

Mellon, Rockefeller and BP

I have just finished reading David Cannadine's biography of Andrew Mellon (Mellon, *An American Life*). It is similar in massive length, tone and author approach to the more widely known Ron Chernow biography of John D. Rockefeller (Titan).

In each book's case, the author was selected by the subject's descendants and was provided access to the subject's diaries, letters and business records. Surprisingly given the subject matter, each author lacks any real understanding of business and finance, and each comes across as having a distinct anti-capitalist, anti-businessman bias.

Cannadine, an English historian and academic, admits as much in his preface where he states, "I was not at the outset exactly well disposed towards Andrew Mellon: I found him a fascinating biographical subject but an unsympathetic person with unappealing politics. But in researching and writing this book..., I have sought to reach as evenhanded a verdict about him as the evidence allows." In his caption for the picture of the family home in which Mellon was raised, Cannadine gives far more an immediate sense of himself than of his subject: "In summer the spacious grounds would have been full of flowers and fruit trees, but inside the atmosphere was ever wintry, heavy with the grim imperative to acquire."

Fortunately Mellon's life story of business accomplishment is so compelling that it shines through. Although Mellon, unlike Carnegie or Rockefeller, was not known as the head of a great company, he was in fact the key backer and driving force behind an entire range of companies that grew to be leaders of American industry, including Alcoa, Gulf Oil, Koppers, Carborundum, Pittsburgh Plate Glass, Pittsburgh Coal, Union Trust, and the sole one to bear his family name, Mellon National Bank.

While not analyzed as such in the Cannadine book, Mellon seems singlehandedly to have invented modern venture capital, in the best and most productive sense of the term. The Pittsburgh area in the late 19th century was the Silicon Valley of its time, with great companies built on the steel and coke technologies implemented by Carnegie and Frick and with the Western Pennsylvania oil discoveries giving rise to an entire range of refining and related industries. This was where young men came with their new business ideas and inventions. As Mellon described his way of operating with these inventors and entrepreneurs: "If he would furnish the energy and industry to operate the business and carry it on in his name, I would become the silent partner with him and furnish the money necessary."

Charles Martin Hall, a young chemistry graduate from Oberlin College, invented the first practical method of electrolytic reduction of bauxite ore into aluminum, a metal which up to then had been relatively rare and expensive. Hall and two partners were operating as Pittsburgh Reduction Company and in 1889 came to Mellon asking for a \$4,000 loan. Mellon approved of the partners and their aluminum story but, concluding they needed substantially more than \$4,000, took the unusual step of offering them \$25,000. A few months later Mellon bought his first 60 shares in the company for \$6,000. Mellon and his

brother Richard then became active directors in the company, urging and providing financing for relocation to a larger plant, and then for construction of a second plant at Niagara Falls where abundant quantities of hydroelectric power were available for the electrolytic process.

Mellon and his brother were the main financial backers but also very patient investors in their companies, nursing Pittsburgh Reduction (renamed Aluminum Company of America and known as Alcoa) and Gulf Oil through many years of losses before eventual success. And they made their loyal associates very rich along with themselves. Hall was worth \$30 million when he died in 1914, the equivalent of a half billion in today's dollars, and that was before the boom of the World War I years and the great increase in stock market multiples in the Twenties. "Real success comes from making others successful," Mellon observed. And while that surely was not his major motivation, the truth was it would have been easy for the controlling financial party to have squeezed out his employee at an earlier stage if that had been his intent.

Cannadine's specific ethical complaints against Mellon over his long business career (beyond a general distaste for Mellon's single-mindedness in building up productive businesses) appear to be three:

1. That in 1902 Mellon sold Union Steel Co. for an unfair price to United States Steel Corporation, J.P. Morgan's newly-created vehicle for purchasing Carnegie Steel and consolidating much of the remainder of the U.S. steel industry. While Cannadine is unable to specify the sales price ("variously put at \$42 million or \$75 million, depending on the source"), he finds it excessive because Mellon had made an "original investment of \$1 million" and Union Steel had been in business for only three years. [It is unclear how much of Union Steel Mellon owned, since Cannadine also refers to Union Steel founder William Donner and to the growth of Union Steel by means of a "stock swap" with Sharon Steel.] "The Union Steel affair, therefore, was no case of a company successfully developed over the long term: it was a short-term speculation and a paper profit [sic] of just the kind Mellon had always professed to abhor. There is no evidence his conscience was troubled."
2. That Mellon at various times caused his companies to pay large stock dividends (i.e., dividends in stock rather than cash), which Cannadine seems to feel had some improper effect on company valuations.
3. That after a U.S. antitrust suit was brought against Mellon's Alcoa in 1911, "[f]aced with such overwhelming evidence of wrongdoing, Alcoa's directors capitulated, and after yearlong negotiations a 'consent decree' was signed in June 1912, obliging the company to admit [sic] its position was indefensible [sic], in return for which the federal government agreed to drop its suit, provided Alcoa pledged to play fair in the future."

