mellon and the "international banking conspiracy" would not cancel the debts.

On September 20, 1922, Harding vetoed the bonus bill, the only time that he ever stood up to Congress and one of the few occasions that he supported his Secretary through to the end. Defending his veto on the grounds that Congress had not provided a reasonable means of payment, the President repeated Mellon's arguments that it was "class legislation" and a raid on the Treasury in favor of a small part of the total population.[14] The House promptly voted to override the veto, but the Senate sustained it by the narrow margin of four votes. Because of the closeness of the vote, the proponents of the bonus vowed to resurrect the issue after the November elections. The Treasury had been protected this time, but it would be up to the electorate as to whether that protection would be successfully continued.

Mellon's unyielding opposition to the veteran's bonus was without a doubt the most unpopular thing that he ever did while Secretary. The volume of mail following every public pronouncement was tremendous, with the vast majority

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[14] Annual Report, 1922, 347-51.

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being critical. Letters in the Treasury files indicate that nearly every veteran's organization in the country wrote or telegraphed at least once.[15]

In addition to those irritated by his opposition, Mellon angered several other interest groups with his suggestions for possibly paying the bonus. The proposed stock transfer tax brought down the wrath of the business community and when it was rumored that the Secretary would support a tax on beer and light wines, temperance organizations responded with equal vigor. For a time, it appeared as if Mellon had successfully alienated everyone. In alienating these non-veteran's groups, however, the Secretary had used a strategem of gathering support for his opposition to the bonus by proposing unpopular methods of payments, thus developing vocal interest groups to counterbalance the veterans organizations.

While embroiled with Congress over the bonus issue, Mellon further jeopardized his relationship with the legislative branch by requesting a constitutional amendment to stop the further issuance of tax-exempt securities. Like so much of his program, the idea had originated in the Wilson administration, the pet project of Assistant Secretary Leffingwell. Under-Secretary Gilbert revitalized the plan in the Harding administration with a strongly worded memorandum to his superior during

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[15] Official Correspondence, Boxes 117-21 inclusive.

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their first month in office.[16] The Secretary's knight errant on Capitol Hill, Boies Penrose, was to have introduced an amendment in the summer of 1921, but the volume of other business prevented him from so doing.[17]

When Mellon came out very forcefully in his first annual report against the continued issuance of tax-exempt bonds, Representative Lewis McFadden (R-Pa.), chairman of the House Banking and Currency Committee, responded by introducing a constitutional amendment.[18] Appearing before the Ways and Means Committee in January 1922, the Secretary expressed sympathy with the principle of the McFadden Amendment and his position was bolstered by testimony from Leffingwell and E.R.A. Seligman, professor of economics at Columbia and dean of American economists.

The basic line of reasoning used by the amendment supporters was that the tax-exempt feature of state and local bonds provided a tax loop-hole for persons of means. To avoid the high wartime surtaxes, the wealthy were investing in tax free securities. Good statistical evidence for support of that position was lacking, except that revenues from the higher brackets were steadily declining whereas the

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[16]Gilbert to Mellon, March 26, 1921, Tax-Exemption of Municipal Securities file, Official Correspondence, Box 158.

[17]Gilbert to Russell Leffingwell, May 28, 1921, Ibid.

[18]Annual Report, 1921, 379-81.

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volume of tax-exempt bonds was increasing.[19] Estimates of the value of the bonds available to the investing public ranged from $10 to $16 billion.[20]

It is unlikely that Mellon expected Congress to pass an amendment which would be an economic hardship for the states or, if it were passed, that the states would ratify it. What the Secretary was attempting was to force Congress to reduce surtaxes as the lesser of two evils. The Treasury believed that if surtaxes were reduced to such a point as to make standard investments equally profitable with the tax-exempt bonds, the wealthy would change their investing habits and at the same time increase government income. Mellon and those in agreement with him did not oppose the construction of schools, recreational facilities and the like as their critics contended. They simply saw the amendment as a way to increase federal receipts, either by taxing state and local bonds or by reducing surtaxes. That Mellon, regardless of motive, was willing to strike out against what

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[19]To help obtain the necessary evidence, the Treasury Department had the Commerce Department include how much in tax-exempt securities an individual owned as part of their census information in 1923. The Treasury Department also proposed that the Revenue Act of 1924 require that all tax payers declare their holdings in tax-exempt securities.

[20]The reason that the volume of bonds was increasing was that the public was demanding more services from the government, especially better roads. When the federal government failed to respond, the states and their subsidiaries stepped in and used bonds as opposed to increased taxes to pay the bills.

had been and still is a haven for the well-to-do is significant in evaluating his financial program. The goal was revenue, to preserve the fiscal integrity of the federal treasury, and he was willing to do whatever was necessary with the existing structure to increase it.

The McFadden Amendment died in committee, but new life was breathed into it in the spring by the second ranking Republican on the Ways and Means Committee, William Green of Iowa. Repeating the Secretary's arguments, Judge Green steered the amendment through committee. On the floor of the House, it ran into severe opposition, as a group led by John Nance Garner (D-Tex.) objected on the grounds that it was an infringement on states rights. The floor manager was a freshman Confressman from New York, Ogden L. Mills, who in rather unorthodox fashion, had been given a seat on the powerful Ways and Means Committee. A key participant in drafting the 1920 Republican platform, Mills had exhibited a train of economic thinking very similar to Mellon's, and his leadership in the floor fight for the amendment was but the first of a series of situations wherein he was the administration's chief spokesman on Treasury bills. After his defeat by Al Smith in the 1926 New York gubernatorial election, Mills was rewarded for his untiring efforts with an appointment to the Treasury Under-Secretaryship.

Fearing defeat, the Republican leadership postponed a vote. Rather than allow it to die, Mellon immediately wrote

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to Green urging adoption and providing additional material for rebuttal of the critics.[21] It was not an infringement of states rights for the amendment would apply to the federal government as well. The federal government, however, was already adhering to the spirit of the amendment and, "for the most part, has refused to have recourse to tax-exempt issues in financing its operations. . . ." If it could sell bonds without the tax-exempt feature, then the states should be able to do so as well.

The letter revitalized the amendment and it went on to pass by a comfortable margin, 223-101, with party lines shattering as 23 Democrats crossed over to support it and 24 Republicans deserted their party. Going over to the Senate, the amendment was assigned to the Judiciary Committee which farmed it out to a subcommittee, effectively killing the measure for only a month remained until adjournment.

Though temporarily stymied by the Senate, Mellon had succeeded in exciting public interest, with sentiment favoring his plan, perhaps because he was striking out against the rich. His position appeared even better when nationally respected professional economists like E.R.A. Seligman, Thomas S. Adams, and Robert Haig supported him. The only person of consequence outside of the Congress and state agencies who differed with him was the constitutional

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[21] Annual Report, 1923, 376-80.

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historian Edward S. Corwin who objected to the amendment because he thought the end could be accomplished by an act of Congress.[22] Corwin's point has some merit, but given the continuance of the tax-exempt feature to the present, one must conclude that the federal courts are not likely to view such a law as constitutionally acceptable.

The margin of victory in the House indicated that when the new Congress convened in December 1923, Mellon might be a double winner by having surtaxes lowered and tax-exempt securities outlawed. In the meantime, he propounded another facet of the issue, that tax-exempt securities represented an indirect subsidy by the federal government to the states. No matter which way things went, however, the Secretary had staged an excellent promotional campaign to focus attention on high surtaxes and, by convincing many people to call for the constitutional amendment, was leading them down the road to support for surtax reduction. He must have smiled when reading editorials such as the one in the New York Times which criticized the amendment on the grounds that what was needed was surtax reduction.[23] The public was being educated for the upcoming Mellon plan.

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[22]Edward S. Corwin, "Tax-Exempt Securities," New Republic, January 31, 1923, pp. 243-45.

[23]New York Times, November 10, 1922.

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Box 59.

Mellon's troublesome relations with the legislative branch continued over Federal Reserve Board affairs. 1922 had begun with Congressional authorization for a sixth appointive member with the understanding that he represent agricultural interests. Though Mellon along with Crissinger, Governor W.P.G. Harding, and the Federal Advisory Council were against it, the President supported expansion so long as his hands were not tied as to whom he could appoint. He was willing to see that the agricultural sector was represented, but he did not wish to be put in the position of having to appoint a farmer. In the end Mellon sanctioned the measure, viewing it as the only way that the President could reappoint Governor Harding without resistance from the farm bloc.[24] Dissatisfied with the bill, he would not suggest a veto.[25]

In spite of the passage of the Farm Member Bill, Congress gave no indication of a willingness to confirm Governor Harding. Accusing the governor of causing an agricultural depression because of his high discount rate policy of 1919, Senator J. Thomas Heflin (D-Ga.) hardly let a day pass without making a derrogatory remark. When Harding's term expired in August without a reappointment, the President told Gilbert that he was too busy with the coal strike to

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[24]Hamlin MSS, Index-Digest, Vol. 6, 147.

[25]Mellon to Harding, May 29, 1922, Federal Reserve Board-Farm Member on Board file, Official Correspondence, Box 59.

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consider the subject.[26] The President had also been too involved with other matters to decide on the new farm member.

Though desirous of continuing Governor Harding on the Board, Mellon did not pressure the chief executive to force the issue with Congress. For three months he told the governor that everything would work out. With the November elections bringing even greater strength to the farm bloc, the Secretary suggested that W.P.G. Harding withdraw his name, informing the governor that the White House feared for the whole legislative program should Congress fight over the reappointment.[27] Not wanting to loose an extremely capable man, Mellon later saw to it that Harding was made Governor of the Federal Reserve bank in Boston.

Shortly after the first of the year, the President found time to make his Federal Reserve Board nomination. To succeed Harding, the President promoted his old friend Donald Crissinger and Milo Campbell, President of the National Milk Producers Association, was given the farm seat. The ascendancy of Crissinger marked the decline of the Board. Fighting back from its position of subservience to the Treasury Department and at a moment when it seemed that it might move in new directions, the Board was saddled with a political hack. Infrequently attending meetings, Mellon

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[26]Hamlin MSS, Index Digest, Vol.7, 153.

[27]Ibid., Vol. 6, 148.

was of no help. The Secretary had become so oblivious to Board matters that when Edward Cunningham was nominated to succeed Campbell who had died suddenly in the spring of 1923, he was unaware that Cunningham was a candidate.[28] His earlier promise of clearing all new appointees with the Board had thoroughly deteriorated. The only interest the Secretary seemingly had in the Board was the continuation of a low discount rate policy. In the fall of 1922, the President repeated his claim that one of the goals of his administration had been the progressive reduction of the discount rate.[29] Apart from rate issues, the Secretary tended to ignore the Board. When, for example, the Board developed its Open Market Committee to coordinate Reserve bank purchases and sales of government bonds, he apparently took little part. Mellon did not recognize, as did some of the other members, that open market activities could be equally as valuable as the discount rate in manipulating the economy.

1922 also heralded Mellon's initial foray into international spheres. With the creation of the World War Foreign Debt Commission, the chairman began the long process of settling the foreign debt. The Commission held its first meeting in April, and Eliot Wadsworth, Assistant Secretary of the Treasury, was appointed secretary to handle day to

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[28] Ibid., Vol. 7, 154.

[29] New York Times, October 17, 1922.

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day matters. His selection was indicative of the fact that the Treasury would be the principle element in directing the settlements and a continuation of the Mellon policy of choosing capable underlings for his staff.

Throughout 1922, several members of the Commission, including Senator Reed Smoot, Representative Theodore Burton (R-Ohio) and Secretary Hoover gave reassuring speeches that they had no intention of cancelling the debts. Away from the public, however, the Commission was developing a flexible capacity-to-pay formula in violation of the Congressional requirements of a minimum interest rate of 4½% and a maximum of twenty-five years for repayment. Legislative directives notwithstanding, the Commission wanted maximum flexibility in their negotiations. Mellon and Hoover were the chief proponents of the capacity-to-pay formula.[30] In the words of the commission chairman: "An instance on a funding agreement in excess of the capacity of the nation to pay would justify it in refusing to make any settlement. No one can do the impossible."[31]

The State Department issued formal invitations to the various debtor nations to come to Washington for settlement. The first to respond were the British who sent Stanley

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[30]Hover and Mellon, letter, January 6, 1923, Treasury Department-Secretary file, 1-I/311, Hoover Papers, Hoover Presidential Library.

[31]Quoted in Benjamin H. Williams, Economic Foreign Policy of the United States (New York: McGraw Hill, 1929), p. 230.

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Baldwin, Chancellor of the Exchequer and later Prime Minister, and Montagu Norman, Governor of the Bank of England. Meeting secretly in mid-January, 1923, rumors circulated that the British would not accept the Congressional stipulations as a basis for agreement and that the Commission would not force the matter. In early February, the Commission reported to the President that the negotiation had been fruitful, the British agreeing to full repayment of the rpinciple over a sixty-two year period with an interest rate of 3% for the first ten years and 3½% thereafter. From the inception of the debt until November 23, 1923, the interest rate would be the Congressionally stipulated 4¼%.[32]

Five things are significant about the Mellon directed settlement. The first was the obvious extention of authority and the consequent need for Congressional approval, something that might not come easily. Secondly, with the British owing nearly 50% of the $11 billion Allied debt, a precedent had been established for future arrangements. Thirdly, the capacity-to-pay formula illustrates an understanding of the international economic situation by the Commission far and away exceeding that of Congress, particularly the Democratic-Farm Bloc coalition. An

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[32]For a summary of the British debt negotiations see Report for the Fiscal Year 1923 of the World War Foreign Debt Commission, pp. 11-12, contained in the Combined Annual Report of the World War Foreign Debt Commission, 1922-26.

economically strong Europe, Mellon argued, was far more important than insisting on a payment schedule the debtor could not meet. Fourth, the Commission hoped that though they had made adjustments in payment procedures, the fact that they had not altered the principle would ease fears of cancellation. By showing the public and Congress that they had no intention of cancellation, the Commissioners thought they could negotiate with the remaining debtors in an atmosphere free from criticism. Finally, an agreement had been reached which accelerated the flow of foreign monies into the Treasury, thus improving the possibilities of domestic tax reduction.

Vacationing in Britain the following summer, Mellon was greeted warmly by Prime Minister Baldwin. Reflecting on the recent agreement, Baldwin expressed complete satisfaction, attributing the success of the meetings to the fact that two businessmen, not lawyers, had conducted them.[33] Some years later, when the worldwide depression made payments difficult, David Lloyd-George criticized the British-American debt settlement as excessive. The ex-Prime Minister described Mellon as "keen, experienced, hard, and ruthless" and Baldwin as "casual, soft, easy-going," while characterizing the negotiations as in the nature of meetings conducted "between a weasel and its quarry."[34] Given that

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[33]New York Times, July 25, 1923.

[34]David Lloyd-George, The Truth About Reparations (New York: Doubleday, Doran and Co., 1932), p. 116.

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the American public was paying 5% on the Liberty Bonds used to raise the money for the foreign loans during the war and that Great Britain received more from its debtors than it paid out, Baldwin's description is probably more accurate, though Lloyd-George's is more popular.

President Harding accepted the Commission's report and appeared before a joint session Congress, requesting approval of the British settlement and recommending changes in the law to make the British formula the standard for the future. Smoot and Burton introduced appropriate supporting bills and the legislature, with surprisingly little hostility, passed them within two weeks. Still wary, however, the Senate attached a rider requiring Congressional approval of all settlements even if they were within the stipulations of the law. The success of the British negotiations and the ease in obtaining Congressional approval reaffirmed Mellon's foreign debt policy.

Simultaneous with the beginnings of settling the foreign accounts was the funding of the domestic debt. By the end of 1923, the $7\frac{1}{2}$ billion short-dated inherited by Mellon had either been retired or refunded, and the overall public debt was slashed $1\frac{1}{2}$ billion and now amounted to just over $22 billion. Describing refinancing of the short-dated debt as the "major problem of the Treasury Department" in 1922, Mellon and Gilbert took advantage of the improving money market to issue securities at a declining interest rate, thus saving the government several million dollars

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annually in carrying charges.[35] If retirement continued as planned, Assistant Secretary Winston estimated that public debt would be paid in full by 1952. Taking little more than two years to accumulate the bulk of the debt, it would require thirty-five years to liquidate it.[36]

In later years, Mellon would be referred to as the "greatest Secretary of the Treasury since Alexander Hamilton." His handling of the refunding program was to a great degree responsible for the development of that phrase. With both parties advocating economy in government and with assurance given that the foreign debt would not be cancelled, the Secretary was allowed to proceed in an atmosphere free from criticism. The refunding scheme thus developed into one of his most successful policies.

The difficulties Mellon experienced with Congress spilled over into another area. The dry forces gave him a two year moratorium from criticism before launching a crusade against his prohibition enforcement policies. Little was said until the off-year elections when enforcement became a focal issue.

Though fully aware that inducing obedience to the dry laws was going to be an onerous task and one subject to a multitude of objections from both advocates and foes, the

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[35] New York Times, January 1, 1923.

[36] The apex of the public debt came in the summer of 1919 when it stood in excess of $26 billion. In 1916, the debt totalled $1¼ billion.

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Secretary abused the moratorium. The first two years of Mellon's administration were spent by Commissioner Haynes zealously spreading the gospel of success. Projecting as the eternal optimist, Haynes informed anyone who would listen that enforcement was improving at a rapid rate, publishing a book, Prohibition Inside and Out, to document the accomplishments of his bureau. Unfortunately, the public which saw violations of law in every direction grew to ignore his platitudes.

When the criticism began to flow, Mellon and Commissioner of Internal Revenue Blair, not Haynes, bore the brunt. Haynes was accepted by the public as an honest, hard-working man who was trying to do his duty in the face of opposition from his superiors. In a public letter to the President, William H. Anderson of the New York Anti-Saloon League charged that the Commissioner of the Prohibition Bureau was "frequently overruled and hamstrung in his efforts by the Secretary of the Treasury."[37]

The President, ever responsive to public outcry, held a Cabinet session devoted to discussion of the growing list of complaints. Indication was that Harding was disturbed by the current state of affairs, but he had words of praise for Haynes. His solution to the dilemma set a precedent for his successors. Rather than promise increased federal attention to the problem, he requested assistance from the

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[37] New York Times, November 18, 1922.

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people in the form of obedience to the law. Congress had been niggardly about funds for enforcement and Harding and Mellon apparently had no intentions of disrupting their austerity program by requesting more money for a stepped up program.

The volume of criticism decreased for almost a year until the autumn of 1923 when the Republican reform governor of Mellon's home state, Gifford Pinchot, rekindled the flames by declaring that enforcement had completely broken down in Pennsylvania.[38] At the same time, the Board of Temperance of the Methodist Episcopal Church denounced the Secretary and Blair. Haynes was without authority they said; perhaps Blair should be removed.[39] Accusing Mellon of "indulging in the illegal liquor traffic," Mrs. Elizabeth Tilson of the Massachusetts Women's Christian Temperance Union referred to him and Blair as "those contemptible law breakers."[40] In attempting to refute the charges, the former part-owner of Overholt Distillery Company was given a vote of confidence by Washington's best known "dry," Wayne B. Wheeler, General Secretary of the Anti-Saloon League.[41] If the charges were true, prohibitionists would wonder what Wheeler was doing for them at the Capitol.

That Mellon was becoming sensitive to the wealth of

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[38] Ibid., October 29, 1923.

[39] Ibid., October 22, 1923

[40] Ibid., October 19, 1923.

[41] Ibid., November 7, 1923.

disparaging comments was illustrated in his Annual Report for 1923. Previous reports devoted a few glib generalities of less than a page each to enforcement, but the 1923 volume gave more extensive coverage to the subject and presented a series of statics in an attempt to substantiate Haynes's claims of improvement.[42] Shortly before the publication of his third report on the condition of the Treasury Department, Mellon deviated slightly from his economy in government platform and requested an increase of $1½ million in the Prohibition Bureau's budget. Out of a federal budget of more than $3 billion, the modest sum of $10 million, less than 1/3 of 1%, was to be spent in eliminating illegal traffic in liquor, America's most rapidly growing social problem.

Perhaps the most important item to come out of the 1922-23 period with reference to Mellon personally was the Secretary's coming of age as a politician. In his brief political life, he did all that he could to avoid direct involvement, prefering to work behind the scenes with Frick and other interested people. When he agreed to come to Washington, he had no intention of deviating from that practice. The sudden deaths of Senators Knox and Penrose in the waning months of 1921, however, forced him into the political limelight as the ranking national figure in Pennsylvania Republican circles. For a soft spoken, shy man,

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[42] Annual Report, 1923, 37-39.

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Mellon's initial reaction was to skirt involvement by having Governor Sproul appoint Republican State Chairman William E. Crow to serve the remainder of Knox's term. Hopefully, Crow would fill the void, but ill-health made it impossible for him to run for a full six year term. When the Crow move proved a failure, the Secretary tried another tact, reverting to his traditional policy of choosing capable and usually younger men on whom he could depend. In this case, David A. Reed, son of Judge J.H. Reed, Mellon's longtime advisor and Knox's law partner, was put on the 1922 Republican ticket. Though he had no political experience whatsoever, the younger Reed had a reputation of being a brilliant attorney and skillful debater and could be expected to act for Mellon on Capitol Hill. To act as his spokesman and handle day to day matters on the state level, the Secretary designated his nephew William Larimer Mellon.

In the spring of 1922, W.L. Mellon negotiated what was known in Pennsylvania politics as a "harmony" deal with the Vare brothers, inheritors of the Penrose machine in Philadelphia. If Reed ran unopposed in the Senate primary, the Mellon factions would support Vare's candidate for governor and, in the Keystone State, the Republican nomination was tantamount to election.[43] These well-laid plans were spoiled, however, by the old Bull Moose Republican,

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[43] New York Times, April 5, 1923.

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Gifford Pinchot, who running on an independent ticket, eked out a narrow victory in the gubernatorial primary.

The Mellon-Vare forces did not oppose the maverick Pinchot in the fall elections. An uneasy calm prevailed for nearly a year. In the meantime, Reed handily won his Senate seat and was rewarded with seats on the Foreign Relations and Finance Committees. A Philadelphia lawyer, George Wharton Papper, was elected for the remainder of Penrose's term and was put on the Banking and Currency Committee, another place like the Finance Committee where a Pennsylvania Senator could be valuable to the Secretary. Pepper also was elected National Committeeman.

While having two Senators amenable to his way of thinking, Mellon was faced with a rebellious Congressional delegation. The Pennsylvania Representatives had broken with the Harding administration over patronage matters after the deaths of Knox and Penrose. In the spring of 1923, Reed and Pepper caucused with the state legislature, hoping to achieve local support so as to bolster their position with the Representatives. The meeting ended without a firm agreement and the Mellon machine was left with a threatening situation.[44]

Upon the death of President Harding, Reed and Pepper joined with their fellow Republicans in the House in suggesting that Pennsylvania send an uninstructed delegation to the 1924 convention. The logical result would be support

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[44] Ibid., Arpil 18, 1923.

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for Pinchot as a favorite son. Mellon liked the idea of Pinchot as a favorite son and suggested that the Governor not run against Coolidge in the May primary.[45] Having aspirations for the White House, Pinchot ignored Mellon and asked that a delegation instructed in his favor be sent to Cleveland. In a rare move, the Secretary held a conference in his Treasury office with Reed, Pepper, W.L. Mellon, and State Chairman W. Harry Baker to discuss the Governor's request.[46] Indications were that the regular Republicans would not accept an instructed delegation for Pinchot.

Three days after the Washington meeting, Pinchot declared war on the Mellon faction by vigorously denouncing the Secretary for the breakdown of prohibition enforcement in Pennsylvania. Their political relationship had been tenuous since the 1912 split; now it was completel severed. For the next three years Mellon would struggle with Pinchot for control of their state, while the Vares sat idly by as interested observers, perhaps with the knowledge that their well-oiled Philadelphia machine could defeat either of the protagonists in an intra-party fight.

The short session of Congress ended in March, 1923. Mellon had spent exactly two years sparring with the legislative branch, for one issue had led directly to another without a moments rest. In his eleven years as Secretary

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[45] Ibid., October 5, 1923.

[46] Ibid., October 26, 1923.

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of the Treasury, the Pittsburgh bankers most laborious periods were when Congress was in session. During adjournment, he concerned himself simply with the day to day operations of the Treasury. In many respects it was a vacation period and the Secretary often sailed to Europe for a summer respite, secure in the knowledge that Parker Gilbert or his successors as Under-Secretary would keep things in order.

In the summer between the 67th and 68th Congress, Mellon went on his first European cruise as Secretary. While he vacationed, his alter-ego Gilbert, effected a reorganization of the department. The various duties of each Assistant Secretary were realigned to streamline operations in a more precise, businesslike way. Treasury responsibilities had increased tremendously in the last decade, particularly with the inception of the income tax and the wartime growth experienced by all government agencies. When Mellon returned, two new Assistant Secretaries would be appointed and Garrad Winston would be moved up to Under-Secretary. With the retirement of Gilbert, an era would close, but he could leave satisfied, knowing that he had had an influence on policies that would continue intact for another eight years.

During this general period, though not in the above reorganization David Finley was promoted from the staff of the War Finance Corporation to the post of personal assistant to the Secretary. Finley's role in Treasury affairs

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is difficult to define, but of the records retained, every item of any import that crossed Mellon's desk after 1923 was either written or initialed by him.[47] After Gilbert's departure, he appears to have assumed the mantle of advisor and confidant as the new Under-Secretary, Winston failed to develop the relationship his predecessor had. Finley remained with Mellon through his service as Ambassador to Great Britain and was rewarded for his devotion by being made first director of the National Gallery of Art in 1937.

The Secretary's Continental vacation was interrupted by the news of President Harding's death. Mellon issued a rather terse statement, saying that "there was evident a growing confidence in his judgment and in his sincerity."[48] Though he personally liked Harding, Mellon's respect for him as chief executive was wanting. The President's repeated failure to support his own Cabinet member no doubt broadened the gulf between them, yet when he referred to a growing confidence, he may have been speaking personally in view of the President's belated assistance on

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[47]In an interview with the author, Finley professed ignorance of Treasury Department matters, contending that he was merely a functionary acting at the behest of the Secretary. The records, however, tell a different story. No one saw the Secretary without first going through him and it was Finley who passed on all directives to underlings. More importantly, it was Finley who followed up on decisions to see that they were carried out.

[48]New York Times, August, 1923.

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the bonus and British debt settlement. In evaluating the Secretary's opinion of the President, W.L. Mellon wrote: "I am sure that A.W. would never have hired Harding to run any company in which he was interested."[49]

Wiring the story of Harding's passing, Gilbert informed his superior that there was no need for him to immediately return, that the Under-Secretary would attend the funeral for the Treasury. He added that the new President was "well informed and absolutely sound" on taxes, the bonus, and agriculture, and enthusiastic about Mellon's handling of the Treasury.[50] Mellon remained in Europe for two more weeks, sightseeing and generally having a good time while most Americans were mourning their dead President. It was illustrative of his opinion of Harding.

Upon his return, Mellon met with President Coolidge and, following accepted tradition, offered his resignation. The newspapers reported that Coolidge favored his old college friend and currently a partner in J.P. Morgan and Company, Dwight M. Morrow, for the Treasury post.[51] Coolidge, however, rejected the idea.

Senator G.W. Pepper has written an idealized verson of the first meeting between Mellon and the new President.

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[49] W.L. Mellon, Judge Mellon's Sons (n.p., 1948), p. 432.

[50] Gilbert to Mellon, August 4, 1923, Secretary A.W. Mellon file, Official Correspondence, Box 213.

[51] New York Times, September 16, 1923.

After chatting for awhile, Pepper related, "Mr. Coolidge plunged into a discussion of the entire financial system of the government and displayed an accuracy and breadth of knowledge which took Mr. Mellon by surprise."[52] Gilbert's description that Collidge was "sound" was probably more accurate than Pepper's glamorization. In any respect, Mellon and Coolidge were to work in tandem for the next five years and the Secretary would develop a relationship with the President that few Cabinet members ever enjoy. Near unanimity between the two appeared on all matters, be they Treasury related or otherwise.

Assured of his position in the Coolidge administration and with the understanding that the President was safe on taxes, Mellon spent the fall of 1923 preparing the final form of his tax plan for Congress. In one of his last official duties, Under-Secretary Gilbert directed the initial drafts of what was to be known as the Mellon Tax Plan. Having spent two and a half years expressing his economic philosophy in various policy decisions, particularly in the battle over the constitutional amendment to prevent further inssuance of tax-exempt securities, the Secretary had given the public a fairly good idea of what to expect. Until the Presidential campaign began, and perhaps even then, the Mellon Tax Plan would be the

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[52]George W. Pepper, Philadelphia Lawyer, An Autobiography (Philadelphia: J.B. Lippencott Co., 1944), p. 196.

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principle topic of conversation in America. The public had been slowly and subtley educated; now it would be determined how well it had been educated. A feeling of excitement was generated as the country awaited the Secretary's letter to the Ways and Means Committee.

CHAPTER IV

MELLONIZING AMERICA

Tariff bills have traditionally been named for their sponsors, but federal tax legislation has lacked personal identification, simply accorded the title of Revenue Act of whatever year. The reason for this distinction seems to be the general acceptance of the concepts that the tariff increases the government's coffers at the expense of foreigners whereas domestic levies must come from the purses of taxpaying Americans. As a consequence, politicians have sought association with the various tariff programs and have avoided personal relationships with tax bills. By 1924, however, a new situation presented itself as one of the few instances of tax reduction in the nation's history was imminent. The Secretary of the Treasury was seeking to induce Congress to accept what he termed "scientific revision" of the tax structure and he promoted personal identification with what the public soon began calling the Mellon Tax Plan. For nearly three years, he had educated the country to prepare it for reception of his scientific program.

On Armistice Day 1923, Andrew W. Mellon announced the details of his tax plan in a letter to the new Chairman of

the House Ways and Means Committee, William R. Green.[1] Laying out a twelve point program, the Secretary reiterated his wishes for modification of the surtax schedule, suggesting a reduction of the maximum rate from its current level of 50% to 25%. With the highest surtax being 25%, Mellon had argued that ordinary business investments would be equally and perhaps more profitable than holding tax-exempt securities. In keeping with his promise that his plan was scientifically motivated and to avoid charges of favoritism to the wealthy, he recommended a halving of the normal taxes and the repeal of several nuisance taxes that fell heaviest on the lower brackets. There was also to be a 25% tax reduction on income that was earned. A series of administrative amendments designed to simplify operation of the law and minimize tax evasion were included too. Finally, in a move not likely to make friends in the business community, the deduction for capital losses was to be limited to 12½%, equal to the tax on capital gains, rather than up to 100% as currently was law. The Secretary had wondered why the government should take one-eighth of the profit, but assume all of the loss. The tenor of the program was in keeping with the ideas on tax reform that Mellon had propagated since taking office and was not markedly different from his suggestions for the Revenue Act of 1921.

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[1] Annual Report of the Secretary of the Treasury, 1923, pp. 6-11.

The publication of the Green letter was accompanied by a surprised reaction in Republican circles. The general outline had been expected, but no one believed Mellon would request such a radical reduction in the face of Congress which was presumed to be less than friendly to his economic philosophy. With the Democratic-Farm Bloc in a position to control both houses, it had been thought that the Secretary would suggest a gradual lowering of surtaxes so as not to endanger his whole program. Furthermore, Chairman Green, a Republican with an independent mind, had given a lukewarm response to the idea of tax reduction at this time, let alone the magnitude Mellon had described, and Chairman Smoot of the Finance Committee had talked of an increase to pay the anticipated soldier's bonus. A staunch supporter of the sales tax, Smoot was touting it to pay the bonus.[2] Mellon also stunned the Congress with a repetition of his 1921 maneuver of refusing a reduction if the bonus passed. The composition of the 68th Congress seemed to make the bonus a certainty and many believed the Secretary to be unrealistic in his proposition. To make the legislators choose between the ex-service men and the tax payers in a presidential year cause near apoplexy in the Republican delegation.

When President Coolidge signed the Revenue Act on

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[2] New York Times, July 3 and September 9 and 23, 1923 and "Less Prospect of Less Taxes," Literary Digest, July 21, 1923, p. 12.

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June 2, 1924, all of the fears of the administration Republicans had been confirmed. A coalition formed to destroy the Secretary's propositions and to write its own tax measure. Instead of 25% maximum surtax on incomes in excess of $100,000, Congress voted a 40% levy on those over $500,000. The normal tax was set at a lower level than recommended and personal exemptions were increased, a subject the Secretary had made no mention of.

Victorious on principle issues, the coalition charged into new areas. The estate tax was raised from a maximum fo 25% to 40% and a gift tax was included to prevent evasion. In a slap at the Secretary, the coalition provided that the new Board of Tax Appeals be independent of the Treasury and added a clause allowing for limited publication of tax returns. Adding insult to injury, Congress authorized a bonus plan over a presidential veto and rejected the constitutional amendment referring to the prohibition of tax-exempt securities. Mellon had clearly suffered a stinging defeat as all of his ideas for "scientific" tax reform were cast aside. Three years of preparation had gone for naught.[3]

It took Congress seven months to construct its own economic program. At various stages in its passage,

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[3]For a complete discussion of the Revenue Act of 1924 and its passage through Congress, see R.G. and G.C. Blakey, The Federal Income Tax (New York: Longmans, Green and Co., 1940), pp. 223-50 and R.G. Blakey, "The Revenue Act of 1924," American Economic Revue, September 1924, pp. 475-505.

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provisions were added that were even more repugnant to Mellon than the final draft. Odgen Mills in the House and Reed Smoot in the Senate made valiant efforts to preserve the Mellon Plan intact and were successful in altering some of the more obnoxious changes. Sending his opinion to the President, the Secretary expressed disappointment but would not suggest a veto.[4] Collidge, sympathetic to Mellon's position, included a veto message with his signature. Congress was told that the administration would return to continue the fight for scientific tax reform. The Revenue Act of 1924 was a defeat, but they did not believe they had lost the war.[5]

On the surface, two things appeared evident in the Revenue Act of 1924 and in Mellon's relation to it. The first was that the Secretary was being naive in expecting to realize his plan at the hands of an unreceptive Congress. The second was that the act as passed was more beneficial to the lower incomes than the Mellon Plan, thus substantiating the traditional charges that the Pittsburgh banker designed his programs to favor his well-to-do peers. Those, however, are only surface phenomena; a more extensive analysis reveals that they are half truths.

As for the seeming naivete', Mellon had several assets

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[4]Mellon to Coolidge, May 30, 1924, File 21, Presidential Papers of Calvin Coolidge, Manuscript Division, Library of Congress.

[5]Annual Report, 1924, 264-67.

in 1924 that were lacking in 1921. His most important resource was the weight of public opinion. By seizing the initiative with the Green letter, he had almost two months to proselytize before the opposition solidified. His educational program was accelerated. The Treasury Department sent multi-copies of the Green letter to significant businessmen and Republicans around the country, men who were sympathetic to the Secretary's line of reasoning and who could be depended upon to preach the gospel in their own area.[6] The press proved receptive to his ideas, and they conducted a saturation campaign in support. A variety of individuals and organizations offered assistance, the most important of which was Major John F. O'Ryan's Citizen's National Committee in Support of the Mellon Tax Reduction Proposals. Its membership included such notable economists as Frank W. Taussig, Charles W. Bullock, Thomas S. Adams, and E.R.A. Seligman. J.A. Arnold and the "non-partisan" America Bankers League pressed for passage and Hollywood magnate, E.F. Albee, nationally circulated a cartoon favorable to the Mellon Plan on the Keith theatre circuit.[7] All of the pro-Mellon groups gathered together for an intensive public relations campaign during their self-proclaimed National Tax Reduction Week, April 6-13,

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[6]See assorted letters in Mellon Tax Reduction Plan file, Official Correspondence of the Secretary of the Treasury, Records Group 56, National Archives, Box 171.

[7]Garrad Winston to E. Albee, January 12, 1924, Ibid., Box 173.

1924. The Secretary participated in the drive to sway public opinion by encouraging his supporters, issuing frequent press releases during his Congressional lobbying, and a series of articles in assorted magazines and journals.[8] All of his arguments were gathered into book form by David Finley, appearing in late Arpil under the title, Taxation: The People's Business.[9] No idea was left untried in taking the campaign to the people. If Congress was reluctant, perhaps a public clamor would force it to change its mind.

The success of his campaign can be measured in three ways. First was a crude survey of fifteen million people conducted in early March, 1924 by the Literary Digest. Of the two million plus who responded, 70% voted in favor of the Mellon Plan.[10] An assist to the Treasury in determining points where more pressure needed to be applied was the breakdown of the vote into Congressional and Senatorial districts. Second, the volume of mail, heavily weighted in support of the Mellon Plan, received by the

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[8]Andrew W. Mellon, "Taxing Energy and Initiative," Independent, March 29, 1924, p. 168; A.W. Mellon, "The Business of Taxation," Forum, March, 1924, pp. 344-48; and A.W. Mellon, "High Surtaxes and Municipal Securities," American City, March, 1924, pp. 239-40 are just a sample. There were also several very favorable magazine articles based upon personal interviews with the Secretary, something he was not in the habit of doing.

[9]A.W. Mellon, Taxation: The People's Business (New York: The Macmillan Co., 1924). For evidence of Finley's authorship, see his memorandum to Under-Secretary Winston of April 11, 1924 wherein he states: "I have completed the manuscript." Mellon Tax Reduction Plan--Book published by the Macmillan Co., 1924-1929 file, Official Correspondence, Box 176.

[10]Literary Digest, March 22, 1924, pp. 5-8. The final tally was 1,452,002 yes and 641,980 no.

