8 Pensions and Politics

In general, the art of government consists of taking as much money as possible from one class of citizens to give to the other.
Voltaire (1764)

People who think the mighty in Washington can be persuaded, or corrupted, if you will, by anything less than votes just don't understand what it's all about and never will. They don't know what Washington juice is made of.
George E. Allen (1950)

The elderly of today are much wealthier than the elderly of the past, not just because rising compensation has made financing retirement consumption easier, but also because the elderly have benefited from a redistribution of public-sector resources. Total public-sector expenditures have increased in real dollar terms, and the fraction of those expenditures consumed by the elderly has increased. Although programs aimed at the elderly greatly mitigated old-age poverty and therefore have obvious merits, these programs have rapidly become extremely expensive and have displaced other expenditures, including education.

This chapter investigates the growth of three different programs aimed at the aged: the Union army pension program, state old-age assistance programs, and Social Security Old Age Insurance. These programs share certain common features: they grew rapidly from very modest beginnings; their growth was spurred in part by increasingly well-organized pressure groups; and their growth was made possible by the availability of revenue sources that could be tapped to finance them. By examining the history of these programs we can learn what the political pressures facing Social Security in the future are likely to be.

8.1 Union Army Pensions

At the beginning of the century Union army pensions were the most widespread form of assistance to the elderly. In 1910 an estimated 25 percent of the population older than sixty-four benefited from the program, receiving either veterans' or widows' benefits.\(^1\) In contrast, a relatively small percentage of the population older than sixty-four received either public or private assistance. In Massachusetts, only 3 percent of those older than sixty-four received either public or private poor relief, and another 3 percent were in almshouses or pri-
vate homes. Although the relative size of the elderly population was increasing—from 3 percent in 1880 to 4 percent in 1910—unlike Union army veterans the elderly were not a well-organized group. Unlike the group of men who had defended the Union they did not elicit as much public sympathy.

The Union army pension program was originally a modest undertaking, serving only severely disabled soldiers and the dependents of soldiers who had died from wartime causes. When the program was instituted in 1862, the most that an enlisted man could receive for total disability was $8.00 per month, an amount equivalent to 30 percent of the earnings of an unskilled laborer. The program was soon liberalized. Congress raised the pension for total disability to $20.00 per month in 1866 and to $24.00 in 1872, the latter a sum that replaced 76 percent of the monthly earnings of an unskilled laborer. The definition of total disability was liberalized as well. The sum of $24.00 was given to those unfit for any manual labor, even lighter kinds. Another disability category was therefore created, and by 1873 those who were so disabled as to require the regular aid and attendance of another person received $31.25 per month.

The sums of $31.25 and $24.00 per month were soon increased and by 1883 had risen to $72.00 and $30.00 per month, respectively. When the rate of $30.00 per month was established, it almost completely replaced the income of a laborer. Veterans and their dependents also greatly benefited from the passage of the Arrears Act of 1879, which permitted those who had failed to file a pension claim to collect back payments in a lump sum.

With the act of 27 June 1890 the number of beneficiaries increased dramatically. Any disability, even one not related to military service, now entitled a veteran to a pension of $6.00–$12.00 per month. Interpreting old age as a disability, the Pension Bureau granted the maximum rate to those seventy-five years of age or older and the minimum rate to those at least sixty-five years of age. Dependents of a veteran who had died from any cause became eligible for pensions. The number of pensioners on the rolls almost doubled between 1889 and 1892. In 1904 old-age provisions were further liberalized, with the Pension Bureau granting applicants pensions of $6.00, $8.00, $10.00, and $12.00 per month at ages sixty-two, sixty-five, sixty-eight, and seventy, respectively. Age-based pension amounts were increased once more in 1907, when Congress granted pensions of $12.00 per month to those aged sixty-two to sixty-nine, $15.00 per month to those aged seventy to seventy-four, and $20.00 per month to those older than seventy-four. The next major pension law, that of 11 May 1912, established a system in which rates rose with both age and length of service. Pension ratings for age and service were increased automatically after 1912.

8.1.1 Politics

The increasing generosity of the Union army pension program was extremely costly. Total real costs of the program rose sharply with the passage of the Arrears Act of 1879, which permitted veterans and their dependents who
neglected to file a pension claim to collect a lump-sum pension in back payments. Real costs and the total number of pensioners then skyrocketed with the passage of the 1890 law, and in 1893 Union army pensions consumed 43 percent of all federal expenditures. That such a large fraction of outlays should be spent on a single program is unusual. The Social Security program today consumes only 21 percent of all federal outlays. Although the total number of pensioners began to decline after 1906, the passage of the 1907 and 1912 laws increased the costs of the programs and kept them high (see fig. 8.1).

The federal government was able to finance a program of this magnitude because, between 1866 and 1920, the federal budget registered a budget surplus for thirty-seven years. This surplus was distributed to veterans and their dependents. James Tanner, a disabled veteran appointed commissioner of pensions in 1888, reportedly stated, "I will drive a six-mule team through the Treasury," and, "God help the surplus" (quoted in Glasson 1918a, 226).

High tariffs on imports produced the federal budget surplus. The high tariffs of the Civil War years were never effectively lowered and were kept high by the passage of the McKinley Tariff Act in 1890 and the Dingley Tariff Act in 1897, which raised customs duties above 50 percent. Between 1866 and the passage in 1913 of the constitutional amendment granting Congress the power to tax incomes, close to half of all federal revenues came from tariffs. The other half originated from excise taxes. Veterans lobbied vigorously to maintain tariffs at high levels. Assuming that tariffs would have been lower in the absence of such lobbying, then, because tariffs were a regressive tax, the costs of the program were borne by the poor and by groups who did not benefit from the Union army pension program, such as southerners, recent immigrants, and younger cohorts. This was well recognized by contemporaries. Glasson (1918a, 238) wrote, "To a large extent the necessities and comforts of the poor were taxed and the resulting funds paid out in gratuities to persons who were better off than a large proportion of the taxpayers."

