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The Costs of War: U.S. Social Security as a Civil-War Legacy

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Most conventional accounts of the origins of U.S. social security trace the conceptual provenance of the sixty seven-year old program to the "social insurance" movement and the successful implementation of a "social insurance" system in Germany under Bismarck. Other treatments (e.g., Robbins 1988, p.2) emphasize the importance of the crisis atmosphere of the Great Depression in facilitating the implementation of the program. This paper (a work in progress) considers the alternative view of the U.S. Social Security program as *ad hoc* extension of the U.S. Civil War pension program.

I. Social Security: A Multi-faceted Pedigree?

***The Agrarian Justice* of Thomas Paine**

The first known formal American proposal for old-age benefits was written in 1796 by Thomas Paine entitled *Agrarian Justice*. Paine's argument was as follows.

In its natural state the earth is the common property of the entire human race. In an uncultivated world, every human being would have been "born to property." Poverty therefore doesn't exist in the natural state. Land cultivation created the institution of landed property which created a bifurcation in standards of living: some live much better than the natural state, some live much worse.

On the basis of a legitimacy of "equality of natural property," Thomas Paine proposes a "national fund" from which every citizen twenty-one years of age would be paid fifteen pounds sterling for his or her loss of natural inheritance from the adoption of the institution of landed property. Ten pounds sterling per year would also be paid to all individuals fifty years of age or older or anyone "blind/lame" under fifty years of age. The payments to young and old would not be means tested. The system would be funded by a tax on inherited property ("ground rents" on cultivated land). The thirty million estimated pounds moving to direct heirs every year in England would be taxed at ten percent, the 13 million bequeathed to individuals outside the immediate family would be taxed at a rate of twenty percent. This would create a fund of

¹ Southwest Baptist University. The author would like to acknowledge the suggestion and encouragement of John P. Sophocleus of Auburn University in exploring the topic of this paper.

5.6 million pounds sterling out of which 4 million would be paid to 400,000 "aged" persons (receiving 10 pounds each per year) and 1.3 million would be paid each year to the 90,000 persons arriving at the age of 21 (15 pounds each). The remaining 316,000 pounds would be paid to the "blind and lame" under 50 years of age (who each receive 10 pounds annually).

State "Pension" Programs

By passage of the Social Security Act of 1935, 30 states had old-age pension programs. Participation in these programs (about 3% of the elderly) was weak for several reasons. First was the social stigma of the public dole. (These "pension" programs were means tested.) Second was the ability of many counties in pension states to opt out of the state program. In 1929 only 20% of counties in the 6 states which had operational pension programs participated in the pension programs. In 1932, although 17 states offered old-age pensions, 87% of available pension appropriations were paid in only three states. The efflorescence in state pension plans occurred in the early 1930s and was clearly tied to the Depression, but the programs in existence were (at most) modest in their level of spending and no state in the South had a pension program before 1933.

Huey Long and "Share Our Wealth"

Huey Long was a governor of Louisiana from 1928 to 1932 and later a U.S. Senator. Proposed a program he referred to as "Share Our Wealth." The third plank of Long's seven-point program was old-age pensions. Beginning at age 60 an individual whose yearly income was less than \$1,000 and whose net worth was below \$10,000 would be eligible to receive a government pension of \$30 per month. The goal of this pension system was to remove older workers from the labor force to increase employment among younger workers.²

Townsend Old Age Revolving Pension Plan

Francis E. Townsend, a down-and-out physician in Long Beach, California, proposed in early 1933 that the federal government provide a pension of \$200 per month to every individual 60 years of age or older provided they met the following specific criteria: they were retired, they had no significant criminal record, all pension payments received had to be completely spent within 30 days of receipt. The plan would be funded by a 2% national sales tax.

While most grass-roots pension proposals faded into the background after the passage of the Social Security Act of 1935, the Townsend plan, with its more generous provisions, continued to remain a viable alternative. In November 1949 the House of Representatives came very close

² *Congressional Record*. Feb. 5, 1934.

to a vote on the Townsend Plan. It wasn't until the Social Security amendments of 1950 were passed that Social Security benefits increased and the Townsend movement faded away.

