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7/12/06
9:00 AM

April 30, 2006

After Johnny Came Marching Home: Veterans Benefits from the Revolution through the Korean War

Preliminary: Comments are welcome.

Sung Won Kang
Public Policy Research Division
Samsung Group
Seoul, Korea

Hugh Rockoff (corresponding author)
Department of Economics Rutgers University and NBER
New Brunswick NJ
08901
Rockoff@Econ.rutgers.edu

Abstract

Veterans' benefits have varied substantially from war to war. A number of factors appear to account for the differences including the previous history of veterans' benefits, the wealth of the United States, the number of veterans, and the ability of the veterans' organizations to mobilize public support for veterans. The state of the Federal treasury has had a surprising amount of influence. When the Federal government's finances appeared to be in good shape veterans received generous rewards.

"let us strive on to finish the work we are in, to bind up the nation's wounds, to care for him who shall have borne the battle and for his widow and his orphan,…"[1]

- Abraham Lincoln

"A man who is good enough to shed his blood for his country is good enough to be given a square deal afterwards. More than that no man is entitled to, and less than that, no man shall have."

- Theodore Roosevelt

"Patriotism which is bought and paid for is not patriotism."

- Calvin Coolidge

1. Veteran's Benefits by War[2]

In this paper we compare veteran's benefits across America's wars and explore determinants of the level of benefits. The amount of benefits, it turns out, varied substantially from war to war and depended on several factors – the wealth of the United States, the previous history of veterans' benefits, the ability of veterans' organizations to mobilize public opinion in favor of veterans, and so on. One important factor that has not received sufficient attention was the state of the Federal Treasury. Typically, veterans would make a claim based on equity – equity with veterans of the last war, or equity with those who did not serve, and so on – but whether those claims were satisfied depended on state of the Federal treasury.

By veterans' benefits we mean simply money or the value of in-kind goods and services paid to former members of the armed forces. In many cases, beginning with the

[1] From Lincoln's second inaugural, this statement became the motto of the Veterans Department.

[2] The idea for this paper emerged from a conversation that one of us had many years ago with Lawrence Fisher of Rutgers University, Newark.

early colonial wars, benefits were simply cash bonuses paid to a veteran, often in the veteran's old age, or to the veteran's widow or children. In-kind benefits, however, have been important. Land warrants were important before the Civil War. Old soldier's homes, as they were termed, have been important since the Civil War, although facilities for retired army and naval personnel were established even earlier. Health care provided through the veterans system has been important since the First World War, although military hospitals were sometimes pressed into service even earlier. Educational benefits were first provided, as far as we are aware, for veterans of World War I and became famous, of course, with the GI bill for veterans of World War II. Veterans have also been the beneficiaries of veterans' preference laws. Personal decisions by individuals or firms, of course, could also produce a preference for veterans. Here we will focus on amounts spent by the Federal government either for cash payments or for in-kind goods and services. For the antebellum era we will take some account of the value of the land warrants. We believe that this total includes the great bulk of benefits paid to America's veterans. We will not, however, include payments in cash or in kind paid by state and local governments to veterans, or the value of veterans' preferences.

It is important to distinguish between what were once termed invalid and non-invalid benefits. Since colonial times – and the tradition goes back to England before the time of settlement – it has been accepted that wounded veterans would be compensated, especially if the wounds were so severe that the veteran was handicapped in his ability to earn a living. The tradition of paying benefits to soldiers who were not wounded also has a long tradition. Officers in the British and colonial armies were rewarded with half pay for life after they retired from active duty.[3] The tradition of paying cash benefits to the veterans who were privates or noncommissioned officers, however, began with the Revolutionary War. Our comparisons here, and our attempt to understand them, will be focused on the non-invalid benefits.

Since benefits were paid after, sometimes long after, a war ended and the veteran returned to civilian life we will use present values to compare the veterans' benefits of different wars. In effect, we are asking what the value would be of a bond given to each soldier at the end of the war that would have produced income equal to the benefits the veteran would later receive. As soon as one begins to calculate present values, of course, various questions arise: what discount rate should be used, how money paid to widows and children be treated, and so on. We will address these problems by computing variants, for example by using alternative discount rates. As it turns out, the broad differences to which we draw attention do not depend on the way present values are calculated.

2. What Explains the Level of Benefits?

Why do we reward veterans? In many cases veterans' benefits are simply differed pay. When soldiers sign up or are drafted they may be promised pay after a war. The contract may be explicit or implicit: Retirement benefits may be part of the recruitment package; but soldiers may well assume that they will be rewarded generously after the war even if no legislation has been passed, or if the benefits currently promised seem inadequate, simply because legislation rewarding veterans was passed after previous wars.

[3] The retired officers were obligated, at least in theory, to return to duty if called.

There is more to veterans' benefits, however, than deferred pay. We also reward veterans to express the gratitude and affection of the public for the veterans; to recognize, in other words, the hardships they have suffered and the risks they have taken on our behalf. The analogy with gratuities paid for more mundane services, although it may be unpleasant to think about it in these terms, is apt nonetheless. We often give a gratuity because it is part of the pay for the services rendered, but sometimes we give a larger gratuity to reward extraordinary service. Sometimes we use military language to describe a civilian gratuity: we reward someone generously because they "went beyond the call of duty." In the nineteenth century civilian language was used, on occasion, to describe veterans' benefits: people referred to veterans' benefits as the "veterans' gratuity."

What determines the amount of benefits? The decision to reward veterans is a political decision, and to some extent the same general factors that affect other spending decisions have affected the level of benefits. In this section we will discuss these factors in general terms before we apply them in the case studies that follow. Most of the historical forces that have influenced veterans' benefits can be grouped under five headings.

(1) *The previous history of veterans' benefits*. Veterans' benefits are a good example of a path dependent process. The amount veterans of the last war received produces a strong gravitational force. If veterans of the last war received $100 per month starting at age 62, a strong presumption is established that veterans of the next war should get same pension. If they receive less, they have a strong basis for claiming that they are being treated unfairly. If they receive more, they can be criticized for being greedy, and

the way is opened for older veterans to demand an increase. It would now be the veterans of the last war who could ask for more based on equity.

At times benefit systems have come under heavy criticism for cronyism and corruption. Were benefits extended after the last war to individuals with dubious claims to service? Were benefits extended through "pension marriages:" aged veterans marrying young women so they could receive a pension. Under these circumstances there may be a reaction in the form of stricter eligibility requirements when the next set of veterans ask for benefits.

As with any path dependent process, the accidents of history may shape the course of events. The occupant of the White House can be important: A former military officer may be more sympathetic to veterans, particularly with veterans with whom he has served.

(2) *Secular changes in national wealth*. As the United States has grown richer over time it has been able to reward its veterans more generously. Indeed, for some purposes it makes more sense to compare benefits relative to national wealth across wars. In other words, the right question might be whether veterans of the one war received more or less relative to wealth in their era compared with veterans of another war.

(3) *The number of veterans*. The number of veterans is an important determinant of the political clout of the veterans. As usual, numbers cut two ways. A larger veteran population means that veterans (and there families) have more votes to offer politicians who support higher benefits. On the other hand, a larger number of veterans will mean that taxes have to be raised in order to pay for higher benefits, or that the benefits provided other citizens have to be cut. Either decision involves heavy political costs. It

may be possible to provide a small number of veterans with higher benefits without raising taxes to the point that they are visible to tax payers.

(4) *The effectiveness of veteran's organizations and their leaders*. After every war veterans have joined new or existing veterans' organizations that have lobbied on their behalf. The effectiveness of those organizations and their leaders has played a role in determining the level of benefits.

(5) *Public attitudes toward the war*. Our first reaction is that it should not matter to civilian America whether a veteran took part in a popular or unpopular war. In either case the veteran experienced the hazards of war. We should not blame the ordinary soldiers and sailors for mistakes made by military and political leaders, or because a superior enemy defeated well-laid plans and valiant armies. Nevertheless, we must consider the possibility that we have been more generous with veterans that took part popular wars.

(6) *The state of the Federal treasury*. If the Treasury is running a surplus, and more is in the offing, the demands of veterans are easily satisfied. If the treasury is empty, veterans will find the road to higher pensions blocked. It is how the public and the politicians see the state of the Treasury, of course, that is crucial. The same budget may look very different to politicians who hold a balanced budget sacrosanct than to politicians who see a deficit as a way of assuring full employment. The importance of the Treasury assumes that veterans are being paid from general revenues. In the early part of the nineteenth century naval benefits were paid from a prize fund derived from captured foreign merchant ships. This method of finance changes the role of the taxpayer in the

process. Naval pensions and the role of the Prize Fund are discussed in Clark, Craig, and Wilson (2003).

Veterans' benefits, it turns out, can be characterized a bit like consumer spending. Benefits to compensate veterans who are injured in the course of the war are analogous to necessities. The government will pay without much regard to the current state of the budget. Other types of benefits such as old-age pensions, however, can be likened to luxuries.

This list, of course, is not complete. But the six factors listed above seem to cover most of the historical cases. Below we will describe how these factors played out in determining the level of benefits in America's major wars.[4] We divide our discussion into two parts: Section 3 will cover the nineteenth-century wars: The Revolution, the War of 1812, the Mexican War, and the Civil War; section 4 covers the wars of the first half of the twentieth century, the Spanish-American War, WWI, WWII and the Korean War.

3. The Nineteenth Century Wars

Figure 1 compares the present discounted value of the cash benefits received by veterans of the Revolution, the War of 1812, and the Mexican War. The calculations in Figure 1 are hypothetical. They assume a noncommissioned officer, who survives the war without a disability entitling him to a pension, who is eligible for an old-age pension when it become available, who survives for 70 years after the end of the war, and who leaves no dependents. In each case we deflated the annual pension by a cost of living

[4] There are a number of smaller wars that are interesting from a political economy point of view, although their fiscal consequences were minor. In some cases veteran organizations first had to lobby to get a campaign defined as a war, before they could go on to lobby for the amount of benefits.

index (*Historical Statistics*, Millennial Edition, series Cc1) and discounted the series back to the end of the war. Although hypothetical, the calculations provide a rough idea of the relative size of the pensions. Evidently, the veterans of the War of 1812 received less, by this measure, than either the veterans of the Revolution or the Mexican War.

In this case, as in others, the rate of discount makes a difference. At three percent the War of 1812 benefits appear somewhat larger relative to the Revolutionary or Mexican War pensions because, as we will see, the long wait for a pension experienced by the veterans of the War of 1812 does not matter as much at three percent.

A natural if somewhat cynical conclusion that might be drawn from Figure 1 would be that it is the difference in the success of American arms that explains the difference in benefits. America won the Revolutionary War and the Mexican war – indeed America captured great empires in these wars – but lost, or at least accomplished very little, in the War of 1812. This interpretation, we argue below in more detail below, has an element of truth to it, although another important force, the state of the Federal Treasury was also at work. Revolutionary war soldiers benefited from some periods of Treasury surpluses, while veterans of the War of 1812 came due for pensions at awkward times.

In terms of nominal amounts, the idea that veterans of a given war should be given what veterans of the proceeding war were given worked to an unusual extent for the veterans of the nineteenth century wars. Figure 2 shows the annual pension going to a non-commissioned officers or privates in the armies of the Revolution, the War of 1812, and the Mexican War. The standard rate of $96 per year ($8 per month) did not change from 1818 to 1903 despite substantial changes in prices and the real productivity of the economy. The source of the differences in the amounts shown in Figure 1, therefore, is mainly the time that it took veterans of a given war to win their benefits. It is therefore important to look at the history of how these benefits were established. We will also need to take a look at the role of land warrants, an important additional source of benefits before the Civil War.

The Revolutionary War

The debate over veterans' benefits starts, as we noted above, on the basis of what was awarded to veterans of the last war. The Revolutionary war was no exception. English and colonial practice was to pay pensions to soldiers who were injured and unable to work. Legislation promising these benefits to Revolutionary soldiers were passed soon after the war began. The rate for privates and noncommissioned officers was $60 per year ($5.00 per month).

Pensions for disabled soldiers were not controversial – this principle had long been established in English and Colonial practice – but the famous demand by officers for half-pay for life, based on current British practice, was highly controversial.[5] At first Washington opposed the idea on the grounds that it would be too expensive; but when conditions in the army deteriorated in 1777-78, and officers began returning home, Washington changed his mind and supported half-pay for life. Eventually legislation was passed promising officers half-pay for seven years, and noncommissioned officers and privates $80 (one year's pay) at war's end.

[5] Pensions for widows and orphans of officers were also well accepted. One of the first awards, in April 1777, was to the youngest son of General Mercer (who died in the Battle of Princeton). All told General Mercer’s youngest son would receive $3,876.

After Cornwallis surrendered, the officers encamped with the American army at Newburgh, New York while treaty negotiations dragged on became increasingly anxious about whether the commitment to half-pay for seven years would be fulfilled once a treaty of peace was signed and the army disbanded. The officers became increasingly aggressive, and Washington in a famous episode was forced to address them. Eventually, Congress passed the "Commutation Act" of 1783, which promised former officers securities amounting at face value to full pay for five years in lieu of half-pay for life.[6] About 2,500 officers received securities under the Act.