Treasury Department, White House and Congress was phenomenal. Thousands of people wrote to Washington to express an opinion, but the inspiration for their writing often came from their employers. All General Motors Corporation employees and stockholders, for example, received a letter from their president John J. Rashob urging support for the Treasury plan and asking them to write letters.[11] The third measure, of course, was the reaction of Congress which disregarded public opinion and responded negatively. Opposition legislators such as House Minority Leader Garner shrugged off the letters as "an organized conspiracy (which) attempts to coerce Senators and Representatives to support the Mellon tax bill before they have had an opportunity to study or understand its provisions."[12] In this instance, the majority of the members of Congress rejected the Burkean concept that he should mirror his constituency for a broader interpretation of doing what they thought best in spite of public opinion.

That taxation was not much of an issue in the 1924 campaign indicates that neither Mellon nor Garner, neither the Republicans nor the Democrats believed that they really had public opinion on their side and as a consequence could call for a mandate. By the time the Revenue Act of 1924

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[11]Contained in Mellon Tax Reduction Plan file, Official Correspondence, Box 171.

[12]U.S. Congressional Record, 68th Congress, 1st Session, LXV, Part 1, 1924, 831.

was signed into law, the populace had become completely befuddled by all of the publicity and rhetoric. Their response to its passage was apathetic, their former enthusiasm crushed by the confusion of figures bandied about by the politicians.

Another aspect of the Secretary's push for his tax program that has great significance was his relationship with the new President; Coolidge would not desert Mellon as Harding so often had. Beginning with his first message to Congress, the ex-Vice President made it clear that he gave his "unqualified approval" to the Mellon Plan.[13] As the opposition solidified, so did Coolidge's confidence in his Secretary. In a nationally broadcasted Lincoln Day Address, the President emphasized that he would not accept any alteration in the principles of the Mellon Plan; that is, he stood by the 25% surtax level.[14] When the bill was lost in the House, he pressed for victory in the Senate and cooperated with Smoot, a convert, in having the Finance Committee report a bill which was a near carbon copy of the Treasury suggestions. Not as apprehensive of the Congress as Harding, Coolidge consistently used the prestige of the White House to influence legislation.

The unanimity of opinion between the two on taxation spread to all issues in which they had a mutual interest.

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[13] New York Times, December 7 and 11, 1923.

[14] Ibid., February 13, 1924.

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So much so did they agree on economic issues, and they both had a tendency to translate everything into economic terms, that many contemporaries began to believe Coolidge was a tool of Mellon. Invading the Secretary's hometown during the 1924 campaign, the Progressive Party candidate for President, Robert LaFollette, unequivocally stated: "Andrew Mellon is the real President of the United States. Calvin Coolidge is merely the man who occupies the White House."[15] That opinion has persisted, continued to a great degree by William Allen White who in his biography of Coolidge remembered that "so completely did Andrew Mellon dominate the White House that it would be fair to call the administration the reign of Coolidge and Mellon."[16]

The available evidence, however, proves no more than that Mellon and Coolidge's thoughts were harmonious. A close personal and ideological relationship did exist, but there is nothing to show that the Secretary was wearing a path between the Treasury and the White House in his untiring effort to dominate the President.[17] A recent biographer of Coolidge, Donald McCoy, has written:

> I do not think it can be argued that Mellon controlled Coolidge. He was, of course, influential with the President, patently because their personalities meshed and because

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[15] Ibid., November 1, 1924.

[16] William Allen White, Puritan in Babylon (New York: Capricorn Books, 1938), p. 251.

[17] Harvey O'Connor, Mellon's Millions, The Biography of a Fortune (New York: Blue Ribbon Books, 1933), p. 130.

> fundamentally they agreed on tax and debt reduction policies. It was a happy situation for the two of them, for Coolidge needed Mellon's technical knowledge and Mellon needed Coolidge's confidence and support.[18]

In his analysis of Presidents and their Cabinets since 1912, Richard Fenno saw Mellon as a dominant factor on economic issues, but that Secretary of State Hughes acted in the early Coolidge years as a premier of sorts, being consulted on a wide variety of issues.[19]

Coolidge, it seems, carried on the Harding policy of maintaining a Cabinet of the "best minds," men on whom he could rely for advice. The Secretary of Treasury's role should not be minimized, but there is nothing available to show that he was Coolidge's Colonel House or Harry Hopkins. The President listened when Mellon spoke, but there does not appear to have been the degree of interaction between them that is illustrative of a truly intimate relationship.

Crucial to one's understanding of why Mellon acted as he did with reference to his tax plan, and revealing of something of the essence of the individual, was his firm conviction in the righteousness of his cause. Though the core of the Mellon Plan had its roots in the Wilson administration, the Secretary, by 1924 if not sooner, has absorbed these "Democratic" ideas as his own. Believing that his plan was logical and scientifically based, he continually

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[18]Letter from Donald McCoy to author, January 8, 1969.

[19]Richard F. Fenno Jr., The President's Cabinet (Cambridge, Mass.: Harvard University Press, 1966), p. 117.

plunged into battle with Congress.

The case for surtax reduction is particularly indicative of the crusader fighting a holy war. In every public or private statement, he reminded people of the need for a drastic lowering of surtaxes. Statistics compiled in his office proved, he argued, that the high rates had made the surtax unproductive and that the alarming increase in the volume of tax-exempt securities was partially caused by people seeking them for purposes of tax avoidance.[20] But scientific tax reform did not mean simple reduction; it meant establishing a rate which would produce the most revenue while distributing the burden as equitably as possible. He ignored as illogical, mathematically incorrect, and morally wrong, the arguments that surtaxes should be very high so that the wealthy, those best able, would bear the burden of taxation. The scientifically correct level should be 25%, the point where the return from the tax-exempts equalled that of a normal business investment. He took refuge in the opinions of men like Yale economist Thomas S. Adams, an expert in public finance, who said that to lower the surtax rate to 40%, as Congress did, would be ineffective. It would be like cutting the dog's tail off by inches for further reduction was necessary, and to make the cuts gradually, prolonged the inevitable.[21]

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[20]See Annual Report, 1923, p. 12 for figures on surtaxes and Annual Report, 1924, p. 10 for figures on tax-exempt securities.

[21]New York Times, February 3, 1924.

When other statistics seemed to prove that tax-exempt securities were not a haven for wealthy tax avoiders, he accepted his own figures as being of superior quality. The Secretary was convinced that he was right and would not be swayed by argumentation. With the support and counsel of the nation's leading economic minds, especially Adams and E.R.A. Seligman of Columbia University, he resisted all challenges, believing that his oppositon was engaging in politics instead of bi-partisan, "scientific tax reform.

As for estate and gift taxes, areas where he did not have the great minds on his side, Mellon had to rely on his own brand of logic. Lacking meaningful statistics to buttress his position, the Secretary openly revealed his personal and class prejudices in developing his case against these taxes, something that was not as obvious when he discussed the facets of the income levy. The estate tax, he said, was a capital tax, a violation of the maxims of progressive taxation which would result in forced sales and lower revenues. Furthermore, high estate taxes confiscated wealth, something that no tax should do. Turning to tradition, Mellon pointed out that the federal government had only resorted to estate taxes as wartime expedients, leaving them to the states during normal periods. A peacetime federal estate tax would rob the states of necessary revenues. His class prejudices were made quite plain when he stated his belief in the adage of "shirtsleeves to shirtsleeves in three generations," himself living proof

that the adage was an old wive's tale.[22] His reasoning against the gift tax rested on the same premises for he agreed with its supporters that it had only been written to prevent estate tax evasions.

The validity of Mellon's thinking is open to question, especially in examining his basic assumptions, but it is not the purpose here to go through each point and evaluate it. One can safely assume, however, that the Secretary regularly had the support of the best known economists of the period. The orthodox economists of the 1920s, T.S. Adams, E.R.A. Seligman, Frank Taussig, Charles J. Bullock, W.R. Burgess and others, found solace in the administration program of steadily lowering taxes, accompanied by progressive dimunition of the domestic debt.[23] Except on the foreign debt question, very few took issue with Mellon and, when they did, it was usually over a specific point and not the whole program or perhaps they accepted his conclusions but disputed his reasoning. Consequently, to have expected a materially different program from the

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[22]Mellon, People's Business, pp. 111-27.

[23]Joseph Dorfman, The Economic Mind in American Civilization, Vol. 4, (New York: The Viking Press, 1959), pp. 211-13. Dorfman also gave an interesting comment on the overall situation. "In retrospect, the striking feature of the nation's public finance picture was the light burden of taxation and the recurring federal annual surpluses. . . . In contrast, almost all other highly industrialized countries were carrying a much higher burden of taxation during the period." (p. 47) Taking the case a step further, Dorfman noted that "the taxes paid by those in the lower brackets were negligible." (p. 48).

Secretary would be to expect him to be unorthodox, something he never could be. One can argue,and J.K. Galbraith has, that there was a lack of substantial, intelligent economic thought in the 1920s, but there was nothing the Treasury could do to alter that element; it could only work within the established system.[24] An important factor to note on all of the is that most of Mellon's antagonists were in Congress, and he had some justification in casting off his critics as politically motivated when they were unable to produce the same quantity and quality of economic thinkers as he.

Though one may question Mellon's reasoning, it is more difficult to question his sincerity and honesty. Two of his contemporaries, Frank Kent and Silas Bent, men who disagreed with his economic philosophy and were want to criticize him, accepted him as a man of integrity, with the latter concluding "that Mr. Mellon is the sincerest man in public life today."[25] This attitude projected throughout the journalistic world, with only politicians and historians picturing him as a stealthy figure with flexible principles.

In the area of taxation, for example, his honesty and

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[24]John Kenneth Galbraith, The Great Crash (Boston: Houghton, Mifflin Co., 1954), pp. 187-88.

[25]Silas Bent, Strange Bedfellows, A Revue of Politics, Personalities and the Press (New York: Horace Liveright, 1928), p. 81 and Frank Kent, "Andrew Mellon," New Republic, March 29, 1926, p. 135.

integrity surfaced. Contending that hard work, thrift and private enterprise had made America great, he believed that productive individuals should not be penalized or discouraged by excessive taxes. Conversely, he did not think that wealth should escape its just proportion of taxes. His fight against tax-exempt securities, his desire to raise corporation taxes by 50% in 1921 against the wishes of Congress, his anti-business suggestion for limitations on tax deductions for capital losses, along with his willingness to pay $1½ million in personal income taxes in 1923 and $1 3/4 in 1924 when he could have avoided a great part of them by investing in state bonds and other legal devices are strong points in support of his claim for establishing rates on the ability to pay principle.[26] Though the heart of the 1924 Mellon Plan was surtax reduction, the Secretary insisted, as he had before and would again in the future, that the burden of taxation be lightened in all income brackets.

Suggestion has been made that he requested across the board reduction in 1924, in order to gather support, showing him responsive to public opinion and in no way proving, beyond innuendo, that he was going against his principles in making such a suggestion. His recommendations in 1921 did not include a general tax reduction not because he was unsympathetic to those of modest means, but because the depressed economic situation placed a priority on the

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[26] New York Times, September 2, 1925.

repeal of the excess-profits tax and a lowering of the surtaxes, two things he believed would stimulate the economy. He expected that the lower brackets and non-paying groups would be helped by improved employment. That the economy did perk up, with corresponding increases in employment and real wages, appears to bear out his contention.

Secure in his own mind that he was right, Mellon had made his recommendations for the Revenue Act of 1924. Claiming that taxation was "just like any other business," he believed that he need only inform the taxpayers of the facts.[27] This business of taxation must be approached in a non-partisan, scientific way, and he hoped that his critics would be swayed by his statistical presentation. Employing emotional argumentation as well, the Secretary stressed the bi-partisan antecedents of the Mellon Plan, but he failed to fully capitalize on this approach. His Democratic predecessor David Houston had written that he "strongly endorsed the proposals and hoped that the nation would not be misled by those ignorant of finance," but the Secretary neglected to include this item in his promotional campaign.[28] When the coalition rejected all of his arguments and wrote its own bill, Mellon was crushed. Writing the President, he said that "as a permanent expression of

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[27] A.W. Mellon, "The Business of Taxation," Forum, March, 1924, p. 344.

[28] Houston to Mellon, December 17, 1923, Mellon Tax Reduction Plan file, Official Correspondence, Box 172.

Government fiscal policy, the bill contains provisions which, in my opinion, are not only unsatisfactory but are harmful for the future of the country."[29] His crusade had been blunted by those who harked to a different political religion, but he promised to return and fight for the principles he believed in.

As to whether Mellon was proposing an income tax plan favorable to the rich, let us examine the comparative figures. The accompanying chart shows the 1923 tax schedule, the Mellon Plan, the attempted compromise by Longworth, and the Garner Plan, the last of which for practical purposes was adopted. Garner claimed that his program would benefit 6.6 million more taxpayers than Mellon's; whereas the latter would favor 12,000 more than the former, all of which were at the top of the list. Said Garner: "They (the Mellon supporters) believe that the burden of taxation should be shifted from where it is now, on those best able to pay, to those whose necessities compel that they pay."[30] To the press, he made even stronger statements.

> It is clear that Mr. Mellon's design is to reduce his own and the taxes of other wealthy people, and at the same time decline to give the small taxpayer the same consideration he gives himself. . . . There is no doubt that Mr. Mellon thoroughly thought out his plan,

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[29]Mellon to Coolidge, May 30, 1924, File 21, Coolidge Papers.

[30]U.S., Congressional Record, 68th Congress, 1st Session, LXV, Part 2, 1924, 1403.

Income.	Amount of tax under—				Amount of reduction of total tax under—			Percentage of red total tax und	
	Present.	Mellon.	Garner.	Longworth.	Mellon.	Garner.	Longworth.	Mellon.	Garner.
$1,000									
$2,000									
$3,000	$20.00	$15.00		$10.00	$5.00	$20.00	$10.00	25.00	100.00
$4,000	60.00	45.00	$20.00	30.00	15.00	40.00	30.00	25.00	66.67
$5,000	100.00	75.00	40.00	50.00	25.00	60.00	50.00	25.00	60.00
$6,000	160.00	120.00	80.00	80.00	40.00	80.00	80.00	25.00	50.00
$7,000	250.00	180.00	120.00	130.00	70.00	130.00	120.00	28.00	52.00
$8,000	340.00	210.00	160.00	150.00	100.00	180.00	140.00	29.41	52.94
$9,000	430.00	300.00	220.00	230.00	130.00	210.00	200.00	30.23	48.84
$10,000	520.00	360.00	280.00	280.00	160.00	240.00	240.00	30.76	46.15
$11,000	620.00	430.00	340.00	355.00	190.00	280.00	265.00	30.64	45.16
$12,000	720.00	500.00	400.00	430.00	220.00	320.00	290.00	30.55	44.44
$13,000	830.00	580.00	470.00	512.50	250.00	360.00	317.50	30.12	43.37
$14,000	940.00	660.00	540.00	595.00	280.00	400.00	345.00	29.78	42.55
$15,000	1,060.00	750.00	620.00	685.00	310.00	440.00	375.00	29.24	41.51
$16,000	1,180.00	810.00	700.00	775.00	370.00	480.00	405.00	28.81	40.68
$17,000	1,310.00	910.00	790.00	872.50	370.00	520.00	437.50	28.24	39.69
$18,000	1,440.00	1,040.00	880.00	970.00	400.00	560.00	470.00	27.77	38.89
$19,000	1,580.00	1,150.00	980.00	1,075.00	430.00	600.00	505.00	27.21	37.97
$20,000	1,720.00	1,260.00	1,080.00	1,180.00	460.00	640.00	540.00	26.74	37.21
$21,000	1,880.00	1,380.00	1,190.00	1,300.00	500.00	690.00	580.00	26.59	36.70
$22,000	2,040.00	1,500.00	1,300.00	1,420.00	540.00	740.00	620.00	26.47	36.27
$23,000	2,210.00	1,630.00	1,420.00	1,547.50	580.00	790.00	662.50	26.24	35.75
$24,000	2,380.00	1,760.00	1,540.00	1,675.00	620.00	840.00	705.00	26.05	35.29
$25,000	2,560.00	1,900.00	1,670.00	1,810.00	660.00	890.00	750.00	25.78	34.77
$26,000	2,740.00	2,040.00	1,800.00	1,945.00	700.00	940.00	795.00	25.54	34.31
$27,000	2,930.00	2,190.00	1,940.00	2,087.50	740.00	990.00	842.50	25.25	33.79
$28,000	3,120.00	2,340.00	2,080.00	2,230.00	780.00	1,040.00	890.00	25.00	33.33
$29,000	3,320.00	2,500.00	2,230.00	2,380.00	820.00	1,090.00	940.00	24.69	32.83
$30,000	3,520.00	2,660.00	2,380.00	2,530.00	860.00	1,140.00	990.00	24.43	32.39
$31,000	3,730.00	2,830.00	2,540.00	2,687.50	900.00	1,190.00	1,042.50	24.12	31.90
$32,000	3,940.00	3,000.00	2,700.00	2,845.00	940.00	1,240.00	1,095.00	23.85	31.47
$33,000	4,170.00	3,180.00	2,870.00	3,017.50	990.00	1,300.00	1,152.50	23.74	31.18
$34,000	4,400.00	3,360.00	3,040.00	3,190.00	1,040.00	1,360.00	1,210.00	23.63	30.91
$35,000	4,630.00	3,550.00	3,220.00	3,362.50	1,080.00	1,410.00	1,267.50	23.32	30.45
$36,000	4,860.00	3,740.00	3,400.00	3,535.00	1,120.00	1,460.00	1,325.00	23.04	30.04
$37,000	5,100.00	3,910.00	3,590.00	3,715.00	1,190.00	1,510.00	1,385.00	22.74	29.61
$38,000	5,340.00	4,140.00	3,780.00	3,895.00	1,200.00	1,560.00	1,445.00	22.47	29.21
$39,000	5,590.00	4,340.00	3,980.00	4,082.50	1,250.00	1,610.00	1,507.50	22.36	28.80
$40,000	5,840.00	4,540.00	4,180.00	4,270.00	1,300.00	1,660.00	1,570.00	22.26	28.42
$41,000	6,100.00	4,750.00	4,390.00	4,465.00	1,350.00	1,710.00	1,635.00	22.13	28.05
$42,000	6,360.00	4,960.00	4,600.00	4,660.00	1,400.00	1,760.00	1,700.00	22.01	27.67
$43,000	6,630.00	5,170.00	4,820.00	4,862.50	1,460.00	1,810.00	1,767.50	22.02	27.30
$44,000	6,900.00	5,380.00	5,040.00	5,065.00	1,520.00	1,860.00	1,835.00	22.03	26.96
$45,000	7,180.00	5,590.00	5,270.00	5,275.00	1,590.00	1,910.00	1,905.00	22.14	26.60
$46,000	7,460.00	5,800.00	5,500.00	5,485.00	1,660.00	1,960.00	1,975.00	22.25	26.27
$47,000	7,750.00	6,020.00	5,740.00	5,702.50	1,730.00	2,010.00	2,047.50	22.32	25.94
$48,000	8,040.00	6,240.00	5,980.00	5,920.00	1,800.00	2,060.00	2,120.00	22.39	25.62
$49,000	8,340.00	6,460.00	6,230.00	6,145.00	1,880.00	2,110.00	2,195.00	22.54	25.30
$50,000	8,640.00	6,680.00	6,480.00	6,370.00	1,960.00	2,160.00	2,270.00	22.68	25.00
$51,000	8,950.00	6,900.00	6,740.00	6,602.50	2,050.00	2,210.00	2,347.50	22.90	24.69
$52,000	9,260.00	7,120.00	7,000.00	6,835.00	2,140.00	2,260.00	2,425.00	23.11	24.41
$53,000	9,580.00	7,350.00	7,270.00	7,075.00	2,230.00	2,310.00	2,505.00	23.27	24.11
$54,000	9,900.00	7,580.00	7,540.00	7,315.00	2,320.00	2,360.00	2,585.00	23.43	23.84
$55,000	10,230.00	7,810.00	7,820.00	7,562.50	2,420.00	2,410.00	2,667.50	23.65	23.56
$56,000	10,560.00	8,040.00	8,100.00	7,810.00	2,520.00	2,460.00	2,750.00	23.86	23.30
$57,000	10,900.00	8,270.00	8,390.00	8,065.00	2,630.00	2,510.00	2,835.00	24.12	23.03
$58,000	11,240.00	8,500.00	8,680.00	8,320.00	2,740.00	2,560.00	2,920.00	24.37	22.78
$59,000	11,590.00	8,740.00	8,980.00	8,582.50	2,850.00	2,610.00	3,007.50	24.59	22.53
$60,000	11,940.00	8,980.00	9,280.00	8,845.00	2,960.00	2,660.00	3,095.00	24.79	22.28
$61,000	12,300.00	9,220.00	9,590.00	9,115.00	3,080.00	2,710.00	3,185.00	25.04	22.03
$62,000	12,660.00	9,460.00	9,910.00	9,385.00	3,200.00	2,750.00	3,275.00	25.28	21.72
$63,000	13,030.00	9,700.00	10,240.00	9,662.50	3,330.00	2,790.00	3,367.50	25.55	21.41
$64,000	13,400.00	9,940.00	10,580.00	9,940.00	3,460.00	2,820.00	3,460.00	25.82	21.04
$65,000	13,780.00	10,190.00	10,930.00	10,225.00	3,590.00	2,850.00	3,555.00	26.05	20.68
$66,000	14,160.00	10,440.00	11,290.00	10,510.00	3,720.00	2,870.00	3,650.00	26.27	20.27
$67,000	14,550.00	10,690.00	11,660.00	10,802.50	3,860.00	2,890.00	3,747.50	26.53	19.86
$68,000	14,940.00	10,940.00	12,030.00	11,095.00	4,000.00	2,910.00	3,845.00	26.77	19.48
$69,000	15,340.00	11,190.00	12,410.00	11,395.00	4,150.00	2,930.00	3,945.00	27.05	19.10
$70,000	15,740.00	11,440.00	12,790.00	11,695.00	4,300.00	2,950.00	4,045.00	27.31	18.74
$71,000	16,150.00	11,700.00	13,180.00	12,002.50	4,450.00	2,970.00	4,147.50	27.55	18.39
$72,000	16,560.00	11,960.00	13,570.00	12,310.00	4,600.00	2,990.00	4,250.00	27.78	18.06
$73,000	16,980.00	12,220.00	13,970.00	12,625.00	4,760.00	3,010.00	4,355.00	28.03	17.73
$74,000	17,400.00	12,480.00	14,370.00	12,940.00	4,920.00	3,030.00	4,460.00	28.28	17.41
$75,000	17,830.00	12,740.00	14,780.00	13,262.50	5,090.00	3,050.00	4,567.50	28.55	17.11
$76,000	18,260.00	13,000.00	15,190.00	13,585.00	5,260.00	3,070.00	4,675.00	28.81	16.81
$77,000	18,700.00	13,270.00	15,610.00	13,915.00	5,430.00	3,090.00	4,785.00	29.04	16.52
$78,000	19,140.00	13,540.00	16,030.00	14,245.00	5,600.00	3,110.00	4,895.00	29.26	16.25
$79,000	19,590.00	13,810.00	16,460.00	14,582.50	5,780.00	3,130.00	5,007.50	29.50	15.98
$80,000	20,040.00	14,080.00	16,890.00	14,920.00	5,960.00	3,150.00	5,120.00	29.74	15.71
$81,000	20,500.00	14,350.00	17,330.00	15,265.00	6,150.00	3,170.00	5,235.00	30.00	15.46
$82,000	20,960.00	14,620.00	17,770.00	15,610.00	6,340.00	3,190.00	5,350.00	30.25	15.22
$83,000	21,430.00	14,900.00	18,220.00	15,962.50	6,530.00	3,210.00	5,467.50	30.47	14.98
$84,000	21,900.00	15,180.00	18,670.00	16,315.00	6,720.00	3,230.00	5,585.00	30.68	14.75
$85,000	22,380.00	15,460.00	19,130.00	16,675.00	6,920.00	3,250.00	5,705.00	30.92	14.52
$86,000	22,860.00	15,740.00	19,590.00	17,035.00	7,120.00	3,270.00	5,825.00	31.15	14.30
$87,000	23,350.00	16,020.00	20,060.00	17,402.50	7,330.00	3,290.00	5,947.50	31.39	14.09
$88,000	23,840.00	16,300.00	20,530.00	17,770.00	7,540.00	3,310.00	6,070.00	31.63	13.88
$89,000	24,340.00	16,590.00	21,010.00	18,145.00	7,750.00	3,330.00	6,195.00	31.84	13.68
$90,000	24,840.00	16,880.00	21,490.00	18,520.00	7,960.00	3,350.00	6,320.00	32.04	13.49
$91,000	25,350.00	17,170.00	21,980.00	18,902.50	8,180.00	3,370.00	6,447.50	32.27	13.29
$92,000	25,860.00	17,460.00	22,470.00	19,285.00	8,400.00	3,390.00	6,575.00	32.48	13.11
$93,000	26,380.00	17,750.00	22,970.00	19,675.00	8,630.00	3,410.00	6,705.00	32.71	12.93
$94,000	26,900.00	18,040.00	23,470.00	20,065.00	8,860.00	3,430.00	6,835.00	32.94	12.75
$95,000	27,430.00	18,340.00	23,970.00	20,462.50	9,090.00	3,460.00	6,967.50	33.14	12.61
$96,000	27,960.00	18,640.00	24,470.00	20,860.00	9,320.00	3,490.00	7,100.00	33.33	12.48
$97,000	28,500.00	18,940.00	24,970.00	21,265.00	9,560.00	3,530.00	7,235.00	33.54	12.39
$98,000	29,040.00	19,240.00	25,470.00	21,670.00	9,800.00	3,570.00	7,370.00	33.74	12.29
$99,000	29,590.00	19,540.00	25,970.00	22,082.50	10,050.00	3,620.00	7,507.50	33.97	12.23
$100,000	30,140.00	19,840.00	26,470.00	22,495.00	10,300.00	3,670.00	7,645.00	34.17	12.18
$150,000	58,140.00	35,340.00	51,470.00	43,496.00	22,800.00	6,670.00	14,645.00	39.21	11.47

Source: U.S., Congressional Record, 68th Congress, 1st Session, LXV, Part 5, 1924, 3944.

> which has for its sole purpose the reduction of the larger taxpayers at the expense of the small taxpayers.[31]

Though it cannot be denied that Garner was giving more to the lower brackets, to assume that Mellon was shifting the burden is to draw an erroneous conclusion.

No one was proposing a shift of the burden. Each of the plans recommended reductions in all brackets. Nor should one be misled by Garner's rhetoric about 6.6 million taxpayers and "those whose necessities compel that they pay" and conclude that he was talking about help for the little man.[32] Only 3.5 million paid taxes, the other 3 million plus just filed returns. The small income group, the under $5000, it should be recalled was paying little or no taxes already and that lower brackets were middle class people with incomes in the area of $5000 to $25,000 per year, and this was the group that Garner was helping more in a proportional sense. Confused by the polemics, contemporary accounts tended to equate those with small incomes with those in the lower brackets. The Texas Democrat recommended a larger cut than Mellon for all people earning $55,000 per year and less, and a man with a $50,000 annual income could easily be a millionaire. The Secretary,

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[31] New York Times, February 24, 1924.

[32] The next time that Garner extensively expressed himself on economic matters was 1932 when he came out strongly for a sales tax and harangued the Congress over the need for a balanced budget; two items that Mellon was pushing. Either Garner had changed for unknown reasons or he was revealing his true feelings.

while proposing material relief for all taxable incomes, preferred to give proportionately more to upper brackets on the assumption that they would invest the savings in productive enterprises, thus benefitting lower income, non-taxpaying types with increased employment and higher wages. Undercurrent in his argument was that the middle class would increase personal consumption rather than embark on capital investments, something that Mellon did not believe equally beneficial to the economy.

When the coalition increased estate taxes and added a gift tax, the Secretary became convinced that their goal was to destroy wealth by taxation, no write a bill based upon ability to pay.[33] Efforts to lop more people off the tax roles was equally destructive. He believed that paying taxes, no matter how small, would make the public more watchful of government spending and gave citizens a stake in their government. Also, too much dependence for federal revenues would be placed upon a small group of people. In the event of a recession, new tax provisions would have to be written, illustrating that the coalition's bill was simply reduction for the present and not a permanent reform. The situation after the crash in 1929 bore out Mellon's fears.

Another aspect in examining the 1924 tax fight is the problem of income distribution. There is no question that

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[33]Mellon, Taxation, p. 119.

in the 1920s that income was poorly distributed.[34] To decry the Mellon Plan for failing to promote redistribution, however, is to look at the wrong end of the problem. What was needed was to raise the incomes of the non-taxpaying public. This could be accomplished by high taxes on the upper classes if accompanied by an intelligent government spending program. Or it could be attained by lower taxes on high incomes, on the assumption that they would invest and that a boom economy would result. The Mellon Plan was a spin off from the second alternative, improvement of the lower incomes with a concommittent increase or a maintenance of the status quo for the upper incomes. The Secretary's ideas were predicated on the benevolence of self-interest of the employer, something that was not always true, but one can at least credit the Secretary with operating within a framework that was theoretically feasible. His opposition did not even have a frame; they simply pressed for tax reduction on the lower brackets on general principle. There were no points presented that reducing taxes in the lower brackets would stimulate consumption, promote economic growth, and consequently improve income distribution.

In evaluating the Mellon Plan, one must take into consideration the goals and possibilities of taxation. To

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[34] National Industrial Conference Board, Studies in Enterprise and Social Progress (New York: Natl. Indus. Conf. Bd., 1939), p. 125.

expect more of it than was possible, i.e., income redistribution, is not fair. Massive government spending accompanied by high taxes on the wealthy would promote redistribution, but the experience of the last thirty-five years tends to disprove that combination as well. Also, to criticize Mellon and accept Garner without examining the statistics is to surrender to ideological persuasion and rhetoric. Then as now, the middle incomes bore the brunt of taxation. If the goals of the program were to keep taxes low and to spread the burden according to ability to pay, the Mellon Plan approaches those ends. To suggest as Garner did a shift in the burden from the middle to upper income is to miss those goals. It is not to engage in progressive taxation but to participate in a form of class warfare.[35]

While the Revenue Act of 1924 was bouncing through Congress, another facet of the Mellon Plan, the constitutional amendment to prevent the further issuance of tax-exempt securities, was dealt with. Chairman Green had become a passionate supporter of the plan to tax incomes from state and municipal bonds and his Ways and Means Committee voted favorably on it as soon as it finished with the tax bill. Though it had passed the House once before,

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[35]Just what motivated the anti-Mellon forces is hard to establish. In his study of the Democratic Party in the 1920s, The Politics of Provincialism (New York: Alfred A. Knopf, 1968), David Burner pointed out that the coalition was only joined on the questions of taxes and the tariff. When it came to other "progressive" (quotes mine) pieces of legislation, the Democrats split and usually voted according to sectional biases, pp. 168-69.

the altered composition of that body spelled defeat and the measure fell seven votes short of the necessary two-thirds.

When the 69th Congress in 1926 reduced the maximum surtax to 20% and thus negated his point that an amendment was necessary to equalize the potential return of tax-exempt securities and private investments, the Secretary discontinued his request for it. He was still sympathetic to the idea for other reasons such as ending the federal subsidy tax-exempt securities provided the states, but there was no point in demanding something that neither Congress nor the states would accept. In 1927, he changed tactics and asked for complete tax-exemption of federal bonds, arguing that they were at a disadvantage in the market because of non-tax features of their competition. If Congress would not tax municipals, it was illogical and unfair to tax national securities.[36] To discontinue the requirement that federal bonds holders must pay surtaxes on their dividends would cause a reduction in the interest rate and provide savings to the government in the form of lower carrying charges on the domestic debt. Since he could not increase revenues by taxing state and local government bonds, Mellon wanted to cut costs by applying the tax-exempt status on federal securities.

Defeated on two fronts, the Secretary succumbed at a

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[36] Annual Report, 1927, pp. 64-67. Federal securities already were exempt of normal taxes, but not surtaxes.

third. By overwhelming majorities in both Houses, Congress passed a veteran's bonus. Coolidge, Mellon, and Senator David Reed tried to gather the votes to sustain the veto in the Senate, but they failed. Dire predictions had come from the Treasury in the event of a bonus without tax relief; together they seemed to mean economic calamity. But the impending catastrophe never came. Instead, government revenues increased, the bonus was paid, taxes were cut further, and surpluses still resulted. Obviously the Treasury had grossly erred in its estimates.[37]

There were three reasons for the mistakes. The first was the crude method of compiling statistics. A statistical section began only in 1921 and the lack of experience, combined with the skimpy data available, led to numerous errors. Secondly, the ever accelerating growth of the economy made it awkward to estimate a year or more in advance. Like most observers, the Treasury was accustomed to a fluctuating cycle and did not anticipate either the almost continuous growth from 1921 to 1929 or the high rate of growth that took place. The third factor, adjustment of figures, had clandestine overtones. When charged with manipulating statistics for political reasons, Mellon indirectly admitted to occasionally making changes on the advice of his subordinates. With both the Treasury Actuary and the Commissioner of Internal Revenue compiling estimates,

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[37] New York Times, May 11, 1924; H.G. Hendricks, The Federal Debt, 1919-1930 (Washington, D.C.: Memeoform Press, 1933), pp. 179-186 has an examination of the errors in estimates throughout the decade.

he sometimes chose the one more favorable to his point of view.[38] Desiring to keep government expenses at a minimum, the Secretary was want to present the highest possible figures for appropriations he did not like and there were few extraordinary appropriations in the 1920s with which he was sympathetic. Admitting, however, that Treasury figures had been altered cast a shadow on his general credibility and led to repeated charges of manipulation everytime his financial projections missed their mark.[39] It was an unnecessary use of scare tactics that invariably caused problems.

While Congress was debating the Mellon Plan and related economic issues, it was also engaged in a series of enterprises that deducted from its deliberations on matters in which the Treasury had a vested interest. The 68th Congress was mired in a number of investigations: the Veterans Bureau, the Alien Custodian Office, the Navy, Interior, and Justice Departments and lesser inquiries. Several major pieces of legislation such as the National Origins Act required extensive consideration. Since it was a presidential election year, time was of the essence and most Republicans hoped for an adjournment before the convention opened June 11 in Cleveland. As it turned out, the Senate ended

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[38] Ibid., March 21-25, 1924.

[39] Annual Report, 1927, pp. 25-6 has a defense of the Treasury's failure to accurately predict taxes and revenues.

session with only four days to spare.

Andrew W. Mellon's position in history has for the most part hinged on the Mellon Plan and its ideological foundation, yet the Congress that considered it was one of the busiest and most politically motivated in history. His day in court was from being under the most favorable circumstances. On the other hand, had the legislature spent more time, particularly the Senate, the Mellon Plan may have been emasculated more than it was for the pro-Mellon Conference Committee, meeting under pressured circumstances, deleted several hostile amendments.

One of the lesser inquiries begun in 1924 that was destined to cause years of discomfort was the Senate investigation of the Internal Revenue Bureau. The probe was directly related to the Mellon Plan, having its roots in an exchange of vitriolic letters between the Secretary and Senator James Couzens (R-Mich.), and for a time threatened to destroy it.

Senator Couzens initiated the exchange shortly before Christmas, 1923 when he questioned the Secretary's arguments about the relationship between high surtaxes and tax-exempt securities.[40] Looking at the Treasury figures of 1916 to 1921, he claimed that they did not give a true picture and that Congress should wait for statistics from

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[40]Couzens to Mellon, December 20, 1923, Tax--Couzens Correspondence, 1924-29 file, Official Correspondence, Box 149.

1922 and perhaps 1923 before acting. His contention was that the later years, ones that were not economically depressed as 1920 and 1921 and were ones in which a reduced surtax applied, might tell a different story. As for the securities themselves, the Senator said that he looked about and saw no shortage of capital for private investment. In a second letter, the former partner of Henry Ford extended his argument into a personal vein. "Do you contend that it is less productive to invest money in thousands of schoolhouses, to invest money in waterworks, lighting plants . . . than it is theaters, office buildings. . . ."[41] Though Mellon had well versed economists on his side, the simple logic of Couzens was attractive to the public.

The Secretary was overly sensitive to the criticism, and lashed out unnecessarily. When the Senator revealed that most of his fortune was in tax-exempt securities, Mellon transformed the dispute into a brawl, implying that Couzens was a tax dodger, just the type of person that his proposed legislation was designed to stop. Responding to the charge, the Michigan Republican pointed out that his investments had been made to avoid a conflict of interest, something Mellon could not say. Mellon retorted that the Senator had made his investments before entering public life. The brawling went on publicly for two months, becoming more heated and personal with each exchange.

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[41]Couzens to Mellon, January 11, 1924, Ibid.

The issue came to a head in late February with a polite letter from Couzens asking if the Treasury would object to an investigation of the Internal Revenue Bureau. Claiming that he had heard reports of irregularities, the Senator said he simply wanted to check them out. Mellon made it clear that he believed an investigation to be unnecessary and potentially disruptive to the bureau's operation, but he could not object if he had nothing to hide.[42]

The committee got underway almost immediately under the direction of Senator James E. Watson (R-Ind.), a staunch administration man. President Pro Tem Cummins helped the Treasury by appointing several members who were also on the Finance Committee which was presently occupied with the Melloh Plan. Couzens disliked the tactics but by voting with the Democrats he could assure himself of being on the majority.

