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Chapter 8
The Development of the U.S. Army Pension Plan

Although both the army and the navy pension plans were initially established by the Continental Congress during the Revolution, neither plan was financially viable in any long-run sense until Alexander Hamilton's reforms in the 1790s. Even after these reforms, there remained an important difference in the manner in which the two pension systems were financed. The army pensions were organized on a pay-as-you-go basis from the general revenues of the Continental Congress and later the U.S. Treasury. In contrast, both the original and reformed navy pension plans were funded by the monies resulting from the liquidation of prizes and contraband. This difference in pension funding between the services was apparent in the broader compensation of personnel in the two services both before and after the Revolution. Until the twentieth century, navy personnel were compensated with a salary and "rations" (nominally payments in kind), as well as the possibility of shares of funds derived from the liquidation the prizes captured by their ship. In contrast, army personnel were primarily compensated by wages. This difference and the economic history that explains it, provides an interesting background for the development of public and private pensions in the United States and is consistent with modern economic theories of human resource management. This chapter reviews the history of U.S. army pensions and the ultimate merger of the army and navy plans at the end of the nineteenth century.

Revolutionary War Pensions

The act of August 1776, in which the Continental Congress reorganized the Revolutionary navy pensions,[1] also created a pension plan for the personnel of the Continental army. The initial objective of the Revolutionary army pension plan was the same as that of the navy plan explained above. The aim was to provide a disability plan for soldiers injured as a result of their military service. According to the act, the actual amount of the disability annuity varied with the degree of disability but was not to exceed half-pay for life or during the period of disability. Ultimately, these disability pensions were revised to meet a second objective, which was to provide retirement pensions for officers of the Continental army. These retirement pensions were intended to provide an incentive for the officers to remain on duty until the end of the Revolution. In contrast, the Continental Congress provided no retirement pensions for naval personnel and only one state, Pennsylvania, offered such pensions to its own naval officers.

The Pennsylvania assembly adopted a plan for its naval officers much like that offered ultimately by the Continental Congress to officers of the Continental Army. All officers of the Pennsylvania navy who were commissioned in March 1779 and still on duty in March 1780 were promised half-pay for life should they remain in the service until the cessation of hostilities. Pennsylvania also maintained a disability plan, and it was explicitly funded with one-third of the prize monies earned by its naval forces. Curiously, this funding scheme appears to have worked much like the current Social Security system and the post-Civil War U.S. navy pension fund. While the prize monies were nominally credited to the fund, in practice they simply went into the state's general fund and liabilities were paid from general funds without any reference to the prize fund.

It is generally thought that a retirement plan was not provided for naval officers because their share of prizes they captured provided them with remuneration of a form and extent not readily available to army officers. Of course, as noted in Chapter 3, throughout history army officers enjoyed the fruits of "prizes" captured by their troops. However, in most cases, these were not officially sanctioned by national governments in the same manner as prizes taken at sea. Hence, to formally supplement the lifetime earnings of army officers and perhaps at the time more importantly to keep them in the field until independence from the British had been secured, the Continental Congress sought to complement wages and the disability plan with a retirement plan. While Congress eventually achieved this objective for army personnel, it was only after some serious renegotiating of the plan's original characteristics that a satisfactory compromise was obtained. Ultimately, these pension promises were honored only after the federal government was restructured by the Constitution. However, before that settlement, army pensions became a major political issue, particularly during the late stages of the Revolution.

The role of pensions as a form of deferred compensation became all too evident to the civilian leaders of the Revolution when in 1780 a clique of influential officers began demanding some form of pension for the post-Revolution period. This issue became known as the "Newburgh Conspiracy" after the town in New York where army leaders gathered to further press their demands in 1783. These demands initially resulted from three factors.[2] First, by almost any reasonable standard, the material condition of the Continental army had been abysmal. Low wages, infrequent payments, and in some cases long arrearages had plagued army administration since the early days of the Revolution. As a result, dedicated officers of any means had financed the activities of their commands from their personal estates. Viewed in this light, the officers were simply requesting payment for services rendered. Recognizing that the cash-flow crisis faced by Congress rendered immediate redress impossible, they were willing to accept their remuneration in the form of future payments.