The fear of the officers that Congress would fail to pay them once their services were no longer needed proved to be well founded. During the years under the Confederation, the government failed to pay interest on the bonds, and many officers sold them to speculators for a fraction of their face value. The officers continually petitioned Congress for additional compensation. In 1818 officers in "reduced circumstances" received a pension of $240 ($20 per month). Finally, in 1828, the surviving officers were granted full pay for the remainder of their lives.

British practice was a strong precedent for a pension for the officers; there was no precedent for a pension for non-disabled privates or noncommissioned officers. It was natural in a democracy, however, that privates and noncommissioned officers would also be seen as deserving of a pension. In their case it could be said that the pension received by the officers was the precedent.

The years following the War of 1812, moreover, were promising for the passage of a general pension. The main factor was the state of the Treasury. During the War of

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[6]Half pay for 16 years discounted at 6 percent would equal the par value of the commutation bonds.

1812 the United States ran huge deficits. In 1816 and 1817, however, the Treasury ran large surpluses, as can be seen in Figure 3. The surplus was 56 percent (measured as a percentage of expenditures) in 1816, and 52 percent in 1817. (U.S. Bureau of the Census 1975, series Y336, Y337). The surpluses were temporary; the result of a postwar surge in imports that produced increased tariff revenues. One result, nevertheless, was an important piece of veterans' legislation. The law of 1818, mentioned above in connection with the officers, provided a pension of $8 per month for noncommissioned officers and privates, as well as the $20 per month for commissioned officers, who had served nine months during the Revolution and were now in "reduced circumstances." As can be seen in Figure 3, spending on pensions for Revolutionary War Veterans ratcheted upward as a result. Spending on pensions under the law of 1818 significantly exceeded spending on invalids, including invalids of the War of 1812 (the lowest line in Figure 3).

The Treasury surpluses disappeared soon after the law of 1818 took effect. In 1820 the deficit was two percent of expenditures, and in 1821, eight percent of expenditures. At the same time, stories emerged about abuses of the law of 1818; stories about well-to-do veterans who had somehow had managed to get on the pension rolls. In reaction to stories of abuse, and probably also to the disappearance of the budget surplus, numerous veterans were struck from the rolls. Indeed, because of repayments, net expenditures under the law of 1818 were zero in 1821. Under pressure from the veterans who had lost their pensions, and with the return of prosperity to the Treasury – the surplus was 35 percent of expenditures in 1822 – many veterans were restored to the rolls, and as can be seen in Figure 3, pensions paid under the law of 1818 rose again, although not to the 1820 level.

Pressure now began to build for a non-means-tested pension. The legislation of 1828, mentioned above, that awarded officers that served until the end of the war full pay for life, made a similar award to soldiers and noncommissioned officers who had enlisted in the regular army and served until the end of the war. This law, however, pensioned few soldiers. The requirement that the soldier had served in the continental army and had served until the end of the war limited the number of eligible veterans. With this precedent on the books, however, it is easy to see why pressure then built to expand benefits further. Veterans who had served, but not until the end of the war, or who had served in state or local militias, rather than the Continental army, now had a basis for claiming a pension. In his presidential message of 1829 Andrew Jackson, a hero of the War of 1812 and the Indian Wars, advocated expanding benefits to all veterans of the Revolution. Legislation passed in the House, but stalled in the Senate. Among those opposed to increased benefits for Revolutionary War soldiers was Senator Robert Y. Hayne of South Carolina. Hayne pointed out, among other things, that there was a connection between the protective tariff – the famous "Tariff of Abominations" had been passed in 1828 – and veterans' pensions. To increase the pension rolls was to delay the day when tariffs could be reduced. (Glasson 1918, 77-78).

In 1832, despite opposition from men like Hayne, legislation was passed that provided full pay for life to all veterans without regard to their economic or physical status who had served for two years in the regular army, the navy, or (significantly) the militias. Those who had served for shorter periods received proportionately less.

As can be seen in Figure 4, the Act of 1832 was passed during a run of years when the Federal Budget was in surplus, and following two years of record surpluses.

Spending on Revolutionary pensions ratcheted upward as a result of the legislation. Nevertheless, the amounts of additional spending involved were relatively small, although the effect on the surplus was not negligible. Fifty years had passed since the end of the war, and the number of eligible veterans had been greatly reduced. Nevertheless, an important precedent had been established. From this time onward veterans could claim that equity with veterans of the Revolution required that they be given a pension based on service alone when they reached an advanced age. Shortly after passing this bill, which increased the need for long-term taxes, Jackson signed the tariff legislation that led to the nullification crisis.

The Revolutionary War pension system also set the precedent for pensioning widows. During the War the widows of soldiers or sailors killed in battle were pensioned, a colonial tradition. But later widows of men who survived the war were pensioned. Under the Act of July 4, 1836 widows who were married before 1794 to revolutionary officers, soldiers, seamen, and marines were made eligible for a pension. Thus, women who had married a non-commissioned officer or soldier who had survived the war without a disability, to put it somewhat differently, became eligible for a pension. The effect of the pensioning of widows, orphans, and other dependents can be seen in Figure 4 as the opening of the gap after 1836 between Act of 1832 expenditures on veterans and total expenditures for veterans. (We have not shown this amount separately to make the Figure easier to read.) This law was a remarkable break with colonial tradition. About 11,000 women became eligible for pensions under the law. Pensioning the widows of able ordinary soldiers and seamen set a powerful precedent: The widows of veterans of all future wars would be pensioned.

Legislation in March 1837 directed the Navy Pension Fund to pay the widows and orphans who were now eligible for a pension from the time of the veteran's death. This legislation, according to Clark, Craig, and Wilson (2003, 58-59), although passed when the Navy pension fund appeared to be in good financial shape, doomed it. In a few years the antebellum navy pension plan was gone.

Clark, Craig, and Wilson are probably right that the increase in benefits for veterans was partly due to the attempt to build up the navy because of the tensions with Britain over the U.S. boundary with Canada. And Theda Skocpol (1993, 92) is probably right that the expansion of the franchise made it more important politically to pension the widows of ordinary soldiers and sailors. Nevertheless, the pensioning of the widows and orphans is also consistent with the fiscal theory of the pensions: Fiscal 1836 saw the last and largest in a series of surpluses. The Federal budget would go into deficit after the Panic of 1837.

Time soon winnowed the number of widows on the rolls. By 1849 only about half the original number of widows remained on the rolls. An act of July 29, 1848 pensioned widows who were married before January 1800, that is it allowed some women who had married soldiers after 1794 (the cutoff under the law of 1836) to enter the rolls. Only 393 were initially pensioned under the law.

As we have seen, Revolutionary War Veterans had to wait 36 years (1782 to 1818) for a means-tested service pension, and 46 years (1782 to 1828) for a non-means-tested service pension. Given that the precedent of an old-age pension had been established, and the United States had grown richer, one might have thought that the veterans of the War of 1812 would have received their old-age pension in fewer years. However, this was not to be.

The War of 1812

No legislation creating a pension for the veterans of the War of 1812 was forthcoming until the land grants given to the veterans of the Mexican-American war (1847-48) ignited a campaign to increase the benefits for the veterans of the War of 1812.[7] Veterans of both the Revolution and the War of 1812 had received land bounties. The soldiers who served in the regular army during the War of 1812 received grants of 160 acres (a quarter section), and about 29,000 of the 60,000 regulars took them up. The grants, however, were located in restricted western areas, perhaps because it was hoped that veteran settlers would be a buffer against Native Americans. One area in which veterans could take their bounties was replaced when it was found to be too swampy. The warrants, moreover, could not be sold to a broker; they were not "assignable" in the language of the time. The veteran had to take possession of the land and then sell the land, a cumbersome procedure that lowered the value of the grants for most of the veterans. The veterans who had served in state militias, moreover, were not entitled to grants. As far as the veterans were concerned, the land grant system of the War of 1812 left much to be desired.

The "Ten Regiments Act" of 1847, designed to fill the ranks for the Mexican War provided more valuable benefits: a warrant for 160 acres of land anywhere in the public domain for every regular and volunteer who joined the fight against Mexico and served for 12 months or until the end of the war. The warrants, moreover, could be sold to a broker for cash if the veteran did not want to settle the land; they were assignable.

[7]The discussion of the land grants is based on Oberly (1990).

According to Oberly (1990, 11) "After the act's passage and the president's signature, army recruiters busily signed up men on the basis of the new bounty."

The passage of the Ten Regiments Act reminded the surviving War of 1812 veterans of old grievances, especially the militiamen who had not received land bounties. The veterans of the War of 1812 demanded parity with the veterans of the Mexican War, and Congress soon obliged. The veterans of 1812 had a strong claim based on equity, and granting it seemed easy given the immense booty, including California, taken from Mexico. The Bounty Land Act of 1850 provided veterans of the War of 1812, and the veterans of various Indian Wars and other fights, with bounties of up to 160 acres depending on length of service. The warrants, however, could not be sold to brokers, a nod to the opponents "speculators." It was implausible, however, that the veterans of the War of 1812 would now move West to take up farming or even that they would go through the laborious process of taking possession and selling their land.

Congress responded with what was popularly known as the Assignment Bill of 1852, which allowed veterans of the War of 1812 to sell their land warrants to brokers. The brokers were also an important voice for liberalization of the Bounty Land Act because they were running out of warrants issued under the Ten Regiments Act of 1847. The 1850 and 1852 Acts required one month of service for 40 acres and nine months for the full 160 acres. Further pressure produced the Old Soldiers Act of 1855 which gave 160 acres to any soldier, whether in the regular army or the militia, who had served at least two weeks in the War of 1812.

The fight to get bounties for the veterans of the War of 1812 was led by the United Brethren of the War of 1812. This organization was headed by Joel B. Sutherland, a physician in the War of 1812, a successful politician in the postwar era, and as it proved a skillful champion of the veterans. In 1855 the veterans, most in their 60s, held a march on the White House holding aloft a banner bearing the slogan under which they had gone to war in 1812: "Free Trade, and Sailor's Rights." President Pierce met with a delegation, but did not commit himself to their demands. The Old Soldier's Act, however, was passed shortly after. This was the highpoint for the United Brethren, which never held another national convention.

We have made some estimates, subject to a wide margin of error, of the value of land bounties to the veterans of the Revolution, the War of 1812, and the Mexican War. As Figure 5 shows the War of 1812 veterans seem to be the odd men out. They did less well, as might have been expected, than the veterans of the Mexican War, but they also appear to have received less than the veterans of the Revolutionary War. These comparisons hold whether we look simply at cash benefits, or we include the value of land grants as well. It is evident, moreover, that the land grants were a major part of the rewards that went to the veterans of the War of 1812. Without them the veterans of the war of 1812 would have done even less well than the veterans of the Revolution.

Sutherland, after his success with the land grants, began to lobby for a cash pension. But he did not live to see it finally awarded in 1871. This was 56 years after the end of the War of 1812, and the ranks had been greatly thinned by the years. Nevertheless, there was still some strong opposition to a non-means tested pension. In the Senate John Sherman, the Chair of the Committee on Finance, warned that a bill that pensioned all veterans of the War of 1812 would be too expensive; he wanted it restricted to indigent veterans. Sherman mentioned the precedent set by the law of 1832 but dismissed it on the grounds that the veterans of the Revolution had been paid initially with worthless paper. Sherman complained, moreover, that the Revolutionary War pension had produced pension marriages, and wanted the War of 1812 pensions limited to widows who had been married to veterans at the time of the war. To add all of the widows would add $5,000,000 to annual expenditures.[8] When the law was finally enacted a pension was granted to all soldiers and sailors who had served 60 days – no requirement that the veterans be in reduced circumstances – but it did limit benefits to widows who had been married before the treaty of peace and who had not remarried.

Why did the veterans of the War of 1812 do less well than the veterans of the Revolution? Partly, it was a matter of timing. The veterans of the Revolution won lifetime pensions, as we noted above, for veterans "in reduced circumstances" in 1818, 36 years after the end of the war, and a non-means tested pension in 1828, 46 years after the end of the war. Given that the country had grown richer, we might expect that the veterans of the War of 1812 would have been pensioned sooner. But if we assume the same lags, the veterans of the War of 1812 would have been due for their means-tested pension in 1851 and their non-means tested pension in 1861. In 1851 the veterans of the War of 1812 were in the midst of their fight for land bounties on a par with the veterans of the Mexican War. Indeed, the land bounties that they won, since they were convertible relatively easily into cash, were a substitute for an means-tested pension. The amounts they actually received as a result of the land grants were relatively small compared with a long-term cash pension at the Revolutionary rate. But this might not have been obvious at

[8] "Forty-First Congress.; Third Session," *New York Times*, Feb 4, 1871. p. 2. Federal expenditures in 1871 were 292 million $s (U.S. Bureau of the Census 1975, series Y336).

the time: the value of federal lands was depressed by the rapid distribution of the public lands through a variety of channels.