Testimony before the committee seemed to indicate that companies in which the Secretary had an interest and those owned by benefactors of the Republican Party were being given preferential treatment in the form of large refunds. Emphasis was placed on a rebate to the Gulf Oil Corporation, a company almost wholly owned by the Mellon family. The Secretary denied any wrongdoing and Commissioner Blair proved that the Gulf Oil case had been adjudicated under

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[42]All of the letters are in the Couzen's file of the Official Correspondence, Box 149, and most of them were printed in the newspapers. The feud was a very public thing.

the Wilson administration, and that he had simply executed payment. The Treasury countered that the committee was making much ado about nothing since tax collections from 1917 to 1923 had amounted to $26 billion and that only $262 million, about 1%, had been refunded. Besides that, additional assessments ran eight times more than refunds.[43] The government was the victor more often than the victim.

Though its findings were spotty, the committee continued hearings. When it voted to hire Frances J. Heney of San Francisco as a special investigator to be paid by Couzens personally, Chairman Watson futilely attempted to have it discharged. Informed of the unusual circumstances of Heney's retainer, Mellon cried foul and appealed to the President. Coolidge immediately dashed off a letter to the Senate, castigating it for allowing such an extra-legal operation.[44] The New York Times called the message "one of the most sensational utterances that have come from a President of the United States in years.[45]

The President's support for his Secretary and the Internal Revenue Bureau was really a defense of the entire executive establishment. Senate investigations had forced three Cabinet resignations, and Senator Kenneth McKellar

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[43] New York Times, March 23, 1924.

[44] Ibid., April 12, 1924.

[45] Ibid.

(D-Tenn.) thought Mellon a suitable fourth.[46] Lashing back at Coolidge for unwarranted interference with legislative perrogatives, the Senate voted funds to hire an investigator other than Heney. Carter Glass (D-Va.), one of the few members of the opposition who generally supported Mellon, was particularly vocal in the defense of the Senate establishment.[47]

With its driving force hospitalized for intestinal surgery, the committee recessed in mid-April. In the interim, T.S. Adams, chief economist for the committee and longtime Treasury advisor, resigned and Senator Watson vacated the chair in favor of Senator Couzens. Both men said that no good would come from the hearings and in their own way sought to avoid responsibility for the outcome.[48]

Reconvening in September, the hearings dragged on into 1925. By March, Mellon had reached his saturation point and, in a letter written in the Secretary's office, Commissioner Blair notified Senator Couzens that they were reopening his 1919 taxes.[49] The Bureau requested that he sign a waiver and when he refused, the statute of limitation would expire in a few days, assessed him nearly

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[46] U.S., Congressional Record, 68th Congress, 1st Session, LXV, Part 6, 1924, 5145.

[47] Ibid., 6358-62.

[48] New York Times, April 14 and July 26, 1924.

[49] Blair to Couzens, March 8, 1925, Couzens file, Official Correspondence, Box 149.

$11 million in back taxes. Two could play the game as easily as one.

Both the Couzens' Committee and the Senator's tax case came to the same end--nothing. Not only did the Treasury fail to prove any improprieties in his 1919 return, the Board of Tax Appeals determined that he had overpaid his taxes by some $900,000. As for the committee, accusations were made but nothing was proven. Unlike many of the companion investigations, no criminal or civil proceedings were initiated. Some questionable practices were revealed, but like the results of so many Congressional investigations, no legislation was enacted to alter the irregularities. To condemn Mellon for favoritism on the basis of the Couzens Committee findings would be to declare a man guilty because he was charged. Given the animosity between them, we can be certain that Couzens would have insisted on prosecuting had he been able to prove his case. Regardless of the immediate outcome, Mellon had developed a formidable enemy who would harass him until death cut short his promising career.

1924 did have one happy note for Mellon. At the lackluster Republican convention in Cleveland, the appearance of the Chairman of the Pennsylvania delegation was the high point. In what was probably a put-up operation, he was called to the podium to make a routine motion for creation of the Resolutions Committee. A sparse crowd responded enthusiastically to his presence and staged the

only spontaneous demonstration of the convention.[50] At a time when people were starting to refer to him as "the greatest Secretary of the Treasury since Alexander Hamilton," the crowd hailed the Pittsburgh banker as the personification of their party. The Republican hierarchy showed its appreciation by writing a platform under the direction of Ogden Mills whose economic planks were tailored to the Mellon philosophy.

After the convention, the Secretary embarked on his annual European tour, leaving the campaign to those more interested in party politics. It was a rather issueless campaign and would not require his attention. His public involvement was limited to a short radio address in late October extolling the virtues of the Grand Old Party. That radio address did, however, establish a precedent for the Secretary as he would bi-annually take to the air waves in support of his party.

Struggling throughout the summer for something to challenge the Republicans, the Democrats found a viable issue in the waning weeks of the campaign. The Senate, while out of session, released a report compiled by the Federal Trade Commission, charging the Aluminum Company of America of unfair trade practices. It included testimony by Alcoa's chief executive officer to the effect that the corporation "really consist(ed) of A.W. Mellon and

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[50] New York Times, Jun 11, 1924.

R.B. Mellon." "Apparently engaged in various practices forbidden by judicial decree under the Sherman Act," Alcoa, the report went on to say, "has a practically complete monopoly of the aluminum in the United States and is the only domestic source of supply of the metal for aluminum cooking utensil manufacturing. This fact, combined with the high protective tariff on aluminum, enables it to control the price of aluminum."[51] Though Secretary Mellon rebutted the charges, the Democrats coupled the Trade Commission points with the Couzens report to make it appear that he was as corrupt as his former colleagues Daugherty, Fall, and Denby. In the few remaining weeks of the campaign, Mellon and his business interests were the focus of attack.

The President stood by his Secretary as he had always done, denying the charges with equal vigor. The electorate responded to the Coolidge-Mellon campaign of prosperity, returning the President to the White House with a decisive majority in a field of three. More concerned with defeat than the final figures might indicate, Mellon and his fellow Republicans worked to raise a war chest. To insure victory in doubtful states, W.L. Mellon cooperated with Joseph Grundy, President of the Pennsylvania Manufacturers Association, in raising $650,000.[52] The Secretary and his

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[51] Ibid., October 6, 1924.

[52] Ibid., October 29, 1924.

brother made handsome contributions to the fund.[53]

The campaign over and the lame duck Congress meeting in a short session, the Secretary devoted his attention to day to day operations at the Treasury. In her Babbitts and Bohemians, Elizabeth Stevenson has described 1925 as "The Year Nothing Happened," and in Mellon's case, this was a reasonably accurate statement. It was an anti-climatic period after the hectic pace of 1924. He toyed with the idea of requesting further tax reform, but the elections indicated that it would be best to wait for the next Congress.

Two matters of some import occurred in 1925. One was the attempted refunding of all outstanding foreign debts and the other was the reorganization of the Prohibition Bureau. The impending expiration of the Debt Commission made the former particularly urgent.

After visiting Europe in the summer of 1924, Mellon concluded that the economic climate indicated that it was too soon for debt settlement. He was, however, pleased with the early stages of the Dawes Plan, satisfied that it would reconstruct Europe. The appointment of his former Under-Secretary, Parker Gilbert, as Agent-General for Reparations under the Dawes Plan increased his confidence. Upon his return to Washington in September, he encouraged bankers

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[53]Ferdinand Lundberg, America's Sixty Families (New York: Vanguard Press, 1937), pp. 171-72.

to resume serious investing in Europe.[54] Partly to encourage debt settlement, the administration had been "discouraging" private economic involvement since May, 1921.[55] The door was opened to the circular program of American loans to Germany, German reparations to the Allies, and debt payments of the United States.

By mid-1925, the economic situation on the Continent showed some improvement and Washington called for funding of the remaining $7 billion. The Debt Commission also was prodded by Senator William Borah (R-Idaho), Chairman of the Foreign Relations Committee, who expressed fear that the debtors were procrastinating in the hope of reduction or cancellation.[56] An old Irreconcilable whose attitude had not changed, the Senator was demanding prompt and full payment, a position supported by a great many on Capitol Hill.

Coincident with the American request for settlement was Great Britain's return to the gold standard. To Mellon, the gold standard and the balanced budget were gods of equal magnitude.[57] As an assist to British restoration, the

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[54] New York Times, September 5, 1924.

[55] Benjamin H. Williams, Economic Foreign Policy of the United States (New York: McGraw Hill, 1929), p. 87.

[56] New York Times, May 17, 1925.

[57] See congratulatory telegram, December 29, 1927, from Mellon to Finance Minister Count Volpe on the return of Italy to the gold standard. Secretary Andrew W. Mellon file, Official Correspondence, Box 213. In the telegram,

Secretary worked closely with Benjamin Strong, Governor of the New York Federal Reserve Bank, in maintaining a low discount rate and in providing a $300 million loan should circumstances dictate it.[58] To a degree, the Federal Reserve system was being prostituted for international reasons as the American discount rate was kept lower than that of the Bank of England to prevent a gold drain from Great Britain to the United States. Should the American rate be higher than its British counterpart, English investors would ship their gold to a more profitable Wall Street. On the other hand, the international aspect fit well with Mellon's previously stated low rate policy for purposes of general economic stimulation and ease of floating Treasury securities. When the crash came in 1929, many critics looked to the maneuver by Mellon and Strong, viewing it as crucial in the chain of events. While they were holding the discount rate down for international reasons, they should have increased it for domestic purposes.

The first delegation to appear in Washington was the Belgian. In his opening address, the Chairman of the American Commission set the tone for the meetings. Noting that capacity to pay would be an intricate part of the funding formula, Mellon also gave an expression of his personal feelings. "Funding," he said, "is a recognition

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[57](cont.) the Secretary referred to gold as the key to international trade and a help to the stabilization of Italian Industry.

[58]New York Times, April 28, 1925.

of the integrity of international obligations." In fact that recognition was more important than the sum involved, a hint that he was ready to bargain.[59] The Pittsburgh banker, not an obedient servant of Congress, was talking.

A rather quick settlement was reached with Belgium at terms more favorable than those given the British. France took that as a cue that American resolve was weakening and dispatched Finance Minister Caillaux to Washington. The offer was to pay $4 billion over a sixty-two year period, but the Commission was holding out for $10 billion. In a private meeting with Mellon and Under-Secretary Garrad Winston, Caillaux suggested a compromise of $6.2 billion, a figure acceptable to the Chairman and some of the committee.[60] Senator Borah, however, intimated that his committee would reject the compromise, and a modus vivendi with the French simply paying interest for five years was proposed by Mellon.[61] The Painleve Cabinet rejected the temporary expedient and 1925 closed with the French debt in limbo.

To help make France see the error of its ways, the administration selectively reinstated its policy of discouraging European loans. Since it was "contrary to the

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[59] Ibid., August 11, 1925.

[60] Ibid., September 27, 1925 and Charles S. Hamlin MSS, Index-Digest, Manuscript Division, Library of Congress, Vol. 11, p. 134.

[61] New York Times, October 1, 1925.

public interests of the United States to permit foreign governments which refused to adjust or made a reasonable effort to adjust their debts to the United States to finance their requirements in this country," Mellon reported that "bankers consulting the State Department were informed that the government objected to such financing."[62] President Coolidge invited Charles E. Mitchell of the National City Bank of New York to discuss the matter. Their meeting ended with an agreement that bankers would voluntarily withhold loans to nations that had not adhered to the government's wishes.[63] Since that meant only France, a poor credit risk anyway, it was a good public relations move by the bankers who stood to loose little by cooperating with Washington. The ban remained in effect until the end of 1927 with respect of loans to individuals, and until July, 1929, the date of French ratification of the Mellon-Berenger accord, with reference to borrowing by the government.

Though France left dissatisfied, Latvia, Czechoslovakia, Estonia, Rumania, and Italy came to terms. Each settlement was more favorable than that given Great Britain, the supposed standard. Under Mellon's direction, the commission was trying to be as realistic as possible without raising the wrath of Congress. Senator Borah was

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[62] Annual Report, 1925, p. 54.

[63] New York Times, October 22, 1925.

kept fully informed as to the progress of the negotiations and invited to all social functions with the foreign delegations. The Chairman was walking a dangerously thin line.

1925 also witnessed a reorganization of the Prohibition Unit. Though prohibition enforcement had not become a volatile campign issue, Mellon's critics continued castigating him as a "whisky dealer" because of his former relationship with Overholt Distillery Company and their belief that he was not doing his job as well as he could. The new year saw no cessation and to quiet the "drys" he brought in a career army officer as Assistant-Secretary, Lincoln C. Andrews, and put him in charge of enforcement. Andrews' first assignment would be to direct the reorganization.

In Mellon's list of methods for improving enforcement, reorganization was his third and last choice. His first choice had always been to transfer the unit to the Justice Department and wash his hands of the whole matter. Too many people, especially Wayne Wheeler and the Anti-Saloon League, objected to that solution to make it practical. When Representative Louis Cramton (R-Mich.), Andrew Volstead's heir in the House, proposed an option of making the Prohibition Unit an independent agency within the Treasury Department similar to the Internal Revenue Bureau, he jumped at the opportunity.[64] Though he opposed the

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[64]Mellon to Reed Smoot, June 30, 1924, Reorganization of Department file, Official Correspondence, Box 213, and

created of more independent agencies under the President, he saw no problem if they were under a Cabinet member's control.[65] The Cramton Bill passed the House, but died in the Senate.

The death of the Cramton proposal forced Mellon into accepting the third alternative, reorganization. In late June, 1925, the Treasury announced a restructuring of enforcement policy.[66] There would be twenty-two administrative districts identical to the federal judicial circuits instead of the old state by state operation. The directors would report to Andrews, and Commissioner Haynes' duties were to be "less administrative and more advisory." There had been a growing fear in prohibitionist circles that Haynes would be forced out because of disagreements with his superiors, but the Secretary did not dare fire the only man in whom his critics had faith. This particular form of reorganization was as close to the independent Prohibition Unit as the Secretary could create by executive order.

Inherent in the reorganization plan was an attempt at decentralization.[67] Too much responsibility for enforcement had fallen on the federal government; the states must

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[64](cont.) Andrew W. Mellon, "Prohibition is Up to You," Colliers, June 30, 1926, pp. 7-8.

[65]Mellon to Coolidge, June 30, 1924, File 21, Coolidge Papers.

[66]New York Times, June 24, 1925.

[67]Annual Report, 1926, pp. 139-40.

shoulder their share of the burden. The Secretary argued that the principle duty of the federal government should be to point out areas needing more work and effort, not assume the whole task.

Assistant Secretary Andrews took six months to effect the reorganization. The process assumed a military aura as he appointed several former officers to subordinate positions and instituted the army policy of rotating personnel from field to staff. In a public proclamation at the close of 1925, Andrews promised to establish an efficient enforcement program or leave. Declaring that "I was never a prohibitionist," the Assistant Secretary claimed that he had seen the error of his ways and promised success.[68]

While prohibition enforcement was being revamped, the "drys" lessened their attacks. For the first time since assuming office, the Secretary was doing more than going through the motions and the flurry of activity seemed sufficient to keep the critics happy. A moratorium like that of 1921-22 was reinstituted. Mellon had admitted that enforcement had not reached the desirable level and, as a public servant, he was being responsive to the demands of his constituency.

The remaining free time in 1925 was spent in preparation for the bi-annual assault on taxes. Remembering the

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[68] Ibid., December 29, 1925.

debacle of 1924, there would be no Mellon Plan as such. Indications were that the new Congress would be more amenable to his ideas, but rather than risk his reputation, the Secretary decided that he would respond, not initiate. He would fulfill his duty of making suggestions, but he would not insist.

To assure that Congress would indeed be more receptive than previous, he broke his tradition of silence and made two major speeches in the South, one in Richmond, Virginia and the other in Jackson, Mississippi. The goal was to destroy the coalition by appealing for southern support and the warm reception he received showed that his tactic might work. The southern bankers and businessmen he addressed responded enthusiastically to his reiteration of the general principles underlying his ideas on taxation.

When Green, Smoot, and others talked tax reduction, Mellon quietly encouraged them. Victory was finally in sight and he would make no flamboyant gestures that might jeopardize the favorable conditions. The watchword was caution; there would be no siege.

CHAPTER V

ZENITH

Andrew W. Mellon's tenure as Secretary of Treasury fell one moth short of eleven years, a record of continuous service challenged only by his fellow Pennsylvanian, Albert Gallatin.[1] The climax of his long career, however, came near the mid-point in the 1926-27 period. As the Coolidge years drew to a close, the Secretary achieved his three major goals--scientific tax reform, funding of the foreign debt, and progressive reduction of the domestic debt--and had made significant strides toward reaching a series of lesser ones. Barring unforeseen calamity he could expect to spend his remaining days protecting and consolidating his gains, and perhaps retire with Coolidge at the pinnacle of their popularity. His capable Under-Secretaries, first Garrad Winston and later Ogden Mills, would keep watch on the day to day financial operations of the government, allowing the Secretary to take a more leisurely approach to life and to travel more frequently.

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[1]Albert Gallatin technically served longer, but he was out of the country negotiating the Treaty Ghent for almosta year and his seat was declared vacant in the interim. Mellon also was the only Secretary of Treasury to serve under three Presidents.

There is something incongruous in the fact that he was able to reach his principle goals in a matter of months after failing to obtain them in five years. On some issues his opposition collapsed, almost evaporated, while on others it succumbed only after a prolonged fight. An examination of his victories will reveal some crucial insights into Mellon's Treasury career and the politics of the 1920s.

The Secretary's first victory of the period and the most important one of his ministry was the Revenue Act of 1926. After two frustrating attempts, the Congress, with strong Republican majorities swept in on the coattails of Coolidge-Mellon prosperity in 1924, finally accepted most of his recommendations for "scientific" tax reform. As signed by the President in late February, the bill was a reasonable facsimile of the Secretary's November recommendations; containing three of his four points and a major part of the fourth. The LaFollette gift tax and several nuisance taxes were repealed, the publicity of income tax returns required by the 1924 bill was omitted, and the maximum combined normal and surtax was lowered to 25%, the point deemed by Mellon which would bring in the most revenue. Although the estate tax survived, its rate was halved and the portion refunded to the states was drastically increased. All were achieved without a battle, except the estate levy which was compromised with little

difficulty.[2] For a time it appeared that Mellon's major problem would not be in receiving all that he wanted, but in having the Senate Democrats provide for more reductions ($330 million--$500 million) than he deemed advisable. The emasculated Mellon Plan of 1924 had become an accomplished fact, only the name was missing. Why had Congress capitulated with such ease?

For one, the weight of public opinion was once again on the Secretary's side. The interest of the populace in taxation, grown lethargic with the machinations of the 1924 Revenue Act, was reawakened by newspapers and interest groups. Assorted tax clubs, especially from Iowa and Texas, and J.A. Arnold and the American Taxpayer's League testified at committee hearings and maintained a concerted lobby in support of the Treasury program.[3] State representatives arrived to press for estate tax repeal and twenty-three governors petitioned Congress for its removal. Unlike the previous outpouring in favor of Mellon's ideas, this one was not initiated by the Treasury Department and it must have been rewarding to see the numbers clamoring for a hearing. Once planted, the seeds had grown to maturity with little care.

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[2]Roy G. and Gladys C. Blakey, The Federal Income Tax (New York: Longmans, Green and Co., 1940), pp. 251-75.

[3]Ibid., p. 254 and "Tax Clubs, a New Factor in Tax Revision," Literary Digest, November 21, 1925, p. 68. J.A. Arnold was also President of the American Banker's League, a permanent Washington lobby.

A second thing was the absence of a Democratic-Insurgent coalition, and without that unification, administration Republicans could easily control both Houses. The control of the sympathetic majority was best exhibited in the fact that they were able to move the bill through the Congressional maze in less than three months, including a Christmas recess. For a complicated revenue act, it was near record time.

As always, the Insurgent Republicans fought Mellon's propositions, but they were a near inaudible voice without the Democrats. With Robert LaFollette dead, the majority leaders did not invite his followers to the party caucus at the outset of the session; for practical purposes they were read out of the party. James Frear (R-Wisc.), their only member on the House Ways and Means Committee, was denied his seat and their two men on the Finance Committee, LaFollette and Medell McCormick (R-Ill.), had passed away. Lacking committee seats, the Insurgents had to resort to floor amendments, all of which were easily voted down. The "Wild Jackasses of the Desert" were not very wild in 1926.

As for the Democrats, not only did they reject their old colleagues, for practical purposes they formed a coalition with the Regular Republicans. House Minority Leader Garner was an early advocate of the 25% surtax and readily adjusted to Mellon's suggestion of 20% plus the 5% normal tax. The party fell in line, especially on the estate tax question which they supported from states' rights

viewpoint, and only James Reed of Missouri seriously balked at the turnabout.

The defection of the Democrats has perplexed most observers. Suggested at the time and still popular today was the belief that they were disheartened by failure at the polls on the national level in 1924 and capitulated to the persistence of Mellon for want of a better alternative.[4] Others have claimed that the Progressive coalition, and here one can include the Democrats because of their general acceptance of the Progressive lead in taxation in 1921 and 1924, succumbed to Mellon's arguments when faced with continuing surpluses and lacking a viable program for its disposal.[5]

Although these arguments are in part true, they stop short of a complete explanation. It is this writer's contention that the Democrats had not really surrendered or become moribund, but were making a calculated appeal to the electorate in supporting Mellon on taxation. Interpreting the 1924 results as a vindication of Mellon-Coolidge

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[4]David Burner, The Politics of Provincialism (New York: Alfred A. Knopf, 1968), pp. 164-65 and Frank Kent, "The Democrats Stand by Mellon" Nation, March 17, 1926, pp. 135-38. It should be noted, however, that Kent also sees need for favors from the Internal Revenue Bureau by Congressmen for their constituents as a mitigating circumstance in the Democratic transformation.

[5]David Shannon, Twentieth Century America (Chicago: Rand McNally & Co., 1963), p. 212; William Leuchtenburg, Perils of Prosperity (Chicago: University of Chicago Press, 1958), pp. 37-8; Arthur Link, "What Happened to the Progressive Movement in the 1920s?", American Historical Review, LXIV (July, 1959), p. 842.

prosperity and a rejection of their flirtation with radicalism, some Democrats like Senator W.C. Bruce of Maryland blamed their defeat on coalition politics.[6]

So as not to be caught on the wrong side again, the minority party's publications for the off-year campaign of 1926 claimed credit for repeated tax reduction and dimunition of the domestic debt.[7] Using Mellon's arguments for bi-partisanship against him, they cited the Democratic origins for the need for surtax reduction and the creation of the sinking fund. Their efforts were modestly rewarded with gains in both Houses, but it is difficult to determine if their growth was the result of their new tactic or the normal attrition of the majority party in non-presidential years.

The tact that the Democrats began in late 1925 and early 1926 became all the more clear in subsequent months. Continuing surpluses led to a clamor for more tax reduction. The type proposed was more like what had been suggested for the Revenue Act of 1926 than that of 1924, as the Democrats spoke of helping the "middle incomes," those in the $20,000 to $75,000 brackets. Asking a cut in the corporate income tax to help "small" corporations, they

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[6] New York Times, July 13, 1926. David Burner flirts with these suggestions, but does not really give them the weight they deserve until after the 1930 elections. Burner, however, believes the Democratic designs were based more on a conservative philosophy than on an appeal to the business community for electoral purposes.

[7] New York Times, September 13 and October 14, 1926.

echoed the demands of the U.S. Chamber of Commerce.[8]

The Secretary objected to premature alteration of the Revenue Act of 1926, citing the need for a fair test before making permanent adjustments. Reacting to Senator Furnifold Simmons's (D-N.C.) program of reducing taxes by $560 million (1926 surplus was $380 million and $180 million was anticipated in 1927), Mellon wrote to Senator Royal Copeland (R-N.Y.) that it would be "fatal to the ordinary handling of Government revenue to base a permanent reduction on one year's figures," and that it was mathematically and economically impossible to base an annual reduction on two year's surpluses.[9] Somewhat in dismay of the circumstances, Senator Irving Lenroot observed that the opposition was trying to "out-Mellon Mellon."[10]

This calculated appeal to the upper income, business oriented segment of American society culminated in the appointment of John J. Raskob, a General Motor's executive and a man who in late 1923 had urged his employees and stockholders to write Congress in support of the Mellon Plan, as Chairman of the Democratic National Committee for the 1928 campaign.[11] If the Democrats expected to put

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[8]Ibid., September 12, 1926.

[9]Ibid., September 14, 1926.

[10]Quoted in Burner, Politics of Provincialism, p. 164.

[11]Raskob letter, December 12, 1923, Mellon Tax Reduction Plan File, Official Correspondence of the Secretary of the Treasury, Record Group 56, National Archives, Box 171.

together a winning combination in 1928, they needed contributions from businessmen and votes from middle and upper income people. The Raskob appointment was a continuation of the policy "to make businessmen realize that the Democratic Party is not bent on taxing them or their enterprises exorbitantly."[12]

The only glimmer of the old Democratic ideas on taxation appeared in a suggestion of a $5000 minimum income for paying taxes. In response to a request as to the feasability of such a plan, Mellon wrote Senator Walter Edge (R-N.J.) that it would be unfair to exempt people with incomes under $5000. To be equitable, one should give a $5000 exemption to everyone, and even at that, he believed it to be a poor proposition. The Revenue Act of 1924 had sliced the number who filed tax returns (as opposed to those who paid taxes) from 4⅛ million to 2⅛ million out of a total population of 110 million.[13] Writing to a private citizen, he also claimed that the agitation for relieving those with incomes under $5000 was purely political and a violation of the maxim that tax-paying gave citizens a stake in society and therefore an interest in how their government functioned.[14] In the face of administration

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[12]Quoted in Burner, Politics of Provincialism, p. 165.

[13]Annual Report of the Secretary of the Treasury, 1925, pp. 5-6.

[14]Mellon to R.J. Taylor, August 25, 1925, Tax-General File, Official Correspondence, Box 135.

opposition, the proposal quietly died.

When the Republican majority agreed with Mellon and refused to reopen taxation in late 1926 and 1927, the Democrats accused it of politically motivated procrastination, of simply waiting until 1928 so as to assist their Presidential candidate. Under-Secretary Winston charged the opposition with harboring similar intentions, proposing impossible reduction on the eve of an election. The Chairman of the Democratic Congressional Campaign Committee, Representative William Oldfield (D-Ark.) brought the issue to a head with the promise that "if the people elect a Democratic Congress on November 2, (1926) it will be a mandate for tax reduction."[15]

With the minority party registering slight gains in the Congress, the Secretary offered a compromise. Though unable to sanction a permanent reduction, he was amenable to a 15% credit to be applied to taxes due and payable March 15 and June 15, 1927. The surplus, once estimated at $180 million, now loomed in the area of $300 million and Mellon believed the taxpayers deserved a rebate.[16] Neither party responded to the alternative; the Democrats remained intractible in their demand for immediate and permanent revision, particularly the corporate income tax, and the Republicans preferred to sit on the surplus and wait until 1928.

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[15] New York Times, September 14 and October 24, 1926.

[16] Ibid., November 10, 1926 and Annual Report, 1926, p. 9.

This reversal in roles with the Democrats insisting on reduction and Mellon resisting is a rather curious development. It was made clear earlier why the opposition wanted taxes on corporations and middle and upper incomes lowered, but why Mellon would stand in their way requires some explanation. If the Pittsburgh banker's policy was simply designed to help himself and his wealthy friends, logically he should have jumped at the opportunity to reduce the corporate tax and the surtaxes on the middle income group, the $20,000 to $75,000 bracket. Instead we have him balking at such plans and offering a compromise of a credit that would be indiscriminately applied across the board to all classes of taxpayers.

Rather than looking at the reversal as a contradiction, perhaps we should consider it as consistent with his philosophy of scientific tax reform, the lowering of taxes to the point that would bring the greatest necessary income while spreading the burden as equitably as possible, two principles he ascribed to Adam Smith. Realizing that the fate of the income tax was inextricably connected to the health of the economy and that surpluses might only be temporary phenomena, he argued that premature, permanent reduction would necessitate increases at some later date should the economy falter. A surplus during prosperity and a balanced budget in bad times would be better than a balanced budget in good times and a deficit when the economy turned down. The surplus, however, should be reasonable and

if it was to exceed proscribed limits, it should be returned to the taxpayers in the form of a credit, a more flexible method of operating than the permanent form which required Congressional approval. In future years, he would modify that argument and suggest that the Secretary of the Treasury be granted power to make small changes in the rate as revenue needs dictated rather than go through the laborious and costly process of making refunds.

An even more basic item in understanding his motivation was expressed by one of his critics. Writing in 1927, Silas Bent acknowledged that he did not believe Mellon lowered taxes for his personal benefit. If that was true, if the Secretary's driving force was the accumulation of money, then why did he not stay in business and continue to make money? As Bent argued, Mellon believed in business prosperity and wanted to relieve its burden, but this did not mean that the tax rates on business should be reduced to the lowest possible level.[17]

Considerable vigilance had been necessary "to restrain its (Congress) members, who had seen the green light on last election day from voting a deficit in the Treasury," but Mellon had been successful.[18] He had received the tax bill that he wanted, and was able to maintain it in the

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[17]Silas Bent, Strange Bedfellows (New York: Horace Liveright, 1928), p. 72.

[18]Harvey O'Connor, Mellon's Millions, The Biography of a Fortune (New York: Blue Ribbon Books Inc., 1933), p. 140.

face of persistent pressure over a two year period. When the surplus for fiscal 1927, first estimated at $180 million and later at $300 million, reached the record level of $636 million, the Secretary withdrew his objections to a new revenue act. Though personally remaining silent, his spokesman in the Senate, David A. Reed, made it known that the Republicans would cooperate in the Seventieth Congress (1927-29).[19] The Grand Old Party was being true to the Democratic charges, cooperating with Mellon to gain an advantage in an election year.

Having bested the opposition on taxation, the Secretary of the Treasury gained a second victory over the question of funding the Allied war debt. In the area of interest rates and time for payment, the World War Foreign Debt Commission had exceeded its authority and Congressional approval was necessary for each agreement. The House assented without objection, but Borah, Reed of Missouri, and Robinson of Arkansas led a spirited fight in the Senate. They considered the capacity-to-pay formula as a cancellation of part of the debt, a violation of the terms insisted upon in the creation of the Commission. Though the formula meant that the United States would receive double what it had loaned, the alterations made by the Commission reduced the possible total, calculated at the original 5% rate, by slightly more than half. In the case of Italy, for example

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[19] New York Times, May 29, 1927.

an interest rate of 0.4% instead of 5% meant an actual reduction of 80,2% in the amount to be repaid in spite of the fact that the principal was unchanged.

The ratification of the Italian settlement brought the clash to its climax. With the opposition rumbling about a negative vote, Mellon wrote the President that the fate of all agreements hinged on this vote.[20] He predicted a total collapse of the debt structure should the Senate reject the most equitable settlement attainable. To demand more than a country could pay would be foolhardy. As he had said when negotiating with Caillaux and the French, better to accept what you can reasonably expect to receive than insist on full payment and run the risk of default.

Agreeing with his Secretary's moderate position, Coolidge used the good offices of the President to influence the reluctant Senators, letting it be known that he considered the foreign debt settlement an integral part of his economy program: debt payments would relieve the tax burden. Key Senators were invited to White House conferences where the chief executive made his point quite clear. Reed of Pennsylvania and Mellon were also brought in to map strategy for floor operations.[21]

When the crucial vote came in late February, 1926, the

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[20] Annual Report, 1926, pp. 214-16.

[21] New York Times, February 26, 1926. See also Mellon's speech before the Union League of Philadelphia wherein he gave the Administration point of view. New York Times, March 25, 1926.

administration won a surprisingly easy victory. With a vote of 53-34, the upper house set the precdent for future agreements. The losing side included Robert LaFollette, Jr., George Norris, James Reed and others, many of whom continued their opposition on taxation. The margin of victory, however, could be attributed to executive pressure and a number of Southern Democrats who ignored the Klan and voted yea. Its power waning, the Klan had stood fast on the questions of full payment of debts as a part of its program of 100% Americanism. The fact that the Commission was unlikely to force Italy to accept a more costly funding settlement in renewed negotiations must have influenced the Senate too.

With the Italian ratification in hand, Mellon turned his attention to the French, meeting secretly with their new ambassador, Senator Henry Berenger. Assisted by Under-Secretary Winston who had made an extensive, first hand survey of the French economic situation, the Treasury chief reached an accord with our Continental debtor in April. The Mellon-Berenger Agreement called for a total of $6.8 billion to be paid over a sixty-two year period. It contained $647 million more than Caillaux's last offer, but some $400 million of that was for the purchase of post-war military supplies, something not considered in the previous negotiations.[22] For practical purposes, it was an acceptance

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[22]For Mellon's role in the French negotiations, see W.L. Mellon, Judge Mellon's Sons (n.p., 1948), pp. 453-59.

of the earlier offer, something Mellon had advised in 1925.[23]

Burdened with a very heavy domestic debt, the French Assembly balked at the terms and did not ratify the agreement until the summer of 1929 when the debt for purchases of post-war military supplies was about to come due. As they had in all other debt cases, Congress preferred to wait for French action before giving its approval. The result of this tenuous situation was a growing sensitivity on the part of the Secretary to criticism of this or other settlements for fear of destroying a year and a half's work. The French had come to the negotiating table only when faced with the loan moratorium and the encouragement of favorable terms as exhibited in the Italian agreement. Should critics of the foreign debt policy become more vocal, France might return to its policy of procrastination in the hope that American domestic discord might lead to cancellation or additional reductions.

Much to the Secretary's chagrin, opponents of the debt policy did become more vocal and persistent. Nine months after the conclusion of the Mellon-Berenger Agreement, forty-two members of the social science faculty at Columbia

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[23]The French negotiations and final settlement has been reevaluated by Benjamin D. Rhodes, "Reassessing 'Uncle Shylock': The United States and the French War Debt," Journal of American History, LV (March, 1969), 787-803. Mr. Rhodes concluded that America was not "a merciless creditor" and that France was being obstinate. Some of his subsidiary conclusions, especially Mellon's role, do not stand as well.

University released a public letter calling for a reopening of the whole war debt and reparation tangle with an eye for scaling down, though not cancellation, of all settlements since Versailles.[24] The professors attacked American involvement on two fronts, economic and moral. Economically, they deemed a capacity-to-pay formula based upon a sixty-two year projection was unrealistic; morally, they reminded Americans of the wartime sacrifices in manpower of our debtors before the A.E.F. arrived, ending with a plea for an international conference to discuss the question of debts and reparations.

The Columbia letter, signed by several economists who had been vigorously supporting Mellon on domestic questions, was the culmination of growing sentiment for leniency in our terms, and placed him in the very awkward predicament of being criticized by both sides. Neither group would accept his moderate stance based upon the capacity-to-pay formula, and to each side he appeared as a defender of the opposite propostion.

Fearing a collapse of the pending French settlement, and not wanting to alienate the more powerful, though temporarily less vocal, full payment group in Congress over whom his recent victory would be tentative until French ratification, Mellon assumed the posture of an unyielding banker in his response to the revisionists. His attitude

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[24] New York Times, December 20, 1926.

was that he had revised as much as he ever would with his capacity to pay formula. Not anticipating full payment, he did expect the Eruopeans to honor the sanctity of international obligations to the limit of their capabilities, a limit already determined.

The first hint the Secretary had of the developing sentiment for revision was a letter from Fredrick W. Peabody to President Coolidge in June, 1926, six weeks after the Mellon-Berenger Agreement.[25] Peabody had urged cancellation on three grounds: that Wilson and the Congress considered the money a gift and not a loan; that because of the Allied losses in human life, we were morally unjustified in trying to collect; and that we could afford to be charitable.

At the direction of the President, the Secretary answered the letter with a point by point rebuttal.[26] He flatly denied that anyone had construed the loans as gifts, producing several letters and excerpts from the Congressional Record to substantiate his claim. As for the moral argument, the majority of the sums loaned, except in the case of Great Britain, he said, were of a post-war nature, and the total sum to be repaid reflected that division. Charity was not an issue, the banker-Secretary pointed out, for the loans were not owed to the United States government

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[25] International Conciliation, May, 1927, pp. 227-43.

[26] Annual Report, 1926, pp. 59-73 and 254-63.

but to the Liberty bondholders and taxpayers. The government was merely a collection agency, possessing no right of cancellation. The letter sounded harsh, but Mellon was never more earnest in the justice of his case than when he wrote Peabody.

While the Peabody letter was being drafted, an interview with the Secretary was published wherein he tried to appeal to both poles.[27] To the revisionists and cancellationists he cited Hamilton, arguing that the officers of the government are like trustees and "cannot follow the suggestions of kindness or humanity toward others to the prejudice of their constituents." Since the elected officials in the Congress expressed a demand for full payment, he believed he was carrying out the wishes of his constituency as far as possible. To the full payment crowd he said: "The entire foreign debt of $10,000,000,000 is not worth so much in dollars and cents to the American people as a prosperous Europe as a customer." Insisting on more than Europe could afford ran the danger of bankrupting the principal consumers of American exports. Rejection of both extremes thus was to justify the middle of the road capacity-to-pay formula.

The Saturday Evening Post article and the Peabody correspondence, published in his Annual Report for 1926, were designed to stem the tide of revisionist criticism.

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[27]Andrew W. Mellon, "Our Best Customer," Saturday Evening Post, June 19, 1926, pp. 3-4.

Unfortunately they acted as stimuli, especially the Peabody correspondence which appeared two weeks before the Columbia letter. Mellon's critics believed themselves to be as justified in their position as the Secretary, for all three parties had translated the issue into moral terms with the economic aspects secondary.