Behind the enactment of this large-scale redistributive program was a major lobbying effort on the part of veterans, pension lawyers, and tariff interests. Soon after the war's end, the survivors of the war organized the Grand Army of the Republic (GAR). GAR outposts were present in most counties, and after 1881 the GAR was regularly represented in Washington during the sessions of Congress. After 1883, the commander in chief of the GAR would appoint annually a committee of five known as the Committee on Pensions to lobby Congress. Pension attorneys, who earned a fixed fee each time a veteran filed for a pension, were allied with the GAR. George E. Lemon, a leading pension lawyer, started his pro-pension program newspaper, the National Tribune, in 1877. The newspaper experienced a rapid growth in circulation, and Lemon was still publishing it in 1916. In addition to printing articles of a historical and literary nature and advertisements for Lemon's business, the newspaper ran editorials championing the expansion of the pension program. Other claims agents printed their own newspapers. Claims agents were also active in sending out
Fig. 8.1 Total number of pensioners, real costs of pension program, and pension program as percentage of all federal expenditures, 1865–1920

literature and letters throughout the country on behalf of new pension bills. The newspapers of claims agents gave their editorial space freely to arguments that ex-soldiers ought to fight the proposals of the Free Traders to lower tariffs because otherwise there would be no surplus available for pensions.

Pensions were a very important political issue. Each major political party included Civil War pension proposals in their national party platforms. At an 1888 meeting of the Grand Army of the Republic, when that organization was lobbying for a disability pension program, a member of Congress recounted how he had won his seat: “The gallant General Harvey of Indiana, Captain White of Fort Wayne, and myself represent three districts in Indiana, and in each of those districts the majority against us is from twelve to fifteen hundred. We held a council of war. We declared in favor of universal pension. Our opponents were foolish enough to fall into the trap and opposed it. Harvey carried his district by fourteen hundred majority, Captain White carried his by over twelve hundred, and I carried mine by eleven hundred and fifty.” At the same meeting another speaker said, “We have a presidential election, and I tell you that there is a power behind that. I am no prophet, but I would predict that a President who will again veto a disability Pension Bill can never be reelected President of the United States” (both quoted in Glasson 1918a, 205, 206). In fact, Grover Cleveland, who as president had vetoed a pension bill that would have given pensions to disabled, needy veterans, lost in 1888 to Benjamin Harrison, who promptly signed the 1890 act providing pensions to all disabled soldiers.

Both Republicans and Democrats used the pension system to gain political support. For example, the commissioner of pensions in the first Cleveland administration was charged with filling the Pension Bureau with Democrats and increasing pension allowances and payments in areas with either a strong core of Democratic support or a concentration of veterans (Glasson 1918a, 224). Logue’s (1992) statistical analysis shows that, in the mid-1880s, the more Democratic the county, the greater the proportion of pensioners, whereas in the early 1880s, under a Republican administration, the more Republican the county, the greater the proportion of pensioners.

After 1895, the administration of pensions grew more professional. The pension laws’ increasing generosity made the granting of political favors through the pension system almost impossible. Almost everyone was already on the rolls. In the pension records used in this research there is no statistical evidence that pension amount varied according to the strength of either the Republican or the Democratic Party in the county of the pensioner’s residence (Costa 1993). Pensions did, however, still remain a political issue. Although the pension system could no longer benefit specific subgroups of the elderly, veteran population, elderly veterans as a group could still benefit.

8.1.2 A Lasting Legacy?

The first experiment with a disability and old-age pension program in the United States died with the last Union army veterans and their widows. It had
been the hope of social reformers that Union army pensions would prove to be “a very important entering wedge for a national system of old age pensions.” According to their calculations the rapid decline in the number of surviving veterans meant that, “a large appropriation will, therefore automatically become available, which will permit the establishment of a national old age pension scheme without even any material disturbance” (Rubinow 1916, 409). This was not to be. Although the federal government ran a budget surplus from 1920 to 1930, the few state-provided old-age pensions that were established were set up by individual states, not the federal government. A question that scholars have tried to answer is why the Union army pension program did not lead to national old-age pensions.

It has sometimes been argued that the revulsion of the elite and of the middle class against Union army pensions retarded the growth of a national old-age pension scheme until the New Deal. According to this view, one part of the legacy of the Union army pension program was the fear that individual cases would be decided on the basis of fraudulent documents or political cronyism and a distrust of government administration of any pension program. But all social programs, including the old outdoor poor relief system and the present Social Security retirement and disability system, have been criticized on the grounds of abuse. It should, therefore, come as no surprise that Civil War pensions were criticized as well. Some fraud undoubtedly did exist, but, by the time most old-age programs were being debated, the Civil War pension system had already been professionalized. As discussed in appendix A at the end of the book, the pension records themselves provide no evidence that corruption was common. Demographic and socioeconomic characteristics predicted neither pension amount nor the ratings of the examining surgeons. Those who were in worse health, as measured by such objective criteria as the BMI or subsequent mortality, received higher pensions.

If perceived corruption was on such a grand scale as to inspire widespread disgust, why did social reformers at the beginning of the century deliberately draw analogies between Civil War and old-age pensions? They boldly asked, “The nation and the states have already declared it to be our duty to shelter the aged and wounded soldier, why should the victims of the ‘army of labor’ be neglected? They have also served their country in occupations even more dangerous and destructive than war, and quite as useful” (Henderson 1909, 286). At the end of the 1920s, when interest in old-age pensions had revived, social reformers were still writing about Union army pensions, pointing out that our experience with them showed that old-age pensions did not corrupt the recipients and their families (Epstein 1928, 184).

It is true that the Union army pension program did not immediately serve as an entering wedge for a system of national old-age pensions. This is more likely to have resulted from factors other than widespread disgust with Union army pensions. One of these must be the lack of political organization on the part of the elderly. Without organization, their numbers were simply too few for them to be an effective voting block. In contrast, countries where the el-
elderly represented a larger share of the population had greater expenditures on pensions (Lindert 1994). Another factor must be that a system of national old-age pensions would have been far more costly than the Union army pension program. Total expenditures on Union army pensions to veterans, widows, and their dependents equaled $150,959,327 in 1910. Had this amount been redistributed to all men and women age sixty-five or older, each individual would have only received $38.00 per year, whereas the average payment to veterans, wives, widows, and other dependents over age sixty-four was $152 per year. One possibility would have been to redistribute the money to the poorest 25 percent of the elderly population, but this may not have been feasible politically. In a country such as the United States, where the middle class is more closely allied, economically and spiritually, with the upper than the lower classes, the poorest 25 percent of the elderly would not necessarily elicit the compassion needed to give them special claims on the public purse.