Second, the most disgruntled officers were field commanders who recognized that, whatever specific form the future republic took, there was probably little hope of any role for a large, well-compensated professional military caste. Thus, their expectation was that they would be provided with a postwar income as a token of the republic's gratitude. Compounding both of these grievances was the fact that administrative officers had continued to receive regular pay while field officers and their men had not. In addition, the officers had a perception that their pre-war colleagues who had not served in the army had prospered financially during the war or would do so afterward. Finally, nationalists in the Congress were eager to exploit the situation by recruiting the officers to the nationalist cause while simultaneously wielding them as a threat against anti-nationalist opponents. The move toward nationalism was a natural one, since a strong national government could logically be expected to be more likely to have the financial clout to honor the officers' pecuniary claim. An unmollified officer corps was the greatest threat to the hard-won liberty from the British. On both fronts, the nationalists were successful.

In order to keep the troops in the field during the crucial months leading up to the Battle of Yorktown (1781), Congress authorized the payment of a life annuity, equal to one-half base pay, to all officers remaining in the service for the duration of the Revolution. It was not long before Congress realized that both its current cash-flow situation and the present value of its future tax revenues were insufficient to meet this promise. While the public finances limped along between the victory at Yorktown and the Treaty of Paris, the rebellious officers, led by Generals McDougall and Gates, could not be put off indefinitely. In the spring of 1783, Congress converted the life annuities to a fixed-term payment equal to full pay for five years. Even these more limited obligations were not fully paid to qualifying veterans and only the direct intervention of George Washington prevented a coup (Ferguson 1961; Middlekauf 1982). Shortly after, the Treaty of Paris was signed in September of 1783, the Continental Army was furloughed. It took another eight years before the Constitution and Alexander Hamilton's financial reforms placed the new federal government in a position to honor its pension obligations.

Complicating the history of these early federal military pensions is the fact that they were inextricably tied to those promised by individual colonies and later states. Between the end of the Revolution and the first Washington administration, there was a great deal of disagreement between the states and the federal government concerning the settlement of liabilities and debts accumulated during the war. In addition to the problems caused by the state navies and militia,[3] the settlement of state accounts was complicated by the fact that in 1780–81 the Continental Congress abandoned the system of using colonial militias to supply the army with troops; rather, enlistments were formalized in the Continental army for three years or the duration of the war.

At the time of the aforementioned conversion of officers' pensions from life annuities to fixed-term payments, officers who had served in the state ranks were given the option of receiving (or at least applying for) their pensions from their state as opposed to the federal government. However, the financial condition of most states and other administrative problems concerning such applications caused the vast majority of officers to file for the federal pension. Eventually, enlisted personnel also were promised pensions and the federal government settled most of these claims. Most of these pension claims were commuted in exchange for federal or state debt, and this debt was ultimately consolidated in the new federal debt issues of the 1790s. It should be noted that much of the original debt, including that held by the officers of the Revolution, was liquidated in secondary markets, sometimes at a steep discount. More than a few former officers were embittered by the republic's handling of their pensions. Although most officers of the state militias sought their pensions from the national government, some states, including North Carolina, South Carolina, and Georgia honored pensions for at least some of those who served in their militias during the Revolution.