A fellow Commission member, Senator Reed Smoot, helped Mellon avoid a confrontation by assuming the defense against the Columbia letter.[28] The Chairman of the Senate Finance Committee had no more success in blunting the revisionists than did the Secretary, and like his colleague, succeeded in stimulating the opposition, for in March, 1927, 116 faculty members at Princeton University issued a public statement in support of the Columbia position.[29] This step forced Mellon closer to the full payment camp as he felt constrained to silence the revisionists before the problem became unmanageable. If they made any headway, they might reawaken his adversaries on Capitol Hill, prompt our debtors to reopen every settlement, and wreck four years of delicate domestic and foreign negotiations.

Writing to President John Greer Hibben of Princeton University, Mellon expanded his case against further revision or cancellation.[30] In a subtle sort of way typical

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[28]Annual Report, 1927, pp. 318-20.

[29]New York Times, March 11, 1927.

[30]Annual Report, 1927, pp. 326-30 and New York Times, March 17, 1927.

of his public pronouncements, the Secretary struck at the professors for commenting with an incomplete knowledge of the facts and with the French settlement tentative. Mutual reduction, he said, was unjust because America was only a creditor while our debtors were creditors as well, and could well afford all around reduction. They might not approve of the capacity-to-pay formula, but Chairman of the Foreign Debt Commission said he knew of none better.

Realizing that repetition of time-worn arguments would not dissuade the academic community, Mellon launched into a new area, connecting debts and reparations, something he and the Commission had steadfastly avoided. Replying to the charge that America was imposing "tremendous burdens of taxation for the next two generations on friendly countries," he said: "Now, the fact is that all of the principal debtors are already receiving from Germany more than enough to pay their debts to the United States. . . ." The agreements were not under hardships "since the sums paid us will not come from taxation but will be more than met by payments exacted from Germany." A battery of figures was produced to prove his point. In fiscal 1926-7, for example, France would be left with a balance of $75 million after receiving its credits paying its debts, Belgium a balance of $16 million, and Great Britain a balance of $2 million. In each succeeding year, the balances would increase, and only Germany would be left in the deficit

column. He closed with a plea oft heard in the Twenties with reference to prohibition; give the settlement a "fair trial" before making a judgment.[31]

The Hibben letter drew an immediate storm of protest. The Princeton President, in a St. Patrick's Day statement, reminded the Secretary that the World War Foreign Debt Commission had gone on record in 1925 as opposing any connection between American debts and reparations, they were to be separate and distinct questions. Had that policy changed? Using reparations to pay debts, Hibben argued, destroyed their purpose. They are to rebuild war torn Europe not pay the United States. Besides, the capacity-to-pay formula was to have been based on the country's internal capacity, not outside contributions. The New York Times which had supported Mellon on nearly every economic issue questioned this about face. Columbia economist E.R.A. Seligman, a personal friend, indignantly replied that economists did understand the issues involved and that the capacity-to-pay formula could not stand the test of economic understanding.[32]

This writer questions whether Mellon understood what he was signing when he penned his name to the Hibben letter.

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[31] Annual Report, 1927, pp. 326-30.

[32] New York Times, March 18, 19, and 24, 1927 and International Concilliation, May, 1927, pp. 227-73 has all of the primary sources beginning with the Peabody letter.

For years he had maintained a careful distinction between reparations and debts, and a deliberate connection, in view of the fact that he later renounced any association, makes one wonder if perhaps he had approved a document that he had not read. It was a mistake reminiscent of the Couzens tax fiasco, reacting in the heat of anger instead of clearly thinking the matter through as he usually did. The fact that he was about to sail for Europe on a spring vacation may also have kept him from devoting the attention that the letter deserved.

Shortly after his return from two weeks in Europe, a diplomatic crisis developed as a result of the Hibben letter. In a formal state paper in the grand Churchillian tradition, Chancellor of the Exchequer Winston Churchill vociferously objected to Mellon's claim that Great Britain would receive more for its debtors than it would pay its creditors. Accompanied by an array of statistics, he reminded the Secretary of the Balfour Declaration of accepting only a sum equal to debt expenditure.[33]

Secretary of State Kellogg dismissed the British, contending that the Hibben letter was purely a domestic matter. The Treasury chief, however, chose to defend himself, claiming a typographical omission for including Great Britain among the countries who received more than they paid. Further examination, on the other hand, revealed

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[33]New York Times, May 5, 1927.

that the British deficit in payments was only temporary and would reverse itself after 1928. The problem, Mellon said, was not really a typographical error after all, but an accounting distinction in that the British separated credits paid to their government, the Dominions, and the Bank of England whereas the American conception of war debts lumped these various items into one sum. The Secretary also took advantage of the exchange to reiterate the difference between debts and reparations and reassert his position pre-Hibben letter. "We have always claimed, and claim now, that the debts due are in no way connected to German reparations."[34] That last disclaimer made the argument totally illogical when the reverse was intended, but then the general American refusal to see a connection between debts and reparations was equally illogical.

With the receipt of the Mellon note, the British government decided not to continue the exchange. To allay any concern the President may have had as to the Treasury's responsibility in the crisis, Under-Secretary Winston wrote that the furor was a product of some Briton's wishes to topple the Baldwin government, and install a cabinet led by Churchill.[35] That may be too strong, but it was evident that both men were writing, not to insult a foreign government, but to state their position in a way most appealing

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[34] Annual Report, 1927, pp. 331-36.

[35] Garrad Winston to Coolidge, July 24, 1927, Secretary's File, Official Correspondence, Box 213.

to their critics at home. In Mellon's case, the tactic was reasonably successful for in spite of the questionable logic, he had made clear that the debt settlements were final, and though he had been inconsistent on the matter of debts and reparations, the American government would continue to consider one independent of the other. Unable to attract public support or alter the Treasury attitude, the revisionst argument slowly faded away. The Secretary and his settlement would be safe until a worldwide depression struck in 1929 and forced a change in policy.

The third of Mellon's three major goals brought to a fruitation in this period was the progressive reduction of the domestic debt. When he took office, the domestic debt stood at $24 billion and by the end of fiscal 1926 it stood at $19.6 billion, a reduction of approximately $1 billion per year. This also meant an annual compounded savings of about $40 million per year in interest payments.[36] The intention was to retire the debt by 1942, while foreign debt would run until 1988, thus providing federal revenues for some forty-six years which could be applied to domestic needs.

The Secretary's economy motivated policy of rapid reduction of the domestic debt went unchallenged for five years. The Democrats under Wilson had rejected the Gallatiin philosophy of paying most wartime expenses from loans that

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[36] Annual Report, 1926, pp. 38-46 and Federal Reserve Bulletin, July, 1926, pp. 500-501.

could be serviced by the succeeding generations who had benefitted from the war, for a policy of heavy taxation with a minimum of debt which was to be paid within the lifetime of the youngest wartime generation. The hope was that the post-war financial situation would stabilize itself more quickly with the latter approach, and they had established a sinking fund for that purpose.[37]

When the Democrats changed their position in 1926 on taxation and endorsed reductions on corporate income taxes and surtaxes, they also altered their opinion on eliminating the public debt, grumbling that it was being retired too quickly. Some suggested that the domestic debt be paid at the same pace as the foreign debt, sixty-two years instead of the sixteen years planned by the Treasury. Senator Furnifold Simmons, ranking Democrat on the Finance Committee and outspoken advocate of tax reduction, proposed a compromise of thirty-two years which would allow for most of the debt to be paid by the sinking fund and free the surpluses for tax reduction.[38] In the first five years of the Mellon administration, the surplus had provided as much for debt reduction as had the sinking fund, approximately $1.5 billion each, with the remaining $2 billion coming from foreign debt payments, retirement

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[37]Theodore J. Grayson, Leaders and Periods of American Finance (London: John Wiley and Sons, Inc., 1932), pp. 240-41.

[38]New York Times, September 12, 1926.

through the net balance in the general fund, and other sources.[39] With most government bonds held by small investors and most taxes paid by men of moderate means, the Simmons plan assumes an aura not dissimilar to the Democratic ideas on taxation.

The Secretary was adamantly opposed to any retardation in his debt retirement programs and used a part of his Annual Report for 1926 to show that it was the traditional policy of the federal government to pay its debt as quickly as was economically feasible.[40] In other public statements he reminded his critics that it was best to reduce the debt as much as possible when we could well afford to. When first explaining his program to the populace, he said that to let debts accumulate was "a sign of debility and denoted an absence of the essential vigor and foresight which insures future success. It is the policy of the thriftless, the ne'er do-well."[41] Now he was arguing that most revenues were hinged to income taxes which were subject to fluctuation, and a recession or depression would mean that debt payments could only be made with some hardship.[42] An accelerated retirement program was of further

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[39]Federal Reserve Bulletin, July, 1926, p. 501.

[40]Annual Report, 1925, pp. 24-26.

[41]Andrew W. Mellon, "What I am Trying to Do," Worlds Work, November, 1923, p. 31.

[42]New York Times, August 27, 1926 and Andrew W. Mellon, "Government Finance and Taxation in 1927," Worlds Work, January, 1927, pp. 232-33.

benefit to the government in that it led to declining interest charges, 23.6% of all federal expenditures in fiscal 1926, and reduced operating costs. The speed of retirement and refunding was also tied to the state of the money market and to limit the amount that could annually be retired or refunded might mean an inability to take maximum advantage of declining interest rates. In his first six years, Mellon had been able to reduce the average interest rate on federal bonds from 4.29% to 3.97%, a considerable savings, and the future promised a continued downward trend.

The 1927 Annual Report included an argument that Treasury debt plans were more beneficial to the bondholders in that the government had borrowed on a 51 cent dollar and was repaying with a 66 cent dollar (1913 base year). Postponement ran the risk of inflation and depreciation of the dollar as well as increased costs for the government. If extended to thirty years, it would require an additional outlay of $3.5 billion, and if continued for sixty-two years, the total interest would be $46.2 billion or nearly double the principal.[43]

The best policy, Mellon argued, was an intelligent combination of tax and debt reduction, with neither proposition receiving more than its just share. As of 1926, his general policy had been to apply one years surplus to taxes

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[43] Annual Report, 1927, p. 7 and New York Times, October 7, 1926.

and the next year to the debt. The President and the Republican Congress stood behind this policy in 1926 and 1927 and the Democrats were unable to change it, though they would continue to point to the ever present surplus as a justification for tax reduction. The Republican turnabout on taxation in 1928, primarily motivated by political expediency, was also grounded in an extraordinary surplus for fiscal 1927, $636 million. They could hold the Democrats at bay only so long.

After the Secretary retired, Louis M. Hacker charged that "American financiers, including the Secretary of the Treasury, Mr. Mellon, knew all along that the debts would never be paid, but deliberately kept alive the fiction that they would in order to make more palatable Secretary Mellon's reduction of income taxes in higher brackets."[44] Hacker also claimed that the debt had been insufficiently lowered in order to provide for tax cuts, thus saddling the generation of the Thirties with an unnecessary burden.[45] The fact that after 1925 the Democrats led the way in demanding tax reduction equal to the surplus and using only the sinking fund for debt retirement, while the Treasury was actively seeking to apply surplus revenues to the debt and delay downward revision of taxes, tends to refute an accusation which has continued to the present. That the

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[44]Louis M. Hacker, American Problems of Today (New York: F.S. Crofts Co., 1938), p. 62.

[45]Ibid., p. 33.

debt would be fully paid off by 1942, or at the latest 1947, appeared to be a distinct reality before the cataclysm of 1929.

In the instances of taxation, the foreign debt, and the domestic debt, Mellon had won victories. That is, the Secretary had definite policy procedures in each of these areas and won out in fights with some factions in Congress and interest groups that saw things differently. 1926-27 also saw him accomplish several other goals that were not structured in an adversary fashion. One of these was in the field of prohibition enforcement.

The dry lobby had actively criticized Mellon for his enforcement policies until the reorganization of the Prohibition Bureau by Assistant-Secretary Andrews in the latter half of 1925. Reorganization did not bring an immediate end to the illegal liquor trade, but the welter of activity it generated pleased the prohibitionists. The military atmosphere that accompanied Andrews and the unyielding attitude he expressed convinced even the militants that he was doing his best.

Attention to prohibition enforcement policies also diminished when Congress, with an eye for corruption, began investigating the political activities of the dry lobbies, particularly Wayne Wheeler and the Anti-Saloon League. The increasingly hostile attitude of the legislative branch put the prohibitionists on the defensive, allowing them little

time to watchdog Mellon.[46]

Unbeknown to the public at large, the Andrews plan included the dismissal of political appointees from the Haynes administration. Absence of civil service requirements had allowed for corruption in the selection of enforcement officers. News of Andrew's shuffling broke when several dry leaders and Congressmen called for his resignation for ignoring their recommendations.[47] The Secretary was placed in the difficult oosition for wishing to retain a valuable and efficient subordinate while not alienating anyone on Capitol Hill or activating his dry critics. Andrews was informed that he must be aware of political ramifications and he offered to retire, remaining only at the request of the Secretary who suggested that a detente might be reached.[48] An uneasy lull hung over the bureau for a year.

In the spring of 1927, Congress finally passed the Mellon-Andrews, nee Cramton, Reorganization Act. The new Prohibition Bureau was put under the aegis of Acting-Commissioner Roy Haynes, the former commissioner under the old regime who had been shunted aside by Andrews. To be certain that Haynes did not repeat any of his old mistakes, especially concerning personnel, he was to clear all policy

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[46]Andrew Sinclair, Prohibition, The Era of Excess (Boston: Little, Brown and Co., 1962), p. 277.

[47]New York Times, April 2, 1927.

[48]Sinclair, Prohibition, p. 186.

decisions with Mellon and/or Andrews.[49]

An integral part of the new bill was the inclusion of all but the Commissioner on the civil service list. The Secretary had been quiet about civil service, but Andrews was an open supporter, further antagonizing the politicians who wanted to use the bureau as part of the spoils system. Though civil service presented a threat to the spoils system, Congress failed to adequately fund it and not until 1930 was it an effective part of the Prohibition Bureau.[50]

In appointing Haynes Acting-Commissioner, it was evident that Mellon had some doubts about his continuation in the post.[51] When the drys began to pressure him to make the appointment permanent, the Secretary staged a brilliant political and administrative maneuver; he dismissed both Haynes and Andrews. The drys were disgruntled over the loss of Haynes, but they were relieved with the departure of the uncooperative Andrews. In their places, he promoted chief chemist James Doran to Commissioner and brought in Seymour Lowman, former lieutenant-governor of New York and Ogden Mills's running mate in an abortive bid for

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[49]"Political Wrinkles of the Haynes Come-Back," Literary Digest, April 9, 1927, pp. 8-9.

[50]Sinclair, Prohibition, p. 277 and New York Times, April 18, 1926.

[51]Mellon to Andrews, June 10, 1927, Presidential Papers of Calvin Coolidge, File 21, Manuscript Division, Library of Congress and Sinclair, Prohibition, p. 277.

Albany in 1926, as Assistant Secretary. Both were capable men and the promotion of Doran was intended as a morale boost for the bureau. No change in operation was planned as both men envisioned adopting the Andrews organizational structure.

The fact that 1926 did not include a prolonged battle over taxation or other Treasury related issues enabled Mellon to turn his attention to the pet project of his administration, the development of the city of Washington. His first impression of the Capitol was one of disappointment. Instead of a city of beauty like Paris or Rome, Washington struck him as an eyesore, cluttered with "temporary" buildings left from the war. A few months on the job revealed the situation to be more acute; hundreds of thousands of dollars were being wasted annually for rented space and efficiency was impeded as many departments were spread all over town in as many as thirty or forty buildings.[52] What seemed called for was a resurrection of the L'Enfant Plan and a massive program to beautify Washington as well as to economize and improve operations.

Public building at this time was entrusted to the Secretary of the Treasury, but Congress jealously guarded how the "pork barrel" would be divided and the last omnibus building program was authorized in 1913. As early as 1922, Mellon, in conjunction with the Postmaster General, had

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[52] New York Times, October 18, 1925 and Annual Report, 1925, pp. 114-17.

prodded the legislators as to the need for more buildings to keep pace with expanding government operations. They finally agreed to his suggestion for $50 million for development of Washington when the Secretary added an additional $100 million for use throughout the country.[53] Though authorizing the entire program, Congress would retain control by appropriating on an annual basis. This multi-year program formed the core public works campaign that Hoover used in his attempt to blunt the depression and absorb unemployment.

The end result of the 1926 construction scheme was the creation of the Federal Triangle, a section of land that includes the National Archives, Justice and Commerce Departments, the Internal Revenue Bureau, and Federal Trade Commission. New Supreme Court chambers were also erected. Assisted by the Washington Fine Arts Commission, he kept a close eye on the Supervising Architect's office to see that his exacting specifications were met. Nationally known architect Edward H Bennett was employed as a consultant to oversee the project. In later years as he surveyed his accomplishments, Mellon was particularly proud of his role in developing the nation's capital. It had become a city, he thought, that could begin to compare with its European counterparts.[54]

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[53] Annual Report, 1926, pp. 154-60.

[54] Interestingly, except for historians of Washington, D.C., the only historian to give Mellon any credit for the

The generally successful function of Mellon and his policies in the mid-decade period went temporarily awry in the Pennsylvania senatorial campaign of 1926. Four years earlier he had attempted to exert control of the Grand Old Party in his home state and was rebuffed by the unwillingness of the Philadelphia faction to cooperate on a "harmony ticket" and resulted in the gubernatorial victory of Gifford Pinchot. Barred by law from running for a second consecutive term, the Republican maverick announced his candidacy for senator against the incumbent George W. Pepper, an administration man whom the Secretary planned to support. The primary became an open battleground when the boss of Philadelphia, William S. Vare, declared his intention to challenge Pepper.

Mellon had reluctantly participated in the political arena, preferring to deal through his nephew, W.L. Mellon. The circumstances in this primary, however, called for personal attention and he summoned Vare, W.L. Mellon, and other prominent politicians to Washington for purposes of negotiating a "harmony ticket" to stop Pinchot.[55] With the election promising to be something of a referendum on prohibition, Vare, a wet running against two dries,

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[54](cont.) development of that city is Elizabeth Stevenson in her Babbitts and Bohemians (New York: Macmillan Co., 1967), p. 132, though she describes his work as so many "ponderous buildings."

[55]U.S., Congress, Senate, Hearings before the Special Committee Investigating Expenditures in the Senatorial Primary and General Elections, 69th Congress, 1st Sess., 1926, p. 160.

rejected any suggestion of unity.

Failing to reach an accord with the eastern wing, Mellon approached Joseph Grundy, President of the Pennsylvania Manufacturers Association and prominent Republican fund raiser. A supporter of Pinchot in 1922, he had joined forces with the Mellons in 1924 to raise a war chest of $600,000 for use in areas that might go Democratic.[56] Though he disliked Pepper, he accepted the Mellon's offer to support his man for governor, John S. Fisher, and a bargain was struck. In both series of negotiations, Pepper was not consulted, and when the "harmony ticket" was agreed upon, he was presented with an accomplished fact.[57]

As could be expected, the Mellon-Grundy faction chose to fight the primary on monitary terms and in six weeks managed to expend nearly $2 million. It was reported that over 35,000 poll watchers were hired in western Pennsylvania at a cost of $10 per man, a sum in addition to the above figure.[58] Louis Overaker estimated that the Pepper forces spent 86 cents per voter in the primary and $2.42 for each voter who cast a ballot for Pepper.[59]

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[56]A.H. Hutton, The Pennsylvanian, Joseph R. Grundy (Philadelphia: Dorrance & Co., 1962), pp. 180-83. Hutton also said that Grundy was sent by Penrose to Marion during the interregnum to press for Mellon's appointment, p. 179.

[57]Ibid., p. 183; Hearings on Expenditures in Primary, p. 168; and George W. Pepper, Philadelphia Lawyer, An Autobiography (Philadelphia: J.B. Lippincott Co., 1944), p. 212.

[58]New York Times, June 11, 1926.

[59]Louis Overacker, Money in Elections (New York: The Macmillan Co., 1932), p. 64.

In a joint appearance with Senator David Reed and Secretary of Labor Davis at a rally in Motor Square Garden in Pittsburgh, Mellon contributed to the campaign the only public, political speech of his life. So immersed had he become, veteran political commentator Frank Kent believed him to be staking his political reputation on the outcome; if Pepper lost, it was axiomatic that Mellon would retire.[60]

The Secretary's help not withstanding, Pepper went down to defeat as the Vare strategy of splitting the drys and turning out the Philadelphia vote worked perfectly. But in a surprise finish, Fisher eked out a narrow victory over Vare's man, Edward Beidleman. Vare had one senate seat, Mellon the other plus the state house, and the state chairmanship was left to be decided. Taking no chances, W.L. Mellon was directed to run and his victory assured the Secretary of control over the state party until 1928 and helped recoup some of his lost prestige.

Rumor flew as to the sums spent in the Republican primaries in Pennsylvania and Illinois and a Congressional investigation was demanded. A special committee convened in mid-June and was chaired by Mellon's old nemisis Senator James Reed (D-Mo.). The Reed Committee revealed the seamy details of the primary campaign costing over $3 million. Placed in a compromising situation, the principals were

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[60]Frank Kent, "Pinchot v Pepper v Vare," Nation, April 14, 1926, p. 399.

forced to defend their wanton use of money. Both the Secretary and his nephew blamed the primary system for causing expensive, intra-party factionalism. The high cost of advertising, letter campaigns and poll watchers were the product of such a system. They vigorously denied having spent a dishonest dollar, that poll watchers, for example, were necessary in a state that by and large lacked voting machines.[61] Given time, they would account for all of it.

The Reed Committee continued hearings during the summer, with the excesses of the Illinois primary as the principal topic. Mellon avoided being called to testify by sailing for Europe on a three month cruise, hoping that by the time he returned the issue would have died. When the committee met into the fall and winter months, encouraged by Governor Pinchot's certification of Vare's November victory with the words "on the face of the returns, William S. Vare appears to have been chosen by the qualified electors" instead of the simple "duly chosen," Senator David Reed prohibited its continuance after adjournment by filibustering it to death in February.[62] The Pennsylvania Senator argued that an investigation was proper, but that it should

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[61] New York Times, June 15, 1926.

[62] M. Nelson McGeary, Gifford Pinchot, Forester-Politician (Princeton: Princeton University Press, 1960), p. 320. Pinchot also publicly claimed that Vare's nomination was "partly bought and partly stolen." Ibid.

be done by the appropriate Senator committee, not a temporary one packed with Democrats to examine Republican irregularities.

While Reed was filibustering over the Reed Committee, Mellon brought in a new Under-Secretary, Ogden Livingston Mills, marking a new departure for Mellon and the Treasury. The Secretary was approaching seventy-three years of age, three years beyond his biblical allotment of three score and ten, and was visibly slowing down. Never dynamic in his appearances, by 1927 he had relied more and more on his assistants to do the public work for him. When the position of Under-Secretary was created in 1921, some had thought that the man should be a permanent, non-political appointee like the British system, but as was shown with Parker Gilbert and Garrand Winston, he became the right hand of the Secretary. In the case of Mills, Mellon's dependence upon his chief assistant grew to the point that many referred to him as the real Secretary, a position he formally assumed in February, 1932.

The choice of Mills was typical of Mellon's penchant for surrounding himself with young, talented underlings. The new Under-Secretary had several virtues which defined his capability. Ideologically, he was in complete agreement with his superior on all economic matters and at times expressed a sense of conviction even deeper than Mellon,

and would defend his beliefs in very aggressive fashion.[63] Writing to Owen Young in 1922, the brash, freshman Congressman expressed a viewpoint that would endear himself to any conservative financier. "If I were a dictator and could write my own ticket, the first two goals which I would reach for would be the balancing of the budget of the United States Government and the return to the gold standard by Great Britain."[64] On Capitol Hill, he was reputed to have one of the best minds on the Ways and Means Committee and he had endeared himself to the administration by his support of its measures, particularly his floor leadership of the Revenue Act of 1926. Politically, he was safe, having been a member of the platform committee in 1920 and 1924 and running for governor of New York in 1926 on an administration ticket in the face of insurmountable odds in the form of Al Smith. That Mellon was aware of him came out in the election when the Secretary broke precedent and endorsed Mills, the only candidate he ever publicly supported outside of the President and his men in Pennsylvania.

Originally Mills was slated to assume his duties February 1, but he delayed until Congress adjourned in early March so that he might work in tandem with Mellon against

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[63]His two books Liberalism Fights On (New York: The Macmillan Co., 1936) and The Seventeen Million (New York: The Macmillan Co., 1937) are two excellent expressions of the depth of his convictions and his aggressiveness in their defense.

[64]Mills to Owen Young, December 16, 1922, Ogden Mills Papers, Manuscript Division, Library of Congress, Box 9.

the McNary-Haugen farm bill. The Secretary was known to be against the bill, having spoken negatively as to its merits in the previous session. Calling it uneconomical and claiming that it would raise consumer prices, he declared that "we cannot oppose fundamental economic laws."[65] That statement was made the day after his defense of the Pennsylvania primary expenditures and the combination brought on a storm of criticism.

The Secretary privately expressed opposition to the McNary-Haugen bill along other lines.[66] Many of the bill's supporters likened it to an agricultural tariff, but he decried such notions, arguing that the farmer's problem had nothing to do with the tariff. The real problem was purchasing land at inflated prices and that the deflation of agricultural land values must work itself out just as industry struggled through the deflation of 1921. Here Mellon was citing an immutable economic law, deflation must follow inflation, and man must resign himself to the workings of nature. This type of reasoning would be heard more often after 1929. The Treasury had hoped to publicize this letter during the summer of 1926, but changed its mind for fear of attracting personal criticism to Mellon at a time when the public was beginning to forget the primary expenditures.[67]

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[65] New York Times, June 16, 1926.

[66] Mellon to James Witherow, June 8, 1926, Tariff 1926-27 File, Official Correspondence, Box 128.

[67] Winston to Mellon, August 4, 1926, Letters to Europe File, Official Correspondence, Box 221.

These arguments were repeated in February, 1927, but neither he nor Mills could stem the tide in Congress. Like the bonus in the previous Congress, McNary-Haugenism had grasped the imagination of the majority and only a Presidential veto prevented it from becoming law. Even then, the veto may have been overridden if it were not for Senator David Reed's filibuster.

While denying that McNary-Haugenism could act as a tariff for agriculture, Mellon came out strongly for a protective tariff for industry. For nearly six years, apart from the Alcoa controversy of 1924, he had followed Gilbert's advice and avoided any mention of the tariff. The persistent demands of the agricultural sector and a plea by American and European bankers for mutual tariff reduction led him to make an exposition on the subject.

In his position statement, the Secretary flatly declared:

> Our tariff policy has been mainly responsible for the development of manufacturing in America. Our tariff policy has brought to American labor the highest real wages in history.[68]

Any reduction of the tariff would mean a corresponding decline in the standard of living for as he had written the President some months before: "Business prosperity is the barometer of the individual prosperity of our citizens" and

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[68]Tariff Statement of October 25, 1926, Tariff 1926-27 File, Official Correspondence, Box 128.

business prosperity rested on the tariff.[69]

Rather than restrict imports, Mellon argued that our tariff policy had had the reverse effect. A comparison of the volume of imports during the first seven months of the lower Underwood Tariff (World War I beginning seven months after its enactment) with that of the last seven months of fiscal 1926 showed that the level had increased in the later period because volume, he said, was controlled by the purchasing power of a nation, not by its import duties. Lower duties would initially mean increased imports, but these imports will cause a restriction in American business, lead to unemployment, lower wages, and a decline in purchasing power, culminating in a reduction in imports.[70]

He did however agree that Europe needed lower tariffs, not to help American producers but to assist its own for the World War had caused a restructuring along ethnic instead of economic lines. Producers were having a difficult time obtaining raw materials or markets in other countries and Mellon proposed a common market of sorts so that Europe could be a self-sustaining economic entity like the forty-eight states of America.[71] In other words, Europe had the same problem America had under the Articles of Confederation.

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[69]Mellon to Coolidge, June 5, 1926, Budget-Business Organization of Government File, Official Correspondence, Box 22.

[70]Tariff Statement, Official Correspondence, Box 128.

[71]Ibid.

The tariff exposition was Mellon's most brilliant state paper. The economics of it were and are highly questionable, but it is undoubtedly a masterful defense for a high tariff policy.

The Federal Reserve Board became something of a problem for Mellon in this period. During the summer of 1927, the Board had accelerated its program of reducing the discount rate so as to stop the gold flow from Europe and provide credit in the farm areas during harvest. The plan worked in that for the first time since 1914 gold began to move out of the country, but many who feared inflation were critical and reminded the Board that the Federal Reserve System was a domestic institution and not an international bank.[72]

The Chicago Federal Reserve Bank, however, balked at the Board's August directive to reduce its rate and precipitated a crisis. Since it was economically unsound to have a variation in rates among member banks and the Chicago refusal presented a threat to the power of the Board, Governor Crissinger forced through the Board by a 4-3 vote a resolution demanding acquiescence.[73] Through Benjamin Strong of the New York bank, the Chairman asked the Governor to delay the vote until he returned from his European vacation, but Crissinger did not tell the Board

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[72]"Explaining the Move Toward Easier Money," Literary Digest, August 20, 1927, p. 52.

[73]New York Times, September 9 and 16, 1927.

of the request.[74] When the Secretary arrived in Washington in early September, Chicago was threatening to go to court and challenge the power of the Board to institute rate changes.[75]

Though he disagreed with Crissinger, there was little that could be done, except to soothe feelings. To reconvene the Board and change policy might destroy the power and effectiveness of that body. The forced resignation of Crissinger, the last vestige of Harding on September 15, went a long way to calm the situation. He claimed that he had intended to resign earlier, but waited for the President and the Secretary to return from their vacations. The common belief was that Mellon had taken advantage of an opportunity to rid himself and the Board of Crissinger.[76] With the former President of the First National Bank of Marion gone, Chicago accepted the Board's directive, but requested that the Secretary have the Attorney-General draw up an opinion on the role of the banks and the Board in making rate changes. Diplomacy and power politics had

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[74]Lester V. Chandler, Benjamin Strong, Central Banker (Washington: Brookings Institute, 1958), p. 448.

[75]The law was vague as to just what the role of the Board was to be in developing policy. Following the Chicago case, there was a flurry of Congressional activity to delineate the role in either a broad or restrictive sense, but no formal legislation was passed until the Board was reorganized during the early stages of the New Deal.

[76]Charles S. Hamlin, MSS, Index-Digest, Manuscript Division, Library of Congress, Vol. 12, p. 151 and New York Times, September 16, 1927.

averted a constitutional crises of sorts.

The head of the Minneapolis Federal Reserve Bank, Roy A. Young, succeeded the Marion banker as Governor. The New York Times reported that the Secretary preferred his former assistant, Parker Gilbert, but the law prohibited two members from the same district and Vice-Governor Edmund Platt held the New York seat. The Times did, however, question the likelihood of Gilbert resigning his $45,000 post as Agent-General for Reparations for a prestigeous job that paid only $12,000.[77]

The problems of the Board in this period were not always so acute and in one instance Chairman Mellon inadvertently gave a rare display of leadership. He actively supported the McFadden-Pepper banking bill as "the most important piece of banking legislation enacted since the Federal (R)eserve Act."[78] Designed primarily to give branch banking power to national banks and to provide easier access for state banks into the national banking system, the bill also provided for indefinite extension of reserve bank charters. In simplist terms it gave permanency to the system; it would not expire as had the First and Second National Banks.

In describing the bill, the Secretary was more interested in the branch banking aspects than the charter

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[77] New York Times, September 18, 1927.

[78] Annual Report, 1926, pp. 10-14 and 1927, p. 86.

provision.[79] The bill was drafted by the Treasury Department and as written did not include the charter provision; that was added by amendment. Though he supported the amendment, the fact that it was omitted when written indicates something, lack of interest or lack of forethought perhaps. His interest in permitting branch banking for Federal Reserve member banks was a matter of concern for the Mellon National Bank. If it was to maintain its banking hegemony in an expanding Pittsburgh, branch banks would be necesaary. The McFadden-Pepper bill and the repeal of the gift tax are the only two items that this writer has seen in which the Secretary had a direct, personal interest in their passage and actively worked for them. The repeal of the gift tax, for example, was followed by his instituting a program of divesting his wealth to his children. Of course, many other laws were of direct and indirect benefit, but these are the only cases where a conflict in interest is clearly evident.

Before leaving the mid-decade period, there is another subject deserving of attention, the changes in the size of currency. Upon the recommendation of fiscal Assistant Secretary Charles S. Dewey, Mellon directed that a Treasury committee study the feasibility of reducing the size of the

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[79]This was most evident in the promotion of both aspects in the 1926 report, pp. 10-14, written by David Finley. Finley to Mellon, November 15, 1926, Federal Reserve Banks-Renewal of Charters File, Official Correspondence, Box 52.

currency. The impetus for this move, like so many other policies, was economy; it was estimated that the government would save $2 million annually since smaller bills would not have to be folded as much, thus increasing the life of a circulating bill. Problems such as cash registers, money counters, and wallet sizes had to be overcome before he gave the go ahead in May, 1927 to print bills approximately two inches shorter in length and breadth. This was the first alteration in American money since 1861 when the federal government began producing paper money on a massive scale.[80] That such a small matter would be a concern to Mellon indicated the seriousness of his commitment to economy. Anyone familiar with the old bills must be appreciative of his interest.

The period 1926-27, the Sixty-ninth Congress, was Mellon's zenith. He had achieved his major goals of scientific tax reduction, successful refunding of the foreign debt, and progressive reduction of the domestic debt. The Prohibition Bureau was reorganized, a beautification program was begun in Washington, a political war in Pennsylvania was won, Donald Crissinger was replaced at the Federal Reserve Board, and cost of printing currency was reduced. With no campaigns to wage, he became a conservative in the literal sense of the word--one who conserves, one who protects what he has or maintains the

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[80] New York Times, May 27, 1927 and Annual Report, 1927, pp. 84-86.

status quo. Ogden Mills was brought in to assist in the financial conservatism and Mellon could look forward to the end of the Coolidge epoch, perhaps to dream wistfully of retirement. The time was opportune to retire and see how things were going at the bank. Having reached his zenith, the only direction left was down.

CHAPTER VI

FROM KINGMAKER TO ALBATROSS

The political tenor for 1927 and 1928 was set in August of the former year when President Coolidge made his famous "I do not choose to run" announcement. With attention centered on the race for the Republican nomination and the White House, all issues were evaluated for their effect on those races. Interest in Treasury affairs shifted with the political tides and Andrew W. Mellon's importance was accented more by his role as titular head of the Republican Party in Pennsylvania and as confidant of the lame-duck President than by that as Secretary of the Treasury. For the moment, the electorate was less concerned with his economic theories than with his political leverage at Kansas City in June.

Preparations for the campaign began in late October, 1927 when the House Ways and Means Committee met in advance of the Seventieth Congress to consider a new revenue act. Two years had passed since taxes had been altered and attitudes had changed on whether or not taxes should be materially reduced. In the face of heavy Democratic pressure,

the Secretary had delayed reduction until the Revenue Act of 1926 had what he considered to be a fair test. Fearing that the government was growing overly dependent on the income tax and that too few people were contributing to it, 2 million taxpayers had been taken off the federal tax rolls in the last three revenue acts, he had suggested returning the surplus to the taxpayers in the form of a credit, but the Congress had rejected such a program. The Democrats dismissed the plan as a political subterfuge to postpone reduction until 1928 so that the Republicans could go to the voters with a fourth reduction in seven years, and the majority on Capitol Hill turned a deaf ear to Mellon for that same reason.

The tremendous $636 million surplus for fiscal 1927, combined with the political facts of life in the upcoming election year, dictated that there would be adjustments in the tax structure. Knowing that much of the surplus was of a temporary nature, not to reappear in fiscal 1928, and concerned that the Congress might write an excessive bill as each party zealously sought to "out-Mellon Mellon," the Secretary seized the initiative and proposed a modest decrease in revenue of about $225, about half of what Furnifold Simmons and the opposition were recommending.

Though he personally appeared before the Ways and Means Committee to express his sentiments, it was Under-Secretary

Ogden Mills who read and defended the prepared statement while his superior sat quietly puffing on a cigar. Reporters took this as a sign of Mills's growing importance and Mellon's increasing dependence on his assistant. Mills was an aggressive underling, and some suspected that with his background as a member of the Ways and Means Committee and his participation in drafting the economic sections of the Republican platform in 1920 and 1924, he might grow to overshadow his superior. The Secretary's willingness to delegate authority to subordinates was thought to be potentially disastrous in the face of a hard driving assistant like Mills.

The two sides differed significantly over the size of the cut, but there was remarkably little divergence over what taxes would be modified to reach the desired level. Both saw a need for lessening the burden on corporations which had received little relief since the excess-profits tax repeal in 1922. There was agreement that the surtaxes on $10,000 to $70,000 brackets, the "middle incomes" Senator Simmons called them, should be adjusted downward since they had been ignored in the 1926 Revenue Act, and that the estate tax should be repealed and returned to the states. Realizing that the differences were in degree and not kind, Mellon invited House minority leader John Nance Garner to a conference at the Treasury.[1] Garner was not

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[1] New York Times, October 25, 1927.

tempted by olive branches for he knew that if his party intended to claim credit for the reductions, it must operate in the public eye and avoid negotiated settlements.

The Democrats under Garner hoped to win popular approval by exceeding the Secretary's recommendations. They stood for a lowering of the corporate income tax, for example, from 13½% to 11% instead of the 12% planned by the Treasury. Repeal of the automobile excise tax was also advocated, though Mellon wanted to retain it as a broad based tax which diminished the government's dependence upon the income tax. Only 2½ million people paid income taxes, but over 20 million had paid the automobile levy. An end to that tax was part of the Democrats more extensive demand for the removal of all wartime excise taxes.[2]

The hopes of both Mellon and Garner went temporarily awry when Ways and Means Chairman William R. Green ignored them and proceeded to draft his own bill.[3] By a straight party vote, the Republican majority on the committee defeated Garner's proposition and went on to approve the Chairman's version. The committee refused to repeal the estate tax or alter the surtaxes, and set the corporate

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[2]R.G. and G.C. Blakey, The Federal Income Tax (London: Longmans, Green and Co., 1940), pp. 277-81.