8.2 Pensions and the States

The first universal old-age pensions were state, not federal, programs. One of the first bills introduced in a state legislature was in Massachusetts in 1903, but, like so many old-age pension bills, it was not passed. In 1915 both Arizona and Alaska enacted old-age pension laws, but the Arizona law was declared unconstitutional. No further laws were enacted until 1923, when old-age pension laws were passed in Nevada, Montana, and Pennsylvania. The Pennsylvania law was found unconstitutional, and only in 1931 did that state pass a constitutional amendment permitting the enactment of old-age pension laws. In 1923 the residents of Ohio defeated a state referendum proposing the institution of old-age pensions. From 1925 to 1926 old-age pension laws were passed in Wisconsin, Kentucky, Maryland, and Colorado. A California pension law was passed by the state legislature in 1925 but vetoed by the governor. California, together with Wisconsin, enacted the first statewide mandatory laws in 1929. Utah enacted an old-age pension law in 1929 as well, but in that year legislation failed to win approval in either house of thirteen state legislatures. States that had pension programs by 1929 were nonsouthern and tended to have relatively small elderly populations. In 1930 old-age pension laws were passed in Massachusetts and New York. In 1931 old-age pension bills were pending in thirty-eight states and were passed in Delaware, Idaho, New Hampshire, New Jersey, and West Virginia. Pension laws were enacted in Arizona, Indiana, Maine, Michigan, Nebraska, North Dakota, Ohio, Oregon, Pennsylvania, Washington, and Hawaii in 1933, far more than had been passed in any previous year. In 1934, Iowa passed an old-age pension law, and the laws of Maryland, Washington, and Minnesota were made mandatory. By the end of 1934 twenty-eight states and two territories had established old-age pension laws. Those states that established pension programs between 1930 and 1934 were again nonsouthern but this time tended to have relatively large elderly populations.
The typical state old-age pension program was of limited scope. Although some states provided pensions to those age sixty-five or older, most provided pensions only to those age seventy or older. The maximum annual pension was generally between $300 and $365 per year, or 32 percent of average 1933 earnings of full-time employees, but was as low as $150 in North Dakota and as high as $420 in Alaska. Only those who had resided in the state for a long period of time, generally fifteen years, were eligible. The recipient was prohibited from earning more than a given amount per year, generally between $300 and $365. He was also usually prohibited from owning property worth $3,000 or more and was required to have the value of all pensions deducted from his estate on death. Pensions could be denied to those who had financially responsible relatives, failed to work when judged capable, had deserted their families, were tramps or beggars, disposed of their property to qualify for a pension, were recipients of other government pensions, or were inmates. Given these strict requirements, the proportion of pensioners to persons of eligible age in 1933 varied from less than 1 percent in Maryland to 22 percent in Arizona.

Although these programs were passed by state legislatures, they were not always statewide. Of the thirty states and territories having old-age pension programs, in eleven the participation of a county in the program was optional. Even among those states that did have mandatory county participation, the state would often establish only broad conditions on eligibility, determine the maximum condition payable, and leave the funding and administration to the county.

Old-age pensions began to emerge as a political issue in the 1920s. The social insurance leadership launched systematic campaigns using grassroots legislative pressure exerted by local clubs. For example, the Fraternal Order of Eagles’ Old Age Pension Commission cooperated with state federations of labor and with the National Old Age Pension Committee of the United Mine Workers. They sponsored citywide public meetings to discuss old-age pensions. They organized an old-age pension club in every Indiana community with an “aerie.” They prepared old-age pension legislation for introduction in states such as Rhode Island and Ohio. Nonetheless, they were not as well organized as Union army veterans, and relatively few states passed old-age pension laws before 1929. Among those that did, passage was rarely smooth. For example, the Pennsylvania bill enacted in 1923, after having been defeated in 1921, was declared unconstitutional in 1924. Although the 1925 legislature adopted a joint resolution to amend the constitution, two successive legislatures had to approve the constitutional amendment, and the resolution failed in 1927. Groups opposed to the Pennsylvania old-age pension scheme included the National Civic Association, the Pennsylvania State Chamber of Commerce, and the Pennsylvania Manufacturers Association. The latter argued that an old-age pension plan would necessitate either a tax on manufacturers, an income tax, or both. While the opposition to old-age pensions gathered, the proponents of old-age pensions were divided by personal and organizational rivalries. At the end of the 1920s, Abraham Epstein, one of the leaders of the old-age pen-
sion movement, declared that "the leadership of the movement was silenced and interest waned" (quoted in Weaver 1982, 56).

The Great Depression revived the old-age pension movement and eroded opposition to old-age pensions among employers, trade unions, and the general population. Older workers were more likely to be unemployed than their younger counterparts. Long periods of unemployment wiped out people's savings. Many private and trade union pension plans were discontinued; others curtailed benefits. Unemployed children and relatives could no longer shoulder the burden of caring for the elderly. The middle-class elderly risked becoming dependent on outdoor relief or on the almshouse, an institution increasingly regarded as inhumane and more costly than old-age pensions. As public sympathy for the elderly increased, many politicians became convinced that there was broadly based support for old-age pensions. While governor of New York, Franklin Delano Roosevelt noted, "Judging by the number of letters I am receiving, there is a more widespread popular interest . . . than most of us people in public life had realized" (cited in Haber and Gratton 1994, 137). Whereas only eleven states and territories passed old-age pension bills between 1915 and 1929, after 1929 nineteen states and territories did. Compared to the bills passed before 1930, those passed after 1929 were more likely to be mandatory, to be administered by the state, and to use state funds, sometimes in combination with county funds.

The year 1933 marks the creation of popular, grassroots old-age pension movements. The elderly began to wield some of the political might of Union army veterans. In 1933 Upton Sinclair, the socialist author, proposed a glorified barter scheme as a solution to the depression, in which he also advocated giving pensions of $50.00 per month to all needy persons who had lived in California for at least three years. This proposal would have reduced the minimum pensionable age by ten years, raised the average monthly grant by nearly $30.00 to 58 percent of the average earnings of full-time employees, lowered the residence requirement by twelve years, and eliminated citizenship and character requirements. At the same time Dr. Townsend, a California physician, proposed another economic cure in which $200 per month, more than twice the earnings of full-time employees, would be given to every person in the United States sixty years of age or older, provided the person spent the money within a month of receiving it. The plan would be financed by a transactions tax. Townsend described one of the advantages of his plan as giving the elderly "time to enjoy life and gain the full advantage from recreation, political, and civil life, and have time to travel and get fresh viewpoints without keeping their noses to the grindstone" (quoted in Putnam 1970, 53).

Both plans achieved political popularity. Upton Sinclair won the Democratic nomination for governor, and the Democratic party platform was an abbreviated version of his program. However, Sinclair was soon deserted by influential Democrats, and he never pushed the old-age pension issue in the campaign on the grounds that Roosevelt had promised to recommend passage of a national
social insurance law at the next session of Congress. What is more, he labeled
the Townsend plan a complete delusion. In contrast, Governor Merriam, the
Republican candidate, summoned a special session of the legislature, in which
he secured passage of a resolution memorializing Congress to pass a national
old-age pension law and recommending that the Townsend plan be studied by
the federal government. He won the support of the Townsend press. Haight, a
progressive Republican and a candidate of the Commonwealth Party, said of
the Townsend plan, "The best way to see whether it's any good is to try it"
(quoted in Putnam 1970, 41). On election day, Merriam won 48 percent of the
vote, to Sinclair's 37 percent and Haight's 13 percent. The Sinclair movement
survived, but it shifted its focus to pensions and continued to nominate or en-
dorse candidates for office until 1947.