U.S. Army Pensions Before the Civil War

Unlike the navy pension plan, the army pension system was funded by annual appropriations from general revenues. Thus, decisions to expand coverage or change benefits were not related to the status of a pension fund itself, but instead were made in response to changes in political and economic conditions that influenced Congress. Both disability and retirement pensions for U.S. army personnel dated from the Revolution and the early republic. However, these pensions were solely for the veterans of the Revolution. Thus at the time the Constitution was ratified, there was no U.S. army pension plan. Subsequently, during the early years of the republic, several army pension plans were established, discarded, and revised. In fact, there was both a "regular" army plan and a specific plan for veterans of each of the country's wars, declared or otherwise. There were many, often minor, revisions to each of these plans. A comprehensive review of all of the revisions to the army pension plan is beyond the scope of this volume; however, the remainder of this chapter contains a summary of the primary provisions of each of the original versions of these army pension plans and any key revisions.[4]

Originally, the Continental Congress gave eligible officers of the Revolution the choice of accepting half-pay for life, a cash settlement worth five years' full pay, or 6-percent notes worth five years' pay. In fact, Congress never had the funds to pay either the principal or the interest on these claims fully. Robert Morris, serving as de facto finance minister of the new republic, attempted to organize the army accounts as he had the navy accounts. In response, the national government issued interest-bearing "commutation certificates" in lieu of either cash or notes. Ultimately, $11 million worth of such certificates were issued to officers and men of the Continental army and the militias of the various states. This figure represented roughly 40 percent of the entire debt of the country under the Articles of Confederation. It should be remembered that the states themselves were attempting to honor another $3 to $5 million in pension debt to their soldiers (Ferguson 1961, 180). Estimates of the average amounts received suggest the following benefit scale: $10,000 for generals; $1,500 to $4,400 for other officers depending on rank, and $200 to $300 for common soldiers. It ultimately took the financial reforms of Alexander Hamilton to finally put the funding of the Revolutionary War pensions on a sound footing at least by the standards of the day.

In 1790, Congress, which now convened under the auspices of the Constitution, reorganized pension finances, issuing new interest-bearing certificates to replace the old claims. While this act resolved the long-standing conflict between former officers and the federal government, it did nothing for veterans, mostly enlisted personnel who had sold their certificates at a discount years before. In 1818, however, Congress partially addressed this situation by granting a pension to any veteran of the Revolution who had served at least nine months and who could prove indigence. Revolutionary War pensions were further broadened in 1828 when any soldier, regardless of rank, who had served to the end of the Revolution was granted full pay for life retroactive to 1826. The law was amended in 1832 to include all veterans of the Revolution regardless of when they served. Hence 49 years after the signing of the treaty that ended the war, every surviving veteran of the Revolutionary War received a pension equal to 100 percent of his base pay at the end of the war.

The first pension plan for "regular" military personnel was passed in April 1790 after the ratification of the U.S. Constitution. It specified that disabled commissioned officers were to receive a benefit of not more than one-half their base pay and enlisted personnel were to receive not more than five dollars a month. Only the veterans of the Revolution were to receive a pension that was paid in the form of deferred compensation—

that is, a retirement plan, using today's term. The initial regular army plan remained in place with only minor revisions until 1885. Initially, like the original Revolutionary War plan and the subsequent navy plan, the regular army plan was a disability plan. Until the Civil War there was no formal retirement plan for army personnel; however, soldiers who were discharged after 1800 were given three months' pay as severance. Officers were initially offered the same severance package as enlisted personnel, but in 1802, officers began receiving one month's pay for each year of service over three years. Hence an officer with 12 years of service earning, say, $40 a month could, theoretically, convert his severance into an annuity, which at 6 percent would pay $2.40 a month or less than $30 a year. This was substantially less than a prime farmhand could expect to earn and a pittance compared to that of, say, a British officer.

Prior to the onset of the War of 1812, Congress supplemented these disability and severance packages with a type of retirement pension. Any soldier who enlisted for five years and who was honorably discharged would receive, in addition to his three months' severance, 160 acres of land from the so-called military reserve. If he was killed in action or died in the service, his heir(s) would receive the same benefit. The reservation price of public land at that time was $2.00 per acre ($1.64 for cash). So, the severance package would have been worth roughly $350, which, annuitized at 6 percent, would have yielded less than $2.00 a month in perpetuity. This was an ungenerous settlement by almost any standard. Of course in a nation of small farmers, 160 acres might have represented a good start for a young cash-poor farmhand just out of the army. With the onset of the war, new recruits were granted the same benefits as regular army veterans. In 1816, the widows' and orphans' benefit, in the form of a cash annuity of the type that had been granted to survivors of navy personnel in 1813, was provided for survivors of soldiers who were killed or died in the service.