[3]Chairman Green's "treason" cost him his job in that President Coolidge nominated him to the United States Court of Claims. He had ignored administration wishes in the 1924 and 1928 revenue bills, and he was not promoted up and out to a position that he had not sought, but accepted, having tired of fighting the administration. Ibid., 290.

income tax at 11½%. The total reduction was about $250 million, of which $166 million would go to the corporations.

On the floor, Garner led a spirited drive and succeeded in attaching a graduated corporate income tax from 5% to 11½% and ending the tax on new car purchases. There were several lesser changes as well and so altered was the bill from the one sent by the committee that the Republican leaders tried to recommit it. As voted by the House, the Garner plan projected reductions of $290 million in spite of the fact that the Treasury had predicted a surplus of only $252 million.

With the Democrats having seized control of the revenue bill in the House, and perceiving a direct threat to his sacred cow, the balanced budget, Mellon appealed to Reed Smoot, Chairman of the Senate Finance Committee, to delay consideration, at least until March when the quarterly tax returns would be available. With current figures on hand, the Secretary thought that his case would be buttressed and Smoot agreed to his request.[4] He also sent a public letter to the President, reminding him that a "balanced budget is an essential element of any sound fiscal system, and as long as I am Secretary, the Treasury Department will resist the undermining of the principle. . . ."[5]

While stalling for time, the Treasury chief launched

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[4] Annual Report of the Secretary of the Treasury, 1928, pp. 288-90.

[5] Congressional Digest, January, 1928, p. 25.

an attack on the Chamber of Commerce for supporting Garner and the Democrats. As a result of a survey of its membership, the Chamber issued a report calling for $400 million in tax adjustments, particularly a lowering of the corporate income tax to 10%. The conversion of that bastion of Republicanism to the minority party's tax program indicated that the Democrats plans for the 1928 campaign were falling into place. The Chamber was not so much deserting its hero as it was succumbing to the forces of greed and self-interest and the Secretary sought to shock them back to reality. In a public letter to its President, Lewis E. Person, he chastized the group for publishing an inaccurate report which lacked detailed figures and offered unsubstantiated criticisms of Treasury estimates. The pamphlet, in Mellon's view, was "hardly worthy of a businessmen's report."[6] The President had already said substantially the same thing and even Chairman Green had objected to the Chamber's demands.[7]

In a speech to the Women's National Republican Club in New York City, he generalized his position vis-a-vis the Chamber of Commerce to include the entire business community. Prophesying that a reduction in excess of $225 million would lead to unfavorable economic consequences, he reminded businessmen that they would suffer most and should

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[6]Annual Report, 1928, pp. 285-87.

[7]Blakey, Income Tax, p. 281.

therefore refrain from encouraging Congress to exceed the safe level. In line with his consistent demand that taxation should be equitable and his concern that the base of the income tax was shrinking, Mellon noted that more people owned stock than paid federal income taxes and to exceed Treasury recommendations would mean a further dwindling of the base.[8]

That a Republican Secretary of the Treasury would unreservedly criticize the business community in general and the Chamber of Commerce in particular in an election year was indicative of Mellon's conviction of the need for scientific tax reform as opposed to simple reduction to appease certain interest groups. If he was a tool of business, he should have acceded to such demands as a 3% slash in the corporation tax as opposed to the 1% cut that the stood by. He was taking a calculated risk in attempting to make the commercial and industrial sectors aware of the pitfalls of the Democratic tax scheme.

Mellon was praised for his courage by Thomas S. Adams in his presidential address to the American Economics Association, "Ideals and Idealism in Taxation." An advisor to the Treasury for over a decade, Adams stated:

> The Secretary of the Treasury and important members of Congress . . . have repeatedly in recent years fought for tax measures which they knew at the time were foredoomed to

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[8] New York Times, January 15, 1928.

> failure. They knew the efficacy of reiterated enunciation of the sound but unpalatable truth.[9]

Though somewhat overdone, it was a glowing tribute from the academic community of professional economists.

The Secretary continued his aggressive tactics when the Finance Committee met in April. Armed with figures based on the March 15 returns, he scaled down his recommendation to $180 or perhaps $200 million at most depending on how Congress should act on some appropriations. Due to a mild business recession, the surplus had been re-estimated at $212 million, $50 million less than originally thought. Congress and the public at large had become increasingly uneasy about the Treasury's continuing program of changing estimates, particularly when the modifications seemed designed to fit its programs and were usually wrong when the final figures were in. It was by no means certain that the upper house would accept the adjustments.

With the Senate evenly split, forty-seven Republicans versus forty-six Democrats and one Farm-Laborite, Smoot, assisted by David Reed, had a difficult time steering Mellon's proposals. The House approved graduated corporation tax was replaced by a 12½% flat rate and surtaxes on middle incomes were modified, but the estate tax was continued and the House repeal of the automobile tax was sustained. The Insurgents, led by George Norris, were able to force through an amendment providing for publicity of

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[9] American Economic Review, XVIII (March, 1928), p. 7.

tax returns, something the Secretary had traditionally fought.

In the Conference Committee, the publicity section was discarded as were the changes in the surtaxes voted by the Senate, and a compromise of 12% was reached on the corporate income tax. The fact that surtaxes were not lowered was a surprise in view of the bi-partisan support. The House had rejected modification when Chairman Green argued that combined with the changed corporate tax, it would lead to a deficit, and the Senate went along with the lower chamber in bargaining for other points. No protest was heard because of this omission; perhaps the "middle incomes" were satisfied with the changes in the corporation tax and, in view of the wartime levels, did not consider the 20% maximum surtax a burden. The final figure agreed upon was a decrease of $222 million, a sum in excess of Treasury wishes, but not beyond the realm of possibility.[10]

As a political issue for the campaign, the Revenue Act of 1928 belonged to neither party; it was a true compromise in that nobody was totally satisfied. The Democrats had failed in their attempt to appeal to the economic self-interest of the more well-to-do segment of American society as the Republicans took credit for their fourth tax reduction since returning from the political wilderness of the

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[10]The above discussion relies heavily on chapter 8, "The Revenue Act of 1928-Reduction of the Corporation Taxes," Blakey, Income Tax, pp. 276-300.

Wilson years. Though not receiving all that he suggested, the Secretary had won a victory in keeping the Treasury close to equilibrium. For two years his rear guard action had delayed downward revision and when it did come, he was able to keep the amount to a realistic level. $222 million was a far cry from the $400-$500 million that Garner and Simmons talked of in the early going.

It is this writer's belief that Mellon would not have been disappointed if the Revenue Act of 1928 had failed passage. He was more than satisfied with the 1926 revision and would have preferred to maintain it were it not for the pressure being applied by the politicians and the business community. The program that he recommended was a modest one designed to steal the opposition's political thunder. At no time in the process did he actively press for decreases as he had in 1921, 1924, and 1926. In fact the reverse was true, witness his delaying tactics after the bill passed the House and the revised estimates that he presented to the Senate. His principal goal was to keep reduction to the lowest possible level and prevent any drastic changes in the framework of federal taxation. In both areas he triumphed. Balanced budgets, debt repayment, and a scientifically established tax rate were more important to him than sops to the electorate in a Presidential year. He was willing to make some minor concessions, but he would not bend on principle.

While the Revenue Act of 1928 was winding its way

through the Congressional maze, the campaign sped up in other directions. The Secretary of Commerce, Herbert Hoover, was beginning to make his move for the Republican nomination and presented a greater threat to Mellon than the machinations over tax reduction.

The two had been cabinet partners for nearly eight years, but their relationship never expanded beyond that of business associates. Their inclusion in the official family was the product of an intra-party squabble and a mutual coolness resulted from their contesting for the position of first minister in the Cabinets of two weak Presidents. While Hoover was attracting public attention and creating a personal following, it was Mellon who had the executive ear. If anyone was first minister, it was Mellon; but if either was to succeed Coolidge, it would be Hoover.

Though not as clear as the above, there was another reason for the distance that existed between the two; Mellon did not trust the Commerce Secretary. This distrust permeated the conservative, Regular Republican wing of the party. The Treasury chief was a devout conservative and always acted the part, but his Cabinet partner occasionally deviated from the norm. Allowing his name to be put in for the Democratic primary in Michigan and his willingness in 1922 to endorse a public works program that Mellon believed a threat to the balanced budget were two examples of

Hoover's wandering.[11] That he was prone to stray fostered a spirit of distrust or at least apprehension amongst consistent conservatives who feared that he might assume a "liberal" posture should the issue or political exigency demand. Hoover could be flexible in a way that Mellon could not.

In spite of the fact that he would be nearly seventy-five years of age on March 4, 1928, many people touted Mellon as a possible presidential contender. The Hearst papers frequently mentioned him as an ideal candidate and several other independent newspapers endorsed him, including the Denver Post, New York American and Los Angeles Examiner.[12] Henry A. Rose of the National News Service wrote and widely distributed a pamphlet in early 1928 citing Mellon's achievements, apparently testing the atmosphere for a possible candidacy.[13] The Coast Banker and California Banker illustrated the hopes of some members of the banking community, publishing the editorial, "Why the Times Call for a President of Mellon's Type."[14] Friends in Pittsburgh launched a movement and a great many private citizens wrote

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[11]Hoover to Mellon, February 2, 1922 and Mellon to Harding, February 18, 1922, Labor file, Official Correspondence of the Secretary of the Treasury, Record Group 56, National Archives, Box 79.

[12]See editorial clippings, Secretary's file, Official Correspondence, Box 213.

[13]Ibid.

[14]Ibid.

him personally urging him to throw his hat in the ring.

Flattered by such adulation, he respectfully declined all offers, emphasizing his age as an insurmountable barrier. John Nance Garner ventured that he doubted "very much whether the Democrats could beat him," but the Secretary heeded the advice of others like the New York Times which editorialized that "his nomination for the Presidency would be absurd to the point of impossibility. . . ."[15] Tempted no doubt by the possibility of the White House, the Pittsburgh banker contented himself with the role of kingmaker as Chairman of the seventy-nine man delegation from the Keystone State.

The Hoover movement caught fire in January, 1928 and Under-Secretary Ogden Mills and Commissioner of Internal Revenue David Blair quickly became an unabashed supporters. When questioned about his status, Mellon replied:

> I am not indicating any position on the matter, and I have not done so to anyone. . . . At this time I am not for or against anybody. In leisure there is luck.[16]

He was unable to overcome his antipathy and clearly evaluate the political realities as did his subordinates. Being on the "right" side early was unquestionably an asset to Mills in his ascendency to the Secretaryship in 1932.

Emotionally incapable of supporting Hoover, Mellon's alternatives were limited. Arthur Henning, Washington

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[15] New York Times, December 10 and 30, 1928.

[16] Ibid., January 17, 1928.

correspondent for the Chicago Tribune, created a flurry of activity when he reported that the Secretary was going to back former Secretary of State Charles Evans Hughes.[17] At a specially called news conference, the Treasury chief denied initiating a Hughes movement, but admitted that his former colleague was a worthy candidate.[18] The Republican standard bearer in 1916 cut short any boom by withdrawing his name from public consideration.

The other possible contenders were the former Governor of Illinois and 1920 presidential aspirant, Frank Lowden, and Vice-President Charles Gates Dawes. Neither could hope for Mellon's endorsement because each supported the McNary-Haugen export solution to the problem of farm surplus.[19] This placed the Secretary in the undesirable situation of hoping that Coolidge would change his plans or prove amenable to a convention draft, though he publicly expressed his belief that the President was serious in his disclaimer and Coolidge himself told the Republican National Committee that it must "vigorously continue the serious task of selecting another candidate."[20]

Most historians believe that Coolidge was coyly angling for a draft, but contemporary newspapers and periodicals

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[17] Chicago Tribune, September 14, 1927.

[18] New York Times, September 15, 1927.

[19] Ibid., May 13, 1928 and W.L. Mellon, Judge Mellon's Sons (n.p., 1948), p. 464.

[20] New York Times, September 15, and December 7, 1927.

indicate that Mellon was dreaming an impossible dream. Knowing that his Treasury chief and others would like to see him run again, the President never gave any positive indications of his availability. The New York Times reported that Mellon, Charles Hilles of New York, and National Chairman William Butler of Massachusetts might try to block Hoover at Kansas City and force the delegates to call for Coolidge, but encouragement from the White House was wanting.[21]

As speculation grew on what Mellon's role would be in determining the outcome, a scandal erupted which threatened to terminate his career. The Teapot Dome investigating committee revealed that in 1923, the Secretary, Chairman Butler, and three others had each received $50,000 in Liberty Bonds in exchange for an equal cash payment toward liquidating the Republican debt of 1920. Though delivered by then National Chairman Will Hays, the bonds had originated with Harry Sinclair, an oilman under indictment for bribing Secretary of the Interior Albert Fall, and a dummy corporation, Continental Trading Co., Ltd of Canada.[22]

With the tax bill languishing in Congress, the revelation suddenly became the Democrats best campaign issue. Oil had not smeared Coolidge and Mellon in 1924, they were clean. Now, with the retiring President out of the picture,

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[21] Ibid., February 16, 1928.

[22] Ibid., March 9 and 11, 1928.

the Republican's number one campaign asset seemed about to be destroyed by the aged, but reviving scandal.

Rather than use evasion tactics, the Secretary boldly admitted to being a party in the bonds for cash exchange and volunteered to appear before the committee to offer a full explanation.[23] In two hours of extensive examination, he revealed a part of his old self as he testified freely without the assistance of a lawyer or one of his underlings. Yes, he had received the bonds and knew that they had been provided by Sinclair, but he had had Parker Gilbert return them almost immediately because he intended to make a contribution to his party's debt and to keep the bonds would amount to a false contribution. He had, he explained, felt badly that his only contributions to the Harding campaign had been a mere $2000 and that he had planned to wait until the end and help clean up matters with a more sizeable contribution. That any of his banks made loans or in anyway "carried" the Republican debt was denied, thus negating the reports in 1920 that he had "bought" the Treasuryship.[24]

As to why he had not come forward earlier and revealed the transaction, Mellon said that he had not kept the bonds and that he saw no public importance in revealing Hays's proposition. He testified that he never made a connection between the bonds and Teapot Dome and believed that his

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[23]Mellon to Senator Thomas J. Walsh, March 10, 1928, Oil Investigating file, Official Correspondence, Box 86.

[24]New York Times, March 14, 1928.

involvement ended with the return of the bonds and Hays's promise to do the same.[25]

Committee Chairman Thomas Walsh (D-Mont.) expressed the belief that "Mr. Mellon's part in the Republican deficit business had been a credible one," and the public agreed. His tactic of confrontation succeeded and the potential scandal fizzled as rapidly as it had appeared. Teapot Dome was old news and though what Mellon did may have been unethical, it was not illegal. The only person visibly disturbed by the Secretary's role was Senator James Couzens who introduced a resolution that "it was the sense of the Senate that Andrew W. Mellon should resign."[26] Shrugged off as a product of the longstanding Couzens-Mellon feud, the resolution was buried on the calendar.

Shortly before the hearings, George Harvey's biography of Henry Clay Frick came out, and in it was the claim that Frick and Mellon had bankrolled the Irreconcilables' publicity campaign against the Treaty of Versailles.[27] One would think that this and the Walsh committee revelations would upset the electorate about the use of large sums of money in politics, but it did not. Apparently the man on the street accepted the marriage of money and politics as

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[25] Ibid.

[26] U.S., Congressional Record, 70th Congress, 1st Session, 1928, LXIX, Part 5, p. 5145.

[27] George Harvey, Henry Clay Frick, the Man (New York: Charles Scribners and Sons, 1928), p. 324. Mellon refused to comment on Harvey's claim.

part of the business ethos of the Twenties.

That the Secretary did not come forward earlier to offer what he knew is revealing of his political ethics. Like Pilate, he washed his hands rather than expose dubious activities within his party's hierarchy. His response to the Walsh Committee was similar to his reaction to the Reed Committee in the Vare-Pepper primary investigation. When asked about his contributions then, he said, it was like giving money to a church. Both were strange replies from a man who even his political enemies ordinarily agreed "that his code of ethics were of the highest order."[28]

As winter blended into spring and as taxation and scandal fell by the way as salient Democratic campaign issues, it became more and more evident that Mellon could choose the Republican nominee. Winning primary after primary and converting state convention after state convention, Hoover emerged as an almost certain candidate. He fell short, however, of a first ballot victory, something Pennsylvania could give him.

Early in May, the Secretary travelled to Philadelphia to caucus with his delegation. Meeting in Senator-elect Vare's bailiwick there was talk that with Governor Pinchot having denied any presidential aspirations, the Pennsylvania contingent would go to Kansas City uncommitted and not for

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[28]William C. Murphy, "Tale of a Tilt," Commonweal, February 27, 1929, p. 477.

Mellon as a favorite son.[29] The Vare faction had blocked the favorite son tactic, insisting that the tradition of an uninstructed delegation be followed, thus postponing a decision until the convention. There was growing sentiment in the eastern wing for Hoover and Vare said that he was "disposed" to support the Commerce Secretary. In the ninth hour, Mellon simply stated that his Cabinet partner "seems to come closest to the standard we have for the Presidency," a comment that many Hoover supporters took to mean an endorsement.[30] To the Secretary, it was not an endorsement; he was still seeking an alternative.[31]

With the Philadelphia branch moving closer to Hoover each day, Mellon's grip on his state party lessened. The selection of a Vare man, W.W. Atterbury, President of the Pennsylvania Railroad, as National Committeeman over the Secretary's preference of his nephew, W.L. Mellon, or Senator David Reed was another sign of the decline of the western wing. The Mellon machine did win on the choice of Edward Martin as the new state chairman and Vare had agreed to let Reed run unopposed in the primary, but these victories were the product of bargaining and a search for harmony in the face of a dividing caucus.

When the Grand Old Party gathered in camp in Kansas

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[29]New York Times, May 12, 1928.

[30]Ibid., May 13, 1928.

[31]Ibid., May 15, 1928.

City, the New York Times headlined: "Hoover Gains By Delegate Switches, But Mellon Holds the Key to Nomination." Their Washington correspondent, Richard V. Oulahan had a better understanding of the situation and wrote: "Put it another way, Mr. Mellon is all dressed up but he has no place to go but the Hoover party."[32] The Mellon-Hilles-Butler triumverate may have wanted Coolidge, but at the crucial moment, the President was as silent as ever.

On the eve of the first session, Mellon's role as kingmaker was stolen. A few hours after he released a terse statement that he would abide by the dictates of his state's caucus, Vare declared that he and his supporters would vote for Hoover, thus guaranteeing him the nomination.[33] As a result of the Primary investigation, the Senate had refused Vare his seat and by throwing to Hoover the deciding ballots, he hoped that the Republican nominee, a certain winner in November, would help him when the second session convened. In one move, the Philadelphian had decided the Republican nominee and seized control of Republicanism in Pennsylvania. The victor of the seamy 1926 election was hailed by the press as a kingmaker for doing what Mellon could not bring himself to do. Speaking in layman's terms, Will Rogers described things perfectly: "Mellon had the

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[32] Ibid., June 11, 1928.

[33] Ibid., June 12, 1928.

money, but Vare had the votes."[34] His statement that defeated presidential aspirant and number two man in the Coolidge administration Charles G. Dawes was the logical candidate for a running mate was further evidence that he had lost touch with political reality.

In the counsels of the victors, the Secretary was conspicuously absent, and as the convention rolled on, he receded into the background. The platform, exhibiting the pens of Reed Smoot and Ogden Mills, praised his record as "unrivaled and unsurpassed," but the man whose appearance was the highlight of the last quadrennial meeting passed by unnoticed. No longer was he kingmaker; no longer was he important. Upon his return to Washington, he tried to regain some of his lost stature and break into the inner circle by proclaiming that "the outcome at Kansas City was very satisfactory," but that statement would not mitigate the fact that the "greatest Secretary of the Treasury since Alexander Hamilton" had succumbed to his prejudices and committed political suicide.[35] It appeared that the old guard was changing.

As was his custom, Mellon set sail for his European vacation in early July, leaving Treasury affairs and campaign involvement to Mills. Throughout the summer Smith and the Democrats vainly sought credit for debt and tax

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[34] Ibid., June 13, 1928.

[35] Ibid., June 20, 1928.

reduction, but the ticket of prosperity, of "two chickens in every pot and a car in every garage" smashed the echo of "me too." When they argued that they could "out-Mellon Mellon," the aggressive Mills indicted Smith for tripling revenues in New York during his three terms while noting that the Empire State had not experienced tax reduction in over a decade.[36] Periodically, the Treasury Department issued news releases that vividly illustrated its accomplishments over the preceeding eight years.

After his return from the Continent, Mellon's participation in the bitterly contested Smith-Hoover clash was limited. In full view of the press, he reported to the President that the nation's economic health was excellent and, as the campaign drew to a close, made two innocuous radio addresses extolling the virtues of the Republican Party, not Herbert Hoover. The one speech was a fiasco for as the Secretary nervously shuffled his notes, the microphone amplified the sound into a thunderstorm as it passed into the homes of America. As the Republican's principal asset, the symbol of prosperity really did not have to do anything; he need only survive until November.

To no one's surprise, Hoover won a landslide victory. That Mellon remained in the official family was something of a mild surprise. Given their relationship and his successes in recent years, one might have expected him to

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[36] Ibid., September 9, 1928.

quietly step out and retire at the peak of his popularity.

Looking at the issue from Hoover's standpoint, one can see that the President-elect could not dismiss the Pittsburgh banker and might be inclined to entice him to stay should he decide to leave. In spite of his recent clash with the business community over taxes, it still idolized him and the Secretary's presence would mean a continuation of policies. To remove him might antagonize business.

The question was why would Mellon want to stay. His role as chief advisor to the President would end and he would have to subordinate himself to a man who had been his equal in the Cabinet. In addition, his decision to come to Washington in 1921 had been contingent on his leaving in 1924, government service being a prelude to retirement. Now it was 1928, four years overdue.

This writer believes that Mellon stayed for two reasons. The first was that he liked the work and the public adulation that went with it. He was a man in whose fiber the Protestant work ethic was so tightly woven that retirement, though perhaps thought of and wished for, was beyond reality. So long as he was physically and mentally up to the task, he would continue. During the campaign he made no secret of his desire to retain his Cabinet post, telling reporters that "at my age, I might as well work here as

anywhere else. I have made no plans about retiring."[37] It was well known that he enjoyed living in Washington and it was thought that even should he not return to the Cabinet, he would probably continue living there. Sometime earlier he had purchased a farm a short distance from the city.

The second and more important reason was his distrust of Hoover. Having reached his goals, there was the possibility that the President might upset them, perhaps retard the debt reduction program or alter the European debt to appease domestic critics. Some unfinished business remained that the chief executive might not view the same. The French settlement had to be ratified and might require additional negotiations, and the development of Washington was in its infancy. Only in October, 1928, as a Founders Day Address at Carnegie Institute of Technology in Pittsburgh, had the patron of the arts, accompanied by President Coolidge, publicly revealed the full details of his Federal Triangle-Pennsylvania Avenue project.[38] His trusted aide, Ogden Mills, in declaring early for Hoover, had possibly changed allegiances and might not forward Mellon's policies with the zeal he had shown earlier. The Under-Secretary was

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[37]"Hoover's Heritage," Colliers, January 5, 1929, p. 34 and New York Times, October 5, 1928.

[38]New York Times, October 19, 1928. The speech itself was a complete fiasco. The Secretary was nearly inaudible and unable to complete the full text. This talk was a week after his ill-fated radio address.

growing more bold in his relations with his superior, and a popular journal observed that "time after time . . . Mills interrupts (the Secretary) to present the Treasury point of view or to define it in crisp, aggressive terms that will look well in the evening edition." This was not a new phenomenom but a development over a long period of time.[39] Some believed the New York aristocrat to be the power behind the thrown who would either replace or succeed the Pittsburgh banker.

Though he had no evidence that his programs would be reshaped, his suspicions nevertheless existed and the solution seemed to lie in remaining for a short while and establishing his policies as part of the new administration. Analyzing the official family of the thirty-first President, William C. Murphy wrote that "it is inconceivable that he (Mellon) would want to stay another four years" and that the "representative of a fast vanishing race" would soon retire.[40] The Murphy analysis drew a lot of support from the papers and other observers of the Washington scene.

That Mellon wanted to stay and that Hoover would retain him did not offer a guarantee for the future. Several Congressmen began laying plans to upset the calculations. Shortly before Christmas, John Nance Garner opened the

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[39]"Backstage in Washington," Outlook, January 9, 1929, p. 61.

[40]William C. Murphy, "President Hoover's Cabinet," Current History, Vol. 30, May, 1929, p. 270.

anti-Mellon campaign by accusing the Secretary of granting secret tax refunds to his favorite corporations. Demanding an investigation, the House minority leader denounced the Treasury chief as "the greatest Santa Claus in history."[41]

The tax refund issue raised by Garner was a repeat of James Couzen's charges first enunciated after the Internal Revenue Bureau investigation of 1924-25. The Michigan Republican joined the battle, reporting that his investigation had turned up tax cases bearing the notation "This is a Mellon company."[42] The Secretary denied the charges and declared that "if what Mr. Garner said was true, it would be important."[43] Rather than defend himself, he pointed out that the Commissioner of Internal Revenue, not he, adjudicated all cases and that those over $75,000 had to be passed on by the Joint Congressional Committee on Taxation. Therefore, if blame was to be placed, it should be on Congress.

The problem was not Mellon's granting excess rebates or refunds, but the number of loopholes in the law and the price that corporations were willing to pay for legal talent to argue their cases before a overburdened Board of Tax Appeals. Even Couzen's biographer agreed that the refunds

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[41] New York Times, December 20, 1928 and January 5 and 6, 1929.

[42] Paul Anderson, "Hot News from Washington," Nation, February 6, 1929, p. 160.

[43] New York Times, January 8, 1929.

were legal.[44] The turnover in employees in the Commissioner's office, many of whom reappeared as council to various corporations, was only exceeded by the backlog in cases. In 1928, over 16,000 petitions were filed with the Board of Tax Appeals.[45] Wealthy corporations found it an easy task to evade revenue acts written in the heat of partisan debate and defended by an honest, but transient staff. The Treasury was well aware of the situation and was partially successful in remedying it. As for "This is a Mellon company," no corroborating evidence of personal intervention by the Secretary was ever brought forward, and it was "an open secret in Washington that his bright young men (his assistants) embroiled him with Congress."[46]

The Garner-Couzens attack proved to be the spark that ignited Capitol Hill. Senator Kenneth McKellar, the Tennessee Democrat who had spoke of impeaching Mellon in 1924, attached a rider to the current deficiency bill requiring publicity of refunds made with appropriations from that bill. An attempt to give the Board of Tax Appeals authority over all refunds in excess of $10,000, and requiring that the hearings be open to the public, barely fell short of a majority. The Treasury head argued that he could see

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[44]Harry Barnard, Independent Man: The Life of Senator James Couzens (New York: Charles Scribner and Sons, 1958), p. 165.

[45]Blakey, Income Tax, p. 546.

[46]Murphy, "Tale of a Tilt," p. 477.

no reason for transferring the power when no one questioned Commissioner David Blair's honesty. Why make a quasi-judical body into an administrative one? The real issue Mellon said, ignoring the role of the Joint Congressional Committee on Taxation, was who should administer the law, the executive or judicial branches, and that the McKellar Resolution was "revolutionary and unwarranted."[47]

While McKellar, Garner, and Couzens were chasing the Secretary over refunds, Senator Pat Harrison (D-Miss.) opened a new front, prohibition enforcement. Prohibition had been a major issue in the campaign and the Pittsburgh banker's one-time investment in the Overholt Distillery Company had reappeared. The dry forces, which had been silenced by a somewhat hostile Congress and the Seymour Lowman-James Doran administration of the independent Prohibition Bureau, renewed their criticism the Treasury was not enforcing the law to its utmost. Commissioner Doran responded after the election, claiming that truly effective enforcement would cost $300 million. Harrison added a $25 million rider to the deficiency bill, a challenge, he said, to test the Secretary's sincerity.[48] The Harrison move came on the heels of the Senate's rejection by only two votes of Senator William Bruce's frivilous motion to give Commissioner Doran the $300 million he said was necessary,

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[47] New York Times, January 12 and 23, 1929.

[48] Ibid., January 13, 1929.

an indication of the hostile attitude toward prohibition that was developing in the Senate.

In the face of Congressional and Anti-Saloon League pressure to accept the money, Mellon courageously objected to the Harrison amendment. In a letter to the Chairman of the Senate Appropriations Committee, he requested a delay until surveys had been conducted to determine where and how the money could best be utilized, and suggested that part of the money be given to the Justice Department and Coast Guard for their work in enforcement.[49] The Secretary also drafted a letter to Anti-Saloon League official, Bishop James E. Cannon, to object that appropriation gave no discretion to the Commissioner or the Secretary for expenditure beyond the Prohibition Bureau, thus denying funds to other needy areas. More importantly, a flat sum appropriation "would breakdown the safeguards of the budget and the effective and proper control which Congress exercises over the expenditure of public funds." A dangerous precedent would be established by such reckless use of the appropriating power.[50] To Mellon, the tripling of funds was not a panacea that would immediately cure all of the ills of enforcement.

The controversy over the Harrison amendment was further complicated by a growing demand by both wets and drys for an investigation of enforcement, hoping that it would provide

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[49] Ibid., January 16, 1929.

[50] Ibid., January 22, 1929.

ammunition for their respective positions. With an inquiry in the offing, it appeared that some in Congress were trying to shift responsibility to the Treasury should the "noble experiment" prove a failure. Though Harrison was an ardent dry, many of his colleagues were not, and for a decade they had inadequately funded the program and had used the Bureau for spoils.

President-elect Hoover blunted much of the criticism with the announcement that he would appoint a non-partisan panel to examine the problem of enforcement.[51] Shortly after the commission statement, the White House let it known that it was sympathetic to the idea of shifting operations entirely to the Justice Department, Mellon's long sought goal.[52] These plans proved sufficient to soften the wrath of critics and the Harrison amendment died along with the Edge-Jones resolution for a Congressional investigation.

While the refund and prohibition issues ebbed and waned, Senator Gerald P. Nye (R-S.D.) opened a third front, informing Hoover that the Insurgent Republicans would oppose confirmation if Mellon's name was sent to them.[53] No particular reasons were given beyond the long standing antipathy that the Insurgents held for him.

The Nye proposition along with the other Congressional

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[51] Ibid., January 17, 1929.

[52] Ibid., February 4, 1929.

[53] Ibid., January 14, 1929.

attacks adds a third dimension as to why he would stay; he was not the kind of man to quit under fire.[54] Having battled the legislative branch before and won, to quit would be to retire in disgrace, to admit by his absence that the charges were true. The Mellon tradition was to fear no one and to see a thing through until the end. In business he had bested Standard Oil, in politics he had held back the Democratic Party for two years, and now he would fight for his right to sit in the Cabinet.

That the Insurgents intended on blocking Mellon's confirmation placed the President-elect in an awkward position. On one hand, to begin his administration embroiled with Congress would not bode well for future relations and the success of his legislative program. On the other, he did not want to throw a capable man to the wolves, a man whom the business community considered something more than a Secretary of the Treasury. Fortunately a third alternative presented itself which enabled him to avoid a confrontation.

The President-elect chose to keep the Pittsburgh banker in the Cabinet, but he would not submit him for confirmation; Mellon would continue in office as a holdover as he had in 1924 when Coolidge began his elected term. Secretary of Labor James J. Davis would also be maintained in identical fashion, thus negating the argument that the Treasury chief was receiving preferential treatment. Senator McKellar

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[54]Murphy, "Tale of a Tilt," 476.

demanded an investigation of the maneuver and the Judiciary Committee, chaired by the Insurgent Republican George Norris, reported that it was within the law and tradition. Only the Postmaster General need be re-confirmed.[55] For the time being, Mellon was safe.

Two weeks after assuming office, Hoover took another step to avoid a Mellon-Congress embroglio. By executive order, all refunds, credits, and abatements in excess of $20,000 were to be made public, thus appeasing McKellar and his adherents. In his Annual Report for 1929, the Secretary claimed credit for this move, pointing out that revealing only the final figure was in keeping with Treasury policy of protecting the privacy of returns.[56] By doing so, he averted any possibility of full disclosure of tax returns or transfering the control over refunds to the Board of Tax Appeals, a move that he had argued earlier would double the Board's work, cause a three year delay, and cost the government $13½ million per year in interest.[57]

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[55]Over the objections of Norris, McKellar also requested that the committee determine if Mellon was eligible to hold office within the dictates of the 1789 law preventing the Secretary of Treasury from engaging in "trade or commerce." Senator Norris objected, saying that such an investigation was the prerogative of the House and might negate any future impeachment proceedings should the Senate rule favorably as it did. Eligibility of the Honorable Andrew W. Mellon, Secretary of the Treasury, Senate Report 7, Part 1, 71st Congress, 1st Session, 1929, pp. 1-3 and New York Times, March 6 and May 5, 1929.

[56]Annual Report, 1929, 287-89 and "Another Hoover Surprise," Literary Digest, March 30, 1929, p. 8.

[57]New York Times, January 23, 1929.

With Hoover's help, Mellon was to evade the snares of Congress. But when would a new issue, a new fight crop up? It was becoming increasingly clear that the President's supposed kingmaker was something of an albatross. Perhaps if Mellon left, after all no one expected him to remain in the administration very long, things would be better. The papers were rife with rumors regularly that the Treasury chief would resign, with Mills and Los Angeles banker Henry Robinson mentioned as possible successors. Though he avoided clashes on potentially volatile issues and delegated more responsibility in public affairs to his Under-Secretary, Mellon gave no indication that he intended on leaving, regularly denying the resignation rumors. So long as the situation remained calm, the President seemed content to keep him in the Cabinet, but to rely more on Mills for advice and consultation. So long as his positive qualities balanced his negative attributes, Mellon would remain in the front office; but if the scales were tripped, the general feeling was that he would be replaced.

From March until October, he avoided the public eye as much as possible and Congress turned its attention to less controversial issues, from the Secretary's standpoint, like the tariff. Beneath the surface, he was moderately active with reference to the stock market whose speculative growth was becoming a matter of concern in Washington and elsewhere. He spent a considerable part of early 1929 participating with the Federal Reserve Board in its attempt to

combat the bull market.

General apprehension about the soundness of Wall Street had formed early in 1928. No one cried fire, but many said they smelled smoke. The Federal Reserve had responded by reversing the low discount rate, internationalist policy of Mellon and Governor Benjamin Strong of the New York bank. Strong's prolonged illness and eventual death in October robbed the Chairman of his partner and the driving force behind the Board. To stem the speculative mania, the Reserve Board sanctioned three separate ½% rate increases in the first six months of 1928, ending at a 5% rate, the highest since 1921. But before the increases were accepted by Washington, the banks had to reduce their buying rates on acceptance and sell government bonds so as not to overly disturb the market.[58] Rates were not raised after June, 1928 for fear of disturbing the agricultural sector during harvest and rekindling the criticisms of the Harding years about high rates causing depressions in farm areas.[59] Tightening of the credit structure had minimal success; speculation continued at a ever increasing rate. The international economic situation had grown tense as gold began returning to the United States for the first time in

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[58]Lester V. Chandler, Benjamin Strong, Central Banker (Washington, D.C.: Brookings Institution, 1958), p. 229 and A. Jerome Clifford, The Independence of the Federal Reserve System (Philadelphia: University of Pennsylvania Press, 1965), p. 123.

[59]Harold H. Reed, The Federal Reserve Policy, 1921-30 (New York: McGraw Hill, 1930), pp. 133-34.

three years, further feeding the voracious appetite of speculation.

Chairman Mellon had given his blessing to these increases, but generally was not too woried about the domestic situation. In February, 1928, he wrote:

> As a result (of reinvesting surplus earnings), there has been built up in this country a economic and industrial organization under which we have achieved not only a vast amount of wealth but a distribution of it that is unprecedented, and a standard of living that is the best justification, if any is needed, of the American system.[60]

There was nothing to worry about so long as Americans believed that "work is the only honorable occupation and that life has more to offer than merely the spending of money on selfish enjoyment."[61] It was a glowing endorsement of capitalism and the Protestant work ethic, and no doubt reassuring to the market operators who believed themselves to be participating in the American dream. When a candidate, Hoover had expressed some apprehension about Reserve Board policy and its ability to cope with the problem, but Mellon "seemed to dismiss his colleagues intermittent concern as much ado about nothing."[62]

With the election of Hoover, the market took off to

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[60]Andrew W. Mellon, "Our's Are the Faults of Youth," Worlds Work, February, 1928, p. 364.

[61]Ibid.

[62]Arthur Schlesinger, The Crisis of the Old Order (Boston: Houghton Mifflin Co., 1957), p. 70.

even greater heights and appeared to many to be spiraling out of control.[63] When the traditional ½% increase failed, Wall Street having easily adjusted with each jump, the Board initiated a new approach. Rembering that a 7% rate had precipated a recession in 1919-1920, cost Governor W.P.G. Harding his job, and led to several Congressional investigations, and that increases beyond 5% might paralyze legitimate business activity while being ignored by a speculator who might expect a 100% profit in a popular stock, it decided on a tactic of "direct pressure" or "moral suasion." In early February, 1929, the Board urged member banks to refuse discount privileges in instances where the the funds would be used for speculative purposes. The Chairman objected to the policy as an over-extension of the powers and prerogatives of the Board, and failed to attend the deciding meeting. He had voiced his distaste in 1926 when Adolph Miller first suggested it and would simply let his past actions define his position.[64] The Board did not

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[63]"Hoover Bull Market," Literary Digest, November 24, 1928, pp. 64-67.