The Townsend movement had an impressive grassroots organization. Town-
send clubs were rapidly organized, in part because district organizers were
allowed to keep 20–40 percent of the twenty-five-cent enrolling fee of all new
members. The Townsend National Weekly had a circulation of 300,000. A 1936
Gallup poll found that 14 percent of California voters favored payments of
$200 per month to the aged, and George Gallup concluded that the Townsen-
dites probably did hold the balance of power between the Republican and the
Democratic parties in the state (Putnam 1970, 57). The Townsend organization
used its power mainly to induce the California legislature to send memorials
to Congress requesting passage of Townsend's legislation. They flooded anti-
Townsend legislators with letters and telegrams until a memorial resolution was
passed. Once it was passed, Townsendism ceased to be a decisive political factor
in California. A new Townsend party was launched in 1938 whose main pur-
pose was to elect California congressmen sympathetic to the plan, but in 1942
the party failed to receive the minimum vote necessary to remain on the ballot.

Despite pressures from the elderly and other citizens for the passage of more
generous old-age pension laws, there was little that state legislatures could do.
Because the depression was shrinking the tax base, they could not finance new
or expanded relief programs. In California, fifty-six hundred persons were
drawing state pensions in 1930, but by 1934 the number had risen to eighteen
thousand. Increased demand for pensions led to benefit cuts. Whereas the aver-
age monthly pension in June 1933 was $22.00, the average monthly pension
in June 1934 was $20.00. Other states cut benefits as well, refused to take on
new pensioners, and sometimes suspended pension payments until their fund-
ing situation improved.

The financial difficulties of the states led to demands for federal participa-
tion in state old-age pension programs, and assistance for the elderly poor be-
came a major election-year issue in 1934. But federal subsidies for old-age
assistance became available only with the Social Security Act of 1935. By
insisting that old-age assistance be part of a comprehensive Social Security
Insurance package, Roosevelt was able to use old-age assistance, as well as
unemployment insurance, as a bargaining chip to ensure the passage of Old
Age Insurance. States were promised that the federal government would pay 50 percent of any Old Age Assistance pension that was $30.00 per month or less. Witte, a member of the Committee on Economic Security, doubted "whether any part of the social security program other than the old-age assistance title would have been enacted into law but for the fact that the President throughout insisted that the entire program must be kept together. Had the measure been represented in separate bills, it is quite possible that the old-age assistance title might have become law much earlier" (quoted in Weaver 1982, 77). The Great Depression provided social reformers with a unique political opportunity to enact comprehensive social legislation.

Twelve months after the passage of the Social Security Act, thirty-six states and the District of Columbia had developed plans for old-age assistance programs and were receiving money. Even before the act was passed, the California legislature had passed a bill empowering the governor to accept federal funds if offered and liberalizing the conditions for the receipt of a pension. The primary beneficiaries of federal subsidization of old-age assistance programs were nonsouthern states, particularly those with large proportions of dependent aged. Only the nonsouthern states already had old-age pension programs, and expenditures were disproportionately concentrated within certain states. In 1933 California, Indiana, Massachusetts, New Jersey, New York, and Ohio accounted for 90 percent of all state expenditures on old-age pensions and housed 83 percent of all pensioners. Injections of federal money rapidly increased total expenditures. In California fewer than seventeen thousand elderly individuals were receiving pensions in June 1934, but by December 1938 more than 125,000 were. In 1934–35 total expenditures for old-age pensions in the state were less than $5 million, but by 1938–39 they were over $49 million. Much of the increase in expenditures was accounted for by larger individual pensions. The average pension rose from $20.00 per month in June to $32.43 per month in December 1938.

The infusion of federal funds did not fully resolve the recurrent financial crises that led to temporary suspensions in pension payments, particularly in those states that depended wholly or in part on county funding. For example, in California the average monthly pension rose from $31.46 to $33.40 between July and September 1937 but by May 1938 was down to $32.30. Old-age pensions therefore still remained a political issue. The California Ham and Eggs movement, which promised thirty one-dollar warrants to be issued every week to unemployed Californians age fifty or over, was able to collect enough votes to put an amendment on the 1938 ballot and gained electoral success when Democratic candidates who supported the amendment won the election for governor, lieutenant governor, and the U.S. Senate. Although Ham and Eggs ballot initiatives were twice voted down by the electorate, in 1940 California had the second highest average monthly pension in the nation and, thanks to the efforts of new lobbying groups, the highest average monthly pension in the nation in 1950.
Figures 8.2 and 8.3 illustrate the national pattern in 1940 and 1950. In 1940 states such as California, Massachusetts, and New York, which had the highest old-age pensions in 1933, were still among the states with the highest Old Age Assistance payments. The southern states, who had no old-age programs in 1933, uniformly had the lowest pensions of all. Although average wage earnings in the South were lower than the national average, lower earnings cannot explain the pattern, which persists even when payments are adjusted for state cost of living. Quadagno (1988, 125–51) argues that southern states kept average pensions low out of fear that old-age pensions might subsidize whole black families, thereby raising labor costs in cotton agriculture. In 1946, when the formula determining subsidization of Old Age Assistance was changed so that the federal government began to subsidize 80 percent of the first $25.00 per month and 50 percent of all amounts above $25.00 up to $30.00 per month, the southern states responded by increasing the average number of recipients rather than the average payment. Often payments that had formerly been given jointly to husbands and wives were now split between the two. For example, Georgia increased the fraction of all beneficiaries from 18 percent of the elderly population to 46 percent between 1940 and 1950, when the 1950 national average was only 22 percent. In contrast, northern states raised the average payment. As seen in figure 8.3, southern payments were still low in 1950. Louisiana, with its Populist politics, and Florida, with its unusually large elderly population, were the exceptions.

Fig. 8.2 Average yearly old-age assistance payment, 1940

*Note:* Average pension values are from Friedberg (1996).
The proportion of elderly within a state partially accounts for the pattern in state payments. Together, region of residence and the percentage of the population older than sixty-four account for 50 and 60 percent of the state variation in Old Age Assistance payments in 1940 and 1950, respectively. The average pension payment rose with the relative size of the elderly population, but increases were more rapid at low percentages. Had the elderly constituted 20 percent of a state's population, old-age payments probably would have fallen with further increases in the size of the elderly population, although this is impossible to determine with certainty because the elderly never represented more than 10 percent of a state's population.