The disability, severance, and survivors' benefits from the War of 1812 were paid for the next 60 years. As noted above, in 1832 the Revolutionary War pensions for army veterans were converted to life annuities with no disability or extenuating circumstances required. Indigency had been the most prevalent of the extenuating circumstances required to receive a pension before 1832. Similarly, poverty could still secure a pension for veterans of the War of 1812 until 1871, when all surviving veterans of the war who had served six months or more were granted life annuities regardless of need. Those serving two or more years received their full base pay up to that of a captain while those serving from six months to two years had their pay reduced proportionally until a veteran of at least six months received 25 percent of base pay for life. Table 8.1 contains the history of the pension payments to veterans of the War of 1812 and their widows after the conversion of the disability pension to an old-age pension in 1871.

TABLE 8.1. Pensioners of the War of 1812, Total Annual Pension Outlays, and Mean Outlay per Pensioner, 1871–1916

	Pensioners			*Expenditures*			*Mean annual outlay*		
Year	*Survivors*	*Widows*	*Total*	*Survivors*	*Widows*	*Total*	*Survivors*	*Widows*	*Total*
1871	—	—	727	$2,555.05	$511.00	$3,066.05	—	—	—
1872	17,100	3,027	20,127	1,977,514.84	335,993.63	2,313,508.47	$115.64	$111.00	$114.95
1873	18,266	5,053	23,319	2,078,606.98	689,303.59	2,767,910.57	113.80	136.41	118.70
1874	17,620	5,312	22,932	1,588,832.95	616,016.40	2,204,849.35	90.17	115.97	96.15
1875	15,875	5,163	21,038	1,355,599.86	533,000.21	1,888,600.07	85.39	103.23	89.77
1876	14,206	4,987	19,193	1,089,037.18	445,772.95	1,534,810.13	76.66	89.39	79.97
1877	12,802	4,609	17,411	934,657.82	361,548.91	1,296,206.73	73.01	78.44	74.45
1878	10,407	3,725	14,132	768,918.47	294,572.05	1,063,490.52	73.88	79.08	75.25
1879	11,621	21,194	32,815	1,014,525.66	2,192,699.54	3,207,225.20	87.30	103.46	97.74
1880	10,138	24,750	34,888	790,710.39	2,658,058.14	3,448,768.53	77.99	107.40	98.85
1881	8,898	26,029	34,927	621,612.80	2,381,800.95	3,003,413.75	69.86	91.51	85.99
1882	7,134	24,661	31,795	478,274.85	2,024,207.63	2,502,482.48	67.04	82.08	78.71
1883	4,931	21,336	26,267	357,334.81	1,882,542.41	2,239,877.22	72.47	88.23	85.27
1884	3,898	19,512	23,410	278,888.85	1,686,302.09	1,965,190.94	71.55	86.42	83.95
1885	2,945	17,212	20,157	207,782.80	1,518,202.39	1,725,985.19	70.55	88.21	85.63
1886	1,539	13,397	14,936	144,389.59	1,458,896.44	1,603,286.03	93.82	108.90	107.34
1887	1,069	11,831	12,900	105,837.01	1,765,582.36	1,871,419.37	99.01	149.23	145.07
1888	806	10,787	11,593	73,659.48	1,596,604.96	1,670,264.44	91.39	148.01	144.08
1889	603	9,964	10,567	52,800.27	1,397,487.09	1,450,287.36	87.56	140.25	137.25
1890	413	8,610	9,023	38,847.09	1,263,239.37	1,302,086.46	94.06	146.72	144.31
1891	284	7,590	7,874	22,504.64	1,040,284.41	1,062,789.05	79.24	137.06	134.97
1892	165	6,651	6,816	11,908.93	827,080.53	838,989.46	72.18	124.35	123.09
1893	86	5,425	5,511	10,494.27	721,060.32	731,554.59	122.03	132.91	132.74
1894	45	4,447	4,492	5,312.20	645,297.46	650,609.66	118.05	145.11	144.84