[64]Hamlin MSS, Index-Digest, Vol. 11, p. 138, and Vol. 15, p. 144. Adolph Miller, the only trained economist on the Board, was a close friend of Hoover. Mellon believed in the mid-20s that the two were conspiring to embarrass the Federal Reserve Board by criticizing its open-market policies. Vol. 11, p. 69. In 1928, Miller testified before a Congressional Committee that the Secretary of the Treasury should be removed from the Board, an opinion that Mellon himself had put forward in 1921 before recognizing the power and influence that accompanied the position. Vol. 14, p. 166-67. Neither move endeared Miller to Mellon and no doubt created problems in 1929 when the Board decided to follow Miller's suggestion to use "moral suasion."

usually ignore its chief, but in this case, the majority was decided that something had to be done and were unwilling to sit idly by as Mellon offered no alternative.

Word leaked to the press that the Chairman was not in harmony with the Board's latest actions. What the Reserve system might do beyond moral suasion combined with Mellon's apparent opposition caused some consternation on Wall Street and forced the chairman by early March to issue a statement to disquiet rumors that the Treasury and Reserve Board were not working in tandem.[65] Nevertheless, the Secretary's actions had at least partially undermined the good intentions of the Board in choking speculators by "direct pressure" or "moral suasion." The failure of the New York bank to pass along the Board's directive to its customers further mitigated the value of the new policy.

Though Mellon had reacted poorly in not compromising with his Board and lacked a viable alternative solution, he was apprehensive about the volume of speculative activity and sought in his own way to slow the market. Replying to reporters questions in early March about the state of the market, he said:

> For prudent investors I would say, if making a suggestion, that now is the time to buy good bonds. This does not mean that many stocks

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[65] Ibid., Vol. 15, 143 and New York Times, March 12, 1929.

> are not sound investments. Some are, however, too high a price to be good buys.[66]

Typical of his pronouncements, it was subtle, but pregnant with meaning for anyone who cared to analyze it. Few apparently did for stocks rose even higher, and having gotten over the scare of "direct pressure," investors ignored all subsequent warnings until it was too late.

Recent scholarship indicates that coincident with the "direct pressure--moral suasion" tactic, the stock market began its downward thrust.[67] At the time, however, it appeared that the market was still churning upwards and Mellon and the Board stood back and watched in some dismay for several months. The New York bank, under Strong's former assistant George Harrison, ignored the "direct pressure" policy, failing to pass the Board memorandum on to member banks, and agitated for more increases in the discount rate instead.[68] Washington rejected their demands. A few weeks later, the Chairman lamented that rates had not been increased much earlier and from the perspective of hindsight, began to believe that his low rate, internationalist policy had been ill-chosen to meet the demands of the domestic situation. Yet he rationalized his way out of the quandary by confessing that the discount rate was

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[66] Literary Digest, March 30, 1929, p. 65.

[67] Lawrence Fisher, "Some New Stock Market Indexes," Journal of Business, Supplement Issue, January, 1966, p. 205.

[68] Clifford, Reserve System, 123.

an inadequate weapon to curb speculation, and even an increase now to 9% would not cure the problem.[69]

In defense of his uncle, W.L. Mellon wrote later that the Chairman, Governor Ray Young, and Vice-Governor Edmund Platt, the three powers of the Board, led a spirited minority demanding increases in the discount rates. They suggested "ratchet like," point by point raises to 10% or 12% if necessary. As the only bankers on the Board, Young and Mellon supposedly recognized the seriousness of the situation better than others who were "disposed to make bank credit easy."[70] Such an about face for the Secretary, the man who had first advocated rate reductions in 1921 and who had collaborated with Benjamin Strong to maintain low rates for several years, is hard to believe.[71] The experience of W.P.G. Harding and the Board in 1919-1920 when it raised rates to 7% and the storm that it caused was too vivid for anyone to countenance such an idea, not to mention that a 10% or 12% rate would surely have caused a panic, something the government and its agents were loathe to see happen.

The sum of the above was that Andrew Mellon failed to exert a leadership role when the Reserve Board was confronted

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[69]Hamlin MSS, Index-Digest, Vol. 16, 180-81.

[70]Mellon, Mellon's Sons, pp. 469-70.

[71]Chandler, Strong, pp. 174-75.

with a near crisis situation. His objections to both of the palatives put forward and his vacillating opinion undermined its effectiveness. This failure to lead now, as so often was the case in the past and would be in the future, added another argument for the removal of the Secretary of the Treasury from the Board, something that had often been discussed and finally materialized in the Banking Act of 1935.

While Mellon vacillated and did little in the battle against speculation, neither did he participate in stimulating the bull market. A well circulated article of the period accused him of conspiring with President Coolidge to shore up the sagging market rather than allow it to naturally flounder of its own weight.[72] The theory was that the two made optimistic statements every time it gave signs of cracking, thus postponing the inevitable and making the crash more severe than it would have been had it come earlier.

The available evidence will not support that contention. In his conspiracy theory, R.W. Robey pointed to three statements by Mellon in a six week period of early 1928 to illustrate his argument. Of the third occasion, in mid-March, Robey wrote: "Strangely enough Mr. Mellon, who

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[72]R.W. Robey, "Capeadores in Wall Street," Atlantic Monthly, September, 1928, pp. 388-97. James Truslow Adams supported this theme in his post-crash article "Presidential Prosperity," Harper's Magazine, August, 1930, pp. 257-67.

happened to be leaving for a visit to Europe at just this time, made his departure an occasion for expressing his optimism toward business conditions and stock-market speculation.[73] (emphasis mine) Not only was the Secretary gearing his statements to the market, he was supposedly willing to adjust his travel schedule, or perhaps make a trip to Europe, so as to be able to offer optimistic dockside pronouncements. The article closed with an innunendo to the effect of need we say more and a journalistic hedge. After pointing to Mellon and Coolidge's statements, and arguing that they buoyed the market, Robey concluded that "it is still another question as to whether or not the influence of these two men was deliberate."[74]

The argument is found wanting out of simple logic. If Mellon could manipulate the market, if Wall Street operators harked to his encouraging words, why did he have to speak out in two week intervals? Should not his statements had more than a fortnight's effect? The failure of his bond statement in March to stem inflation, conveniently omitted by Robey, causes one to wonder how much attention speculators were paying to anyone.

An examination of the newspapers and periodicals of the Coolidge-Hoover bull market period indicates that Mellon was as sparing with his words as ever. To find other

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[73]Robey, "Capeadores," 392.

[74]Ibid., 397.

examples of "market manipulation" besides the three cited by Robey is a difficult process. Looking at the question shortly after the Secretary left office, Albert W. Atwood drew the same conclusion as this writer. "I find no evidence," Atwood wrote, "that he gave out other statements than the occasional routine releases concerning current business conditions and outlook."[75] This is not to deny that necessary announcements were timed for their most propitious effect or that the Secretary could have manipulated the market should he so desire. However, the combination of his laissez-faire economic philosophy, his conservative investment attitude, his personal shyness, and the simple fact that the speculators did not need stimulation prohibited him from playing God. Perhaps Coolidge and Hoover wanted to act as deities, and an examination of the Secretary of Commerce's optimistic public statements is revealing in this respect, but the Pittsburgh banker did not. The Secretary's comments were terse, to the point, subject to interpretation, and lacking in the enthusiasm that his colleagues so often emitted.

The Robey article and the Chairman's role in Reserve Board activities, however, led to another problem. If Mellon was aware that Wall Street was on the verge of collapse, why did he not sound a warning? Two elements were

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[75]Albert W. Atwood, "Mr. Mellon," Saturday Evening Post, May 7, 1932, p. 103.

involved. The first was his belief in the business cycle, and what went up, had to come down. He gave no indication of agreeing with Irving Fisher and others that the market, that the economy in general had reached a permanently high plateau. Yet he could not cry out in alarm for that might lead to a panic. In his fumbling sort of way, he was trying to prevent, trying to mitigate, not postpone, a collapse. No government official then or now has ever predicted catastrope for the future. The government's duty is to do all that it can to insure prosperity, to work its hardest to keep the business cycle on an upward swing. The mass psychology of the market place is strange, take for example the reaction of Wall Street to a White House announcement that the President has a cold. For Mellon to have acted alarmist might very easily have been lethal for the economy and a violation of a traditional maxim of government operation.

The second element was the Secretary's March warning about buying bonds, a subtle way of telling the speculators that the end was in sight. That the Mellon policy was to keep your money invested in productive enterprises and that his estate at his death in 1937, valued at $37 million, contained about $8 million in tax-exempt government bonds and an unannounced sum of corporate bonds indicates that he was probably following his own advice.[76] Few others did.

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[76] Pittsburgh Press, August 31, 1938.

In terms of the world situation, from 1921 to 1929, he could have done more than he did to prevent the crash or at least cushion the blow, but he did not attempt to create artifical prosperity with euphemistic utterances or simply stand back and allow prosperity to topple. He tried the middle road, but his efforts were too late and too little.

With the exception of the behind the scenes activities at the Reserve Board, pre-crash 1929 was a rather lackadaisical period for Mellon. The fiscal year ended with a $193 million surplus, the Treasury estimate only $30 million short this time, and Hoover threw his support to the Washington beautification project. The surplus accelerated discussion of tax reduction, the debt level fell to $17.6 billion, and the President called for a Congressinal committee to study the mechanics of prohibition enforcement and to consider transferral to the Justice Department.

As the new administration gradually absorbed Mellon's goals and programs, particularly the big three of taxation, debt reduction, and foreign debt refunding which "became regarded almost as personal achievements," reports that he would leave the Cabinet grow in intensity.[77] In response to one inquiry as to whether he planned to resign, he facetiously quoted Benjamin Franklin. "I am deficient, I

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[77] Outlook, October, 1929, p. 297.

am afraid, in the Christian virtue of resignation."[78]

On August 8, 1929, the Federal Reserve Board finally yielded to the New York bank and sanctioned an increase in the discount rate to 6%. The market crashed. In the next few weeks the market gyrated crazily and fears that it was going through it's death throes mounted. In a last ditch effort to restore confidence, the White House asserted that Mellon would unquestionably be at the Treasury at least until March, 1933.[79] Newspapers headlined the story and morale on Wall Street was boosted with the proclamation that the patriarch of prosperity would not desert in the time of need. Within two weeks, the Coolidge-Hoover bull market was history. The symbol of prosperity, the maker of Presidents, the "greatest Secretary of the Treasury since Alexander Hamilton" was the albatross in the wine dark sea of depression. In the interregnum he appeared to be Hoover's albatross; with the crash he belonged to everybody.

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[78] New York Times, May 22, 1929.

[79] Ibid., October 8, 1929.

CHAPTER VII

CRISIS, CONFUSION, COLLAPSE

History has dutifully recorded that the bull market of the Twenties disintegrated in October, 1929, ushering in a decade of personal suffering and economic depression. The last ten days of that month have been indelibly etched in the memory of man as the end of an era, one of the great turning points of American history. That judgment has been drawn by historians with the assistance of the professions most valuable tool, the perspective gained by the passage of time, hindsight, in the vernacular.

The real problem confronting man is to discern the crucial moments when they occur, not sometime afterward. In some instances, like the German invasion in 1939, it is a fairly easy task but other cases, and here the stock market crash serves as a useful example, are more difficult to determine. When the bull market went through its death throes, most accepted it as the inevitable functioning of the economic cycle, with a few arguing that it had been delayed a year or more for political reasons. Crisis had come to Wall Street before and would come again. No one perceived that the ten fat years of the Twenties would be

followed by the ten lean years of the Thirties, or that the New York catastrophe would lead to nationwide bankruptcy. Time, time to gain a perspective of events, would have to pass before people, and Washington politicians in particular, would grasp the magnitude of the situation.

Secretary of the Treasury Mellon's initial response to the crash was one more of expectation than surprise. His Reserve Board colleague, Charles S. Hamlin, reported that the Secretary was depressed at the break, a logical reaction for anyone in a responsible position, but his belief in natural economic laws and the crazed state of Wall Street would indicate that he was not shocked.[1] He was a man who believed in industrial barometers and the reduction in orders at his Carborundum Corporation, which he interpreted to mean that the collapse was no temporary thing, must have also warned him over the summer months that the end was in sight, given the fact that general industrial operations were being curtailed long before October.[2]

In the immediate post-crash period, he withdrew, surrounding himself with a wall of silence while his critics attempted to lay blame at his door. Nation magazine, for example, rushed to the press an article entitled, "The Man Who Did It" and Senator James A. Robinson (D-Ark.), Senate minority leader and Al Smith's running mate, rose up to

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[1]Charles S. Hamlin MSS, Index-Digest, Manuscript Division, Library of Congress, Vol. 16, p. 183.

[2]William Larimer Mellon, Judge Mellon's Sons (n.p., 1948), p. 471.

chastize the Republicans, Mellon in particular, for having delayed recession in 1928 for political reasons and thus having caused the crash.[3] While most everyone in and out of government offered explanations and palatives for the cataclysm, the Treasury chief sought refuge. Having accepted praise for prosperity, he must bear the burden of depression. He was no better prepared to cope with the situation than anyone else and would continue to vacillate in his response as he had had in his preparations.

The federal establishment reacted to the crash in two ways and Mellon participated in both decisions. The first was a Halloween Day announcement by the Reserve Board that the New York discount rate was being reduced 1% to its pre-August, 1929 level of 5%. Like many rate changes in the Twenties, it followed on the heels of a reduction by the Bank of England. The second was Mellon's confirmation that taxes would be lowered, recommending an across the board cut of 1% in both personal and corporate income taxes.[4]

These two moves have been interpreted as methods of credit relaxation on the one hand and stimulation of public expenditure on the other. The Reserve Board decision was intended to expand credit and that policy was extended until the rate sunk to 2%, thus preventing a credit panic and drawing some criticism that the quick response would

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[3]"The Man Who Did It," Nation, November 13, 1929, pp. 539-40 and New York Times, October 31, 1929.

[4]New York Times, October 31 and November 14, 1929

rekindle speculation.[5] The tax program, however, was, at least in Mellon's mind, offered for different reasons. When he explained the proposed cut, he described it as part of a program that had been in the planning stages for months, and that it would have been urged no matter what the market condition was. If the Department was apprehensive about the future, he said, it would not have made such a suggestion. The decision was predicated on anticipated surplus in the government coffers, not on a desire to stimulate public expenditure at the risk of a deficit. Though perhaps trying to bolster confidence by exhibiting his faith in the ability of the economy to come back, he refused to admit that the reduction was a product of a White House decision made in the face of market conditions.[6] His stance was somewhat contradictory or vacillating, seeming to buoy confidence with one phrase and deny that that was his intention with the next.

Unlike previous revenue proposals, the 1% slice was to be effective for one year, not permanently. The Treasury would have preferred a grant of discretionary power to initiate minor revisions in the tax rates as circumstances dictated in a manner similar to Presidential prerogatives

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[5]Harold H. Reed, Federal Reserve Policy, 1921-30 (New York: McGraw-Hill, Inc., 1930), p. 191.

[6]New York Times, November 14 and 15, 1929.

extended in the 1930 tariff law.[7] It was a bold and progressive proposition from which Congress recoiled.

The new Mellon Plan was greeted warmly by the Democrats as House minority leader John Nance Garner, who had refused cooperation on the last revenue act and a year ago was complaining of mismanagement of tax refunds, declared his support. The Insurgents, recently dubbed the "Sons of the Wild Jackasses" by Senator George H. Moses of Massachusetts (the "Sage of Concord" they retorted), preferred a more aggressive program of estate and surtax revision, but their hopes for significant alterations were set aside by a coalition of Regular Republicans and Democrats who pushed the bill through Congress in less than a month. The speed of the legislature in this extraordinary situation helped sap the strength of the Treasury argument for discretionary powers to meet unusual circumstances. The decade had opened with the major parties at loggerheads over taxation and it closed with harmony, only the Insurgents continued a consistent pattern.

While Ways and Means Chairman Willis Hawley and minority leader Jack Garner shepherded the revenue bill through the legislative establishment, the White House added two new weapons to its arsenal in the fight against recession. Both ideas, conferences of business leaders to renew confidence and stimulate production and increased federal

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[7] Annual Report of the Secretary of the Treasury, 1929, p. 23 and New York Times, November 15, 1929.

construction, have been interpreted as wise moves by the administration; but as was the case with tax reduction, Mellon was out of step with Hoover and others who saw a need to nip the problem before it became too severe.

Harvard economist John Kenneth Galbraith has lauded the President for calling his no-business business meetings. Emphasizing the psychological aspect of the crash and its aftermath, Galbraith pointed to the value of these meetings in reassuring the public. As a practical expression of Hoover's laissez-faire philosophy, they enabled the chief executive to do something without committing the federal government to direct involvement.[8]

The Treasury chief disagreed with his superior's decision to rally the leaders of American business in Washington. While the President was marshalling the forces of big business for a concerted effort and charging that "any lack of confidence in the economic future or the basic strength of business in the United States is foolish," Mellon was thinking that such a program was premature and that the public's response would more likely be fear rather than reassurance.[9] The government should hold this move in reserve, he thought, for a time when it would be more valuable. When the President made it clear that he was going

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[8]John Kenneth Galbraith, The Great Crash (Boston: Houghton, Mifflin Co., 1955), pp. 144-46.

[9]Mellon, Mellon's Sons, pp. 470-71 and New York Times, November 16, 1929.

ahead with the meetings, his Cabinet, Mellon included, participated as directed. The ultimate success of these meetings was minimal, and had the Treasury head, the chief steward of the nation's finances and high priest of business, put his heart into the program instead of simply going through the motions, they may have achieved more. Lack of enthusiasm by a key participant could and probably did undermine the psychological effect of the meetings on those present. Fortunately, the public was unaware of the Secretary's reluctance.

The Pittsburgh banker's nephew and political arm in Pennsylvania, William Larimer Mellon, has written that "from the beginning of the depression, Hoover tended to ignore A.W.'s advice." This, he said, disappointed rather than irked the Secretary, and that he grew accustomed to having his advice spurned. Not until the failure of the Credit-Anstalt Bank in Vienna in May 1931, would the President be concerned to have his counsel.[10]

On the eve of the first national conference, the Treasury announced a request for an additional $175 million for public construction over the next decade.[11] Since 1926, Congress had authorized $248 million for the building program to be spent at an annual rate of $45 million, $10 million in Washington and $35 million in the rest of the

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[10]Mellon, Mellon's Sons, pp. 470-72.

[11]New York Times, November 19, 1929.

country. Like other federal plans, this one was greeted enthusiastically by people who saw it as absorbing unemployment, stimulating the economy, and increasing confidence.

Contained within this public works program was a problem of semantics that has plagued observers ever since. The three key words are request, authorization, appropriation. The first two are meaningless until the Congress appropriates. As of 1929, the legislature may have authorized $248 million, an impressive figure, but it had only appropriated $135 million or about half. Compounding matters even further was the question of how much was actually spent. In fiscal 1929, $6 million of the $35 million to be used beyond Washington was not expended. Throughout the Hoover years, many people were misled or jumped to premature conclusions by announcements concerning public works that spoke of requests or authorizations instead of appropriation.[12]

Treasury intentions with reference to public construction were probably quite different from those who greeted the program enthusiastically. In the economic downturn of 1921, the Secretary reacted rather coldly to the plans of President Harding and Secretary of Commerce for using public funds to provide jobs since such a proposition would be

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[12]See Ruby A. Black, "Hoover's Public Buildings Bluff," Nation, June 17, 1931, pp. 656-58 for analysis of the above problems as well as the effect of public construction to absorb unemployment.

disruptive to his budget.[13] If the reason was to absorb unemployment, his response in 1929 would probably have been the same. The problems of the unemployed were secondary in his mind to the development of the nation's capital and the economy brought by owning rather than leasing facilities. A week after the public construction announcement, Mellon spoke at an award presentation for Elihu Root at the National Academy of Design, praising the former Secretary of War for his help in rescuing the L'Enfant Plan from oblivion and reiterating his dedication to beautifying the nation's capital.[14] Most likely, his construction program was similar to his approach to tax reduction; some thing that had been planned for quite a while and brought forward without regard to the crash.

A few months later, Mellon asked Congress to hasten its approval of appropriations for public buildings because the Treasury was "accelerating its activities in line with President Hoover's policy of increased construction as a means of relieving unemployment."[15] As he said, however, it was President Hoover's policy, not his; he was only doing

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[13]Mellon to Harding, February 18, 1922, Labor (1918-1931) file, Official Correspondence of the Secretary of the Treasury, Record Group 56, National Archives, Box 80.

[14]New York Times, November 27, 1929 and Development of the United States Capital (Washington, D.C.: Govt. Printing Office, 1930).

[15]Ibid., March 23, 1930.

what he was being told.[16] He wanted his Federal Triangle and the White House desired an unemployment program; it was a marriage of convenience, not conviction.

The New Year began with the traditional optimistic statements of everyone in the Cabinet including Mellon. Instead of having to quote from his Annual Report as was customary, this year the newspapers were provided with a fresh release from the Treasury while the Secretary vacationed in the Bahamas.

> I see nothing, however, in the present situation that is either menacing or warrants pessimism. . . . I have every confidence that there will be a revival of activity in the Spring and that during the year the country will make steady progress.[17]

This statement has been used to illustrate that Mellon had no idea of the gravity of the situation. What could he have said? Would it have been better to give the public the truth, that circumstances were critical, that the economy would probably worsen before it began to right itself? The problem was the same as before the crash. What is the duty of a government official who seeks to maintain a steady flow in the economy?

This writer has argued that Secretary of the Treasury Mellon was out of step with both his contemporaries and later analysts in his responses to the cures that were offered to heal the wounded economy. This is not to say

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[16]Mellon to Hoover, November 21, 1929, the President file, Official Correspondence, Box 90.

[17]New York Times, January 1, 1930.

that he did not know what he was doing, that his attitudes and ideas were not grounded in an intelligent base. He may have lacked a full comprehension of the realities of a depression in a highly urbanized, industrial economy of the Twentieth century, but he was not ignorant either. His New Year's statement, like his warning to buy bonds the previous March, was his way of doctoring problems without direct confrontation. He was trying to restore confidence with an optimistic statement presented at a logical moment, not delude the public. Unfortunately, his medicine was not strong enough to meet the needs of the problem.

That Mellon was acting from a base point in objecting to Hoover's remedies instead of groping in the dark unknowingly made him the worst possible Secretary of the Treasury the nation could have had during an economic downturn. His depression philosophy was deflationary, let things run their course until the economic body was purged of its poisons. He had used this approach earlier in the decade when the agricultural sector called for the McNary-Haugen export scheme, telling the farmers that they had to go through the painful, but necessary process of deflation until the inflated wartime values reached their true level. This, he said, was what the business community had done from 1919 to 1921.[18]

Writing in the 1950s, ex-President Hoover remembered

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[18]Mellon to James Witherow, Jul 8, 1926, Tariff File, Official Correspondence, Box 128.

Mellon as the head of the "leave it alone liquidationist school." The Secretary's formula, he wrote, was, "Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate."[19] These are pretty harsh words and apparently part of Hoover's attempt to rebuild his own image, though there was some material in his background that might indicate that he would advocate liquidation.

His first business venture had ended by liquidating in the face of depression. Shortly after he and his brother Richard opened their lumber and real estate business, the Panic of 1873 struck. The brothers immediately sold their holdings and returned to Pittsburgh to help at the family bank. Their father beamed with pride at this shrewd maneuver, selling out with a tidy profit before everything collapsed, for it proved to him that they knew how to operate. The business had been designed as a trial run by Judge Mellon and they exceeded his expectations.[20]

The Mellon's particularly the family patriarch Judge Thomas Mellon, were reputed to have taken advantage of others who voluntarily or involuntarily liquidated during depressions to build the family fortune. After the Panic of 1837, Thomas Mellon, then prothonotary (county clerk) in Allegheny County, was to have used the information that passed through

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[19]Herbert Hoover, The Memoirs of Herbert Hoover, Vol. III, The Great Depression (New York: The Macmillan Co., 1952), p. 30.

[20]Thomas Mellon, Thomas Mellon and his Times (n.p., 1885), pp. 406-407 and Mellon, Mellon's Sons, pp. 31-32.

his office to acquire considerable real estate holdings for very little.[21] Known to drive a hard bargain in all of their loans, the banking house of T. Mellon and Sons supposedly added to their coffers with numerous foreclosures during the Panic of 1873.[22] Hoover quoted his Secretary as saying after the break in 1929: "There is a lot of real estate lying around the United States which does not know who owns it."[23] If one accepts Harvey O'Connor, the conclusion to be drawn in this last instance was that much of that real estate was destined to wind up in the hands of the Mellons. Whether or not it did is not known.

Beyond the recollections of a defensive President and the fact that Andrew Mellon had liquidated in 1873, there is no evidence, however, that he was a liquidationist after 1929. Although he believed that the business community had to undergo the painful process of readjustment, that did not necessitate liquidation. The Secretary himself, for example, did not repeat his liquidationist proceedings of a half century earlier. His personal investments were far too numerous and complex to countenance wholesale liquidation without incurring tremendous losses. He did take advantage of depressed stock prices to continue his process of divesting himself to his children, selling selected

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[21]Harvey O'Connor, Mellon's Millions, A Biography of a Fortune (New York: Blue Ribbon Books, Inc., 1933), p. 9.

[22]Ibid., pp. 32-34.

[23]Hoover, Memoirs, p. 30.

stocks to two holding companies established for his heirs, Coalesced Company and Alsoalot, and writing off the losses against his income taxes.[24] The intent, however, was not to make himself liquid, but to use a propitious set of circumstances to transfer the reins of his empire. Had he been a strict liquidationist, he would hardly have sold depressed stocks to his children. While urging that the government "leave it (the economy) alone," that the federal establishment adhere to a strict laissez-faire approach to the depression, he never went on record as encouraging anyone to liquidate. Were he to advise the investing public on how to respond to the depression, his personal activities indicate that he would be likely to urge a "weather the storm" approach.

When the crash came in 1929, Mellon observed in broad terms that history was repeating itself, that the situation was similar to 1873.[25] In an election eve address in 1930, he said that depressions were caused by uncontrollable forces and that the underlying problem was overexpansion, overproduction of certain commodities, not the stock market. "We have not yet learned how to avoid industrial depressions," and the country must go through "a painful process

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[24] Official Report of the Proceedings of the U.S. Board of Tax Appeals, A.W. Mellon v Commission of Internal Revenue, Respondent, pp. 4417-18 and New York Times, April 2, 1935.

[25] Hoover, Memoirs, p. 30 and Mellon, Mellon's Sons, p. 471.

of readjustment." The Secretary also saw international implications, concluding that "depressions have been, almost without exception, the result of world conditions," . . . "and the voter could not blame any group of men or party for something that could not have been prevented . . . by any action that might have been taken." Though placing blame on international conditions for the downturn, he believed that reversing the cycle would be easier for America because the country was almost completely self-contained, consuming 90% of what it produced.[26] He apparently did not see the failure of his logic.

Before the American Bankers Association in May, 1931, Secretary Mellon expanded his philosophy. Again describing the readjustment process as inevitable and noting that this readjustment was worse than others because it came so close on the heels of a war, he concluded that there was nothing fundamentally wrong with the system. It was "no time to undertake drastic experiments which may conceivably result in breaking down the standard of living to which we have become accustomed." Solutions must come from individual initiative, not "by surrendering the management of business and industry to government or to any board or group of men." He went on to make his analogy with the Panic of 1873, describing both as products of over-rapid industrial expansion after a war. His conclusion was an exposition on

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[26] New York Times, October 30, 1930.

the ebb and flow theory of progress, and though he had no idea when this depression would end, he said that he was certain that it would.[27] In the meantime, mankind must persevere, the individual must rely on community help, and the government must remain a disinterested observer.

This was a hard philosophy, but not intended to be harsh. Mellon, his family, and his companies were frequent contributors to fund raising campaigns to provide work for the unemployed in the Pittsburgh area. The Secretary praised the Pittsburgh Plan of public subscriptions for public works, that both employee and employer should contribute to a fund to provide continued work for those employed and to help those who were out of work.[28] There is no evidence of a lack of sensitivity. Rather, we have a nineteenth century man with the nineteenth century philosophy of individualism facing a twentieth century situation. This writer agrees with Hoover, that Mellon did not realize that in the sixty years since the Panic of 1873, the economy had changed, it had matured, became more industrialized. Whereas in 1873, 75% of population was engaged in agriculture and only 25% in industry, the figures had nearly reversed themselves by 1929. The consequence was that industrial unemployment was a much more staggering

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[27] Ibid., May 6, 1931.

[28] Ibid., November 9, 1931.

phenomenon than it had been in his first depression experience.[29] The new predicament called for someone that Mellon was not, nor could hope to be. Hoover and his approach was an improvement, but it would not be until 1932 with the election of a man with twentieth century concepts and with his predecessor's mistakes behind him that the federal government would take steps to provide a realistic solution. 1929 called for intervention, not observation.

Unfortunately for the country, more than his economic philosophy impeded Mellon's handling of the depression. As was the case throughout the Twenties, the first session of each Congress, the long session, demanded his attention. The inhabitants of Capitol Hill were debating a great many large issues and seemed as oblivious to the economic tragedy around them as anyone else. They had pressing concerns of a momentious nature that demanded their attention and kept them from observing the sufferings of so many. It was a rare legislator in 1930 who called for more aid to the masses.

The Seventy-first Congress began with a flourish over prohibition. After a decade of intimidation, the dry organizations were out of favor with the Congress which was contemplating alterations in enforcement policy. President Hoover's investigating group, the Wickersham Committee, was due to report and change was in the offing.

In late January, 1930, the Secretary appeared before

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[29]Hoover, Memoirs, p. 31.

the House Committee on Expenditures by Executive Departments to speak on behalf of a bill to transfer the Prohibition Bureau to the Justice Department. As he had many times previous, he described the original selection of the Treasury as "illogical," that enforcement was unrelated to other department duties. He declined to answer questions concerning the effectiveness of current policies because they were not germain to the bill under consideration. The Treasury, he said, "made every effort to enforce the prohibition law," and left it at that.[30] A few days later, Attorney-General William D. Mitchell endorsed the bill. The Women's Christian Temperance Union, the Anti-Saloon League and other dry groups which had consistently opposed transferal were not invited to testify.

Four months passed before the transfer bill negotiated its way through the legislative maze, but as of June 1, 1930, prohibition enforcement was the responsibility of the Justice Department. While the bill was being formulated into law, critics of Mellon took their last opportunity to lampoon his enforcement program. Senator Smith W. Brookhart (R-Iowa) blamed the breakdown of prohibition on the Secretary, Senator John J. Blaine (R-Wisc.) contended that the Anti-Saloon League and the administration had an agreement on bureau appointees, and Senator George Norris (R-Neb.)

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[30] New York Times, January 23, 1930.

requested a Congressional inquiry of prohibition.[31] Senator Carter Glass (D-Va.) indirectly supported this last point, voicing criticism against the Wickersham Committee for broadening its scope to the whole field of law enforcement, thus minimizing its work in the prohibition area.[32] The Glass point of view expanded on Capitol Hill and the Wickersham Committee was the subject of increasing attacks until it finally reported in January, 1931.

Senator Boies Penrose had promised Mellon in 1921 that movement of the Prohibition Bureau to the Attorney-General's office would take six months or so; it had taken nine years. Nevertheless, it was the end of a noxious duty that had generated altogether too many disparaging comments. Critics now would chase after the Wickersham Committee or the Justice Department, and leave the Treasury alone. Too late to soothe the pain that the years of denunciation had brought, the Reverend Clarence D. Wilson of the Methodist Board of Temperance declared that his organization believed the former stockholder in the Overholt Distillery Company had done a more credible job of enforcing prohibition than any of his counterparts of the Justice Department would have.[33]

1930 also was an election year and Mellon had his role

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[31] Ibid., April 3 and May 14, 1930.

[32] Ibid., May 15, 1930.

[33] Ibid., May 29, 1930.

as "boss" of Pennsylvania to fill. A senator and governor were to be elected and all indications were that the fiasco of 1926 was to be repeated. In the senate race, the Mellon forces were committed to support the tariff lobbyist, Joseph Grundy, who had been appointed to serve in the place of William S. Vare after the Senate finally declared the Pennsylvania seat vacant. To his disappointment, Hoover had not helped Vare as the Philadelphian hoped he would; the Kansas City strategy was a failure. Governor John Fisher had selected Grundy with the understanding that he would defend Pennsylvania in the upcoming tariff battle and that he would be a candidate in 1930. Former state treasurer Samuel Lewis was to be his running mate for governor.

In a shrewd tactical move, the besmudged victor of 1926 and boss of Philadelphia withdrew from the race and cast his lot with Secretary of Labor James J. Davis. Davis had not announced, but Vare's conversion was enough to draw him into the primary fight. The decision of the Secretary of Labor presented a dilemma for the Mellons. The rule in Keystone state politics was one senator from each half of the state and the western branch already had David A. Reed. Though he had not lived in Pennsylvania for almost twenty years and was not a Mellon man, he was considered a Pittsburgher and presented Mellon with the quandary of coming out against his Cabinet partner or of

supporting him and sacrificing Reed to the eastern wing in 1934, not to mention incurring the wrath of Grundy.

At his diamond birthday celebration in his home town in late March, the Treasury chief conferred with his political lieutenants. In an attempt to lure the Vare faction into a harmony ticket, he proposed that Grundy's running mate, Samuel Lewis, retire from the field in favor of Francis Brown, former Attorney-General of Pennsylvania and the Philadelphia choice for governor. Though Lewis did withdraw, Grundy objected to running with Brown, Vare maintained his support for Davis, and plans for a harmony ticket went awry.[34] Matters were further complicated when Grundy's old friend and a Republican maverick, Gifford Pinchot, jumped into the governor's race and Mellon's candidate for Senator in 1926, George Wharton Pepper, put himself behind the Davis-Brown ticket. Pinchot's candidacy doubtlessly undermined the cohesiveness of the Grundy-Mellon forces because many people who liked Grundy also preferred Pinchot, but the Secretary had been fighting him since 1922 and harbored no intentions of a Grundy-Pinchot harmony ticket.

The result of the primary, victories for Davis and Pinchot, was a smashing defeat for the Mellon machine. In ten years of "running" the Republican Party in Pennsylvania, the Pittsburgh banker turned politician was abyssmal in

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[34] Ibid., March 27, 1930 and A.H. Hutton, The Pennsylvanian: Joseph R. Grundy (Philadelphia: Dorrance & Co., 1962), pp. 200-202.

dictating election results. The only time his candidate reached the winner's circle was on a harmony ticket, and each time he bucked the Vare machine, he lost. His grip on Pittsburgh politics was tenuous as well. Hoover was able to carry Allegheny County by only 4,000 votes in 1928, and in 1932, Roosevelt swept the county. The ease with which Republican politicians in Pittsburgh switched allegiances to the Democratic forces after 1932 adds further suspicion as to how well Mellon controlled his home community.

Consistent failure at the polls leads one to ask if there was a Mellon machine. If there was, it certainly was inept. A more accurate description of the Secretary's political involvement in the 1920s would emphasize money. Like Grundy, he could help you financially, but to get the votes, a candidate needed the well disciplined Vare machine of Philadelphia. Vare was not a very colorful or attractive figure, but if anyone ran Pennsylvania, he did. The Mellon machine, though not quite a myth, was a hoped for thing, an often talked of thing that never materialized on election day. It was a threat that other Republicans acknowledged, and then would ignore if they did not agree. When Smith and Roosevelt altered the voting habits of the urban areas, what remained of the Mellon machine was abrogated to David Lawrence and the Democrats. Lawrence built an effective machine in the steel city, but like the Mellons before him, he had to take a back seat in state

politics to William Green and the Philadelphia forces. Beginning with Simon Cameron and James Buchanan in the Civil War era, the City of Brotherly Love held the key to Pennsylvania politics.

Another element in understanding the Secretary's deteriorating position in national and local politics was the cooling of his relationship with Senator David A. Reed. In 1928, Silas Bent described their relationship "as near Cabinet representation on the legislative floor as anything we have seen in this country."[35] Reed had been chosen by Mellon and his victories in 1922 and 1928 were the notable exceptions amidst the string of defeats. Until his re-election, he had performed as directed, even to the extent of arguing in favor of seating Vare, a man whom he personally disliked.

Secure in his re-election and growing in seniority on two very important committees, Finance and Foreign Relations, Reed began to sever the umbilical cord. Thought by many to be an egotist, he groomed an image of a statesman sufficient to be chosen to attend the London Naval Conference and to be considered a contender for the presidency of his alma mater, Princeton. The former chief counsel for United States Steel had come a long way.[36]

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[35]Silas Bent, "Andrew W. Mellon," Scribners, January, 1928, p. 29.

[36]For Senator David Reed's arrival as an independent figure on the national scene, see: William C. Murphy, "Senator Reed, Pennsylvania's Gift to the Nation," North

His acceptance of a delegate's position to the naval conference was the first visible sign that he was no longer Mellon's man. Most observers expected him to marshall the high tariff forces in an upward revision of the Fordney-McCumber Tariff. He did push the Smoot-Hawley bill through committee, but then abandoned it, leaving the difficult floor fight to the aging Reed Smoot while he played diplomat in London. By the time he returned, the bill had been so altered that it was thought for a while that he and Grundy might vote against the finished product.