The Old Age Assistance program was at its peak in 1950. Twenty-eight million Americans, or 22 percent of the elderly population, received Old Age Assistance benefits. By the end of 1950 the liberalization of Old Age and Survivors Insurance had already led to declines in the number of Old Age Assistance recipients. By 1960 only 14 percent of the elderly population were collecting Old Age Assistance benefits, and by 1988, when Old Age Assistance had become Supplemental Security Income, less than 7 percent were (Myers 1993, 819–22). Quadagno (1988, 146) argues that, faced with a changing economy, one no longer as heavily dependent on cotton agriculture, southern congressmen played a critical role in effecting transformation from Old Age Assistance to Old Age and Survivors Insurance. Liberalization of Old Age and Survivors Insurance enabled states to shift the rising burden of caring for the elderly onto
the federal government. Between 1940 and 1950 combined federal and state real expenditures on Old Age Assistance rose by 84 percent. Combined real expenditures rose by only 3 percent between 1950 and 1960 even though the average Old Age Assistance payment became more generous. Between 1950 and 1960 the total number of state pensioners fell from 22 to 14 percent of the elderly population, but the percentage of the elderly receiving Social Security Old Age Insurance payments rose from 17 to 62 percent.

8.3 Social Security

As enacted in 1935, Social Security Old Age Insurance was a simple program of limited scope that resembled private insurance. It covered all employees under age sixty-five in industry and commerce other than railroad workers, thus excluding agricultural workers, government workers, domestic workers, and the self-employed. Only about 43 percent of the labor force was covered. Monthly benefits were payable only to retired workers when they reached age sixty-five. If a worker died before reaching age sixty-five or attained age sixty-five without meeting the eligibility criteria, he received a "money-back guarantee" equal to the contributions he had paid into the system plus interest. The benefit formula was based on cumulative wage credits and slightly favored lower-income workers. An individual was to be ineligible to receive benefits in any month in which he received covered wages. The combined employer-employee tax rate was to rise in three-year steps of 1 percent each from 2 percent on the first $3,000 in earnings in 1937-39 to 6 percent in 1949 and thereafter. Benefits would not be paid until 1942. While taxes would be paid into the system, a large fund would accumulate, and by 1949 interest earnings and tax revenues would support the system indefinitely.

As enacted in 1935, Social Security Old Age Insurance sought to be actuarially fair across generations. According to the U.S. Committee on Economic Security (1935), Old Age Assistance would "meet the problem of millions of persons who are already superannuated or shortly will be so and are without sufficient income for a decent subsistence." Old Age Insurance was to be for younger workers and was necessary because without "a contributory system the cost of pensions, would, in the future, be overwhelming" (p. 25). Secretary of the Treasury Henry Morgenthau argued before the Committee on Ways and Means in 1935, "There are some who believe that we can meet this problem as we go by borrowing from the future to pay the costs. . . . They would place all confidence in the taxing power of the future to meet the needs as they arise. We do not share this view. We cannot safely expect future generations to continue to divert such large sums to the support of the aged unless we lighten the burden upon the future in other directions. . . . We desire to establish this system on such sound foundations that it can be continued indefinitely in the future" (quoted in Weaver 1982, 85).

The actuarial principles underlying Old Age Insurance were abandoned even
before benefits began to be paid. The 1939 amendments to the Social Security Act replaced the “money-back guarantee” with monthly benefits for survivors and dependents, modified the basis of the benefit formula in favor of survivors approaching retirement, and modified the benefit formula to favor lower-income workers and to favor workers with larger families while reducing benefits to single retirees, workers who died without an eligible survivor, and workers who would not eventually become eligible for benefits. Workers could now earn up to $15.00 per week without losing their benefits. Benefits were now to be paid in 1940, and the 1 percentage point increase in the payroll tax that was scheduled to take place in 1940 was repealed.

By abandoning actuarial principles the Social Security Board was able to ensure the survival of its program. Old Age Insurance faced several challenges in the early years of its existence. It was a major political issue in the 1936 election, and the Republican platform called for replacing Old Age Insurance with a greatly expanded old-age assistance program based on need and financed by both federal and state governments using a broadly based tax. The Townsend movement denounced the program, and Senator Long’s scheme to provide pensions for the poor elderly through taxes of 100 percent on large incomes, inheritances, and property was gaining attention. The unspent surplus soon became a liability for Social Security supporters. It was created with money taken from workers during a depression and would provide the government with an unprecedented degree of control over investment in the private economy. Because it provided the government with an easy market for its debt, it would encourage other types of government spending. Detractors also argued that surpluses would encourage program liberalization and thus defeat all efforts at planning for the future. According to Senator Vandenburg (a Michigan Republican), “Such a treasure—all in one place and conveniently eligible for Congressional raids throughout the years—is an utterly naive conception” (quoted Berkowitz 1991, 41). A pay-as-you-go system would have none of these problems.

Subsequent liberalization of eligibility requirements and benefit increases without matching payroll tax increases effectively turned Old Age Insurance into a pay-as-you-go system and won it widespread political support. The history of the subsequent amendments and the politics surrounding them is relatively well known, and accounts can be found in Achenbaum (1986), Berkowitz (1991), Myers (1993), and Weaver (1982), among others. Therefore, I summarize the changes only briefly, highlighting the salient features.

Between 1950 and 1960 Social Security expanded rapidly, particularly during election years. Figure 8.4 illustrates some of the changes. The average real benefit paid to retired workers rose by 46 percent, after having fallen in the previous decade. Coverage increased sharply between 1949 and 1954, from 55 percent of the labor force to 71 percent. By 1960 almost 80 percent of the labor force was covered. This increase in program coverage provided revenue that translated to benefit increases for current beneficiaries. Revenue was also pro-
Fig. 8.4  Total number of OASDI beneficiaries, average monthly benefits for retired men, percentage of labor force covered, OASDHI as percentage all federal expenditures, 1937–93

vided by increases in the payroll tax. Combined employee-employer taxes rose from 3 to 6 percent, no more than originally planned, but now the taxes were to finance much more generous benefits. Taxes on the self-employed rose from zero in 1950, when they were not covered, to 4.5 percent in 1960. The program that in 1950 had represented less than 2 percent of total federal expenditures represented 11 percent in 1960.