With all deference to Cannadine's "evenhanded verdict" (and to his ability to assess, among other things, the fairness of a company's purchase price better than J.P. Morgan, the actual purchaser), perhaps these somewhat ethereal ethical lapses would be

significantly outweighed by Mellon's beneficial work in the development of such large and productive companies providing gainful employment to hundreds of thousands, profitable markets to innumerable suppliers and sub-suppliers, and innovative products to not only the entire U.S. population but many overseas customers as well. (Not even mentioning Mellon's twelve years of service as Secretary of the Treasury and his personal gift to the United States of the finest and most valuable art collection ever assembled by an American, to be housed in a newly constructed National Gallery of Art in Washington for which Mellon also contributed the cost of construction and of maintenance.)

Finally, what do we make of Paul Mellon's selection, to assess his father's extraordinary life, of an academic with negative visceral feelings towards his father and a basic ignorance of business and finance? And of David Rockefeller's and the Rockefeller family's selection of a similar biographer to assess John D. Rockefeller's extraordinary career? In the case of these individual families, I guess it does not matter overly much. Readers of the two biographies who are not sufficiently knowledgeable or independent in their thinking will tend to be misled about Andrew Mellon and John D. Rockefeller. And the current anti-business political correctness, especially among academics, will tend to be reinforced. But if a family wishes to feel (or act as if feels) ashamed of its founding patriarch, no matter how unjustified or craven such feeling, that is basically its own business.

But what if such a feeling of shame of one's heritage is to be found not just in a family but in a great enterprise itself? In 1901, not that long after the founding of Standard Oil and of Gulf Oil, the Anglo-Persian Oil Company was organized in Britain. Eventually renamed British Petroleum, the company grew very successfully over the next hundred years until it was the third largest oil company in the world, the fourth largest company in the world of any kind, and the largest company in Britain, accounting for some 12% of all dividends paid in Britain.

The company's product petroleum is something to be objectively proud of. It powers the modern world and has become the petrochemical source of manufacture of the great majority of plastics, fertilizers, pharmaceuticals and myriad other products making our lives so beneficial and comfortable. Even as its price has risen over the years, petroleum remains relatively inexpensive and plentiful. Shipment and storage do not require compression, refrigeration or extreme safety measures. In fact, notwithstanding its high energy content, petroleum is in most cases remarkably safe and easy to handle. Of course, given the vast quantities extracted and shipped all over the world, serious spills and negative environmental effects do occur. But if solar, wind and nuclear power were to be so greatly expanded as to supply the massive amounts of energy presently supplied by petroleum, it is doubtful their environmental effects would be any the less.

However, notwithstanding this admirable business and product history, in 2001 British Petroleum embarked upon a public relations strategy of abandoning its petroleum name and image, adopting instead the name BP plc and the slogan "Beyond Petroleum" as the heavily advertised description of its business. The company's corporate logo was

changed to a green and yellow stylized sun, identified as Helios, the Greek sun god. Of course the actual business of the company had not changed. Notwithstanding several publicized solar investments, virtually all of the company's profits still came from oil, gas and petroleum-related products.

As a distant and uninvolved observer of BP, I have no way of knowing to what extent the company's too-clever-by-half attempt to run from and paper over its actual business may have led to decline in BP's operational competence in such crucial matters as refinery safety and offshore drilling. But dishonesty flowing from the top of a company is never helpful to the morale of those doing the actual hard work below.

And in general there can be attributed no direct causation between turning one's back on a distinguished past and any adverse performance or effects. Perhaps it is merely a matter of taste to be critical of Mellon descendants, Rockefeller descendants or BP for trying to curry favor with current seemingly dominant elements of society. But as between attempting a more honest assessment of the contribution of Andrew Mellon, John D. Rockefeller or British Petroleum to our vibrant and prosperous way of life, and cooperating in creating an ignorant, apologetic version of such forebear's career in order to conform to modern political correctness, I for one choose the former.

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