During the tariff battle as in the last one, Mellon followed Parker Gilbert's maxim of keeping hands off. The Insurgents, however, saw the tariff as an opportunity to attack the Secretary at a vulnerable spot, his wallet. Unable to crack him by direct assault, they sought to antagonize him by reducing the protection on industries in which he was heavily invested, particularly aluminum. With Reed in London, who would defend Alcoa and the others?

Before the Treasury chief left office, the gulf between the two men widened further. In 1931, for example, when Mellon was leading the Hoover forces in the fight for Congressional approval of the foreign debt moratorium and indicating that further negotiation of the settlement might be necessary, Reed voiced strong opposition to anything

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[36](cont.) American Review, May, 1931, pp. 419-27 and Ray T. Tucker, "Leader of the Status Quo," Outlook, December, 1929, pp. 649-51.

beyond the moratorium. When taxes became an issue in late 1931, the senior Senator from Pennsylvania did not sound out Congress for the Treasury as he had done before. Instead of parroting suggestions, he offered a few of his own, and his strong statements on behalf of a sales tax could have embarrassed Mellon were it not for the growing awareness that he was launching a new career independent of his mentor.

Mellon had begun the depression period as the seeming albatross of the Hoover administration. In the immediate post-mortems, he bore the brunt of most of the blame. As the weeks and months of 1930 unfolded, however, he continued the policy of avoiding confrontation and exposure on volatile questions. The Congress, seat of most of his opposition, absorbed itself with the tariff and prohibition, and made only passing references to the Secretary. In the meantime, Ogden Mills grew in stature as Under-Secretary, assuming more of the public duties of the Treasury, particularly speaking engagements and the defense of various policies.[37]

The Secretary did grow sensitive about his tarnished image after the crash and iniated a quiet public relations program to correct the problem. His longstanding rule of privacy was broken and he granted interviews relating to

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[37]Mellon, Mellon's Sons, p. 470; Outlook, March 4, 1931, p. 331; and "The Mellon-Mills Shakeup," Literary Digest, February 20, 1932, p. 12.

his personal life and habits. Articles such as William Davenport's "A Day with Andrew Mellon" and Theodore G. Joslin's "Andrew W. Mellon, the Dean of the Cabinet" portrayed the Secretary in a favorable light.[38] Other articles frequently appeared in popular magazines and the newspapers often picked up the material. The plan was a temporary success, working well in 1930 when his critics were distracted by other issues, but they did not save his reputation when the attacks resumed in 1931.

This writer has argued that Mellon did not comprehend the magnitude or the seriousness of the depression when it began, that in the face of crisis he was confused, and that his responses were grounded in a tradition no longer applicable to the urbanized, industrialized society of 1929. He was by no means alone, however. When the fiscal year ended June 30, 1930 with a surplus of $184 million, most of the nation's politicians were fooled. They went on to contest the off-year elections over prohibition, not depression. The Democrats, in fact, seemed to accept the Republican explanations for the temporary setback when the Chairman of their Executive Committee, Jouett Shouse, blithely stated: "Of course, Secretary Mellon is honest in his assertion that the panic is the result of natural conditions."[39] Recovery was believed to be around the

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[38] Colliers, March 29, 1930, p. 13ff and Worlds Work, June, 1930, p. 88ff.

[39] New York Times, October 31, 1930.

corner until the bitter winter of 1930-31 and the growing deficit, $300 million in the first five months of fiscal 1931, proved differently. With the dawn of the New Year, more and more attention was devoted to the economic condition of the nation.

With a growing awareness of the realities of the situation and the reawakening of the slumbering critics, Hoover pre-empted the Secretary in government finances. The President ignored the Treasury and laid out his program in the State of the Union Address and budget message. The Annual Report of the Secretary of the Treasury, issued two weeks after Hoover's messages, was the picture of business-like formality, containing a minimum of opinion and endorsing all of the chief executive's nostrums, the Secretary's personal opinion notwithstanding. Now, as had been the case throughout 1930 and would continue in 1931, Mellon was treated as an administration hireling who was expected to do and say as he was told.

The subservient, background position that Mellon had assumed and to some degree pursued since the election of Hoover continued into 1931. The year began with the appointment of Eugene Meyer to the Federal Reserve Board, a man the President believed he could work with. The Secretary was thought to have preferred Parker Gilbert and the outgoing member, Edmund Platt, believed that Mellon had arranged a lucrative offer to open the way for his former

Under-Secretary. Any plans the Board Chairman may have had were ignored as Hoover appointed Meyer without consultation.[40]

As the Bonus Bill was being fought through the short session, the official statements bore Mellon's name, but Mills explained and argued the Treasury position. When he did speak to newsmen, he was often interrupted by one of his lieutenants who would begin with "What the Secretary meant was. . . ." Though subordinates did the talking, Mellon was still Secretary, and his opposition to the bonus incited many people. A freshman Congressman from Texas, Wright Patman, exploited the Treasury head's negative attitude, devoting much of 1931 to speaking around the country to veteran's organizations and building a national reputation, claiming that he would impeach the Secretary when the Seventy-second Congress convened in December.[41]

Andrew W. Mellon's last moment of glory as Secretary of the Treasury came in mid-year with his participation in the negotiations over the Hoover moratorium. Sailing in early June to attend his son's graduation at Cambridge, he was in London when the President announced his plan and was directed by Washington to carry on the discussions. He was not, however, a minister plenipoteniary; he received detailed instructions from Hoover, Mills, and Secretary of

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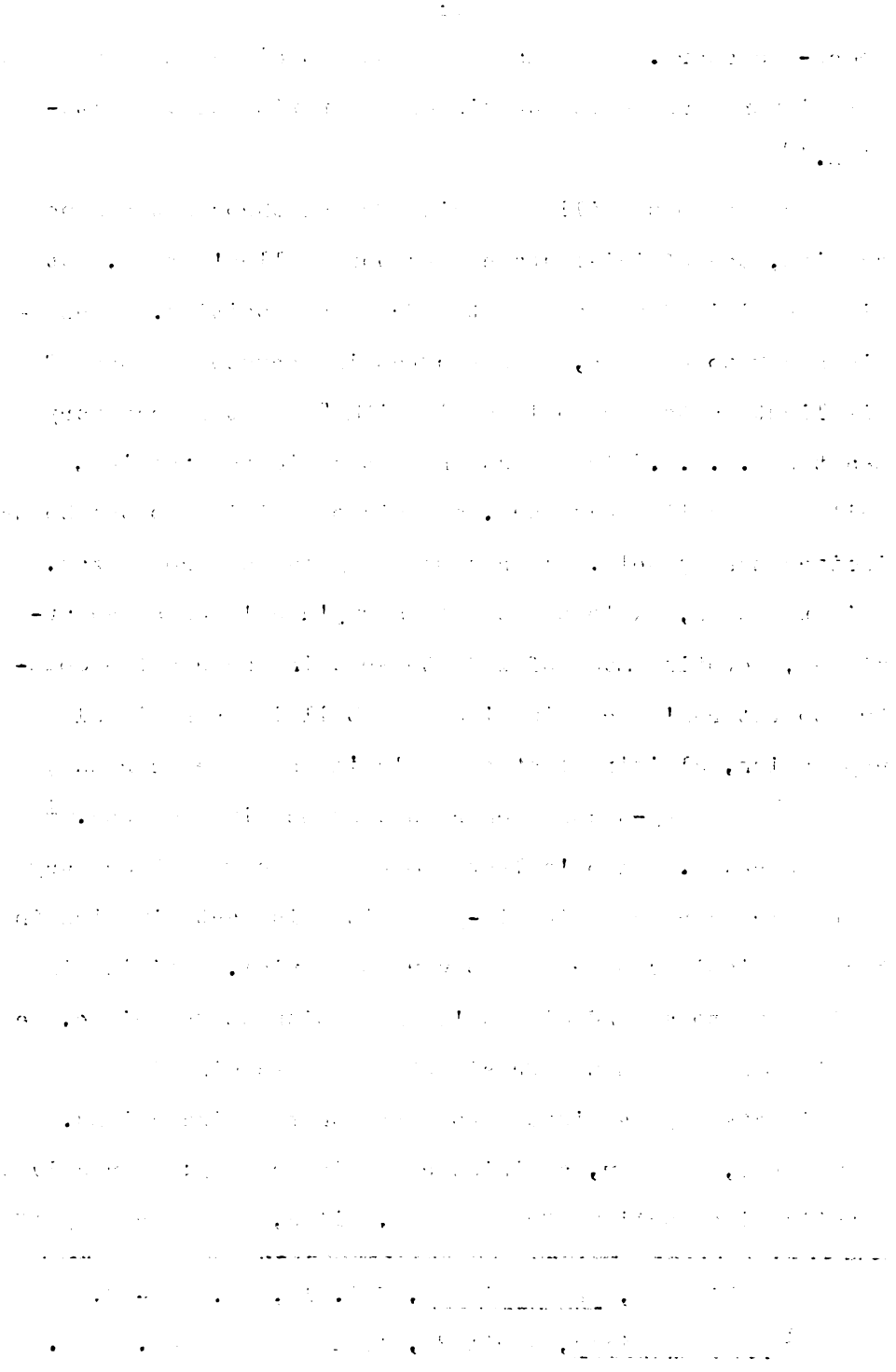
[40]Hamlin MSS, Index Digest, Vol. 18, pp. 152-53.

[41]New York Times, April 28, 1931 and June 25, 1931.



State Henry S. Stimson on what to say and do. The President claimed that Mellon objected to the concept of a inter-governmental moratorium, and welcomed the opportunity to work directly with Mills while the Secretary was in Europe.[42] When questioned by reporters in Paris, he told them that he could tell them nothing unless Washington said it first.[43] Each day the Secretary received his instructions by trans-Atlantic telephone, and was a frequent visitor to the public phone booth in the lobby at Claridge's.

The French balked at the terms of the moratorium, and the President displayed a further lack of faith in his Treasury chief by dispatching the Secretary of State to Paris to takeover the talks. When Stimson requested Mellon to quickly come to Paris from London, newsmen gathered about and asked him why he was summoned in such haste. Obviously disturbed by the way he was being shuffled around and the fact that the press recognized the impotent role he was playing, Mellon hostilely reacted to their questions. He angrily told the reporters: "I grant no interviews outside the United States, and as few as possible there."[44] His last moment of glory was a bleak one as the President of the United States told the world that "the greatest Secretary of the Treasury since Alexander Hamilton" was

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[42]Hoover, Memoirs, p. 68.

[43]New York Times, June 28, 1931.

[44]Ibid., July 18, 1931.

incapable of handling the moratorium problem.

Mellon vacationed in Europe after the moratorium discussions and by the time he returned, the nation's finances had reached the crisis point. The deficit for fiscal 1931, projected at $180 million in December, 1930, reached $903 million, and the first sixty days of fiscal 1932 saw an imbalance of $400 million. Anyone who had been doubtful about the magnitude of the depression was more than awakened by the astronomical figures. His detractors sped up the flow of negative comments about the state of the economy, the proposed tax increase, and his opposition to the bonus. Carrying the weight of the problems was enough; he collapsed with the additional weight of criticism. He was no longer confused; he was befuddled. Nearly seventy-seven years of age, he was wearing down. The politicians who had ignored him for the first year of the depression, now blamed him for every problem. To them he was an albatross, a harbinger of tragedy and the country would not right itself until he was gone. As the deficit increased, so grew the talk of impeachment. The end was in sight.

CHAPTER-VIII

THE MAN WHO STAYED TOO LONG

In the politicians bag of tricks, timing is the most important element. Talent and ideas can carry a man only so far in the political jungle. If he hopes to achieve his goals, the practical politician must know when to act, when to be discrete, and possess an instinctive ability to judge the current of opinions and events. The battlefield of American political history is strewn with the bodies of capable men who misjudged the currents and moved at an inopportune momemt.

Secretary of the Treasury Mellon's sense of political timing was never particularly good. His sensitivity to the inner workings of the federal establishment was not nearly as keen as in the business world. In the cold war of the political arena, he often fumbled and misjudged. His frequent, usually unnecessary, and always overdrawn battles with the legislative branch serve as a continuing example of his inadequate sense of timing. Bound by the strictures that he was right and the opposition was wrong, he often plunged headlong into something with a minimum of tact and diplomacy. His running feud with Senator James Couzens was a case in point of casting of timing, tact, and

diplomacy to the wind. The end result was that the Secretary rarely obtained all that he wished for, and even the compromises were usually the product of more than one effort. His tax program required hostilities with three Congresses and the final tally, though it showed him the victor, lacked the completeness that was a distinct possibility had he recognized the need for timing as well as ideas, grounded though they may be a scientific and logical reasoning.

To misjudge an issue and settle for a compromise is one thing; to completely miscalculate the mainstream of events and sacrifice ones position and career is yet another. The former could occur often, the latter only once. In the Secretary's case, Robert Allen and Drew Pearson abtly described the post-crash period. "Andrew William Mellon will go down in history as the man who did not know when to quit."[1] If he had had a grasp of the realities of timing, Mellon would have retired with Coolidge in 1929.

Instead of withdrawing at an auspicious moment, the Pittsburgh banker procrastinated until he was driven out. It was shown earlier why he chose to remain into the beginning of the Hoover administration, but why he continued after his former Cabinet adversary accepted his programs is unfathomable. Criticized in the early days of the depression, 1930 witnessed a diminishing of negative comments

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[1]R.S. Allen and Drew Pearson, Washington Merry-Go-Round (New York: Horace Liveright, Inc., 1931), p. 163.

as opponents focused their attention on other matters. There was time in the first year after the stock market debacle to withdraw graciously, but he did not. In 1931, when people and politicians began to comprehend the magnitude of the situation, the volume of criticism rapidly increased until it reached a fever pitch. His implacable opposition to the bonus, his support for the foreign debt moratorium and indication that he might countenance reopening of the settlements, his continued fatalism and orthodox attitude about the causes and solutions of the depression, and hints that tax increases were necessary provided a series of rallying points for diverse groups who began to picture him as the stumbling block to resolution of their proposals. Growing defensive about the deluge of unflattering statements, Mellon retreated into his shell, snapping at reporters on his return from Europe in August. Refusing to comment on any subject, he told the press corp that he "was able to get along quite well in Europe without any interviews" and intended to maintain that policy.[2]

For several months in 1931, the Secretary filled the useful position of administration lightening rod. While he was attracting the attention of the dissatisfied, the President turned more and more to Mellon's aggressive assistant Mills. In his collapsed state, not knowing what to do but frowning on most White House suggestions, his value to

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[2]New York Times, August 25, 1931.

Hoover was limited. Should the opposition continue to grow louder and more pointed, he would have to be removed.

Mellon must have been aware that he was being kept on as a lighning rod. He accepted that role and stayed in Washington, this writer believes, in the hope that the uncontrollable economic forces would naturally reverse themselves and that by March, 1933, things would be better. Then he could retire to Pittsburgh, not in the glory that would have been his in 1929, but at least free from attacks, many of which had become extremely personal. Calmness under pressure and wait for a natural return to normalcy were the order of business.

The return to normalcy would have to be a natural one, for the conservative financier was doing little to assist matters. Having no conception of what could be done within his laissez-faire framework to ameliorate conditions, he fell back upon a tax increase predicated on the idea of maintaining the government's financial integrity while weathering the storm. The out-country banker believed that the country must live according to and not beyond its means. The fact that a tax increase and a corresponding shrinkage of government expenditures might retard the natural forces of return apparently did not enter his thinking.

The formation of what was to become the Revenue Act of 1932 was Mellon's last official task. Alarmed by the even increasing deficit, Hoover directed the Treasury to

approve an appropriate tax increase. Mellon and Mills spent the fall of 1931 preparing a bill that was essentially a return to the 1924 level of taxation. There would be nothing novel or scientific about the new act; it was simply an increase.

Absorbed with the formulation of the new revenue bill and working for Congressional approval of the debt moratorium, the Secretary ignored the encroachment of the Under-Secretary on his prerogatives and appeared oblivious to the growing clamor for his impeachment. By December, Mills was the acknowledged leader of Hoover's inner Cabinet and had taken over completely as Treasury spokesman. In a feature article tracing the ascendancy of the Hudson Valley aristocrat, the New York Times noted:

> A chief more jealous of his authority than Mr. Mellon might resent Mr. Mill's position as a direct advisor to the White House. A subordinate less sure of himself than Mr. Mills would have been in difficulty long ago.[3]

As for the impeachment discussions, rather than move to block Wright Patman's demand that the reincarnation of Alexander Hamilton be driven from the temple of the Treasury, the Secretary ignored it. By the time he realized that Patman was more than just so much talk, the populist Congressman had attracted considerable support; it was too late. The decision on when he would leave and under what circumstances was no longer his to make.

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[3] Ibid., December 20, 1931.

That Mellon underestimated the danger inherent in Patman is to a degree understandable. This was not the first time that he had heard cries for his removal, but was the culmination of over ten year's efforts by a variety of different people. On at least six other occasions, his eligibility to hold office or his activities as Secretary were called into question. His mistake was in believing that the arguments he had successfully marshalled in earlier attempts would withstand changes in the currents of time and opinion.

Before accepting President-elect Harding's tender of the Treasury portfolio, Mellon was informed by his attorney that he might be ineligible to hold office.[4] Desiring to see his friend in the Cabinet, Senator Philander Knox sought to allay any fears and offered to have the prominent Washington law firm of Faust and Wilson investigate any question of his eligibility. They confirmed the Senator's belief that the investment banker would meet the requirements of the law by resigning his directorships and selling his bank stock. Doing as directed, Mellon recalled later that he severed his business connections in 1921 "as if I had died at that time."[5] Though formally removing himself, he knew full well that his investments would be carefully guarded

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[4]W.L. Mellon, Judge Mellon's Sons (n.p., 1948), p. 401.

[5]U.S., Congress, House, Hearings before the Committee on the Judiciary, House of Representative, on House Resolution 92, 72th Congress, 1st Session, 1932, p. 10.

by his brother Richard. His younger sibling fulfilled his expectations, and in 1930, when the Secretary was divesting himself to his children, sold the bank stocks to Andrew's son Paul. In both the 1921 and 1930 sales, no money changed hands, only notes, and the rate of interest was geared to the dividend rate of the banks. The father later forgave his son $8 million of the $10 million debt.[6]

Within a year of his arrival, the Secretary clashed with Congress over authority to settle the World War I debts, and the opposition openly challenged his eligibility to hold office. Senator Thomas E. Watson (D-Ga.), Byran's running mate on the Peoples Party ticket in 1896, argued that the Treasury chief violated a 1789 statute which prohibited the Secretary of the Treasury from being "directly or indirectly concerned in the carrying on of trade or commerce." Because of the violation, he explained, Mellon "could on any day we say fit be impeached. . . ."[7] Watson's charges were dismissed for the time being, although the question of the Secretary's eligibility came up occasionally in Senate debate.

In the spring of 1924, Senator Kenneth McKellar (D-Tenn.) breathed new life into the accusations. On the same day, March 28, that Attorney-General Harry Daugherty

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[6]Official Report of the Proceedings before the United States Board of Tax Appeals, Andrew W. Mellon v the Commissioner of Internal Revenue, Respondent, pp. 4388-97.

[7]U.S., Congressional Record, 67th Congress, 2nd Session, 1922, LXII, Part 3, 2605-08.

resigned under Congressional pressure, McKellar introduced a resolution directing the Judiciary Committee to determine if the Treasury Secretary was "directly or indirectly concerned in carrying out trade or commerce." If so, then Mellon would follow in the footsteps of Secretary of Interior, Albert Fall, Secretary of the Navy, Edwin Denby, and Daugherty.

Mellon decided to answer the challenge and permanently silence any objections to his eligibility. Using materials compiled at the Treasury, Senator David Reed gave a point rebuttal to the allegations.[8] In the course of debate, the senior Senator from Pennsylvania revealed that Mellon had investigated the question before taking office, and denied that his mentor's stock holdings in anyway constituted a violation of the 1789 law. He was assisted by Senators Henry Cabot Lodge (R-Mass.) and Simeon Fess (R-Ohio) in refuting the accusation that the Secretary had acted improperly in a tax refund to a corporation in which he was heavily invested.[9] The Tennessee Democrat disputed their interpretation of the law, but with the Regular Republicans rallying to the Mellon standard, the resolution was filibustered. The Secretary's public stature was reaching its peak in 1924, and there was not nearly enough Congressional

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[8]Eligibility of Secretary Mellon to Hold Office folder, Secretary's file, Official Correspondence of the Secretary of Treasury, Record Group 56, National Archives, Box 218.

[9]U.S., Congressional Record, 68th Congress, 1st Session, 1924, LXV, Part 5, 5145 and 5243-53.

or public support to carry through a successful ouster proceeding. After the Teapot Dome scandal, most everyone lost their taste for investigations.

The McKellar resolution may have died, but the central issues were not resolved. The two principal questions, did simple ownership of stock constitute direct or indirect interest and was manufacturing included in the phrase trade or commerce, were not settled. Taking a broad interpretation, the McKellar adherents answered yes to both questions. The Mellon forces assumed a strict construction viewpoint and said no. The opinion on the latter question was reminiscent of Stephen Field and the Supreme Court in the E.C. Knight case of 1895; manufacturing was distinct from commerce, and since the Secretary's investments were in productive industries and not the transportation sector, the law did not apply. Remaining inconclusive, they threatened to reoccur at any time.

And occur they did in 1929. When the Insurgent Republicans were foiled by President Hoover's manuever of continuing Mellon in office without a new appointment, they directed the Judiciary Committee to investigate the validity of such an action. Even if it was valid, they challenged his legal right to the office under the terms of the 140 year old law and insisted that the committee determine his eligibility.

A detailed inquiry followed the Norris Resolution.

The committee unanimously agreed that the President could keep any Cabinet member except the Postmaster-General as a holdover, but supported his eligibility by a vote of 8 to 5, with the majority ascribing to the strict construction opinion propounded by Reed and Attorney-General William D. Mitchell.[10] A minority report, written by Chairman George Norris, took the McKellar position and presented a well-documented and well-reasoned argument against the Secretary's eligibility, and found him in violation for being a stockholder.[11]

Senators William E. Borah (R-Idaho), William H. King (R-Utah) and C.C. Dill (D-Wash.) submitted five pages of "views," concluding that the intention of the law was "to divorce the Secretary from all attachment to his private interests to the detriment of public business."[12] However, the law was vague as to what constituted a conflict of interest and should be clarified by Congress before proceeding against the Treasury chief. The logic of the Borah group would indicate that any man with Mellon's investments had a "conflict of interest," but was not in violation of the law as written and haphazardly interpreted.

It is this writer's belief that the Pittsburgher was an outstanding example of a conflict of interest, although

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[10] Hearings on House Resolution 92, pp. 74-76 and 167-70.

[11] Ibid., pp. 77-105.

[12] Ibid., p. 134.

there is no evidence that he ever misused his position. However, what today is considered a blatant example of a conflict of interest was considered by President-elect Harding a valuable asset. Where the doctrine of expertise leaves off and conflict begins is a difficult to define point.

In 1929, however, mere conflict of interest was not enough for removal; a breach of law was necessary. The time to have questioned the Secretary's business involvements was in March, 1921 when the Senate confirmed the new Harding Cabinet in one afternoon. To wait three years and then eight years before seriously challenging him indicates that the opposition's disagreement stemmed from an ideological rather than a legal or moral base. Those who sought to see Mellon removed were the same men who had consistently fought him over taxes and the handling of the foreign debt. The group included Senators Couzens, McKellar, Norris among others. Their motivation seems to have emanated from a divergence of opinion on financial policies, with the easiest way of changing policy being the removal of the man most responsible for them. The Washington Post editorialized that the points raised against Mellon "were palpably inspired by unscrupulous political motives," and even a journal normally hostile to the Secretary, New Republic, conceded that the charges of "picayune persecution"

might be true.[13]

Having fended some of the best men in the Senate on the eligibility question, it is a little more understandable why Mellon would not be intimidated by so unknown a Congressman as first termer Wright Patman. In ignoring him, the Secretary missed two crucial differences between the new threat and the old. His principle omission was his failure to recognize that times had changed, that the public and its representatives on Capitol Hill were more inclined to listen to the charges and were likely to agree with them. When he was chased in the Twenties, he was the prophet of progress; in 1931-32, he was a prophet fallen on bad times. If Patman did not make his case, others would try. Representative Fiorello LaGuardia (R-N.Y.), for example, also was gathering materials for impeachment proceedings.[14]

The Secretary's second failure was in not realizing that previous ouster attempts had originated in the Senate, a body constitutionally unable to move until after the House of Representatives had acted. Norris had objected to the 1929 investigation for that reason, believing that a Senate inquiry might make future impeachment proceedings by the House illegal.[15] Patman was in the lower house and was

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[13] Washington Post, April 20, 1929 and New Republic, May 8, 1929.

[14] Howard Zinn, LaGuardia in Congress (Ithaca: Cornell University Press, 1958), p. 219.

[15] New York Times, March 6, 1929.

in a position to impeach him and force the Senate to act, thus guaranteeing that the eligibility question would be settled once and for all. Given the change in public temper wraught by the depression, that settlement would probably be adversse to the Secretary. Having misjudged the current of events, he would pay for it with his position.

The former prosecuting-attorney from Texarkana, Texas followed through with his threat in a dramatic presentation before a packed House and gallery in early January, 1932.

> Mr. Speaker, I rise to the question of constitutional privilege. On my own responsibility as a Member of the House, I impeach Andrew William Mellon, Secretary of the Treasury of the United States, for high crimes and misdemeanors. . . .[16]

The indictment was a conglomerate of all the charges made previously, both in the Senate resolutions and debates, and included a few new ones. He not only charged him with violating section 243, title 5 of the Revised Statutes of the United States (the 1789 law), but also accused him of granting illegal tax refunds and rebates to companies in which he had substantial interest, of owning banking stock when the Federal Reserve law prohibited such, of manufacturing liquor in spite of the prohibition laws, of inducing the Supervising Architect to require the use of aluminum in public buildings while the Secretary was a principle stockholder in Alcoa Aluminum, a monopoly, and of having an interest in a company carrying on trade with the Soviet

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[16]U.S., Congressional Record, 72nd Congress, 1st Session, 1932, LXXV, Part 3, 1400.

Union in violation of the law preventing the importation of goods manufactured by convict labor. With House Resolution 92, the wheels were set in motion and within a month Mellon would be gone. It was too late to withdraw gracefully.

But Mellon had no intentions of running from Patman. Instead, he retained the former Solicitor of the Internal Revenue, Alexander W. Gregg, to defend him and gave every indication of fighting until the bitter end. President Hoover was more attuned to the realities of the situation and sought to ameliorate the tragedy. With Ogden Mills available as a more than adequate successor, he took advantage of the resignation of Charles Gates Dawes as Ambassador to the Court of St. James and he shuffled Mellon out of the country. The former Vice-President and Budget Director was returning to administer the Reconstruction Finance Corporation, something the President hoped would help pull the country out of its doldrums. As he had on many other suggestions, the Secretary had been lukewarm in his support for the Reconstruction Finance Corporation, thus providing the White House with yet another reason to wish him gone.[17]

The President, administration supporters, and the new Ambassador's friends tried to dress up the appointment as being legitimate rather than exile, emphasizing that he was a well known Anglophile and possessed some diplomatic

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[17]Gerald D. Nash, "Herbert Hoover and the Origins of the Reconstruction Finance Corporation," Mississippi Valley Historical Review, XLVI (December, 1959), p. 463.

experience as a result of his frequent talks with foreign dignitaries on his summer vacations.[18] Most observers saw through the facade, believing the Secretary a victim of the persistence of Patman and Mills.[19] Even before Patman could launch his campaign, an anonymous observer for Outlook, who a year earlier had noted Ogden Mill's meteoric rise, gloated in his latest report.

> Mr. Mills has emerged, as we predicted he would, to be the dominant figure in the Treasury, and to be the man upon whom Mr. Hoover places strongest dependence in these exciting days. . . . Now it maybe recorded, and truthfully, that Mr. Mellon serves under Mr. Mills, and in so far as financial matters are concerned, so does Mr. Hoover.[20]

Irwin Hoover, longtime White House doorman, corroborated this view, stating that "never did I know a President so dependent on a Cabinet officer. Mr. Mellon was nothing in comparison."[21] That was a strong statement considering that Irwin Hoover was on hand during the Coolidge years when many believed Mellon to be dictating to the President. But no matter what the reason, the Pittsburgh banker sailed for

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[18]Dr. Richard Van Kuhlmann, "Ambassador Mellon," Living Age, May, 1932, pp. 236-37; W.P. Beazell, "The New American Ambassador," World Today, March, 1932, pp. 383-90; New York Times, February 4 and 9, 1932; and Times (London), February 5, 1932.

[19]Charles S. Hamlin MSS, Index-Digest, Manuscript Division, Library of Congress, Vol. 20, p. 172 and "The Mellon-Mills 'Shake-Up'," Literary Digest, February 20, 1932, p. 12.

[20]"Backstage in Washington," Outlook, December 23, 1931, p. 522.

[21]Irwin H. Hoover, Forty-Two Years in the White House (Boston: Houghton: Mifflin Co., 1934), p. 247.

the land of his ancestors in March for a years sojourn in Britain, and the newspapers speculated on whether or not he would wear short pants when he presented his credentials to the King.

Mellon's resignation made the impeachment charges moot and the brief investigation conducted by the House Judiciary Committee was discontinued. Patman, LaGuardia and two others on the committee declared in a minority report that they agreed that the investigation should be terminated, but such action should not be construed as exoneration.[22] Over thirty years later the Texarkana Democrat, then Chairman of the House Banking and Currency Committee, would address a veteran's celebration day at the Texas State Fair and declare his firm conviction that Mellon was guilty as charged and had fled the country to avoid prosecution.[23] He also displayed a degree of consistency remarkable in a politician when he opposed the appointment of David Kennedy as Secretary of the Treasury in Richard Nixon's Cabinet for some of the same reasons he used in arguing against Mellon.[24] Had it not been for the President's adroit maneuver, Andrew W. Mellon would have probably carved another

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[22]Wright Patman to author, February 12, 1968.

[23]Speech, Veterans of World War I and Seniors Citizens' Day at the Texas State Fair, Dallas, Texas, October 13, 1965 (n.p.), p. 5. See also W. Patman, Bankerteering, Bonuseering, Melloneering (n.p., 1934).

[24]Wall Street Journal, May 1, 1969.

niche in history--the only Cabinet member of the twentieth century to be successfully impeached.

As was customary, the Ambassador to Great Britain tendered his resignation to the incoming President and retired. Retirement, unfortunately, was not to be a period of contentment. Within two months of his return home, Attorney-General Homer Cummings announced that he was giving his personal attention to charges that Mellon had evaded several million dollars in taxes by bogus stock sales.[25] Two months later, Harvey O'Connor's sensational expose Mellon's Millions appeared. The Pittsburgh banker called it "a travesty of truth," but the public fed on the sensationalism.[26] Hounded from office for his public affairs, now his private life was splashed in print. Losing his position was a blow; watching the destruction of his privacy and the malevolence that accompanied it was just short of fatal.[27]

Later in the winter of 1933-34, after a year of rumor and innuendo, Andrew Mellon, Thomas Lamont, a Morgan partner, Thomas L. Seldo, a colleague of Newton Baker, and the colorful Mayor of New York, James J. Walker, were charged with tax evasion. In a statement read by his trusted aide of over a decade, David E. Finley, Mellon called

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[25]New York Times, May 12, 1933.

[26]Ibid., August 11, 1933.

[27]Mellon, Mellon's Sons, p. 513.

it "politics of the crudest sort."[28] At other times he charged the Roosevelt administration of waging "a campaign of character wrecking and abuse" and with maliciously attacking him as the symbol of a party in an effort to swing Pennsylvania in the upcoming election.[29] He declared himself willing to go to court to clear his name, priding himself in the fact that in the last twenty years, he had paid $20 million in taxes.[30]

Arthur Krock, Washington bureau chief of the New York Times, wrote at the time that President Roosevelt did not know what Cummings was planning.[31] Claiming that there was indignation in the Capital by many in both parties over Mellon's treatment, and a growing fear that the Attorney-General had blundered, Krock said that fingers were crossed. Most did not think that a Secretary of the Treasury like Mellon who was frequently attacked would have been sufficiently "soft in the head" to seek loopholes. Cummings, it was thought, had made a mistake in charging evasion instead of technical error.

On the eve of the grand jury meeting, the retiree told the press he was being "railroaded," that there was an

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[28]New York Times, March 12, 1934.

[29]Ibid., March 11, 1934 and Mellon, Mellon's Sons, pp. 495-99.

[30]New York Times, March 12, 1934.

[31]Ibid., March 14, 1934.

"attempt to regularize a campaign of terrorism with the tax law as a weapon," and that he believed he overpaid his taxes and would go to the Board of Tax Appeals to seek redress.[32] When a grand jury of working class people refused to indict, the ex-Secretary beamed with pride. Six months later he appeared in Washington to claim a $130,045 refund, and the government countersued for over $3 million. For three years, his case languished before the Board. In December, 1937, foru months after his death, the Board of Tax Appeals unanimously ruled that he owed $600,000 in back taxes, interest and penalties, but cleared him of any involvement in fraud.[33]

In the midst of the trial came the announcement that he was providing the country with a National Gallery of Art.[34] Visiting with President Roosevelt at Christmas time, he proposed to donate $10 million for a building, a $5 million endowment, and his personal art collection, variously estimated from $19 million to $50 million. It was the largest gift ever by a private citizen to the government.

Herbert Hoover, writing in his memoirs, said that his Secretary had related his intention of building a gallery

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[32]Ibid., May 5, 1934.

[33]Ibid., December 8, 1937. Judge Mellon's Sons has a reasonably accurate discussion of the case, pp. 489-513.

[34]New York Times, January 3, 1937.

before the depression. Had he made the announcement before 1937, the ex-President lamented, Mellon would not have had to endure the vituperation of the Thirties.[35] This is doubtful for rumors that he would build a gallery cropped up several times after his retirement, but they were always denied, as were the suggestions that he was spending millions for art while many Americans were going hungry. In this instance, his timing was unusually good. New Years 1937 witnessed a revival of the economy and the public was prepared to accept the thought of million's being spent for beauty instead of food.

Death came quietly to Andrew Mellon on August 26, 1937 at the home of his daughter Ailsa, Bonnie Dunne, in Southampton, Long Island. At age eighty-two he left this orthodox world, a world that had gone from steam engines to the verge of atomic energy, for another. Denied happiness and contentment in this life, perhaps he would find relief in the next.

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[35]Herbert Hoover, The Memoirs of Herbert Hoover, Vol. 2, The Presidency (New York: The Macmillan Co., 1951-52), p. 60.

CHAPTER IX

IN RETROSPECT

Andrew William Mellon, investment banker, Pittsburgh industrialist, and conservative financier, was not "the greatest Secretary of the Treasury since Alexander Hamilton." Neither was he a plutocrat whose "recommendations invariably called for shifting the burden to the poorer classes." The former was an appellation that had no definable meaning, but was latent with innuendo. Some used it simply to mean praise for a job well done, while others employed it to attribute to Mellon the aristocratic, political, and social philosophy of Hamilton. The latter was, and to some degree still is, a crass villification intended to indict him for the maldistribution of income in the Twenties and the economic tragedy of the Thirties. The Secretary, by nature a modest and shy man, sought neither the accolades before the crash nor the disparaging attacks after it. He came to Washington in 1921 as a prelude to retirement, with the idea of performing a task the best way he knew and according to the dictates of an economic philosophy that he sincerely believed in. The unsolicited praise embarrassed him and the vituperation angered him. Both were extreme

and lacking substantial foundation in fact.[1]

The typical post-depression American has never heard of Andrew Mellon. The penchant for privacy learned from the father and religiously practiced by the children has enabled him to slip into the dark recesses of history. Today he is neither praised nor villified; he is simply ignored. Historians have touched upon him occasionally, but quickly cast him aside as a figure easily stereotyped and thus deserving of scant attention.

What we do know of Mellon has largely been colored by the Roosevelt experiment and the subsequent reform impulse that captured the imagination of the historical community. Like most of his contemporaries, he has often been examined in so far as he provides a strawman introduction for the New Deal. Coupled with the lecherous Harding and "Silent Cal" Coolidge, he has been dismissed as a myopic millionaire who abused his position of responsibility to relieve himself and his peers of their duty to support the government and to shift the heavy burden of taxation onto the shoulders of the little man. Because he made millions, the assumption is that money was his God, and that the quest for the dollar was his motivating force.

Others with a similar conservative economic and social

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[1]Walter Lippmann has a critical analysis of the comparison of Mellon and Hamilton in his Men of Destiny (New York: The Macmillan Co., 1929), pp. 184-95, written at a time when the comparison was very much in vogue.

philosophy have also criticized Mellon. Some orthodox economists and bankers, defenders of the status quo, and fellow politicians have berated many of his policies. The easy money policy of the Federal Reserve system and his position on the foreign debt are good examples of programs that conservative thinkers decried after the crash. This group, however, has criticized the Secretary for well-meaning, but ill-chosen policies, and sought to disown him during and after the catastrophe of the Thirties. They have not personally disparaged him; they have not accused him of malice of forethought as have his critics of the left. To disapprove of what he did because of the tragedy that followed is one thing; to imply that what he did was deliberate and that he knew what the consequences would be is yet another.