The expansion of Social Security between 1950 and 1960 arose in part from the lobbying efforts of trade unions and of such groups as Americans for Democratic Action and in part from congressmen's desire to ease welfare burdens in their home states. In House hearings on the extension of Social Security to farmworkers, the public welfare commissioner of Alabama testified, "We have larger and larger numbers of needy old people and correspondingly smaller numbers within the population who can earn and pay taxes. Not only do we have an increasing number of old people, but we are a state with an unusually high proportion of children. . . . Our rate of application for aid also continues to be as high, and there is less and less demand for unskilled and older workers" (Quadagno 1988, 147). California and New York, two politically powerful states, and Rhode Island and New Jersey established state-run temporary disability programs in the 1940s. The real costs of these programs grew by close to 240 percent from 1950 until 1956, when federal disability insurance was enacted (estimated from Merriam and Skolnick 1968, 207–9, tables 2-1 and 2-2).

The expansion of Social Security continued until 1973. In 1961 age sixty-two was adopted as an early retirement age, with reduced benefits. As seen in figure 8.4, the average real benefit for retired men rose by almost 50 percent between 1960 and 1973, with half the increase occurring between 1970 and 1973. A retired worker and his wife who had paid less than $30.00 per month in taxes before 1970 might in 1973 be collecting Social Security benefits of $800 per month. Many of the amendments that increased Social Security benefits also increased state aid for Old Age Assistance, which in 1974 became incorporated into Supplemental Security Income. Medicare, a program for those older than sixty-four consisting of a hospital insurance component financed by compulsory taxes and a voluntary supplementary medical insurance program subsidized out of general revenues, was enacted in 1965. The net result was that Old Age and Survivors, Disability, and Hospital Insurance combined almost doubled its share of all federal expenditures from 11 percent in 1960 to 21 percent in 1973.

Prior to the enactment of Medicare, the health insurance issue dominated all others in the early 1960s. Of course, the health insurance debates have an even longer history. In the 1910s there were campaigns at the state level for compulsory health insurance for wage earners. During the New Deal, and during the Truman years, both national and state health insurance plans were defeated, but less comprehensive forms of assistance were enacted. In the 1940s some state legislatures began to make appropriations for pensioners in county medi-
cal institutions and to cover private medical care of many kinds. The 1950 amendments to the Social Security Act permitted welfare departments to use federal matching funds for cash assistance to negotiate for care with pre-payment and insurance plans. A 1955 California report declared, "The medical needs of Old-Age Security recipients and the manner of meeting them constitute a problem which is increasingly predominant" (quoted in Putnam 1970, 134). In real terms state and local expenditures on vendor medical payments rose by almost 130 percent between 1950 and 1956. In 1956 additional federal funds became available for medical vendor payments on a 50 percent federal matching basis up to a specific per capita limit. But these did not begin to pay for the cost of medical payments in states with more generous programs. Real state expenditures on vendor medical payments rose by an additional 22 percent between 1956 and 1960 (estimated from Merriam and Skolnick 1968, 207–9, tables 2-1 and 2-2). In 1960 further relief became available to the states when the Kerr-Mills program specified that the federal government would pay between 50 and 80 percent (with higher percentages going to poorer states) of the costs of welfare medicine programs aimed at the aged poor. State and local expenditures on medical assistance for the aged rose by more than 1,000 percent between 1960 and 1965 (estimated from Merriam and Skolnick 1968, 207–9, tables 2-1 and 2-2).

State governments were not the only ones lobbying for an expanded federal role in providing the aged with medical care. Unlike previous legislative battles over amendments to the Social Security Act, the battle over Medicare turned the elderly into active campaigners. When a Senate subcommittee on aging held hearings around the country in 1959, one staff member later recalled, "The old folks lined up by the dozen everyplace we went... And they didn't talk much about housing or recreational centers or part-time work. They talked about medical care" (cited in Starr 1982, 368). Within two years congressmen were reporting more mail on the subject than on any other pending legislation (Starr 1982, 368).

By the end of the 1960s, the elderly had become a well-organized group. The director of a senior center in New York City (cited in Pratt 1976, 72) reported, "Ten years ago [the mid-1950s] we couldn't get politicians from the major parties to come talk to our people. They weren't interested.... But in 1960, things began to change. They began to make an effort to come when invited. And today [1966] we frequently have to throw them out when they come—as they frequently do—uninvited, to campaign and distribute literature. Politicians now realize that the elderly represent a large number of votes, that they do vote, and that they have needs and desires." Senior citizen centers, like the local chapters of the Union army veterans' organization, thus served to organize the elderly in a voting bloc. Many senior citizen groups gained access to key policy makers. One staff member of the American Association of Retired Persons (AARP) interviewed by Pratt (1976, 147–48) reported, "During President's Nixon's first term in office [1969–73] the White House had
a staff man, Evans was his name, assigned to dealing with old-age problems. He kept us informally apprised of White House thinking, and they wouldn't make a move on a major old-age issue without first consulting AARP.”

The final large legislated increase in the Social Security Act came in 1972, when Congress raised benefits across the board by 20 percent and adopted automatic cost-of-living adjustments for Social Security benefits. This increase was enacted when both parties were trying to reduce national spending and when nationally prominent actuaries, such as Robert Myers, former chief actuary of the Social Security system, warned that the proposed changes would burden future generations. But a large trust fund surplus combined with the political pressure exerted by senior citizen groups led to large benefit increases. According to a staff member of the House Ways and Means Committee interviewed by Pratt (1976, 160), “The trust fund allowed a large increase and there's no doubt about that. . . . But the increase which was finally proposed would not have been as high if the NCSC [National Council of Senior Citizens] and other senior-citizen groups hadn't pushed for it on the Hill and the [White House] conference [on aging].” By adopting automatic cost-of-living adjustments, congressmen may have hoped to lessen the constant pressure from senior citizen groups to increase benefits.

Liberalization of Social Security from 1960 to 1973 was financed both out of the trust fund and by increasing tax rates and the ceiling on taxable earnings. The combined employer-employee tax rate rose from 6 to 9.7 percent, with payments toward Hospital Insurance bringing the total tax to 11.7 percent (see fig. 8.5). After 1967 increasing the ceiling on taxable earnings became the most common way of financing program expansion. The ceiling on taxable earnings had remained $3,000 from 1935 to 1951 and in real terms exceeded the 1938 level only in 1968. But from 1966 to 1976 the ceiling on taxable earnings increased by 34 percent in real terms (see fig. 8.5). Weaver (1982, 160) argues that, because by 1965 compulsory coverage had been extended to the higher-paid, self-employed professionals, increases in the ceiling on taxable earnings after 1965 financed benefit increases for current beneficiaries without burdening the average taxpayer and the near elderly.