The second date, 1861, fell in the middle of the Civil War. Congress did not put all other projects aside simply because the nation was at war. Nevertheless, doing something for the veterans of the War of 1812 may not have seemed judicious in light of the rapid increase in the number of invalids on the pension rolls. So part of the answer as to why the veterans of the War of 1812 received less than the veterans of the Revolution was simply bad luck: their pension obligations fell due, as it were, when the Federal treasury was stretched to the limit by the Civil War.

There may have been something more at work, however, namely the apparent failure of American arms in the War of 1812. Perhaps this group of veterans did not deserve as large a "gratuity" because they had not accomplished as much. The veterans of the Revolutionary War had defeated England and secured our independence. The veterans of the War of 1812 had … As the U.S. President's Commission on Veterans' benefits (1956, 66) put it: "There was little land fighting during the war, not many men were engaged in any one battle, and it was felt that the Army did not accomplish much."

The idea that it was the lack of success of American arms in the War of 1812 that delayed the awarding of a pension is an inherently difficult proposition to prove. Few politicians are likely to make this argument publicly even if consciously or unconsciously it influenced their thinking. One piece of suggestive evidence is that the successful fight for land bounties in the 1850s was accompanied by an effort to revise the image of the war and the veterans. In 1847, just as the Mexican War began, Congressman Charles J. Ingersoll published a two-volume revisionist history of the War of 1812, arguing that the

Americans had distinguished themselves in their military campaigns, and accomplished a great deal for the country. (Oberly 1990, 30). The Ingersoll volumes, soon followed by others along the same lines, appeared when the War of 1812 veterans were trying to convince the country to reward them for their services.

The Mexican War

The veterans of the Mexican War turned to the National Association of Mexican War Veterans to lobby for their pension benefits.[9] Its founder and leader was Alexander Kenaday, an eccentric and sometimes radical labor leader from California. The principal demand was for exactly the same nominal pension of $8.00 per month veterans of the Revolution and the War of 1812 had gotten. After continual lobbying, this pension was granted in 1887 for veterans aged 62 or more. Thus, veterans of the Mexican War had to wait a shorter period (39 years) for their pension than the veterans of the War of 1812 (56 years). But the wait for veterans of the Mexican War was, one could say, comparable to that experienced by the veterans of the Revolution, 35 years for a means tested pension, and 45 years for a service pension.

The achievement of the pension created a period of confusion for Kenaday, the editor of the organization's newspaper and a prominent pension agent. However, he soon turned to the next logical step: an increase in the pension. An increase $12 per month was achieved in 1903. By this time of course, the ranks of the Mexican War veterans had been greatly diminished by age.

Thus it appears that the main determinant of the old-age pension for the Mexican War Veterans was what the veterans of earlier wars had gotten. Public attitudes toward

[9] The next few paragraphs are based on Davies (1948).

the war, however, did play a role in the timing. The Mexican War, although highly successful from a military point of view, and highly profitable in terms of the wealth added to the United States, had aroused opposition from its inception. Many Northerners saw it as an imperialist war undertaken by a southern president (James K. Polk of Tennessee) designed to add new slave territories to the United States. Many of the soldiers who had taken part, moreover, were southerners who had then served the Confederacy during the Civil War. Robert E. Lee is an example. According to Wallace E. Davies (1948, 226-228) early efforts to secure a pension for the Mexican War veterans failed during Republican administrations "because of apprehensions that such a measure might benefit many ex-Confederates." It was not until 1887, with the Democrats in power, that the Mexican War veterans secured their old-age pension, and even then some ex-Confederates were disqualified from receiving a pension. The same story was replayed when it came to securing the increase from $8 per month to $12 per month. A partial victory, an increase to $12 per month for disabled veterans was won in 1893, when the Democrats in power, but it was not until 1903 that a general increase to $12 per month could be achieved.

The Civil War[10]

The Civil War pension proved to be more contentious than the pensions awarded veterans of the Revolution, the War of 1812, and the Mexican War. The reason was not that the

[10]We discuss only the pensions for Union veterans. Confederate veterans did not receive Federal pensions. The confederates, however, did receive pensions from Southern states. These are described in Ratchford and Heise (1938). Short (2001) explores the (small) effect of confederate pensions on the retirement behavior of ex-confederates.

individual pension was significantly larger than the earlier pensions. As Figure 2 shows, in nominal terms the standard pension was exactly the same until the turn of the century as it had been in 1818. Economists looking for sticky nominal prices would have to look hard to find a better example. In terms of purchasing power, the standard Civil War pension was only a bit above the standard prewar pension. As can be seen in Figure 2, the post Civil War deflation gradually raised the purchasing power of the standard $8 per month pension until at the end of the century it was on a par with the level in the late antebellum period. In terms of wage units the standard pension, as shown by the lower line in Figure 2, was actually worth less in the postbellum era than in the antebellum era. From 1818 to 1860 the standard pension averaged about $7.40 per month in 1818 $s deflated by wages for unskilled labor; from 1880 to 1916, which includes the 1903 boost in the nominal amount, it averaged only about $4.60 per month.[11]

Deflation by wages of unskilled labor may be relevant to the actual pattern of consumption of many veterans. As the veteran aged he may have spent more of his income on services, such as nursing care, and less on a market basket of goods. The Civil War system was often criticized because it led to corrupt "pension marriages." An elderly veteran would marry a young woman simply so that she would be eligible for a pension. One defense offered for the pension marriages was that they were really part of an exchange that benefited the veteran. The veteran received nursing care from a young woman for which the veteran was unable to pay out of his current income (because it was fixed in nominal terms and wages had risen), and in return the young woman entered into a pension marriage.

[11] The wage index is from (Williamson 2004).

What made the Civil War pension so controversial was the large number of veterans involved and the regional inequalities. As shown in Table 1 union forces amounted to 6.84 percent of the 1861 population. This percentage, although it is not out of line with the percentage who served in the Revolution, meant that the cost of funding pensions would be visible to the average taxpayer. All of the Federal pensions, as we noted, went to Union families and none to Confederate families.[12] The Federal government, moreover, was financed to a substantial extent by the tariff. So southerners saw themselves as twice abused. First they paid high tariffs on imported goods, a high tariff that protected northern industries from competition but made it harder for southerners to export cotton and other cash crops. Then the proceeds of the tariff were distributed to union veterans and their families. In 1895, for example, tariffs accounted for 47 percent of total revenues; and pensions (mainly Civil War pensions) accounted for 40 percent of total Federal expenditures.[13]

The legislation providing pensions for the Civil War veterans evolved along much the same lines as the legislation providing pensions of the veterans of earlier wars. A general law of 1862 provided a pension at the rate of $8 to $30 per month (depending on rank) for totally disabled soldiers, or to the widows, orphans, or mothers of soldiers killed in battle. Subsequent legislation refined the table of benefits, creating specific benefits for a long list of disabilities.

Two pieces of legislation were crucial to the postwar expansion of the Civil War pension: the Arrears Act of 1879, and the Dependent Pensions Act of 1890. The Arrears

[12] The exception was the last surviving Confederate veteran who was pardoned and given a lifetime Federal pension – at age 105.

[13] U.S. Bureau of the Census (1975, series Y353, Y352, Y457, and Y463).

Act became law in January 1879. Many soldiers had been placed on the rolls and started receiving benefits from dates well after the end of the war. There was, as many veterans and their advocates pointed out, a potential inequity here. A soldier who had shown great courage in battle might be receiving less than another soldier with a similar military record, simply because the first soldier had been slow to apply for a pension out of pride or lack of understanding. The Arrears Act would make good this inequity by paying any soldier who qualified for a pension from the time of discharge from service. Moreover, if someone was added to the rolls, their pension would also be paid from the date they were discharged from the military.

As Skocpol (1993) has pointed out, the Arrears Act does not seem to have been closely associated, as was the law of 1890 discussed below, with a bulging surplus in the Federal Treasury. Nevertheless, it is true that the Federal Budget was in surplus when the Act was passed. Indeed the budget had been in surplus in every year after the Civil War. This was consistent with the policy of deflating prices and returning to the gold standard at the prewar par. Now that the dollar was at par, and return to the gold standard was in process, the monetary-fiscal case for maintaining a surplus was less compelling.

There was some uncertainty, moreover, about how much additional spending the measure would entail. At a cabinet meeting at which the bill, having already passed both houses, was discussed, the Secretary of the Treasury, John Sherman offered a figure of $150,000,000, while Carl Schurz, the Secretary of the Interior, offered an estimate of $50,000,000 based on the estimate of the Pension Office. President Hayes expressed some concern about the cost of the additional pensions, but signed the bill.[14] The cost of

[14] *New York Times*, January 22, 1879, p. 1

the Arrears Act eventually mounted to $200 million. (U.S. President's Commission, 1956, 81).

The Dependent Pensions Act of 1890, however, was clearly associated with very large budget surpluses. The law pensioned all veterans who had been honorably discharged and who now suffered from a disability that prevented them from performing manual labor.[15] There was no requirement, as there had been, that the disability be the result of wounds suffered during the war. The law was not technically a service pension. It was not until 1907 that a pure service pension became law. However, the Pension Office was instructed to grant a pension to all veterans who were 65 or older unless they were unusually vigorous, so it was in effect close to a service pension. (Costa 1995, 300-301).

As shown in Figure 6 the spending that resulted from this law was large enough to erase the surpluses that had persisted in the second half of the 1880s. Although in practice this bill may have turned out to be something approaching a service pension, the form of a means-tested pension – the veteran could not perform manual labor – was maintained. When legislation was passed in 1892 to provide pensions for veterans of the Indian Wars the youngest veterans who became eligible for a pension were veterans of the Seminole wars between 1832 and 1842. In other words, the minimum time that veterans of the Indian Wars had to wait was 50 years (1842 – 1892): Veterans of later engagements with Native Americans were not yet old enough for a pension.

The close connection between the bulging surpluses in the Federal Treasury resulting from the tariff, and the liberalization of the pension was no secret. Republican

[15] As long as the infirmity was not due to their "own vicious habits."

politicians made it clear that anyone who stood to gain from a pension or from the protective tariff should vote Republican. As the Republican Party platform put it in 1888:

> The legislation of Congress should conform to the pledges made by a loyal people and be so enlarged and extended as to provide against the possibility that any man who honorably wore the Federal uniform shall become the inmate of an almshouse, or dependent upon private charity. In the presence of an overflowing treasury it would be a public scandal to do less for those whose valorous service preserved the government.

In case anyone should miss the connection, the next, and last, plank in the platform invited "…all workingmen, whose prosperity is seriously threatened by the free-trade policy of the present Administration," to vote for the Republican candidate.[16]

After the election President Harrison followed through on Republican promises to the veterans. His first appointment to head the Pension Bureau was James Tanner a legless Union veteran and official who soon got into trouble. In one of his bombastic speeches, Tanner gave voice to his most famous slogan. He explained that as Pension Commissioner he would raise the pensions of veterans receiving only a pittance, less than a dollar a week, even if his decisions raised from some lips the prayer: "God help the surplus." (McMurry 1926, 347). Tanner was soon replaced by Green B. Raum, a more discreet friend of the veteran.

The association between budget surpluses and veterans' pensions that we have identified for the 19th century is less surprising than it would be in the twentieth century because surpluses were common. Indeed, between 1800 and 1899 the Federal budget was in surplus in 69 out of 100 years, and in most of those years the surplus was fairly large. Nevertheless, one can show that there was a strong association between surpluses and pension legislation. Perhaps the simplest calculation that illustrates the association

[16] Republican Platform 1888, American Presidency Project, http://www.presidency.ucsb.edu/index.php.

between budgets and pension legislation is the following. If the chance of a surplus is .69 the probability that all nine major pieces of pension legislation that we have identified would have fallen in surplus years by chance is only about 3.5 percent ($.69^9$).

If we confine our attention to periods in which there was a run of years with very large surpluses a clearer association between surpluses and pension laws emerges. Table 2 shows this relationship. While there are a few years in which there were large surpluses that did not produce major pieces of pension legislation, there was only one piece of major pension legislation, the Arrears Act of 1879, did not occur in or follow a series of years of major surpluses, although the budget was in surplus in that year.

4. From the Spanish-American War to the Korean War

Figure 7 shows the real benefits per veteran for the Spanish-American War, World War I, World War II, and the Korean War over 44-year horizons, discounted at 6 percent.[17] The most obvious feature of the chart is that the veterans of World War II did the best. The famous GI bill immediately comes to mind as a possible explanation, and as we will argue in more detail below, this does appear to be the answer. The veterans of the Korean War did not do as well. This appears to have been the result of an effort to restrain what was considered excessive spending under the WWII GI bill.