The object of this essay has been to examine the Treasury career of Andrew Mellon and the programs and the procedures that he advocated in as scholarly a fashion as possible. This writer holds no brief for Mr. Mellon and has not attempted to defend him or to resurrect him as another Alexander Hamilton. Rather, what was intended was to interpret the man, the ideas, and the accomplishments, to weigh them in the context of time, as free as possible of ideological considerations, and to draw conclusions on the basis of what has been observed.

The man that has been presented here was a nineteenth

century figure called upon to serve in the twentieth century. Because of his experiences in the industrial revolution, an age of individualism, Social Darwinism, and laissez-faire politics, his selection to guide the nation's financial destiny was far from the best. His reaction to problems was grounded in assumptions that were dated and would soon be replaced. The Twenties was a transition period from the old America to the new America, and Mellon was a representative of the past.

Though he was a nineteenth century character, a man who came to maturity in the Gilded Age and who made millions in the boom period of the industrialism, he was somewhat atypical. He was not a "robber baron," a ruthless competitor who built a fortune in unethical or immoral operations with the bodies of his employees and business rivals strewn over the path of his success. The bulk of his wealth came from three sources, through corporations that developed in unusual ways. The Aluminum Company of America, for example, a firm in which he and his brother Richard owned approximately 35%, grew from a garage operation to a monopoly, not by squashing rivals but by ownership of patents and voluminous purchases of scarce raw materials. The Mellons also take pride in the fact that there was no ready market for their product and that they had to develop one; they had to convince the public of its usefulness. The difficulty of the government in breaking up the monopoly until after World War II was illustrative of its strange growth. It had

gradually developed from a single base; there were no acquisitions that could easily be lopped off, the traditional method for destroying monopolies. Similarly, the Gulf Oil Corporation was the first result of a well drilled into an oil reserve of astronomical proportions in east Texas. The oil simply poured out and has continued for nearly seventy years. The third investment, Koppers Company, began in the coke business, but branched out into the chemical industry after World War I. Its scientists and those at the Mellon Institute, a privately endowed industrial research facility, were instrumental in the creation of synthetics and other coal and coke by-products.

All of this is not to say that the Mellon fortune is grounded in purity and virtue. What it does say is that a fortune was compiled with a minimum of effort. All of his investments were conservative, well thought out ventures, often aided by chance as in the parallel development of aluminum and the aviation industries. Furthermore, much of his wealth can be attributed to the increased value of his stockholdings, the prices driven up by yhe desire of others to share in the prosperity. Andrew Mellon was a conservative investment banker, not given to speculation or plunging into dubious ventures. In the words of a Saturday Evening Post editorial writer, Albert Atwood, "Mr. Mellon was never a plunger; he was a supporter. . . ."[2] The dividends paid

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[2]Albert W. Atwood, "Mr. Mellon," Saturday Evening Post, May 7, 1932, p. 100.

by his companies can be attributed more to the accident of being in the right place at the right time than to his shrewd business acumen. His shrewdness was in hiring talented men who were knowledgeable in the ways of corporate operations and could make maximum utility of the assets. The reason his climb to the top was not strewn with the corpses of the vanquished was because he did not need to step on anyone. There were easier methods. His model of a good businessman was the food processor Henry J. Heinz, a man whom he praised for his business achievements without being ruthless. "He has proved that to be a great business success, a man need not be ruthless or sacrifice his friends."[3]

There is another aspect of the nineteenth century man that demands exposure. That is the conservative almost puritanical strain that permeated his fiber. Mellon was educated in a non-formal sense by his father who instilled in him the traits of responsibility, productivity, hard work, and diligence. Both father and son were classic examples of the Protestant work ethic in action. They believed in the precepts of Social Darwinism and Horatio Alger, accepted Adam Smith's economics as meaning that there were certain natural laws that could not be altered.[4] Government was to be laissez-faire, adhering to the Jeffersonian maxim that "the government that governs least governs best." The business

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[3]Quoted in Will Irwin, "Andrew Mellon Stripped of His Mystery," American Magazine, July, 1930, pp. 80-82.

[4]A.W. Mellon, Taxation: The People's Business (New York: The Macmillan Co., 1924), pp. 14-22.

world was survival of the fittest and they feared no one, witness their challenge to Standard Oil in building a pipeline to transport oil from Western Pennsylvania and West Virginia to the port in Philadelphia.

These beliefs were as deeply ingrained in both men as their faith in Presbyterianism, and they were beliefs, not rationalizations. In writing his Autobiography, Thomas Mellon thought himself the incarnation of the industrious Benjamin Franklin; that he, from humble beginnings, had overcome the obstacles of life and had succeeded. His son Andrew, of course, had a more propitious start, but that did not mitigate his father's demand that he follow the dictates of hard work, responsibility, and the avoidance of extravagance. In the Gild Age of conspicuous consumption, the Mellon's noticeably did not participate. Andrew's only failing was a passion for art, and even then the profit incentive, tax deductions, inflation hedges, and the like, were evident. That Andrew accepted the cudgel laid down by his father is important in understanding his future actions. His driving force was not money, except in the sense that money was a measure of accomplishment. Instead of using his profits for the pursuit of pleasure, he plowed them back into productive enterprises as he expected his companies to do. The goal was to add to the empire, not accumulate money.

To describe a man like Mellon is difficult for he is so foreign to what most people know and comprehend. How

could a man be oblivious to wealth and power; yet he was. His career in Washington was indicative of that. Having reached the pinnacle in business and finance, he came to Washington seeking a new world to conquer, to meet a different challenge. Government service was a poor way to make money and a violation of his own adage, "It is always a mistake for a good business man to take public office."[5] His work-oriented mind was demonstrated in his Treasury career by his frequent twelve and sixteen hour days, vacations coming only after business was completed and Congress adjourned. His lack of a craving for power, and a devotion to principles, was exhibited in his willingness to remain in the Hoover Cabinet even though he knew his role would be secondary.

If one accepts the description of Mellon as essentially a honest, responsible, work-oriented man, as opposed to the more traditional money-dominated, unscrupulous character who misused his office for personal aggrandizement and that of his friends, one is likely to come to a different set of conclusions than those expressed by most historians. The picture drawn thus far is of a complex individual with certain driving forces, but not inclined to fit the mold of a particular stereotype. As Robert Weibe has shown, in his study of businessmen and reform, the businessman of the

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[5]Quoted in George Harvey, Henry Clay Frick, The Man (New York: Charles Scribners and Sons, 1928), p. 290.

turn of the century could not easily be classified, and in that respect, Andrew Mellon was no exception.[6]

Bearing this in mind, let us examine the four basic elements of his Treasury career: the domestic debt, foreign debts, taxation, and depression.

In the area of the domestic debt, one can readily see the conservative banker. Like all bankers, he had an abhorrence of debt be it public or private. His disdain was probably stroner than most, for his business policy had been to expand facilities by plowing profits back into the firm rather than floating bond issues. The service charges on the debt undermined his economy program and the sooner that it was retired the better. When he assumed office, the interest bearing debt stood at approximately $24 billion. By the end of fiscal 1931, the level was lowered to $16 billion, a reduction about one-third of the total in ten years, and with a proportionate decline in carrying charges.

The idea of lowering the gross national debt, then as now, is inextricably tied to a belief economy in government, a guiding light to Mellon and Coolidge in particular. Parallel with debt retirement was budget reduction, and the two parties vied in 1928 over which one could do it best. No one in the Twenties was critical of these twin concepts, virtues if you will, though there were some grumblings

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[6]Robert W. Weibe, "Business Disunity and the Progressive Movement," Mississippi Valley Historical Review, XLIV (March, 1958), 664-85.

later in the decade that the debt was being diminished faster than was necessary. Economy in government has always stood in the American mind as sacred as the flag.

In his dealings with the foreign debts, one finds a somewhat enlightened banker. The thrust of his argument was that the obligations should be paid, they were legally and morally binding, and yet he realized that a sound Europe was more important to America than full payment at 5% interest. An enlightened banker recognizes when to foreclose and when to extend the mortgage date. He never acceded to the Coolidge "They hired the money, didn't they?" attitude. He promoted a capacity-to-pay formula by adjusting interest and time for payment.

That dictum placed him between Hiram Johnson, William E. Borah, and the like, who demanded full payment, and others like Walter Lippmann who believed the principal of the debts should be adjusted or perhaps forgiven completely. His middle of the road position brought criticism from both sides, not praise for the wisdom of Solomon. Given the tenor of the times, that most Americans hoped for full payment and that some of their powerful representatives on Capitol Hill were demanding such, something like a capacity-to-pay formula was the best option available. Most today believe that the debts, along with reparations, should have been cancelled, but that is hindsight, not a recognition of the domestic and international realities of the times.

In the realm of taxation, Mellon did his best to lower

taxes on the rich, but not to shift the burden to the poor. The attempt was to minimize the cost of government, and to provide a commensurate reduction of taxes for the middle and upper classes in an expending economy. He would have included the lower class too, but they did not pay federal income taxes.

An examination of taxation from the perspective of a half-century should not be colored by the problem of space age taxes. The burden of taxation today is heavy because of defense spending and the expectation of much more from our government in domestic activities, with the emphasis on the former. Commenting on the development of federal taxation since Mellon, Gabriel Kolko wrote:

> Contrary to common belief, heavy taxation of upper-income groups did not begin with the advent of the New Deal; it began only with the approach of United States involvement in World War II. Higher income taxation came as a response of the Roosevelt Administration to world events and not as a result of a conscious commitment to a social policy of reducing inequalities in the distribution of wealth.
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> Before 1931, the New Deal practice on personal-income taxation was, despite differences in verbiage, essentially a continuation of that of the Hoover Administration. In 1929 and 1940, when national personal income was almost the same, Federal receipts from personal income taxes were virtually identical. . . .[7]

In the Twenties, the burden was lighter, relatively speaking, but fell amost entirely on a small group of people.

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[7]Gabriel Kolko, Wealth and Power in America (New York: Fredrick A. Praeger, 1962), pp. 30-31.

In 1928, for example, 2.4 million people paid federal income taxes. Of that group, just over 2 million people paid $32.8 million, while 365,000 people paid $1.1 billion. This was after Mellon received his scientific rate, and one can see that the burden, light as it may be compared to today, was falling not on the poor or the little man, but on the shoulders of a small, select group at the top of the ladder. The rich may pay a larger proportion of their income to the government today, but to what group has the burden since 1941 really fallen?

Mellon also believed in the nineteenth century philosophy of all men having a stake in their government and that taxation would provide that stake. If more people paid even a small sum, the twofold function of providing a stake in in government and a more stable income tax would be met. At no time did he advocate shifting the burden through a regressive measure like the sales tax, a popular panacea with many in the business community and higher brackets. When President Hoover called for high taxes in 1931 to right the unbalanced budget, the chief executive suggested a substantial increase in the upper brackets. Mellon, he said, replied: "That is not enough," implying that the rich must pay even more.[8] He did support indirect taxes some of which fell heaviest on the poor like cigarette taxes, but he also

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[8]Herbert Hoover, The Memoirs of Herbert Hoover, Vol. III, The Great Depression (New York: The Macmillan Co., 1951-52), p. 456.

unsuccessfully advocated ones on automobile sales, stock purchases, and bank checks, levies that struck the middle and upper groups.

Where Mellon and his colleagues can be faulted in the area of economy, debt retirement, and lower taxes is in the fact that the public was asking more of its government and the federal establishment did not respond. The state governments did, and it was indirectly through the increase in state and local taxes and debts that Mellon shifted the burden to the little man. To pay for increased services, especially roads, state governments raised property taxes and some instituted sales taxes and other indirect, regressive levies that came down hardest on the lower income groups, especially farmers.

The last thing, Mellon's reaction to the depression, illustrates an instance when his nineteenth century ideas were thoroughly dated and inapplicable. They were poor but tolerable responses in the nineteenth century; in the new era, they were disastrous. To say that the problem was overproduction in the face of hungry people and consumer interest in manufactured goods, and that America had to wait until production and consumption righted themselves, was no answer. Even Hoover, in many respects a figure of the old era, realized that government needed to do something to stimulate production and consumption even if that something was only no-business business meetings. Mellon collapsed when his traditional approach proved untenable.

At a minimum, the times called for a man more in step with Hoover, Mellon was not that man, nor was Ogden Mills.

Again, what has been concluded here is somewhat different than the traditional. The picture is that of an honest, hard-working man, dedicated to a particular set of ideas, concepts and beliefs. Though the validity of those beliefs is debatable, Mellon nevertheless accepted them and acted accordingly. To interpret and evaluate within the frame of different beliefs is to do a disservice to the man and history. The question to be avoided is right or wrong; the issues at hand are not conducive to moral judgment.

Andrew William Mellon was not the best choice as Secretary of the Treasury and much of what he did has been lamented by later generations. Simply holding the position as he did was a violation of the most primitive definition of a conflict of interest. To describe massive contributions to a campaign like giving to a church must conjure visions of a man with a strange set of values. Strange they were, something from another age. Though not the best choice, the options available offer little solace to someone who would prefer to have seen the Twenties develop differently. As long as things went well, the public agreed with him, some idolizing his figure. When the economy sickened,the feet of clay were exposed and the public felt duped. Historians like anyone else tend to remember

someone for the last image they convey. In this case, let us try to expand that image and view the whole man, not just the broken form that Wright Patman hounded from the citadels of power.

BIBLIOGRAPHICAL ESSAY

PRIMARY SOURCES

The most important research source when writing biographical or semi-biographical studies such as this is the man's personal papers. Unfortunately, Andrew W. Mellon's private papers are being held by his heirs who informed this writer that they had no plans for releasing them in the foreseeable future. Because of this, a full length biography is precluded, but a study of his governmental career is possible.

Lacking personal papers, the researcher must approach his subject in a different fashion. Instead of beginning with the central figure and working outward, one must strike out from the peripherey and burrow inward. This is not the ideal methodology, but can be an acceptable and productive process. Joseph Brandes in his study of Herbert Hoover as Secretary of Commerce, Herbert Hoover and Economic Diplomacy (Pittsburgh, 1962), presented the academy with an excellent volume, though the Hoover papers were unavailable to him. Since then, the Presidential Library at West Branch, Iowa has been opened to researchers and Mr. Brandes's work has gone unchallenged. This approach to Mellon has, in many respects, been patterned after what Brandes did and hopefully

it will withstand the passage of time as well.

The laborious process of examining, understanding, and evaluating the Secretary of the Treasury "under whom three Presidents served" has been made considerably easier by four characteristics of the man: thoroughness, frankness, controversiality, and a willingness to delegate authority. His business mentality, adapted to government service, has caused the Official Correspondence of the Secretary of the Treasury, Andrew W. Mellon, Secretary, 1921-1932, Record Group 56, General Records of the Treasury Department, National Archives, to be the epitomy of business-like thoroughness. Found in the 241 boxes are files from acceptances for public engagements to the world court issue, with matters ranging from the coal situation in Central Europe, to segregation of employees, to letters of introduction in between materials on all fiscal, monetary and financial questions that pertained directly or indirectly to the operation of the Treasury and the varied duties of the Secretary. A listing of subject headings is available. Information was retained according to subject headings (they remain in their original form untouched by editors), but with carbons in a variety of files in which the item might be of some interest.

The Annual Report of the Secretary of the Treasury, 1921-1931, published each December for the use of Congress, is an ideal companion volume for the Official Correspondence. Also a very business-like document, the Annual Report served as a vehicle for the Secretary to explain or elaborate

upon policies and procedures undertaken by his department. Reprints of legislative correspondence and important public statements by the Treasury chief are included. During the Harding and Coolidge years, the Annual Report was very complete and liberally sprinkled with personal opinion. The last three reports continued the practice of thoroughness, but avoided personal commentary and judgment. The annual statement of the Commissioner of Internal Revenue and the Director of the Prohibition Bureau are also found in the Annual Report, and each Report of the World War Foreign Debt Commission, 1922-1926, is reprinted.

These two sources could have been very bland and uninformative were it not for Mellon's frankness and controversiality. Essentially an honest and forthright individual, the Secretary was very frank in expressing himself, particularly in his yearly report to Congress. The practice extended to what personal materials remain within the Official Correspondence, and enhance the value of letters and interoffice memoranda from his subordinates who apparently were infected by the same type of candor. His controversiality, his numerous clashes with the legislative branch and certain individuals and interest groups, led to the maintenance of complete files on any subject that might be the subject of public debate. The folder on his eligibility to hold office is a classic example of a collection of data that touched upon ever conceivable aspect of the case. The fact that Mellon was controversial, combined with his concern that

his opinion by properly known and understood, is a further assist to the researcher in that he released much of his correspondence to the newspapers and provided regular press releases on current affairs. Though this writer has seen most of the originals, the system in this essay has been to cite the most available source, thus the frequent references to the New York Times or Annual Report rather than Official Correspondence.

The Secretary's willingness to delegate authority adds another dimension to his official papers. Although his personal letters were segregated, those of the Under-Secretaries and Assistant-Secretaries were kept. Because policy was often formed on these lower levels and Mellon was prone to accept the advice of his three Under-Secretaries, these holdings are of inestimable value. The correspondence of these men, followed by memoranda to their superior, which in turn were frequently translated into policies, programs or opinions, or passed on to the White House, illustrates an interesting cause and effect relationship. His business policy had been to surround himself with capable men and supervise their activities from a discreet distance, a practice he continued in Washington. The proliferation of duties assigned to the Secretary of the Treasury and Mellon's regular attendance at public functions like Cabinet meetings indicate that someone beyond himself must have been doing most of the work. The only organized and available source of an immediate subordinate are the Private Papers of

Ogden Mills in the Manuscript Division of the Library of Congress. They are a useful adjunct, but most important items can be found in the Treasury records, his frequent public statements and speeches, and his two books, Liberalism Fights On (New York, 1936) and The Seventeen Mellion (New York, 1937).

Other manuscript collections of figures immediately around or involved with Mellon are valuable, particularly those of the three Presidents with whom he worked. The Presidential Papers of Calvin Coolidge, Manuscript Division of the Library of Congress and microfilm, were found to be of modest value as its contents were often available elsewhere. The Presidential Papers of Herbert Hoover at the Presidential Library in West Branch, Iowa were not extensively used and provided little insight. For the most part, the Memoirs of Herbert Hoover (3 vols., New York, 1951-52) and secondary sources sufficed. The uncatalogued papers of Warren Harding, Ohio Historical Society, Columbus, Ohio, were not consulted, though as in the case of the Hoover Papers, will be before venturing beyond the interpretations of this essay.

Deposits of other personal memorabilia provide additional materials. The Diaries and Index-Digest of Charles S. Hamlin, Manuscript Division of the Library of Congress, are extremely useful for observations of Federal Reserve Board activities by a member. Because of the legibility of the writing, the Index-Digest, copiously drawn by an

unknown friend, has been cited. The sources have been cross-checked with the Diaries, but this writer refrained from refering to the original because of an inability to accurately read them. Some authors use the original, but the practice has been to rely on the Index-Digest. The papers of Mellon's arch-enemy, James Couzens, are also in the Manuscript Division of the Library of Congress and are helpful for the Senator's opinions, but most of their exchanges were in the newspapers.

Beyond the official records and the collections of private papers, there are the Secretary's own publications. Such things as his "Our Best Customer," Saturday Evening Post (June 19, 1926) on foreign debts and the tariff, "Government Finances and Taxation in 1927," Worlds Work (January, 1927), "What I am Trying to Do," Worlds Work (November, 1923) on the public debt, and "The Business of Taxation," Forum (March, 1924) are illustrative of his penchant for an occasional article directed to a specific point. However, his articles were usually an expression in layman's terms of something he had already said in official dealings and have only minimal usefulness. As one might expect, most of his publications dealt with government financee and his ideas on the subject were drawn together into book form, Taxation, the People's Business (New York: 1924). Expressing Treasury opinion was normally handled by one of his assistants, especially Ogden Mills, but this writer has been wary in his use of them for many of the

underlings were of an independent mind, and one cannot always be certain that Mellon fully agreed. In all publications, there is a certain repetitiousness, a constant hammering on certain themes and ideas that tends to bore, but this was an effective way of being sure that his attitudes were well understood.

Government documents provide additional research tools. The Congressional Record is the traditional vehicle for legislative expression. More intimately related to Mellon is the transcript of his trial for tax evasion, the Official Report of the Proceeding Before the United States Board of Tax Appeals, A.W. Mellon v. the Commissioner of Internal Revenue, Respondent, at the Bureau of Internal Revenue. Included in the 10,000 pages is the testimony of the ex-Secretary, and his references to his childhood and development as a businessman are particularly beneficial. Three Congressional investigations supply a variety of information. The Hearings before the Special Committee Investigating Expenditures in the Senatorial Primary and General Election (U.S., Congress, Senate, 69th Congr. 1st Sess., pursuant to Sen. Res. 195, June 9 to July 7, 1926) contains material pertinent to the Vare-Pepper primary and the broader issue of the Secretary's role in Pennsylvania politics. The Couzen's investigation, Hearings before the Select Committee on the Investigation of the Bureau of Internal Revenue (U.S., Congress, Senate, 68th Cong., 2nd Sess., pursuant to

Senate Resolution 168, 1924-25) casts light on the Mellon-Couzens feud and the operation of the Internal Revenue Bureau. A careful reading gives the researcher some idea of the complexity of tax enforcement, particularly difficult in these first years of the income tax, and makes one suspicious of the charges of illegal refunds. The record of the Patman investigation, Hearings before the Committee on the Judiciary of the House of Representatives (U.S., Congress, House, 72nd Cong., 1st Sess., on House Resolution 92, January 13-19, 1932), contains all of the documents pertaining to the question of Mellon's eligibility to hold office, provides some insight into his selection for the Secretaryship, and expresses most of the negative arguments used against him for over a decade. Thwarted by Mellon's removal to England, Wright Patman compiled all of his charges in book form, Bankeneering, Bonuseering, Melloneering (n.p., 1934).

An unusual, but interesting and informative source is the Harvey O'Connor Collection, Labor History Archives, Wayne State University. Mr. O'Connor is the only writer to attempt a full biography of Andrew Mellon, Mellon's Millions (New York, 1933) and his papers afford a view of his research materials and notes.

Autobiographies, recollections, and memoirs of people who knew Mellon or worked with him are plentiful. The most important of the autobiographical materials is that of his father, Thomas Mellon and his Times (n.p., 1885). Except

for what was said in the tax trial, this is the basic source for Andrew Mellon before he left for Washington. Because of its candid approach, it is tremendously useful in understanding the development of the Secretary and many of his actions in office, particularly his response to the depression. His father's memoirs are handsomely complimented by those of his nephew, William Larimer Mellon, Judge Mellon's Sons (n.p., 1948). W.L.Mellon had access to the private papers and expressed his uncle's viewpoint. Though obviously defensive and biased, a careful reading can garner important information and insights. Unfortunately, the Secretary's political lieutenant said little of their political involvement.

Similar sources include the recollections of Harry Daugherty, The Inside Story of the Harding Tragedy (New York, 1932). The one-time Attorney-General emphasized his role in selecting Mellon for the Cabinet, claiming all credit as he did in most everything related to Harding. Senator Walter Edge's A Jerseyman's Journal (Princeton, 1948) and Will Hays's recollections The Memoirs of Will Hays (Garden City, 1955), Postmaster-General and Republican Chairman, proved commentary of the Treasury selection and the 1928 Republican convention. Senator James E. Watson, As I Knew Them (Indianapolis, 1936) also discussed Mellon's political suicide in 1928. The Secretary's role in Pennsylvania politics is included in George Wharton Pepper, Philadelphia Lawyer, An Autobiography (Philadelphia, 1944), William S. Vare,

My Forty Year's in Politics (Philadelphia, 1933), and Joseph Guffey, Seventy Years on the Red Fire Wagon (n.p., 1952). Guffey was a leader of the Democratic Party in the Keystone State and the son of a former Mellon business partner in the oil industry. All three books are defensive and highly critical of Mellon and his machine. David F. Houston, Wilson's Secretary of the Treasury, supported the idea of continuity in department policy in his Eight Years in the Wilson Cabinet (2 vols., Garden City, 1926). A consistent foe of Mellon; Cordell Hull, provides a taste of the Congressional wing of the Democracy in his Memoirs of Cordell Hull (2 vols., New York, 1948). The rememberances of Budget Director and Vice-President, Charles Gates Dawes, The First Year of the Budget Bureau of the United States (New York, 1923), and Notes as Vice-President, 1928 (Boston, 1935) are helpful in understanding Treasury policy formation and the human side of the Secretary. Irwin H. Hoover, Forty-Two Years in the White House (Boston, 1934), doorman at the executive mansion, produced some interesting but questionable recollections of the Secretary, especially with reference to the 1928 campaign and his resignation in 1932. Onetime Pittsburgh newspaperman Gilbert Sildes, Tell the Truth and Run (New York, 1953) offered some observations on Mellon's private life and is practically the only source on his divorce. A fellow journalist, Henry Stoddard, As I Knew Them (New York, 1927) presented a brief picture of the Harding-Mellon relationship.

The last of the primary sources are the newspapers. As a newspaper of record, the New York Times enables the researcher to determine day to day activities and contains all public statements, with public letters, speeches and most press releases printed in full. Though naturally shy, the Secretary was reputed to have a very good rapport with newsmen in their weekly off-the-record conferences. These sessions were for background information and quoting was prohibited, as was attributing information to the Secretary. The consequence was frequent references to "informed Treasury sources" and such statements must be weighed very carefully and cross-checked with later materials that unmistakeably bear the imprint of the Secretary. The editorial opinion of the New York Times usually supported the Treasury, but did depart occasionally from the party line as in the case of its advocacy of a sales tax. The St. Louis Post-Dispatch and New York World usually expressed Democratic Party opinion and were fairly consistent in their opposition, even after the Congressional Democrats moved to out-Mellon Mellon. The Washington Post, owned by Eugene Meyer, a Hoover appointee to the Federal Reserve Board, served as something of an organ of the administration and regularly adhered to Treasury policies. Varied newspaper opinion on numerous issues was provided by the Literary Digest, a unique magazine whose polls on the Mellon Plan and prohibition were very helpful.

SECONDARY SOURCES

Besides Judge Mellon's Sons, two other books have been written on Andrew W. Mellon. Phillip Love penned Andrew Mellon, the Man and his Work (Baltimore, 1929) as a testimonial to a hero. Rumored to have been published as a campaign biography should the Secretary have chosen to run for the presidency in 1928, the effort was poor, with most of it composed of lengthy quotations from speeches and antecdotes of questionable authenticity.

When the Pittsburgh banker became the subject of extensive criticism after the crash, Harvey O'Connor capitalized on a ready market with his Mellon's Million, the Biography of a Fortune,the Life and Times of Andrew W. Mellon (New York, 1933). O'Connor, a longtime labor writer, produced a left-wing interpretation, lacking any sense of objectivity and prone to accepting as truthful any source critical of his subject. His research was copious, but his use of the sources is suspect. It has value in that it is representative of what a great many thought of Mellon in the Thirties, and to a great degree is responsible for his niche in history. Like Judge Mellon's Sons, it can serve some useful purposes if judiciously read and evaluated against other sources.

Several magazine articles on Mellon are also available. There is a cumulative effect in these articles with each rehashing the materials of its predecessors and adding a

few bits of its own. The most recent installment was the three part Fortune article "The Mellons of Pittsburgh" (October-December, 1967). Most of Charles J.V. Murphy's energies went into the business aspects of the family, with part one devoted to the formation of the financial and industrial empire by Thomas Mellon and his sons Andrew and Richard. Only passing reference was made to the Secretary's governmental service. Three Newcomen Society publications, Roy A. Hunt, The Aluminum Pioneers (Princeton, 1951), Sidney Swensrud, Gulf Oil, the First Fifty Years (Princeton, 1951), and Frank R. Denton, The Mellons of Pittsburgh (Princeton, 1948) supply additional business insights. Craig Thompson, Since Spindletop (n.p., 1951), an official history of the Gulf Oil Corporation, and Charles C. Carr, Alcoa, An American Enterprise (New York, 1951), another official company production, are book length compléments to the above sources for understanding Mellon as a businessman. A contemporary and apparently authorized article, "My Brother and I," Worlds Work (March, 1932), by William P. Beazell, is helpful in understanding Andrew Mellon's business methodology, and was the only authoritative source available on his corporate activities until 1948. Except for academicians and a few brief newspaper articles on the hundredth anniversary of his birth in 1955, the above represents the total published output on Mellon since his death in 1937. The family's drive for anonymity has been rarely violated.

A great many journalistic appraisals appeared during the Treasury years, with most of them coming during Mellon's public relations campaign of 1930-31. A flurry of laudatory articles that said little beyond praising the man and his programs included: Lucius Beebe, "Mellon, Coressus and Corinthian," Outlook (February, 1931); Albert W. Atwood, "Mr. Mellon," Saturday Evening Post (May 7, 1932); Theodore Joslin, "Andrew W. Mellon, Dean of the Cabinet," Worlds Work (January, 1930), and Will Irwin, "Andrew Mellon Stripped of His Mystery," American Magazine (July, 1930). Walter Davenport's "A Day with Andrew Mellon," Colliers (March 29, 1930) offers an insight into the operation of the Protestant work ethic on the Secretary. The best popular account of the Secretary, however, appeared during the fight over the Mellon Tax Plan. John K. Barnes drafted "What Manner of Man is Mellon?", Worlds Work (March, 1924), with help from sources close to the man. The Barnes article was the first significant look at the enigma of the Treasury and formed the core for later revelation. Other praiseworthy articles include Mercer Vernon, "Introducing Mr. Mellon," Outlook (November, 1923) and Silas Bent, "Andrew W. Mellon," Scribes (January, 1928).

There are almost no negative accounts of the Treasury chief. This is not to mean that he did not have critics, but that his opposition devoted their attacks to particular issues rather than examining the broad sweep of the man.

Exceptions to this rule are "Andrew Mellon," New Republic (March 24, 1926), by Frank Kent and "Andrew W. Mellon, Secretary of the Treasury," Current History (July, 1931), by Clinton W. Gilbert. New Republic and Nation maintained a steady stream of editorial criticism and were inclined to publish hostile stories, particularly those of Frank Kent and Paul Y. Anderson, Washington correspondents for Democratic newspapers. No journal took it upon itself to consistently defend the Secretary, though Worlds Work was inclined to accept pro-Mellon reports.

The periodicals of the Twenties are very valuable for surveying attitudes toward Mellon and his policies, particularly those put out by interest groups. The articles vary in value and fluctuate considerably as to whether they are of a primary or secondary nature. A survey of them is impossible and the reader is directed to footnotes for these source materials.

All of the general historians of the Twenties mention Mellon, but the coverage is usually limited to a few paragraphs at most. Their references are invariably to his tax policy, with an occasional note on the domestic debt. These sources can be divided into two groups, the critical ones and those somewhat friendly. There are no sympathetic treatments. A bleak picture of Andrew Mellon, plutocrat, the Secretary of the Treasury who tried to shift the burden of taxation from the rich to the poor can be found in the

following works: Arthur Schlesinger, Jr., The Crisis of the Old Order (Boston, 1957); Samuel Hopkins Adams, Incredible Era: The Life and Times of Warren G. Harding (New York, 1939); Fredrick Lewis Allen, Only Yesterday (New York, 1931); Jonathan Daniels, The Time Between the Wars (Garden City, 1966); Karl Schriftgeisser, This Was Normalcy (Boston, 1948); Elizabeth Stevenson, Babbitts and Bohemians (New York, 1967); John D. Hicks, Republican Ascendency (New York, 1960); George Soule, Prosperity Decade (New York, 1947); William Leuchtenberg, The Perils of Prosperity (Chicago, 1958); Harold U. Faulkner, From Versailles to the New Deal (New Haven, 1950); David Shannon, Between the Wars (Boston, 1965); and Bruce Minton and John Stuart, The Fat and Lean Years (New York, 1940). Those somewhat friendly to the Secretary include: Theodore Grayson, Leaders and Periods of American Finance (London, 1932); Stuart Holbrook, The Age of Moguls (Garden City, 1953), particularly useful for a glimpse of Mellon as an atypical robber baron; Edmund Lowry, Washington Close-Ups (Boston, 1921); Mark Sullivan, Our Times, Vol. VI, The Twenties (New York, 1935); Oscar Barck and Nelson Blake, Since 1900 (New York, 1959); and Leland Baldwin, Recent American History (New York, 1954). Three books that devote more than a page or two are Robert S. Allen and Drew Pearson, Washington Merry-Go-Round (New York, 1931) and More Merry-Go-Round (New York, 1932), and Walter Lippmann, Men of

Destiny (New York, 1927). All are hostile to the subject, but do provide useful information, particularly on Ogden Mills's eclipse of his superior.

Biographers afford several pictures of Mellon. George Harvey's Henry Clay Frick, The Man (New York, 1928) describes the Pittsburgh banker first steps into politics. The attitude of a sympathetic Democratic Senator who once served at the Treasury comes through in Rexey Smith and Norman Beasley, Carter Glass (New York, 1939). The Insurgent Republican estimate can be found in Bella Case LaFollette and Fola LaFollette, Robert M. LaFollette (2 Vols., New York, 1953); M. Nelson McGeary, Gifford Pinchot, Forester-Politician (New Haven, 1960); Howard Zinn, LaGuardia in Congress (Ithaca, 1958); and Harry Barnard, Independent Man: The Life and Times of Senator James Couzens (New York, 1958). The view of a Democratic Congressional critic is expressed in Bascom N. Timmons, Garner of Texas (New York, 1948). Like the broader studies, these include only snatches of the Secretary that must be woven together.

The chronicles of the three Presidents offer the most detailed descriptions of Mellon and his programs. While resurrecting Warren Harding in his Available Man (New York, 1965), Andrew Sinclair brings along the Treasury chief as well. William Allen White, A Puritan in Babylon (New York, 1938) created the image of a Calvin Coolidge dominated by his subordinate, a view muted by Claude Feuss, Calvin Coolidge (Hamden, Conn., 1939) and Donald McCoy, Calvin

Coolidge (New York, 1967). Richard Fenno, The President's Cabinet (Cambridge, 1966) has reassessed Mellon's role, pushing him into the background behind Charles Evans Hughes at the State Department. Herbert Hoover lacks a biographer, but Harris Gaylord Warren, Herbert Hoover and the Great Depression (New York, 1959), is antagonistic to the Secretary and contradictory in places. Another approach to the same subject, Albert U. Romasco, The Poverty of Abundance (New York, 1965), dismisses Mellon as Hoover did, a liquidationist with no constructive ideas.

The major issues of the Twenties in which the Treasury had an interest have received varied treatment. On taxation, Roy G. and Gladys C. Blakey, The Federal Income Tax (London, 1940) is the standard reference, a narrative that avoids interpretation. Roy G. Blakey also wrote an analysis of each revenue act for the American Economic Review. Companion volumes are Taxation in the United States (Boston, 1954) by Randolph E. Paul and Taxation and Democracy in America (New York, 1942) by Sidney Ratner. These two offer evaluations, and Ratner in particular is critical of Mellon's policies. Gabriel Kolko's Wealth and Power in America (New York, 1962) adds a new dimension from a New Left point of view. Though not directly related to taxation, but an asset for understanding the economic issues and the underlying philosophies is Joseph Dorfmann, The Economic Mind in American Civilization, Vols. IV & V (New York, 1959), a penetrating analysis.

As for debts, the only attempt to study the domestic debt has been Henry G. Hendricks, The Federal Debt, 1919-1930 (Washington, D.C., 1933). Discussion of the foreign debt becomes inextricably entwined with a great many other matters including reparations and tariff. Benjamin Williams, Economic Foreign Policy of the United States (New York, 1929) offers limited coverage. Both phases of the debt are volatile areas subject to varied opinions, but lacking in historical analysis and ripe for enterprising scholars.

Prohibition is an oft discussed by sparsely researched subject. The two basic accounts, Charles Merz, Dry Decade (Garden City, 1930) and Andrew Sinclair, Prohibition, the Era of Excess (Boston, 1962), are essentially friendly to Mellon, but their examination of enforcement policy is sketchy at best. The latest publication, The Dry Years, Prohibition and Social Change in Washington (Seattle, 1965) by Norman Clark falls back to the stereotype of Mellon the liquor dealer who cared not to enforce prohibition.

The Federal Reserve system has been intensely studied from an institutional standpoint. The operation of the Board and policy formation is discussed in Harold H. Reed's Federal Reserve Policy (New York, 1930) and A. Jerome Clifford's The Independence of the Federal Reserve System (Philadelphia, 1965), but the role of the individuals involved is secondary. Lester Chandler's Benjamin Strong, Central Banker (Washington, D.C., 1958) is an excellent

source for the development of the Board's internationalist policies.

Other matters in which the Secretary of the Treasury was involved or interested but lack significant secondary sources include the beautification of Washington, the question of public construction before the New Deal, tax-exempt securities, the tariff, the Republican Party, and the fight for the soldier's bonus among others, Biographers of many of the major figures are woefully needed. The Twenties are still a wasteland desperately in need of scholarly investigation.

The direction of this bibliographical essay has been to provide the reader with some insight into the source materials. No effort was made to comment on every item in the footnotes or every reference consulted but not cited. To do so would overwhelm and bore, as well as attempt to compete with such excellent works are Burl Noggle's "The Twenties: A New Historiographical Essay," Journal of American History, LIII (September, 1966) and the first rate bibliographical essay contained in William Leuchtenberg's Perils of Prosperity (Chicago, 1958).

To study Andrew W. Mellon and his Treasury career is to comb the primary sources, particularly newspapers and periodicals. Beyond the Presidents, he was the most public of the public figures of the decade. Most of the secondary materials provide only bits and pieces that must be woven

together, and even then the gaps are immense. If the reader is stimulated by this essay to further examine the Secretary, he should turn to the footnotes and seek his clues there.

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