Although Social Security did not unfold as originally planned by the Committee on Economic Security, current coverage levels and benefits would have come as no surprise to the original planners. Miron and Weil (1998) estimate that, under the 1939 amendments to the Social Security Act, a same-age couple retiring in 1990 in which the husband had annual wages of $1,000 per year and a continuous work history would have 60 percent of earnings replaced by Social Security benefits and would have earned a 4 percent rate of return. In 1990 the actual replacement rate for such a couple was 61 percent and their rate of return 6 percent. Of course, if the value of Medicare benefits were included, the replacement rate would be much higher. But the members of the Committee on Economic Security had hoped that a system of national health insurance would be enacted at a later date. What would have come as a surprise to the Commit-
Fig. 8.5  Tax ceiling on earnings (in 1967 dollars) and combined employer-employee tax rate, 1937–93

tee on Economic Security is the current level of the combined employer-employee tax rate. Had there been no changes to the Social Security system after the 1939 amendments, the tax rate in 1990 would have been 6 percent. Instead, it was more than 11 percent, largely because until 1960 the tax rate was much lower than projected by the committee. Increases in benefits were financed, not by increasing the tax rate, but by depleting the trust fund.

The rapid expansion of Social Security between 1960 and 1973 produced the first financial crisis facing Social Security. These problems were compounded by the use of a benefit formula that overadjusted for inflation. This indexation problem was fixed in 1977, cutting the Social Security wealth of younger relative to older cohorts by 13 percent. But this was not enough, and by late 1982 it was unclear whether the Old Age and Survivors Insurance program would be able to meet benefit payments. This short-range financing problem was resolved by implementing scheduled tax increases earlier than originally planned, by including more fringe benefits (such as deferred compensation) as covered wages, by taxing the benefits of upper-income Social Security recipients with taxes going directly to the Social Security trust fund, and by modifying the cost-of-living adjustment formula. At the same time, the age at which full benefits are received was to increase incrementally from sixty-five to sixty-seven between 2005 and 2025. This solution, however, maintains the system's fiscal solvency only until at most 2029, at which point the large numbers of the retired elderly relative to workers will have consumed the trust fund. Financing the Social Security retirement and disability system thereafter with incoming tax revenues alone would require taxes greater than 17 percent of taxable payroll. An additional 7 percent of taxable payroll would be needed to finance Hospital Insurance. Expenditures on Old Age and Survivors Disability Insurance and Hospital Insurance combined would be greater than 10 percent of GDP. Further reforms are therefore needed to maintain the system's solvency.

8.4 Fixing Social Security

The 1910 Massachusetts Commission on Old Age Pensions predicted that, if old-age pensions were passed, "There would be constant political pressure to increase the amount of pensions, to lower the age limit, to make the administration laxer" (p. 238). The history of the Union army pension program, of state old-age pension programs, and of Social Security old-age insurance proves that the commission's expectation was realistic. All programs began modestly, covering only a limited group of individuals, and the Social Security old-age insurance program was even based on sound actuarial principles. All became enormous undertakings far removed from actuarial principles. Although some of their growth was spurred by well-organized pressure groups, such tactics were effective only when revenue sources were available. Had the federal government not been running a surplus, it is unlikely that the Union army pension
program would have been so generous. States showed no inclination to develop generous programs until they were able to obtain federal financing for their activities. The existence of a large trust fund and the possibility of financing current benefits by increasing revenue through increases in program coverage, tax increases, and increases in the tax ceiling permitted the federal government to finance an extremely generous Social Security program.

The growth of Social Security crowded out other forms of social spending. Politicians, responsive to the pressure of both interest groups and voting taxpayers, need to compare the costs and benefits in votes or campaign donations of increasing the total tax burden with raising new tax revenue to redistribute to a given group. Interest groups are therefore competing for public-sector resources. Poterba (1996) finds that an increasing proportion of the elderly within a state jurisdiction is associated with a reduction in per child educational spending. Lindert (1994) concludes from cross-country evidence that a similar pattern held in the past as well.

As the Social Security trust fund becomes depleted, it is unlikely that in the future the program will be as generous. Although recent polls suggest that individuals favor raising taxes to maintain benefits, as the proportion of the elderly to taxpayers increases, although they may still be willing to finance a system that protects the elderly against hardships, taxpayers may be less willing to finance a system that provides for a long and, for many, a recreation-filled retirement. Social reformers at the beginning of the century believed that old-age pensions would provide for "a few years before death when they [wage earners] will no longer be able to earn wages" (Ohio Health and Old Age Insurance Commission 1919, 201). In a 1938 radio address President Roosevelt stated, "The [Social Security] Act does not offer anyone, either individually or collectively, an easy life—nor was it ever intended so to do. None of the sums of money paid out to individuals in assistance or insurance will spell anything approaching abundance. But they will furnish that minimum necessary to keep a foothold; and that is the kind of protection Americans want" (National Conference on Social Welfare 1985, 148).

Social Security alone has never provided individuals with an abundant retirement. But it has provided individuals with an income sufficient to meet modest needs. As the population grew richer and healthier, Social Security, when combined with pensions and other savings, began to provide for both a lengthy and a comfortable retirement. The living standards of the elderly have improved substantially. Whereas in 1960 those older than sixty-four were twice as likely to be living below the poverty line as the rest of the adult population, today they are no more likely (Hurd 1994). When Social Security was first established, a twenty-year-old could expect to spend 12 percent of his remaining life in retirement. Because of unexpected increases in life expectancy, he spent 22 percent of his life in retirement, part of it in recreational activities. If improvements in life expectancy continue, a twenty-year-old today will spend one-third of his remaining life in retirement (Lee 1996). Even with no
changes in the basic structure of Social Security, some combination of tax increases and benefits is therefore likely, but even more fundamental reforms have been proposed, including the complete privatization of Social Security.

The idea that Social Security should be privatized, or, more accurately, transformed into a system of individual mandatory savings accounts, has recently attracted the attention of economists and has been implemented in Chile. A scheme similar to that implemented in Chile would consist of mandatory savings plans supplemented by minimum pension guarantees for those with sufficient years of coverage. During the transition period in Chile, savings flowed into the new individual retirement accounts rather than into the old pay-as-you-go social insurance system. Payments to retirees were met out of government revenue. Active workers received explicit government debt on account of past contributions.

