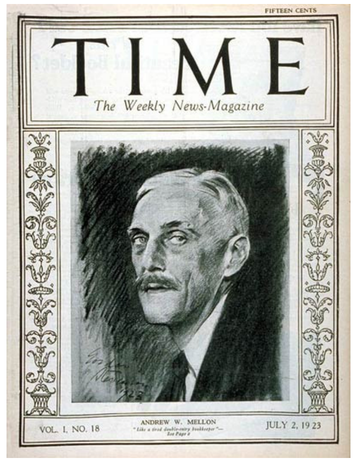
Mellon Tax Cuts

Andrew Mellon, Secretary of Treasury from 1921 to 1932, was a banker, industrialist, as well as major philanthropist (he helped create the Carnegie-Mellon University, and gave over $40 million to found the University of Pittsburgh).



The history of taxation shows that taxes which are inherently excessive are not paid. The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business and invest it in tax-exempt securities or to find other lawful methods of avoiding the realization of taxable income.

--Andrew Mellon, Taxation: the People's Business, 1924.

The top income tax rate fell from 73% in 1921, to 25% by 1925. And as Mellon explained, **as tax rates were cut, tax revenues would increase.** Taxes were first lowered in the Revenue Act of 1921. The IRS collected $720 million in personal income taxes that year; while tax revenues did decline somewhat (to $660 million by 1923), by 1925, tax revenues had increased to $735 million, and by 1927, they were $830 million. So there were moderate declines in tax revenue in the years immediately after the tax cuts, but within a few years, revenues had climbed much higher than they were before the tax cuts.

What is also interesting is that the overall share of income taxes paid by those who made over $100,000, increased from 30% in 1921, to 61% in 1928. That is to say, the tax cuts didn't shift the burden of paying taxes onto the backs of the poor; the rich were paying a much larger share of the taxes after the cuts, then before.

Economic boom benefited everyone, not just the rich

Unemployment, peaking at 11.7% in 1921, fell to 2.4% in 1923, and stayed low throughout the 1920s. We have only seen unemployment that low since then, during WWII.

From 1923 through 1926, the Model T Roadster (the stripped down version) cost $260. To show how affordable these cars were, in 1925 the BLS reported that the average skilled union laborers in Chicago were making $264/mo. With cars cheap and workers employed, car ownership mushroomed from 7 million cars in 1922, to 27 million cars in 1929 (1 for every 5 Americans, which is a lot, considering most Americans were too young to drive).

When dramatic tax cuts were introduced in the 1960s and 1980s, a similar trend was seen: rates were cut, and within a few years, tax revenues increased dramatically.