The ordering of the wars is dependent to some extent on the rate of discount. Figure 8 shows the real benefits per veteran for veterans of the Spanish-American War, World War I, World War II, and the Korean War over a 44-year horizon, discounted this

[17] The horizon was determined by changes in the way the Veterans Administration has reported data that make it difficult in recent years to compute estimates of expenditures by period of service.

time at 3 percent. This discount rate gives more weight to old-age pensions and less to early readjustment benefits. At three percent the veterans of the Spanish-American War surpass all the others! By this measure they turn out to be the best rewarded of all veterans. The right rate of discount to use is debatable. The rates we have used were suggested by the rate on long-term government bonds. Over the whole period from the end of the Spanish-American War to the horizon for the Korean War the yield on long-term government bonds averaged 4.98 percent. For the Spanish-American War era the yield averaged 3.31 percent, for the World War I era 3.20 percent, for the World War II era 6.02 percent, and for the Korean war 6.84 percent.[18]

The surprising feature of the comparisons, whatever the discount rate, is that the real amount spent on veterans did not increase much across the course of the twentieth century despite the enormous growth in the productivity of the economy. Veterans of the Korean War may actually have received a little less than veterans of the Spanish-American War even though the two wars were separated by nearly half a century. There is enough uncertainty in the estimates that the difference of a few hundred dollars should not be emphasized. Nevertheless, it is clear that the amount of benefits veterans received did not rise with the wealth of the economy.

One way of seeing how well the veterans of the Spanish-American War did in relative terms is to measure the real value of veterans' benefits relative to real per capita GDP. Figure 9 measures real benefits discounted at 6 percent relative to real GDP per capita in the first year of peace. By this measure veterans' benefits have fallen steadily over the twentieth century. Veterans of the Spanish-American War received benefits that

[18]The long-term rate is IGUSALTD available at the global financial data website, www.globalfinancialdata.com. (Accessed June 5, 2006).

were equal to more than 5 year's worth of real per capita income at the time they were mustered out; veterans of the Korean War would receive total benefits that measured less than one years' worth of real per capita income.

To be sure, these comparisons refer only to benefits that veterans received qua veterans. As the modern welfare state developed veterans would receive government benefits from non-veteran programs. Veterans of the Spanish-American war, for example, would not profit from social security, which was introduced more than 30 years after they were mustered out. Veterans of later wars, however, would receive considerable benefits from social security. Nevertheless, it is worth asking what specific factors explain the differences such as why the Spanish-American veterans did relatively well, and why the veterans of the Korean War did less well than might have been expected.

The Spanish-American War[19]

Why did the veterans of the Spanish-American War do so well? One reason is that the service pension for the veterans of the Spanish-American war came sooner than it had for veterans of earlier wars. The Spanish-American veterans formed several organizations immediately after the war – these organizations later merged to become the Veterans of Foreign Wars – that lobbied on behalf of the veterans. Success came in 1920 when a combined disability and service pension bill was passed. Thus, the veterans of the Spanish-American war had to wait only 18 years for a service pension compared with the veterans of the Civil War who had to wait 28 years. Under this act disabled veterans were

[19] The fighting with Spain was over within the year 1898. For the purposes of the veterans administration, however, the war includes veterans of the Boxer Rebellion and the Philippine Insurrection, and is dated 1898 – 1902.

entitled to between $12 and $30 per month, depending on their degree of disability. Under the old-age provision a veteran was eligible for a pension of $12 per month at age 62, rising to $18 at age 68, $24 at age 72, and $30 at age 75. (Weber and Schmeckebier 1934, 53).

The case for a pension was based on the experience of the veterans of earlier wars, and additional arguments that applied specifically to the Spanish-American War. One argument was that the veterans had undergone especially terrible hardships while fighting overseas. True, the losses from combat were low compared with earlier wars such as the Civil War. As shown in Table 1, casualties averaged 13.4 per 1000 serving in the Spanish-American War, compared with 292 for Union soldiers and sailors in the Civil War or 22 per 1000 in the Mexican War. However, this is not the whole story: Living conditions were terrible, and many soldiers contracted tropical diseases that the military medical services were unable to recognize and treat.[20]

Supporters of a pensions also pointed to the success of the “splendid little war.” The Spanish American War soothed the psychic scars left from the Civil War because Northerners and Southerners fought on the same side. Through the efforts of these Spanish-American War veterans, moreover, the United States had gained an empire and become a global power. Does that mean, we are now free to ask, that the pension should have been smaller if the American effort had met with disaster, if the brutal war in the Philippines had failed, and the United States had been forced to leave the Philippines?

The small number of troops involved also worked in favor of the veterans of the Spanish-American War. As shown in Table 1 only about .42 per cent of the population served in the war, compared with 6.84 percent during the Civil War or 4.58 percent

[20] Richard Severo (1989,187-228) describes the plight of the Spanish-American War veterans who fell ill.

during World War I. It was possible to satisfy the demands of the Spanish-American War veterans without significantly altering taxes. The pension for the veterans of the Spanish-American War was being debated at the same time as the so-called bonus for the veterans of World War I. But the weighty objection to the WWI bonus that it would require the maintenance of high wartime taxes did not apply to a pension for the veterans of the Spanish-American War.

Further liberalizations of the pension for the veterans of the Spanish-American war in the form of relaxation of the eligibility requirements and increases in the pension rates occurred in 1926 and 1930. The liberalization of 1930 was passed over a veto by Herbert Hoover. Hoover objected to eliminating the requirement that a disability not be due to the "vicious habits" of the veteran, objected to a reduction in the minimum service from 90 to 70 days, and objected to the lack of a means test on the grounds that it was unfair to tax the poor in order to pay a pension to a well-off veteran. (Weber and Schmeckebier 1934, 236-7). The pension was abrogated by the Economy Act of 1934, which will be discussed in more detail below, but it was quickly reinstated.

The veterans of the Spanish-American war, to sum up, were, by some measures, the best rewarded of all veterans. They had everything going for them: it was a small war, so the additional tax burden associated with rewarding them was small, and American arms were successful producing a new empire and global standing for the United States.

World War I

When the United States entered World War I the idea of a general pension for veterans was in bad repute because of the excesses (or so they were perceived) of the Civil War pensions. William Glasson's, *Federal Military Pensions* (1918) is a superb work of scholarship written for the Carnegie Endowment for International Peace and based on earlier studies by Glasson. Corruption of the pension system is, to a surprising extent, one of the central themes. The *Editor's Preface*, written by David Kinley, a distinguished economist, who had served as President of the American Economics Association in 1913, is even more pointed in describing what Kinley saw as the downward spiral of the Civil War pension. The reader of Glasson's account according to Kinley (1918, vii) will "be depressed by the account of moral degeneration and political corruption that gradually crept into the administration and operation of our old pension system."

One response to the critics was to change the language describing the benefits to be provided to veterans. Instead of talking about the veterans' "gratuity," the legislation and government documents talked about "compensation." The new term acknowledged an obligation to veterans – veterans had suffered wounds, faced dangers, missed out on experience and training in the civilian workforce, and therefore deserved compensation – but the new term also suggested limits. Once the veteran has been compensated, he was not entitled to more.

In line with the idea of fulfilling the obligation to compensate the veteran, but avoiding a mere gratuity, the legislation emphasized, in addition to the traditional cash compensation, several benefits in kind: (1) government subsidized life insurance (or as it was more accurately termed "death compensation"), (2) vocational education, and (3) free medical and hospital care. The actual cash compensation for total disability, $360 per year, was as a later President's Commission (1956, 28) noted, "a low rate of compensation." Stanley Lebergott's estimate of annual earnings of all employees after a deduction for employment (U.S. Bureau of the Census 1975, series D723) is $748 for 1917, making the replacement rate for veterans unable to work 48 percent. It may be that the legislators were not taking the wartime inflation into account: based on 1914 earnings, the replacement rate was 65 percent.

Shortly after World War I ended veterans led by the American Legion, which had been formed in Paris after the end of the War, began campaigning for a cash bonus. Part of the argument for the bonus, of course, was simply to express the gratitude of the Nation for what the soldiers had done. However, there was also a new economic argument based on the idea of compensation. The veterans had been receiving $30 per month in the army while their friends who stayed home were making a lot more. Thus, the veterans were entitled to "adjusted compensation." (Bodenger 1971, 199-201).

As proposed by the American Legion the veterans were to receive $1.25 for each day of active overseas service and $1.00 for each day of active home service. The maximum was to be $625 for overseas service and $500 for home service. The postwar recession with its intensive deflation added to the case for an "adjusted compensation." Those who stayed at home saw their wages rise during the war, and the dollars they saved were now worth more as prices fell.

The plan was popular, but it ran into trouble when the potential costs came into view, a function of the large number of veterans. In 1921 a bill for immediate payment of the bonus passed the House by a large majority. Before his election President Harding had said that he supported such a bill. However, once in office he was swayed by Secretary of the Treasury Mellon's argument that the Bonus bill would damage the economy by undermining Mellon's policy of tax cutting and retrenchment. First Harding moved to the position that a bonus would be proper if there were new taxes, for example a national sales tax, to finance it. Eventually, Harding and his successors through Roosevelt would veto bills that called for immediate payment of the bonus.

In 1930 needy, disabled veterans of World War I, whose disability was not service connected, were pensioned. (U.S. President’s Commission 1956, *Staff Report No. I*, 35).

The little known Economy Act of 1933, one of the many pieces of legislation passed during Roosevelt's first 100 days, repealed all laws providing benefits for veterans of the Spanish-American War and World War I, and gave the President, within broad limits, the power to set new entitlements more generous, or if he chose, less generous than under previous laws. The reason for this extraordinary grant of power is understandable in terms of classic budget orthodoxy. In 1932 the Federal Budget went deeply into the red as a result of the Depression: the deficit was close to 60 percent of expenditures. The gain from cutting veterans' benefits, however, was likely to be small. Veterans' benefits (excluding the amounts spent on education and training) amounted to only 5 percent of total spending. The president's initial executive orders, made possible by the Economy Act, cut benefits significantly. The American Legion and other representatives of the veterans then went to work to restore the cuts. Many of the cuts were restored, but not the pure service pensions. Benefits were restored only for needy, disabled veterans. The new Social Security system enacted in 1935, of course, would supply incomes for retired veterans as well as others.

World War II

The Servicemen's Readjustment Act of 1944, known popularly as the GI Bill of Rights, or simply as the GI Bill, was passed in 1944. Its purpose was to help veterans readjust to civilian life by providing four types of assistance: (1) education and training; (2) guarantees for loans for the purchase of homes, businesses, or farms; (3) unemployment compensation; and (4) job counseling and employment services**.** The most famous provisions were for education and training. Any veteran who had served 90 days and had received a discharge other than dishonorable was eligible for one year of training. Service beyond 90 days entitled the veteran to additional education up to three years. This remained the basic structure of the law, although a number of changes were made in response to perceived abuses. Requirements were added, for example, that the school where the training took place was in existence one year before the war (to prevent the money being used in fly-by-night schools set up simply to take money from veterans) and that schooling not be used for avocational courses.

The lending provision initially guaranteed a loan to a veteran of up to $2000 at a maximum interest rate of 4 percent. This provision was gradually liberalized in the early postwar years. The maximum amount of the loan, for example, was raised to $4,000 in 1945 and to $7,500 in 1950. The maximum rates were also raised in response to market conditions.

The other provisions were less controversial. The law provided 52 weeks of unemployment compensation for veterans that could not find work, and the law set up a veteran's employment service to provide job counseling. The veterans were also entitled to certain benefits that derived from other legislation. Mustering-out pay of $100 per month up to $300 total was provided under a separate act, and were entitled under certain circumstances to their old jobs. Reemployment rights, as they were known, were a new element in veterans' benefits.

Several factors combined to produce the GI Bill and the related legislation. One was the perception that the United States had failed the veterans of World War I. As Democratic Senator Ernest McFarland put it:

> We cannot afford to have our boys wandering over the country as they did after the last war. We must meet this problem now and prevent a recurrence of that unfortunate situation. The stark tragedy of Anacostia Flats [where the bonus army was encamped in the Depression] must not be reenacted. We must and are facing this problem today in this GI bill of rights. (Quoted in U.S. President's Commission 1956, Part 1, p. 54).[21]

The GI Bill does not fit in a simple way with the idea that generous veterans' benefits are produced by budget surpluses. The federal budget had been in deficit since 1930, and was in a huge wartime deficit when the measure was passed. Ideas about deficits, however, had changed. In the 1920s, when Treasury Secretary Andrew Mellon opposed immediate payment of the WWI veterans' bonus, economic orthodoxy demanded low taxes and a balanced budget. Now for most top economists, and to some degree for a wider sector of the public, the Keynesian idea that large government expenditures and under some circumstances large budget deficits were good ideas had replaced the older orthodoxy. Full employment during the war had, seemingly, confirmed Keynesian ideas. Veterans' benefits were no longer simply a charge on the taxpayer; they could also be a way of maintaining full employment.

[21] McFarland seems to be arguing that the unemployment of veterans in the 1930s was the result of a lack of sufficient help with readjustment after the War rather than an independent result of the Depression. Unemployment rates were fairly low during the twenties. We are not aware of a study of the postwar employment patterns of World War I veterans.

A report by a committee of the American Economic Association published in 1950 that included future Nobel Prize winners Milton Friedman and Paul Samuelson among its authors (Depres, et al. 1950) documents the consensus of the times. Government expenditures including veterans' benefits, "taken by themselves" tend to increase employment or raise prices. (Depres, et al. 1950, 519) Thus an increase in spending unmatched by taxes might be appropriate depending on the state of the economy. Since it was widely expected that the Depression would return once wartime spending was cutback, generous veterans' benefits seemed a natural way of maintaining employment after the war. The readjustment payments, however, were intended mainly for the immediate postwar years: it was not expected that they would serve long-term as an economic stabilizer.