One advantage of a system of individual mandatory savings accounts would be that this new pension system would be insulated from political action to increase benefits without direct financing. Although awareness of long-term trust fund problems is currently very high, the trust fund will be generating large, temporary surpluses on the order of over $1 trillion between 2005 and 2020 (U.S. Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds 1996) at the same time that the Hospital Insurance trust fund may be facing continued difficulties. It may, therefore, be tempting to finance Medicare through the Old Age and Survivors Disability Insurance trust fund. Other temptations may arise in the more distant future as well.

Political pressure would not disappear completely under a system of mandatory savings accounts. Because the government will have the decisive say in determining when and how accumulations can be converted into retirement annuities, voters might seek to reconfigure the system to meet their immediate needs. Because government restrictions on the portfolio holdings of retirement accounts are likely, there will be some political risk associated with leaving the government to pick and choose among different sectors and firms in the capital market.

A disadvantage of replacing the current system with individual savings accounts would be the higher administrative costs resulting from the costs of soliciting and managing very small individual retirement accounts. An additional disadvantage would be the poorer provision of insurance over varying lengths of the working life (see Diamond 1996). Unless an individual received an annuity based on the value of his contributions, he might run out of money if he lived longer than expected. Minimum pension guarantees would alleviate some of these problems, as would better estimates of life expectancy.

The largest political hurdle to moving toward a system of individual savings accounts is financing the transition. Will one generation bear the brunt of the transition cost? The Chilean transition was financed out of a government surplus, and the country's rapid growth rates have produced a high return on indi-
individual retirement accounts (Diamond 1996). Kotlikoff (1996) argues that, be-
cause Social Security affects work incentives, whether all generations in the
United States can gain from the privatization of Social Security depends on
the initial tax structure, the linkage between Social Security benefits and taxes,
and the type of tax used to finance the transition. Assuming that older genera-
tions are fully compensated, then, under favorable circumstances, future gener-
ations benefit as well, but, under unfavorable ones, they suffer a welfare de-
cline. Feldstein (1996) argues that much of the gain from privatization would
result from an increase in the rate of return. The transition would be financed
by a bond issue that, while politically difficult to implement, would leave all
generations better off.

An alternative scenario to the immediate adoption of individual savings ac-
counts is a gradual one. As both retirement and health benefits are cut, individ-
uals who desire a long retirement will need either to save more or to work
longer. But, if they wish to save more, they will do so only if they are certain
that the state will not provide for a lengthy retirement once they reach old age.
Bernheim (1995) finds that individuals who expect to receive no Social Secu-
rity benefits save substantially more than individuals who expect to receive
reduced benefits, who in turn save more than those who expect to receive the
same benefits as current retirees. He also finds that individuals' decisions of
how much to save are determined not by quantitative perceptions of financial
need but by vague and unquantified senses of security and urgency. The retire-
ment of well-to-do individuals is already privatized. For these individuals, pen-
sion income, not Social Security payments, constitutes their primary source of
retirement income. The immediate adoption of a system of individual accounts
would serve a psychological function by breaking the link between the state
and retirement. It would make individuals aware that the tax revenue to finance
a lengthy retirement will not be forthcoming and that a lengthy retirement will
be possible only if they provide for it.

8.5 Summary

In this chapter I have examined three different programs aimed at the el-
derly: the Union army pension program, the state old-age pension programs
that later became Old Age Assistance, and Old Age and Survivors Insurance.
All experienced rapid growth partially because well-organized lobby groups
were able to tap new sources of revenue and thus redistribute program costs.
The South, the young, and recent immigrants bore the costs of a pension pro-
gram benefiting Union army veterans. Property owners bore the costs of state
old-age pension programs, and some states were able to redistribute the costs
of Old Age Assistance to others. The costs of Old Age and Survivors Insurance
and of Hospital Insurance have been borne by cohorts who have paid sizable
Social Security taxes all their lives. The tax revenue necessary to finance a
lengthy retirement for the growing numbers of elderly is unlikely to be forth-
coming. In the future, the provision for a lengthy retirement will lie with individuals.

Appendix 8A

Table 8A.1 Total Number of Union Army Pensioners, Costs of Pension Program, and Pension Program as Percentage of All Federal Expenditures, 1865–1920

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Pensioners</th>
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<th>Costs as % of All Federal Expenditures</th>
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<tr>
<td></td>
<td></td>
<td>Current $</td>
<td>1967 $</td>
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Table 8A.1
(continued)

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<th>Year</th>
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<th>Costs as % of All Federal Expenditures</th>
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<td>820,200</td>
<td>176,714,900</td>
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<td>785,239</td>
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<td>402,135,100</td>
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<tr>
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<td>431,645,800</td>
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<tr>
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Table 8A.2
Total Number of OASDI Beneficiaries, Average Monthly Benefits for Retired Men, Percentage of Labor Force Covered by OASDI, OASDHI as Percentage of All Federal Expenditures, 1937-93

<table>
<thead>
<tr>
<th>Year</th>
<th>Number Beneficiaries in 1,000s</th>
<th>Average Monthly Benefit, Retired Men</th>
<th>% Labor Force Covered</th>
<th>OASDHI as % All Federal Expenditures</th>
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<td>All</td>
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<td>1967 $</td>
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<td>1,819</td>
<td>44.44</td>
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(continued)
<table>
<thead>
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<th>Year</th>
<th>All</th>
<th>Retired Men</th>
<th>Number Beneficiaries in 1,000s</th>
<th>Average Monthly Benefit, Retired Men</th>
<th>% Labor Force Covered</th>
<th>OASDHI as % All Federal Expenditures</th>
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</tbody>
</table>

Notes

1. The total number of veterans on the rolls in 1910 was 562,615, of which 80 percent (450,092) were older than sixty-four. Sixty-three percent of the wives of veterans were age sixty-five or older, suggesting that 354,447 women older than sixty-four benefited from the Union army program. In addition, if 63 percent of widows were older than sixty-four, an additional 183,590 women older than sixty-four benefited. All mothers and parents can be assumed to be sixty-five years of age or older. Therefore, the total number of elderly benefiting from the pension program is 990,888, of an elderly population of 3,949,524. (Estimated from the 1910 census and the U.S. Bureau of Pensions 1910 Report of the Commissioner of Pensions.)

2. There was no mention of interest payments in the act.

3. For details, see Skocpol (1992), among others.

4. For more detailed discussions, see Achenbaum (1983), Lubove (1968), Putnam (1970), Quadagno (1988), and Weaver (1982).

5. Because Kotlikoff does not account for the value of Social Security insurance in his calculations, the benefits of moving to a privatized system may be lower than estimated.

6. In theory, these cohorts may have increased bequests or transfers to their children to compensate them for the high Social Security taxes that they were paying, but we have no empirical evidence that this occurred.