End Poverty in California (EPIC)

End Poverty in California (EPIC) was a twelve-point program drafted by socialist author Upton Sinclair in 1933. The tenth point of the program was to provide a pension of \$50 per month to all poor persons over 60 who had been residents of California at least three years. It was advocated as a reform of the current pension system in California which had an eligibility age of 70 and a monthly benefit of about \$25. EPIC became the California Democratic party's platform in the gubernatorial election of 1934. The EPIC plan began its quick fade into history after Sinclair lost the election with only 37% of the vote.

"Ham and Eggs"

"Ham and Eggs" was the name of a pension scheme conceived by California layman Robert Noble in the early 1930s. Scrip money would be paid weekly to all unemployed Californians age 50 and older by the state government. The payments would be \$30 in value issued every Thursday. The zenith of the program's popularity was in the election of 1938. Even though the program was endorsed by the Democratic gubernatorial candidate Culbert Olsen, it was narrowly defeated as a proposition on the same election ballot.

The Bigelow Plan

A state plan for Ohio proposed by Reverend Herbert S. Bigelow, a pension of \$50 per month for singles and \$80 for couples who were unemployed and over 60 years old. Tax revenue to fund the plan would be derived from a 2% tax on land worth more than \$20,000 per acre and a state income tax imposing a levy of one quarter the federal tax on personal and corporate incomes.

General Welfare Federation of America

Organization founded by Arthur L. Johnson which advocated providing pensions to individuals 60 or older as long as they were unemployed, spent the pensions on American-made goods or services, and had no dependents between the ages of 30 and 60. The pensions would be \$30 to \$60 in size and determined by dividing the number of aggregate funds available by the number of program beneficiaries. The plan would have been funded by a 2% tax on individuals and for-profit firms. The proposal was drafted as a bill but was ultimately never voted on in the U.S. Congress.

German Social Insurance

The Social Security Act of 1935 was allegedly heavily influenced by the tenets of the social insurance movement which had roots at least back to late nineteenth-century Germany. The first old age "social insurance" program was implemented in Germany in 1889 under the leadership of Otto von Bismarck. Social insurance's adventitious beginnings can be traced to William the First's 1881 letter to the German parliament (prompted by Bismarck) advocating benefit payments to individuals no longer able to work due to age, illness, or injury. A sickness insurance program was implemented in 1883, followed by a worker's compensation program in 1884, and finally an old-age retirement and disability program in 1889.³ The retirement age was first set at 70 and then lowered to 65 in 1916.

Henry Seager and *Social Insurance*

Columbia University professor Henry R. Seager was one of the first scholarly advocates of social insurance in the U.S. His 1910 book, *Social Insurance: A Program of Social Reform*, advocated social insurance on the basis of the difficulty of saving for old-age contingencies and the lack of support of children for aging parents in a increasingly industrialized economy. Seager advocated that workers "combine with other wage earners to accumulate a common fund out of which old-age annuities may be paid to those who live long enough to need it." Seager's conception seems to be distinctly different from the "pay-as-you-go, spend-as-you-go" Social Security system of today allegedly based on his ideas.

One of the first prominent American politicians to endorse social insurance was Teddy Roosevelt who ran as a presidential candidate for the Progressive Party in 1912. The party platform, adopted on August 7, 1912, embraced "[t]he protection of home life against the hazards of sickness, irregular employment and old age through the adoption of a system of social insurance adapted to American use."