There was, however, an attempt to use the loan program as a stabilizer. The loan provision of the GI bill required a down payment by the veteran. When the Korean War broke out in 1950 the down payment was raised to offset expected inflationary pressures; when a recession developed in 1954 the down payment were reduced; and in 1955 when an excessive building boom loomed, the down payment was raised again. (U.S. President's Commission 1956, Part 1, 59.)

The Korean War

The "Korean GI bill" became law in 1952, and applied to veterans serving between June 27, 1950 and February 1, 1955.[22] It included the same portfolio of benefits as the WWII GI bill and associated legislation: mustering out pay, financial support for education,

[22] The following discussion of the Korean GI bill is based on (The President's Commission on Veterans' Pensions 1956, 61.

guarantees for home and business loans, unemployment compensation, and job placement. The World War II GI bill, however, was more generous in some ways than the Korean GI bill. The education formula in the WWII GI bill provided 12 months of financial support for education plus 1 additional day of support for each day of service in the war with a limit of 48 months. The Korean War GI bill, however, provided for education equal to one and a half times the amount of service with a limit of 36 months. Thus a year of service in WWII entitled a soldier to two years of education; while a year of service in the Korean War entitled a soldier to only 18 months of education. At two years the rewards were the same; but longer service in WWII was rewarded; while longer service in the Korean War was not. Thus, to take the iconic example, a high school graduate who served three years in WWII could complete a traditional four-year college education under the WWII GI bill, but a high school graduate who served for three years in the Korean War would have to pay for the fourth year of college himself.

The formula determining the amount of educational benefits paid to the veteran was also changed. Under the WWII GI bill the government paid the tuition directly to the school (up to $500) and the veteran received a monthly subsistence payment of $50 per month if there were no dependents and $75 per month with one or more dependents. In 1946 the subsistence payment was raised to $65 for a veteran with no dependents and to $75 in 1948, with similar increases for veterans with dependents. Under the Korean GI bill, the veteran received $75 per month if there were no dependents, $105 per month if there was one dependent, and $120 per month if there were more than one dependent, but the veteran was responsible for paying tuition.

Despite the increase in the nominal subsistence payment, the out-of-pocket expenses of the Federal treasury could turn out to be about the same under the two laws. If the veteran chose a school charging the maximum tuition, the out-of-pocket expenses for a veteran who attended school for 12 months and had no dependents would have been $1400 under the 1948 GI bill and $1320 under the Korean GI bill. The law encouraged veterans of the Korean War, to look at it from the veterans' point of view, to shop for a school with a low tuition. A Korean War veteran who paid $500 in tuition for 9 months of schooling (the maximum under the WWII GI bill) was left with only $54 per month for nine months of support. If the veteran chose a school that charged $325 for nine months of schooling, the veteran would be equal in nominal terms to a WWII veteran under the 1948 version of the law. Since prices had risen about 10 percent between 1948 and 1952, the veteran attending school under the Korean War GI bill would have to choose a school with tuition of $250 for nine months to remain equal in after-tuition real subsistence payments to a veteran going to school under the 1948 provisions.

Unemployment benefits were also tightened. The payment was raised from $20 per week under the WWII GI bill to $26 per week under the Korean War GI bill; but the maximum period covered was lowered from 52 weeks to 26 weeks. The maximum amount, in other words was lowered from $1040 to $676.[23]

Figure 10 shows real benefits per veteran (1919$s) for veterans of WWII over the first 10 years after WWII, and real benefits for veterans of the Korean War for the first 10 years after that war. The effects of the changes in the law are immediately evident. The

[23] While spending on readjustment benefits was reduced the upgrading of the medical care system undertaken after WWII under the leadership of General Omar Bradley remained intact. (Longo, et al. 2005).

veterans of WWII received significantly more real income from the government during their readjustment period than did the veterans of the Korean War.

Several factors account for the change in the level of benefits between the WWII GI bill and the Korean War GI bill. One was the perception that some veterans had abused the generosity of the WWII GI bill. Veterans had gone off to college, it was said, simply to enjoy themselves at government expense rather than to prepare themselves for the future. Requiring the veteran to pay for a larger share of his education would save money and would be good for the veteran.

In addition, the macroeconomic context had changed dramatically. When the WWII GI bill was written, as we noted above, it was widely assumed that the Depression would return after the war. Spending on education for GIs was a way of keeping them out of a crowded labor market, and of injecting purchasing power that would replace the decline in war spending and help prop up the economy. The feared postwar depression, however, failed to materialize after the war. Spending based on the accumulation of liquid assets during the war, and the delay of purchases of consumer durables during the war, are usually credited with maintaining full employment after the war. By 1952 inflation rather than unemployment had become the major concern of policymakers. As a consequence, restraining government spending, including spending on veterans' readjustment benefits ,now seemed the course of fiscal prudence.

The Korean GI bill marked the full appearance of a new philosophy of veterans' benefits. From the American Revolution through the Spanish-American War the assumption had been that veterans should be rewarded by the Federal government for their hardships above and beyond the level of benefits received by other Americans.

From World War I to the Korean War that philosophy had changed. Now the assumption was that veterans should be compensated for their losses – losses of health, training, labor market experience, and so on – but beyond that they should not expect benefits from the Federal government beyond those that went to other Americans.

5. Conclusions

Veterans' benefits have varied substantially from war to war and were often the subject of bitter controversy. Veterans of the War of 1812 received less from the Federal government than veterans of either the Revolution or the Mexican War. Union veterans of the Civil War did well compared with veterans of earlier wars, but the veterans of the Spanish-American, that "splendid little war," did even better. Veterans of World War I did only moderately better than did veterans of the Spanish-American. Indeed, by some measures they received less. Veterans of World War II did significantly better than veterans of World War I, but the veterans of the Korean War experienced a retrenchment.

What accounts for these differences? Veterans’ benefits, first of all, were a matter of sentiment: How much the public felt that it owed veterans for the hardships and dangers faced on its behalf. The precedent set by past policies always helped shape what was considered a fair reward for service. Veterans of a given war could point to how veterans of previous wars were treated and demand equity; opponents of generous benefits pointed to what they regarded as abuses of previous systems and demanded greater economy.

We would like to believe that feelings toward veterans were independent of the war in which the veteran fought. There are some hints in the historical record, however, that the popularity of a war influenced how well veterans were rewarded. This is an inherently difficult proposition to prove because the United States has been successful in most of its wars, and because it is not the sort of thing that people involved in the political process are likely to talk about.

Nevertheless, we can point to some possible examples. (1) The veterans of the War of 1812 received less than either the veterans of the Revolution or the veterans of the Mexican War. There were a number of reasons, but one may have been simply that the war itself went badly for the United States. When the veterans of the War of 1812 began to campaign for a pension they also campaigned for a more favorable view of what they had accomplished. (2) The Mexican-American War was much more successful from a military point of view than the War of 1812. Nevertheless, in some years the veterans of the Mexican war were frustrated in their campaign for a service pension by Republican Congresses who were unsympathetic to what they regarded as a southern war undertaken by a southern president to expand slavery, and fought by men who had later served in the Confederate military. Confederate veterans, of course, received nothing from the Federal government. (3) The veterans of the Spanish-American war, however, were well rewarded, and when their advocates in Congress pushed for a pension they pointed to the success of American arms.

We would also like to believe that veterans' benefits are largely independent of fiscal politics. After all, the United States has always been a wealthy nation compared to most of the rest of the world, and has always been in a position to reward veterans generously whatever the current balance of taxes and spending. Nevertheless, in case after case fiscal politics have been an important determinant of the level of benefits.

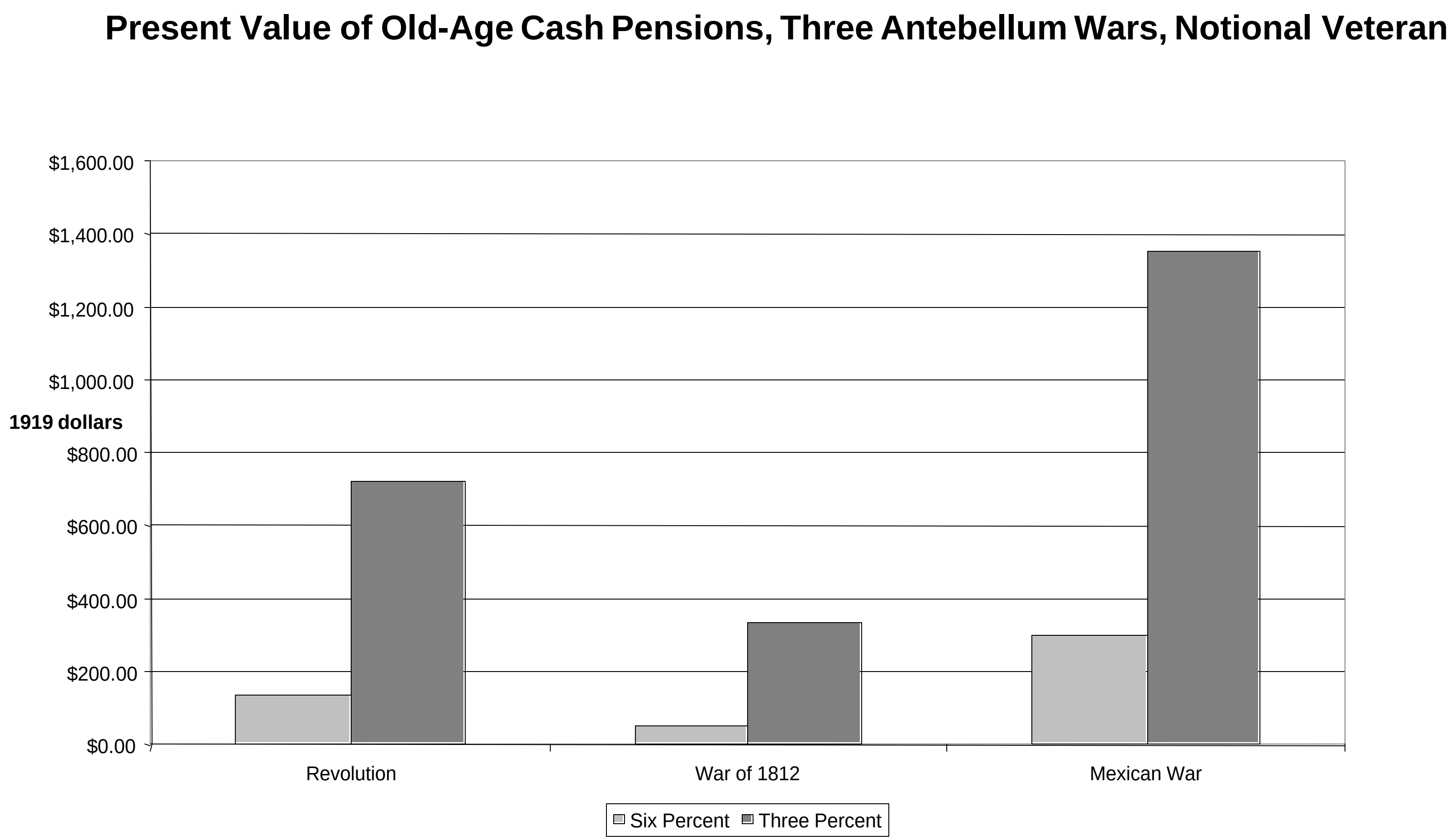
When Federal coffers were full, new benefits were provided; when coffers were empty, or thought to be, claims for additional benefits were rejected.

Here are some examples. (1) The officers of the Revolutionary army demanded half-pay for life, the practice in the British Army. The American officers, however, were forced to settle for bonds worth five year's pay at face value. During the period of the Confederation, moreover, Congress failed to pay the interest on the bonds, and many former officers parted with their bonds at a fraction of their face value. (2) In 1818, however, after a short run of Treasury surpluses, officers and common soldiers of the Revolution in "reduced circumstances" won a lifetime pension. In 1828 and in 1832, after another run of surpluses, benefits were awarded to veterans without regard to their economic status, and in 1836, after the last and largest of these surpluses; widows of ordinary soldiers were pensioned, even when the marriage took place after the war. (3) The veterans of the War of 1812 were not successful in winning postwar rewards until the Mexican War created the precedent for a generous land bounty and, not incidentally, the means – the vast lands including California won from Mexico – for awarding it. The veterans of the War of 1812 eventually qualified for a cash pension in 1871. Moreover, even in 1871, 56 years after the end of the war, there was some sentiment for means-testing the pension to save money. (4) The Arrears Act of 1879, which increased the incentives for Civil War veterans to apply for pensions, was not the direct result of large surpluses in the Federal budget, although it was passed during a period of surpluses rather than deficits. The Dependent Pensions Act of 1890, however, was passed during a period of large Treasury Surpluses, and the connection was explicit. The Republicans promised to support a high tariff and to expand pension benefits.