1895	21	3,826	3,847	3,583.27	541,923.48	545,506.75	170.63	141.64	141.80
1896	14	3,287	3,301	1,972.27	456,847.61	458,819.88	140.88	138.99	138.99
1897	7	2,810	2,817	1,440.00	388,291.95	389,731.95	205.71	138.18	138.35
1898	3	2,407	2,410	791.06	347,070.15	347,861.21	263.69	144.19	144.34
1899	1	1,998	1,999	193.33	293,097.48	293,290.81	193.33	146.70	146.72
1900	1	1,742	1,743	96.00	248,912.67	249,008.67	96.00	142.89	142.86
1901	1	1,527	1,528	96.00	210,760.04	210,856.04	96.00	138.02	137.99
1902	1	1,317	1,318	109.03	183,540.13	183,649.16	109.03	139.36	139.34
1903	1	1,115	1,116	342.93	160,557.20	160,900.13	342.93	144.00	144.18
1904	1	918	919	300.00	140,276.94	140,576.94	300.00	152.81	152.97
1905	—	776	776	300.00	113,716.81	114,016.81	—	146.54	146.93
1906	—	660	660	4.80	101,273.47	101,278.27	—	153.44	153.45
1907	—	558	558	—	83,830.00	83,830.00	—	150.23	150.23
1908	—	471	471	—	68,766.00	68,766.00	—	146.00	146.00
1909	—	395	395	—	62,731.60	62,731.60	—	158.81	158.81
1910	—	338	338	—	51,279.90	51,279.90	—	151.72	151.72
1911	—	279	279	—	44,347.45	44,347.45	—	158.95	158.95
1912	—	238	238	—	37,819.20	37,819.20	—	158.90	158.90
1913	—	199	199	—	32,171.07	32,171.07	—	161.66	161.66
1914	—	170	170	—	27,532.40	27,532.40	—	161.96	161.96
1915	—	134	134	—	22,348.90	22,348.90	—	166.78	161.96
1916	—	115	115	—	18,848.00	18,848.00	—	163.90	163.90

Source: Glasson (1918, 113), as compiled from the reports of the Commissioner of Pensions; per annum mean pensions calculated by the authors. Glasson's estimates of expenditures for 1872 for survivors and widows do not sum to his reported total of $2,313,409.47. We have used Glasson's estimates for each category, and report our sum as the total shown above. The average total for 1871 is for only a portion of the year and is excluded as nonrepresentative.

After the War of 1812, the army dwindled in size. There were only 8,500 officers and men on active duty in 1845. Subsequent disputes with Mexico eventually brought that state of affairs to an end. Shortly after Congress authorized the president to recruit volunteers for the Mexican War, the regular army pension and severance benefits were extended to volunteers just as had been done for new recruits during the War of 1812. Although the land grants continued, by the end of the war such warrants as could be converted into deeds were frequently sold in the market at steep discounts, often in the neighborhood of $0.75 an acre (Lebergott 1987). At these prices, the land component of a soldier's severance package would have been annuitized at less than $1 a month. In 1848, a new widows' and orphans' benefit, half-pay for five years, was bestowed on survivors of Mexican War veterans. The period of the benefit payment was subsequently extended. In 1858, the survivors benefit was paid to widows for life or until they remarried, and orphans were covered until they reached age 16. As with the Revolution and the War of 1812, surviving veterans of the Mexican War eventually received a retirement pension. In 1887, all honorably discharged veterans who had served 60 days or more and who had attained the age of 62 were eligible for a life annuity of $8.00 a month. This annuity was also available to all disabled or indigent veterans (regardless of age) and widows who had not remarried. Table 8.2 contains the history of the pension payments to veterans of the Mexican War and their widows after the conversion of the disability pension to an old-age pension in 1887.