President Franklin Delano Roosevelt issued Executive Order 6757 on June 29, 1934 creating the Committee on Economic Security (CES) which examined the broad issue of economic insecurity, and old-age insurance in particular. Most the staff of CES did not begin work until late August 1934 and its report was due by December 1934. It had about three calendar months to complete its work. Although old-age benefits (implemented 1937) made it into the Roosevelt administration's initial proposal, the allegedly more urgent health (implemented 1965), disability (implemented 1957), and survivor's benefits (implemented 1940) did not. The Social Security Act was signed into law on August 14, 1935. Title I of the legislation consists of provisions regarding federal grants to states to support old-age welfare programs. Title II consists of the

³ Unemployment insurance wasn't implemented until 1927.

provisions relating to the old-age pensions aspect of social insurance. Initially, the program only provided benefits to retired workers age 65 and older who had paid taxes into the system. Section 201(a) of Title II created an Old-Age Reserve Account out of which pensions would be paid. The amount of money inside the fund included not only the annual amount needed to meet pension obligations, but also a contingency buffer of \$2 or \$3 billion. The plan then changed to accumulating a reserve of \$47 billion over 40 years. The reserve was actually a stream of revenue to the U.S. Treasury to be spent however it saw fit. Roosevelt was told that the reserve could be used to pay off the national debt after 40 years. (Today this concept is known as the Social Security Trust Fund.) Congress eventually reduced the payroll tax in 1938 slowing the accumulation of reserve funds.^{4,5}

II. The Civil War Pension System

Antedating every aforementioned agitation and adventitious system for old-age benefits and social insurance in America or abroad (with the exception of Paine's *Agrarian Justice*) was the U.S. Civil War pension system.

While war pensions certainly existed on a limited basis prior to the War Between the States, the significance of the Civil War Pension system is that it established the precedent of a well-funded, fully developed pension system in the U.S. for the first time in its history, making payments to a large and quickly-growing constituency (among both political leaders and recipients) that used to the electoral process to protect and enlarge the system.

The Civil War pension program began in 1862 with the purpose of providing benefits to veterans (and widows/orphans) only for injuries incurred during military action. In 1890 the beneficiary base was broadened to include all disabled veterans--regardless of the source of their disability. By 1906 age *per se* was authorized as a qualification for receiving benefits such that by four years later a proto-OASDI had been implemented.⁶

In *Divided We Stand*, Walter Prescott Webb broaches the subject of the federal Civil War pension system. To recipients the program became a "lifelong government subsidy...paid impartially to the pauper and the millionaire." Webb adduces some impressive quantitative evidence to support his contention of a corrupt and invidious wealth re-distribution scheme (which I have compiled into a time line immediately below):

⁴ Flynn, John T. "The Social Security Reserve Swindle." *Harper's* Feb. 1939.

⁵ Two forthcoming works will explore the Atlantic Charter's roles in propagating U.S.-style Social Security systems around the world and the repeal of RET in 2000 allowing the elderly to simultaneously work and collect Social-Security benefits, against the original intentions of the bill.

⁶ According to the Social Security Administration (SSA), by about this time Civil War veterans comprised only 0.6% of the U.S. population but greater than 90% of them were receiving benefit payments. SSA amusingly reports that, because system benefits were inheritable, many young women were led to marry old veterans. As a result, the payment of benefits to Civil -War widows continued until 1999, the year the last payment was made.

1862: Advent of the program
 1875: \$ 29,000,000 paid to Union veterans annually
 1879: \$ 60,000,000 paid to Union veterans annually
 1889: \$ 89,000,000
 1893: \$159,000,000
 1912: \$180,000,000
 1923: \$238,924,872⁷

From 1862-1936 the program had paid almost \$8 billion to beneficiaries, \$7 billion of which went to the North and \$1 billion to the Southern and Western states. The North had received about 85 to 90 cents out of every dollar.

Webb cites a 1936 University of Texas masters thesis by Lester V. Bearden revealing the relationship between government pension payments and government revenue.