(5) After World War I, perhaps the most well known case, the opposition of fiscal conservatives in the 1920s, especially Treasury Secretary Mellon, frustrated the advocates of immediate payment of a generous soldier's bonus. In the 1930s Franklin Delano Roosevelt opposed immediate payment of the bonus because it would weaken support for more general social welfare measures. (6) The lesser-known Economy Act of 1933, enacted in the wake of the Federal deficits produced by the Great Depression, actually cut benefits, the only case we are aware of where this was done. This extraordinary piece of legislation repealed existing veterans' laws and gave the president the power, within broad limits, to set benefits, even if they were lower than existing benefits. Many of the cuts that were made under this legislation, although not all, were restored two years later as a result of persistent pressure from veterans. (7) Veterans of WWII received a generous package of readjustment benefits, the famous GI bill, in part because it was hoped that the expected postwar depression could be moderated by keeping veterans out of the labor market and by injecting purchasing power by paying them benefits. The Korean GI bill, however, provided a less generous package in part because the main macroeconomic problem had become inflation rather than unemployment, and limiting injections of purchasing power now seemed the course of fiscal prudence.

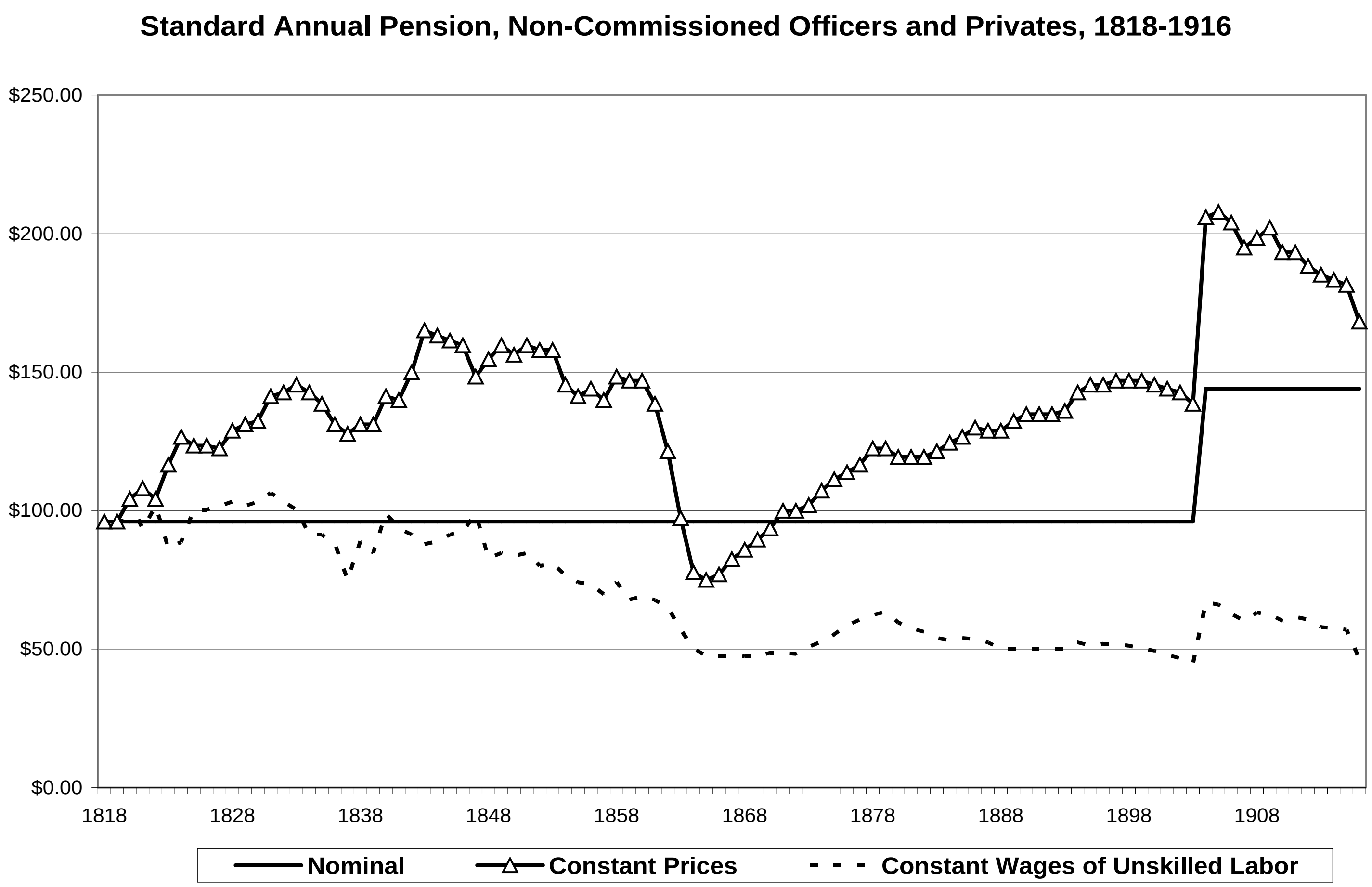
One might hope that decisions on veterans' benefits would be placed above current politics. In fact, however, veterans' benefits have always been a highly contentious issue. Often long-run considerations have taken second place to current budget realities.

Figure 1



Source: Appendix

Figure 2



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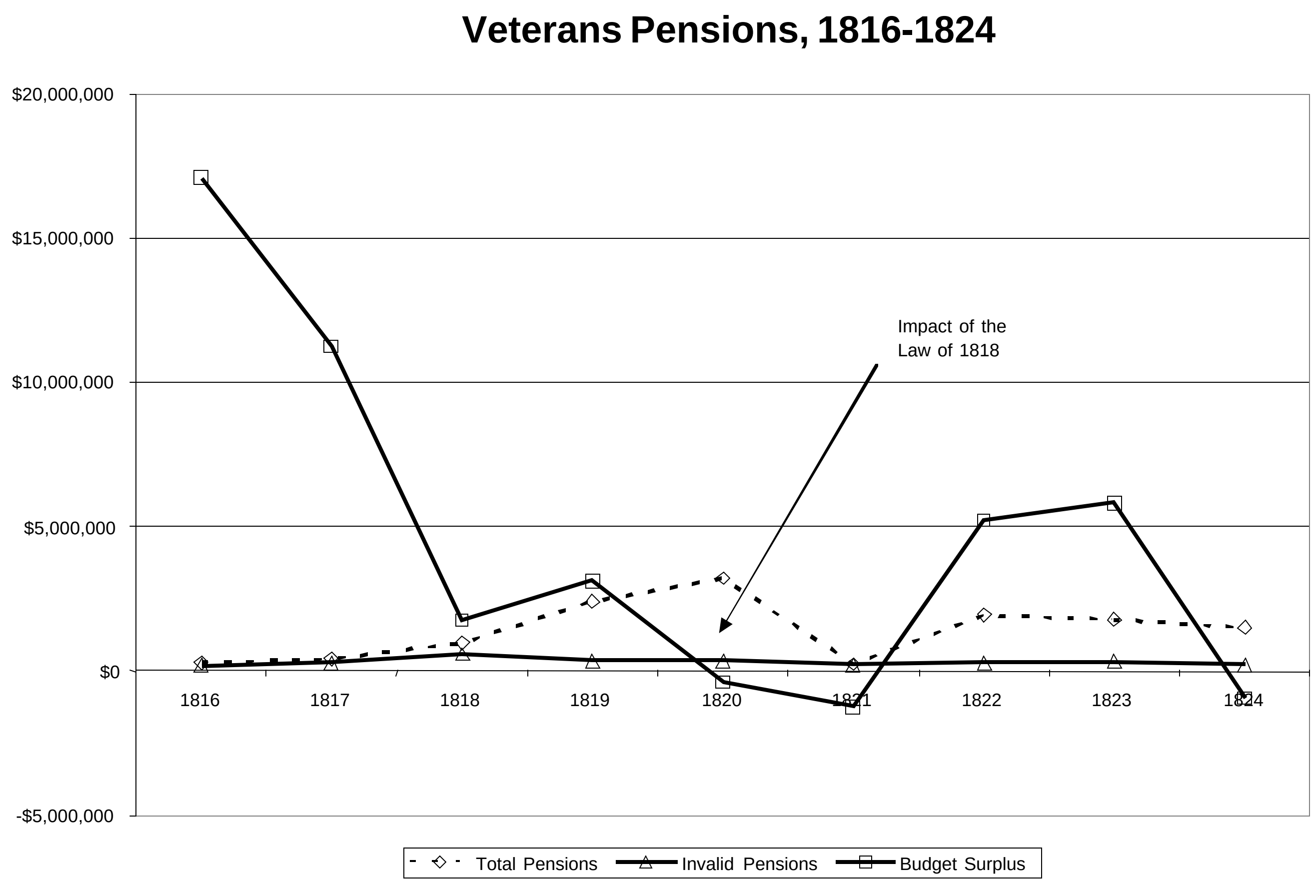

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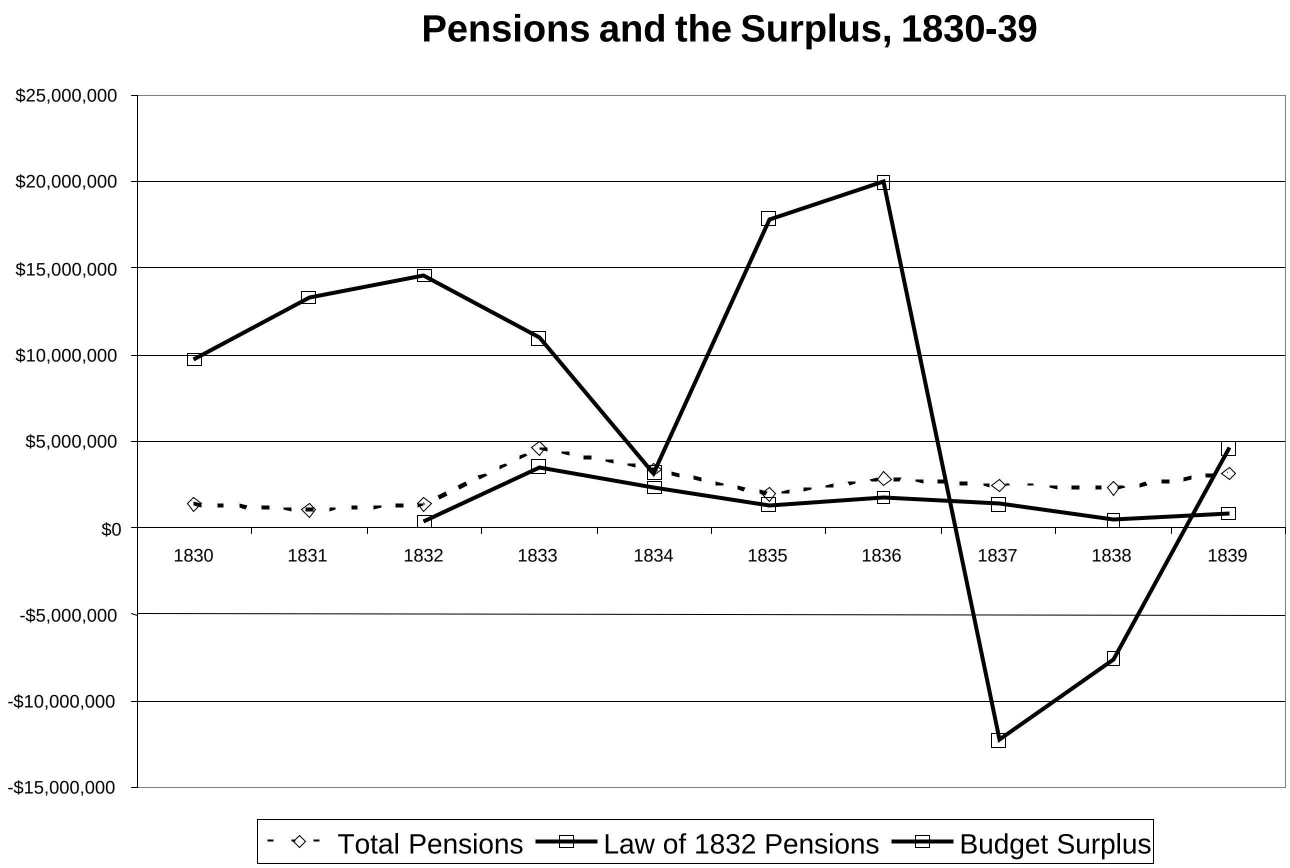