Relatively speaking, the U.S. army was quite small during years of peace in the nineteenth century, usually in the neighborhood of 10,000 officers and men. Because the army was not seen as a career by the majority of those who served, tens of thousands of men served in the army without participating in one of the three antebellum conflicts that ultimately led to an old-age pension. Many of these veterans served during one of the Indian Wars of the era. Recognizing both the inherent inequity in this situation and the opportunity to obtain political support from veterans and their families, Congress eventually formally granted these veterans an old-age pension as well. The $8.00 monthly annuity granted to Mexican War veterans or their widows in 1887 was extended to all veterans (and their widows who had not remarried) who had served in the Indian Wars between 1832 and 1842. This annuity, which was initially granted in 1892 was later extended to veterans of other Indian campaigns as well. Table 8.3 contains the history of the pension payments to veterans of the Indian Wars and their widows after the creation of an old-age pension in 1892.

This history of early army pensions shows that every army disability pension plan created before the Civil War ultimately was converted to a retirement pension for veterans who survived long enough. Of course, long enough could be a very long time, 50 or so years in many instances. A veteran who went to war as a young man would have to survive at least to his mid-sixties or so to have received his retirement pension in most cases. Yet it should be noted that this was roughly the age we have come to associate with "normal" retirement. These pensions were not particularly lucrative by the standards of retirement pensions in the twenty-first century, but by the standards of the day, they eventually came to represent a substantial financial windfall for aged veterans. The monthly annuity of $8.00 would have been roughly one-third the monthly wage of an experienced farm laborer in the second half of the nineteenth century. Despite the eventual conversion of the antebellum army pensions to life annuities, there was no systematic "regular" army retirement plan prior to the Civil War. In fact, it was exigencies associated with the war that led to the first army retirement plan

The Civil War and the Development of Modern Military Pensions

Of all the military pension plans in U.S. history, perhaps none has been more written about than the Civil War pensions. The attention paid to the Civil War pensions results both from the importance of the war itself as a landmark in American history and because in one way or another millions of Americans were directly impacted by the basic pension plan. Interestingly, most scholarly attention has focused on the disability features of the Civil War plans; for the purposes of this volume the introduction of retirement pensions during the war is much more salient. Before turning to retirement policies, an outline of the disability plan is warranted, since it was from that plan that many of the old-age pension ultimately emerged (see Oliver 1917; Costa 1998).

When Fort Sumter was attacked in April 1861, there were roughly 16,000 officers and men in the U.S. army. Despite expectations that the troops would be home by Christmas—the Christmas of 1861 not 1865—this figure was about to grow dramatically. In July 1861, Congress authorized President Abraham Lincoln to raise half a million volunteers and it enacted the first Civil War pension act. The act basically extended the same benefits received by regular army personnel to the new enlistees. In addition, should a soldier die in uniform, his widow and legal heirs were promised $100 and any pay that was in arrears. These payments were expanded along with other services, such as medical, hospital, and housing benefits. In 1890, Congress granted a pension to all surviving veterans who suffered from any disability. In the same year, the Pension Bureau instructed examining physicians to grant a pension to all veterans over age 65 unless they were "unusually vigorous." By 1900, the average benefit per recipient was $135. This was a substantial sum at the time (Costa 1998). Table 8.4 contains a summary of the number of "general law" or disability pensioners after the Civil War.