	<u>percentage of customs duties absorbed by pensions</u>	<u>percentage of internal revenues absorbed by pensions</u>
1880	30.4	45.9
1890	42.2	75.0
1894 ⁸	107.1	98.0

Bearden's data completely bolsters Webb's argument for the pension program's venal inequity: In 1900 the South paid \$40,000,000 to the pension fund. It received only \$15,500,000 (38.75%) in return. Ohio, a Northern state, paid about \$7,500,000 and received \$15,000,000, or a 100% return on its "investment." Texas, a Southern state contributed \$5,500,000 and received about a \$1,000,000, or 18% of the amount it paid into the program. According to SSA, in 1910 the average per-capita pension spending in Ohio was \$3.36 while for Indiana it was \$3.90. The average per-capita spending for the South was less than 50 cents and just 17 cents for South Carolina. Webb cites professor J.L. Sellers' statement that the South paid an effective war reparation to the North through the Civil War pension system of approximately \$1 billion.

Webb concludes that the Civil War pension system enriched Northern soldiers almost as much as the protective tariff enriched Northern industrialists at the rest of the nation's expense. The success of the tariff fed the expansion of the pension program. After the war, commerce revived, imports increased, and so did tariff revenue such that the Treasury acquired a surplus. The surplus could be reduced either by lowering the tariff to benefit consumers or by increasing expenditures on pensions. "Business and patriotism" formed an unholy alliance to "pour out the

⁷ Keep in mind this is 58 years after the end of the war. Average life expectancy for men born in 1930 was 58 years while for women it was 61. \$238,924,872 in 1923 translates to about \$2,433,815,208.96 in 2001 (assuming 918.65% inflation during the 78-year period).

⁸ In this year the pension system absorbed about 47.4% of what Webb calls the "ordinary revenues of the government."

accumulated wealth of the government into one small section of the nation."⁹ Webb quotes a Professor Bassett claiming that the intent of Northern politicians was to reduce the Treasury surplus to keep protection high and simultaneously buy their way back into office. AS the GOP was victorious in elections, pension money poured into the North. The pensions were a crucial subsidy to the development of industry in the North as business heirs were freed from financially attending to their parents in old age. Heirs could thus place greater resources in time and money into their businesses and this provided an advantage to the North. This could be empirically hard to prove since--as pensions became more controversial--a law was passed preventing the names of pensioners from being made public.

Because pension eligibility was in practice subjective and determined at the local level, a venal system arose which spawned a wasteful industry of attorneys seeking claims for clients who ranged from questionable to downright fraudulent.

Theda Skocpol of Harvard claims there's no evidence the system was steeped in fraud. In 1992 she wrote

[N]othing exact can be said about the proportions of illegitimate pensioners or expenditures. We can only speculate that some (undetermined) thousands, or conceivably tens of thousands, of the nearly one million pensioners in 1910 were bogus. Perhaps aided by dishonest pension attorneys, these men and women had exploited the loose and locally rooted application system to obtain fraudulent pensions or--in most cases, I suspect--overly generous benefits. (145)

Observers who actually lived during the era of the burgeoning system felt much differently. Just 20 years after the start of the program the prominent nineteenth-century magazine *Puck* published a satirical cartoon on December 20, 1882 portraying the Civil-War pension system as a 24-armed union soldier gulping down money in a bowl labeled U.S. Treasury. The caption read, "The Insatiable Glutton." Web states: "After hostilities ceased pensions grew in number and in amount in a manner most gratifying to recipients and incidental beneficiaries. No need to dwell here on the fraud, lying, broomstick wives, attorneys, and perjurers."

Further Evidence Needed

Thus far the case for U.S. Social Security being a cynical, private-interest political extension of the Civil-War pension system is circumstantial in nature. Evidence that would explicitly bolster this case would be evidence of a gradual and deliberate transfer of Civil War pension recipients into the new Social Security program around 1935 or shortly thereafter, and an emigration of

⁹ Of course this same unholy alliance has formed again in the War on Terror to the enrichment of the military-industrial complex.

bureaucratic infrastructure, administrative protocol, and even federal employees to the new program from the old. The public interest hypothesis for Civil War pensions was dead in 1935, 70 years after the end of the Civil War. The private interest hypothesis, however, was alive and well. That is enough of a reason for further investigation.

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