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Figure 5

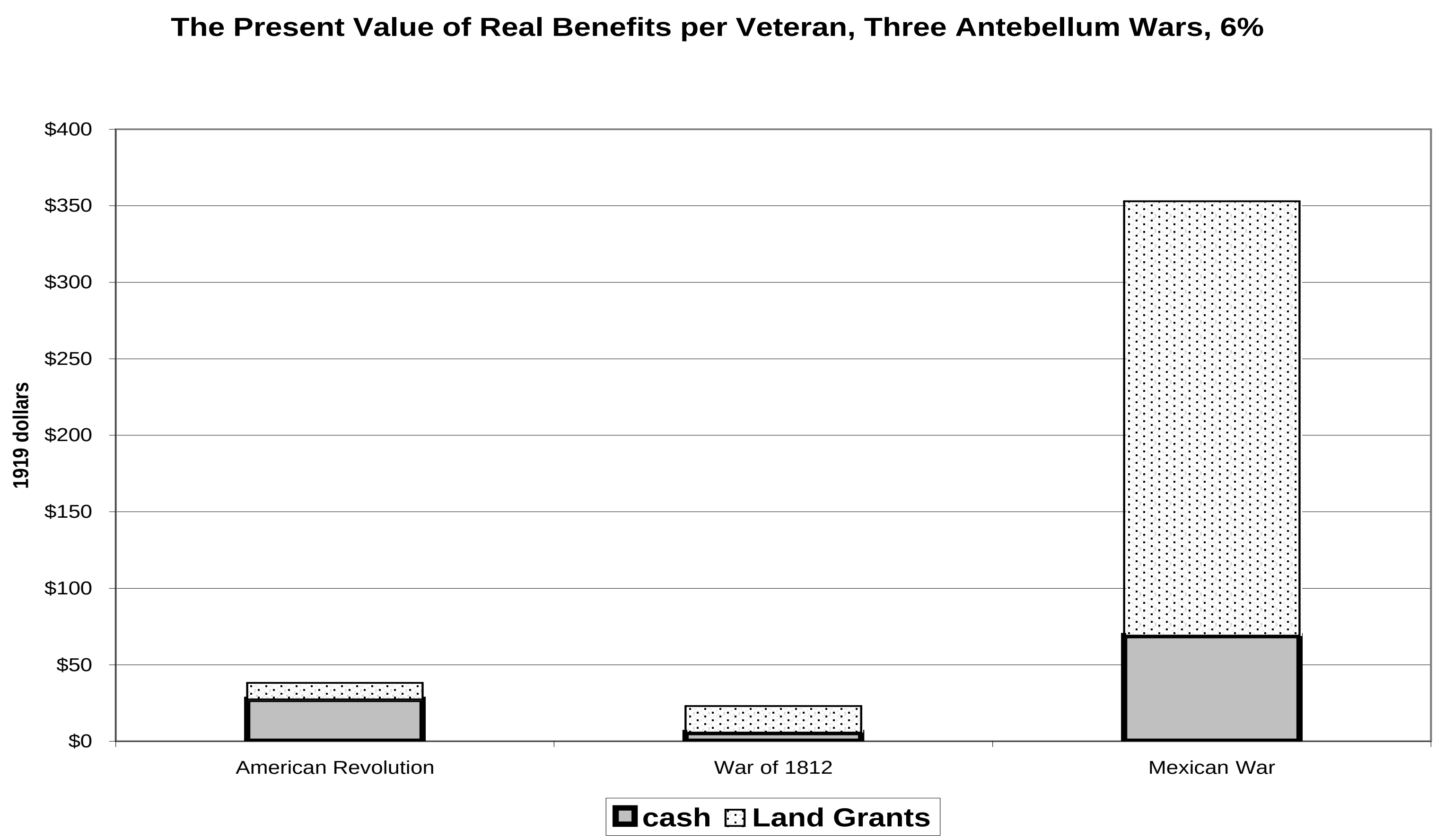

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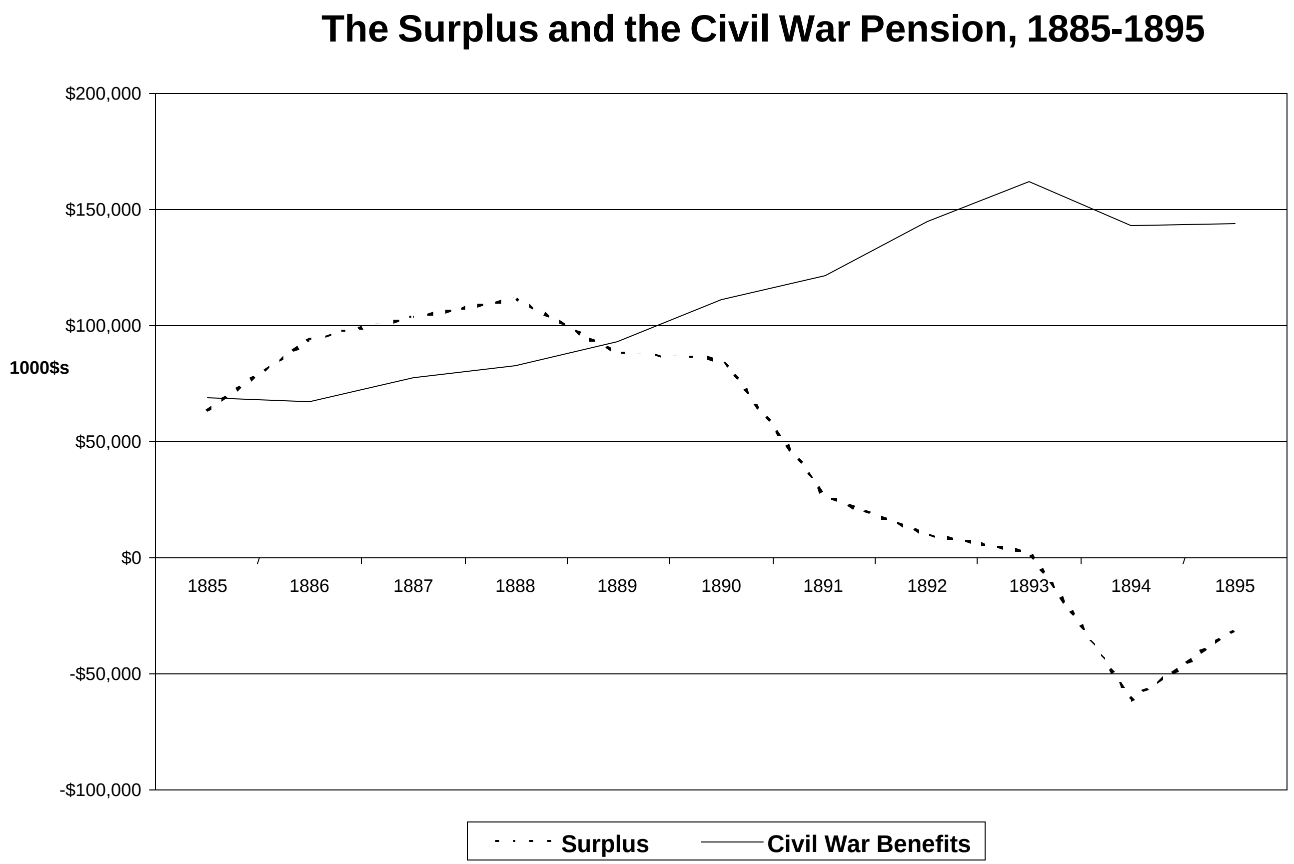
Figure 6



Sources: Appendix

Figure 7

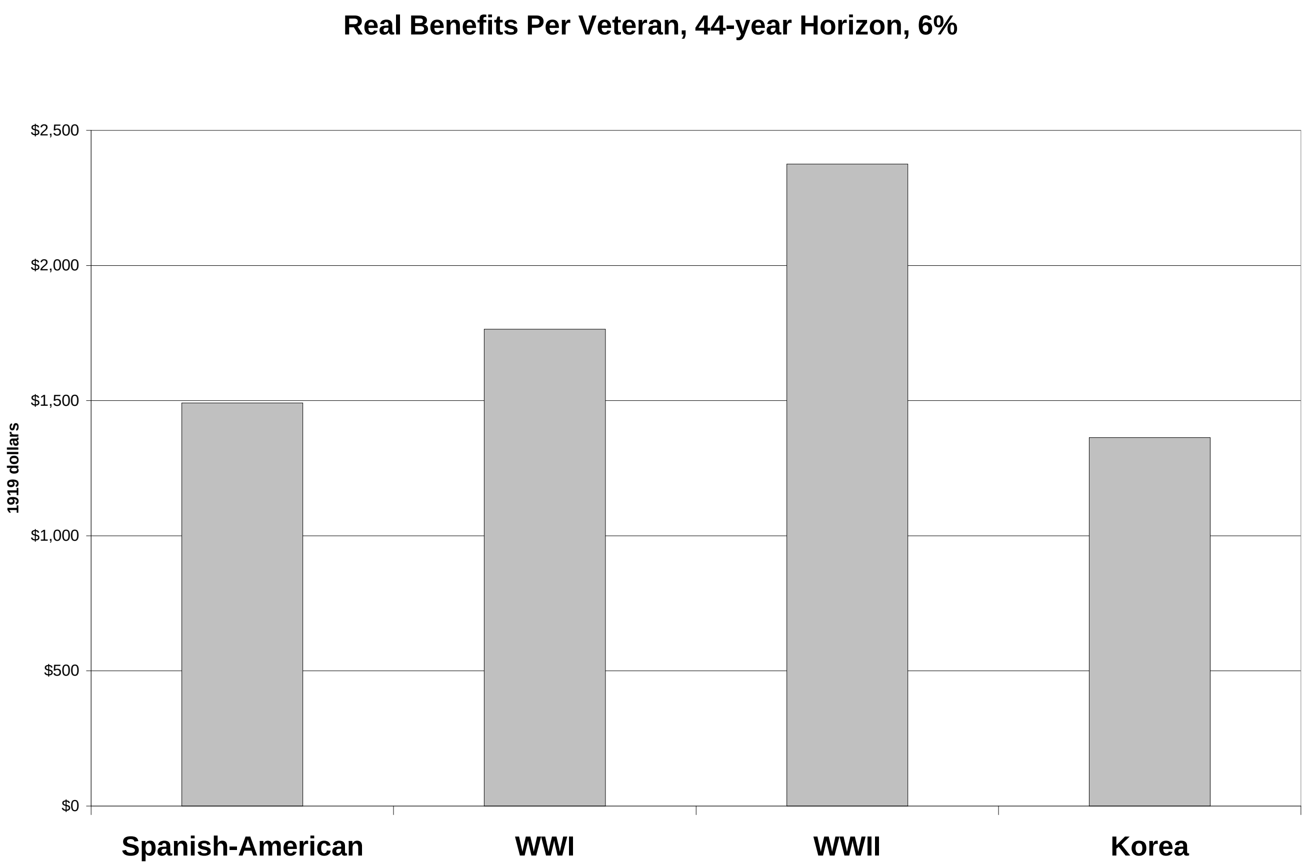


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Figure 8

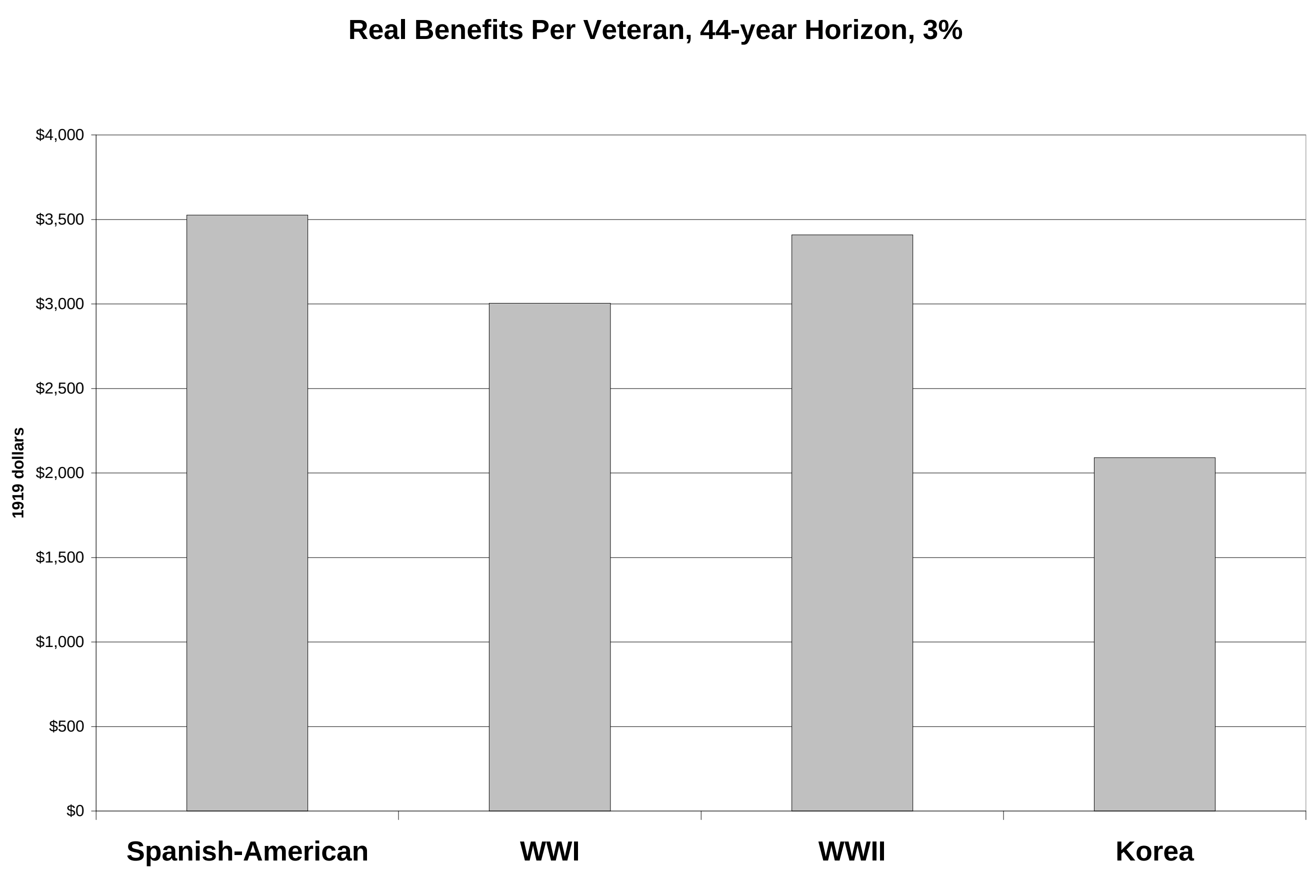

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Figure 9

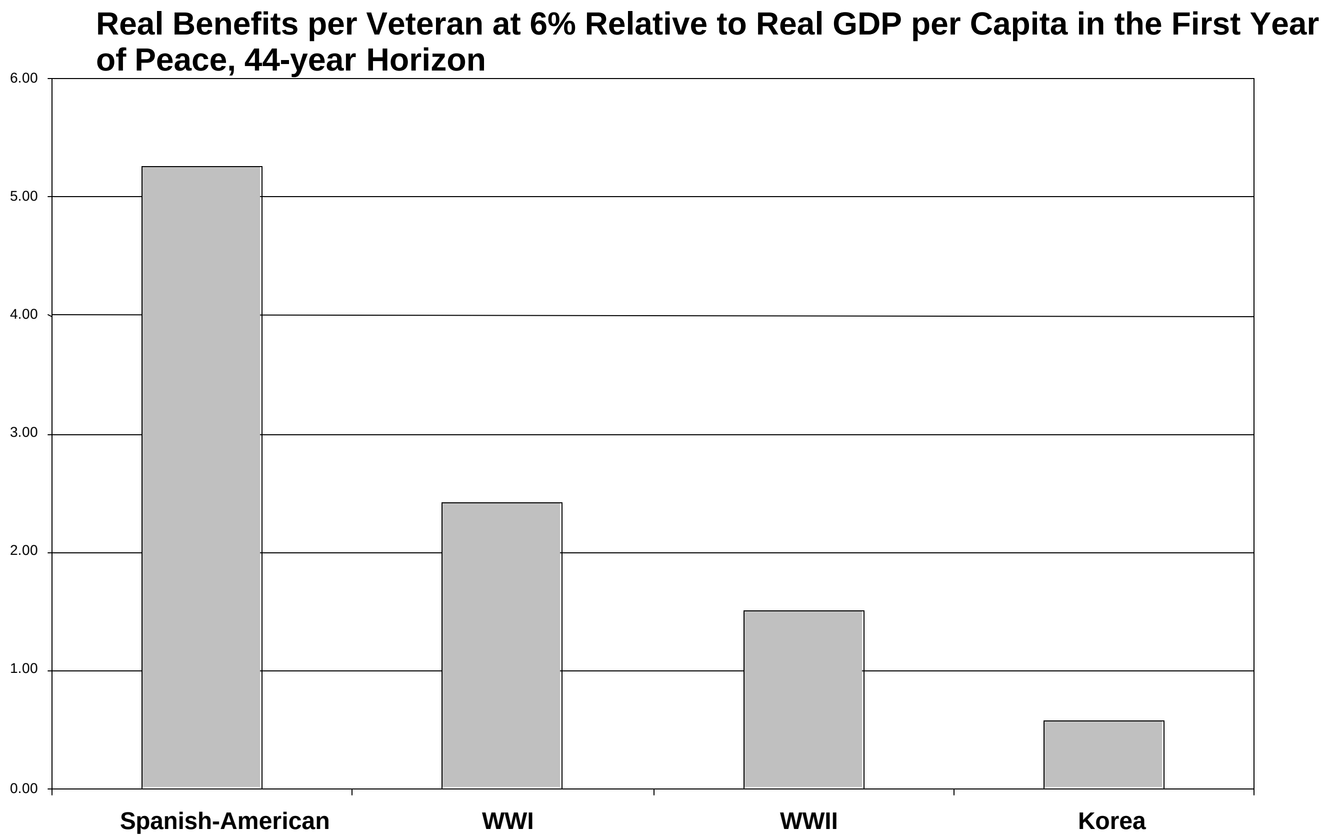

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Figure 10

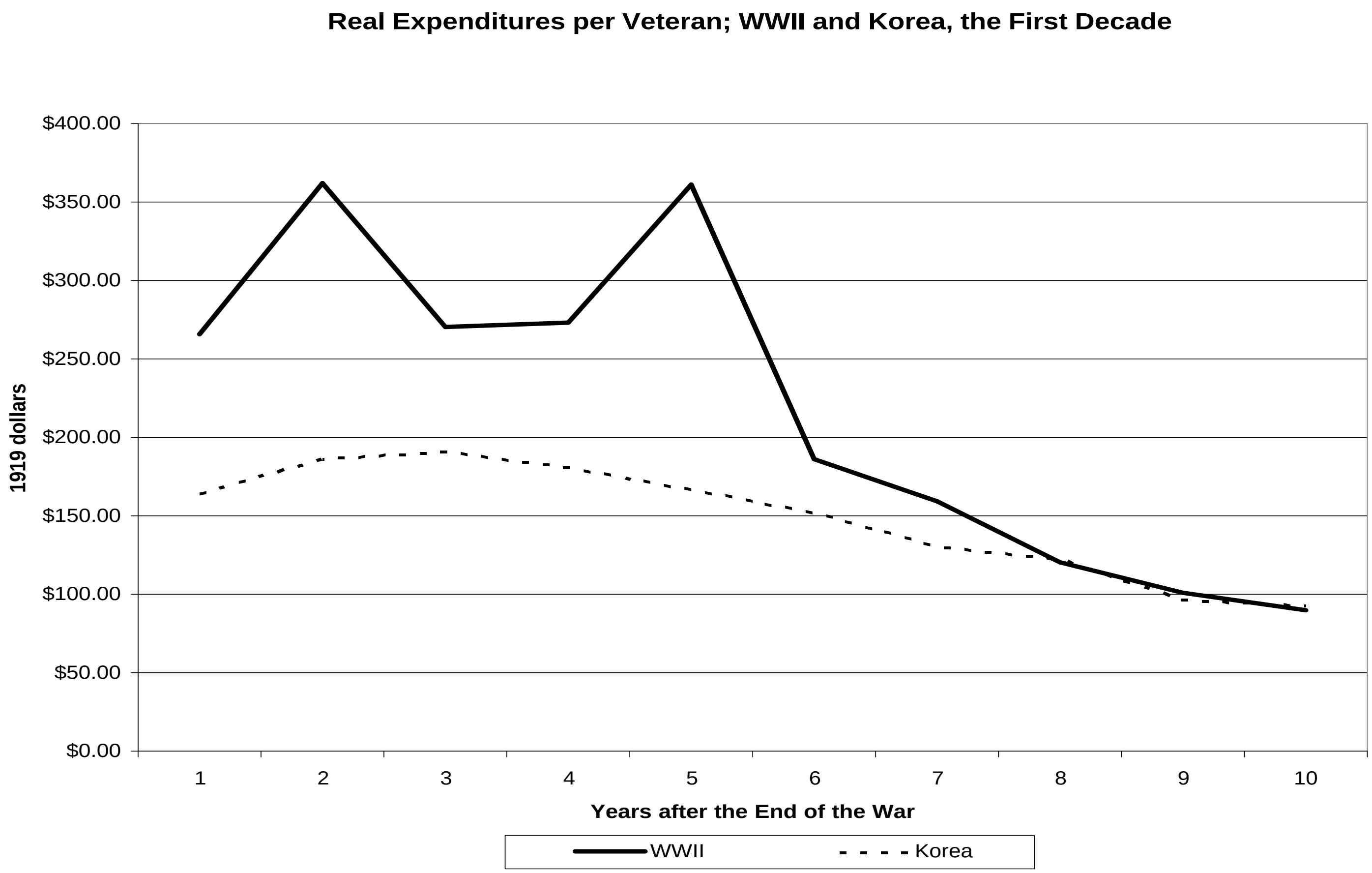

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Table 1 Basic War Statistics

War	American Revolution	War of 1812	Mexican War	Civil War (Union)	Spanish-American War	World War I	World War II	Korea	Vietnam
(1) Start	1775	1812	1846	1861	1898	1917	1941	1950	1964
(2) End	1783	1815	1849	1865	1902	1918	1945	1953	1975
(3) Number Serving	217,000	286,000	78,718	2,213,363	306,760	4,734,991	16,112,566	5,720,000	8,744,000
(4) Number Serving as a Percent of the Population	8.81	3.71	0.37	6.84[a]	0.42	4.58	12.08	3.77	4.56
(5) Battle Deaths per 1000	20.4	7.9	22.0	63.4	1.3	11.3	18.1	5.9	5.4
(6) Casualties per 1000	n.a.	n.a.	221.5	292.0	13.4	67.7	66.9	27.5	27.8

[a]The figure is 10.09 percent if the 1,050,000 estimated confederate soldiers is added.

Sources and Notes by Row: (3): U.S. Department of Veterans Affairs, "America's Wars," www.va.gov, accessed May 10, 2006. (4): (U.S. Bureau of the Census 1975, series A7, Z1).

Table 2 Surpluses in the Federal Budget and the Associated Pension Legislation

Years with Large Federal Budget Surpluses	Years with major pension legislation	Purpose of legislation
1801-1808	None	
1811	None	
1816-1817	1818	Pensions for veterans of the Revolution in reduced circumstances.
1822-1823	None	
1825-1833	1828,1832	Pensions for non-poor veterans of the Revolution
1835-1836	1836	Pensions for widows of veterans of the Revolution
1844-1845	None	
1852-1854	1855	Land grants for War of 1812 veterans
1867	None	
1870-1872	1871	Pensions for veterans of the War of 1812
1881-1884	None	
1886-1890	1887, 1890	Pensions for veterans of the Mexican War, and the Civil War.

Note: The first column shows years in which the Federal budget surplus exceeded 25 percent (measured relative to expenditures).

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Appendix: Notes on the Sources.

Cash or in-kind payments to veterans. For the antebellum period we have relied mainly on *The Statement of Annual Appropriations and Expenditures for Army and Navy Pensions, March 4, 1789, to June 30, 1876*. (U.S.Senate 1877). The estimates for the Revolutionary War do not include the value of the commutation bonds given to Officers at the close of the Revolution. The Veterans' Administration developed annual estimates of total Federal spending on veterans of the Civil War beginning in 1891 for the Bicentennial edition of *Historical Statistics* (U.S. Bureau of the Census 1975), but reported that a total of $1,168,119,000 had been spent for the period prior to 1891. These estimates have been included in the millennial edition (Carter 2006). We computed annual estimates for the proceeding years by applying the ratio of veterans of the Civil War in civilian life to total veterans in civilian life to the total spending by the Veterans Administration (its predecessor agencies) and then adjusting the annual amounts so that the total matched the amount reported by the Veterans Administration. Estimates for later wars are from *Historical Statistics*. Real values have been calculated by deflating by the cost of living index from the millennial edition of *Historical Statistics*, series Cc1.

Land Grants. The estimates of the value of land grants in the antebellum era are back-of-the-envelope calculations designed to provide an idea of relative magnitudes. For the Revolution we started with the estimate of total federal land grants to revolutionary officers and soldiers reported by the land office in 1826. (U.S. Cong., 1826). We assumed that 30 percent were taken up in the first year after the war, 25 percent in the second year, and so on. We priced land at $1.00 per acre. Stanley Lebergott (1985, 186) used $1.00 for land circa 1800. We then computed the present value at 6 percent.

To estimate the value of the land bounties in the War of 1812, we started with James W. Oberly's (1995) sample of warrants: Table 4 page 18 shows the distribution of land warrants by war for the Act of 1850; table 5, p. 20 shows the distribution of land warrants by war for the Act of 1852; and table 6, p. 22 shows the distribution of land warrants by war for the Act of 1855. We then blew these samples up by the factor of 200 (Oberly's sampling ratio). The result was a total amount of acres transferred to veterans as land warrants under each law. We then assumed that the warrants were generally taken up quickly after the Act was passed: 40 percent in the next year, 30 percent in the following year, 20 percent in the following year, and 10 percent in the fifth year after passage. We then multiplied the acreage figures by Oberly's estimate of the value of land warrants (Table 28, p. 170).

To estimate the value of land warrants that went to veterans of the Mexican War we proceeded in a similar fashion. Table 1, p. 3 shows the total amount of warrants issued under the law of 1847; table 4 page 18 shows the distribution of land warrants by war for the Act of 1850; table 5, p. 20 shows the distribution of land warrants by war for the Act of 1852; and table 6, p. 22 shows the distribution of land warrants by war for the Act of 1855. We then blew up Oberly's sample, applied a decay ratio to estimate the amount taken up in each year, multiplied by the price of land, and deflated the result by the cost of living index.