TABLE 8.2. Pensioners of the Mexican War, Total Annual Pension Outlays, and Mean Outlay per Pensioner, 1887–1916

	Pensioners			*Expenditures*			*Mean annual outlay*		
Year	*Survivors*	*Widows*	*Total*	*Survivors*	*Widows*	*Total*	*Survivors*	*Widows*	*Total*
1887	7,503	895	8,398	$53,148.68	$2,548.08	$55,696.76	—	—	—
1888	16,060	5,104	21,164	1,861,756.07	583,056.28	2,444,812.35	$115.93	$114.24	$115.52
1889	17,065	6,206	23,271	1,796,899.30	693,572.45	2,490,471.75	105.30	111.76	107.02
1890	17,158	6,764	23,922	1,728,027.54	695,054.90	2,423,082.44	100.71	102.76	101.29
1891	16,379	6,976	23,355	1,622,114.75	695,314.52	2,317,429.27	99.04	99.67	99.23
1892	15,215	7,282	22,497	1,425,258.18	686,733.57	2,111,991.75	93.67	94.31	93.88
1893	14,149	7,369	21,518	1,396,392.38	736,173.41	2,132,565.79	98.69	99.90	99.11
1894	13,461	7,686	21,147	1,388,707.07	803,345.91	2,192,052.98	103.17	104.52	103.66
1895	12,586	7,868	20,454	1,433,690.86	802,032.96	2,235,723.82	113.91	101.94	109.30
1896	11,800	8,017	19,817	1,368,685.95	814,096.14	2,182,782.09	115.99	101.55	110.15
1897	10,922	8,072	18,994	1,279,188.31	818,563.78	2,097,752.09	117.12	101.41	110.44
1898	10,012	8,143	18,155	1,213,508.63	846,560.26	2,060,068.89	121.21	103.96	113.47
1899	9,204	8,175	17,379	1,107,594.63	818,067.58	1,925,662.21	120.34	100.07	110.80
1900	8,352	8,151	16,503	1,011,503.74	804,308.31	1,815,812.05	121.16	98.68	110.05
1901	7,568	8,109	15,677	921,052.18	794,320.27	1,715,372.45	121.70	97.96	109.42
1902	6,828	8,017	14,845	874,942.13	785,208.75	1,660,150.88	128.14	97.94	111.83
1903	5,964	7,910	13,874	820,449.35	801,522.99	1,621,972.34	137.57	101.33	116.91
1904	5,214	7,821	13,035	885,380.44	793,440.00	1,678,820.44	169.81	101.45	128.79

1905	4,540	7,653	12,193	739,823.41	780,895.11	1,520,718.52	162.96	102.04	124.72
1906	3,984	7,488	11,472	624,247.79	752,148.57	1,376,396.36	156.69	100.45	119.98
1907	3,485	7,214	10,699	590,839.61	747,648.73	1,338,488.34	169.54	103.64	125.10
1908	2,932	6,914	9,846	753,782.02	725,363.51	1,479,145.53	257.09	104.91	150.23
1909	2,459	6,633	9,092	620,659.98	995,244.99	1,615,904.97	252.40	150.04	177.73
1910	2,042	6,359	8,401	521,385.79	942,598.86	1,463,984.65	255.33	148.23	174.26
1911	1,639	5,982	7,621	428,221.22	894,696.89	1,322,918.11	261.27	149.56	173.59
1912	1,313	5,553	6,866	341,756.88	826,428.73	1,168,185.61	260.29	148.83	170.14
1913	1,142	5,123	6,265	411,416.35	773,283.55	1,184,699.90	360.26	150.94	189.10
1914	893	4,699	5,592	354,799.79	705,729.95	1,060,529.74	397.31	150.19	189.65
1915	680	4,253	4,933	277,029.20	648,817.40	925,846.60	407.40	152.56	187.68
1916	513	3,785	4,298	213,118.76	590,161.78	803,280.54	415.44	155.92	186.90

Source: Glasson (1918, 119), as compiled from the reports of the Commissioner of Pensions; per annum mean pensions calculated by the authors.
The average total for 1887 is for only a portion of the year and is excluded as nonrepresentative.

TABLE 8.3. Pensioners of the Indian Wars, Total Annual Pension Outlays, and Mean Outlay per Pensioner, 1893–1916

	Pensioners			*Expenditures*			*Mean annual outlay*		
Year	*Survivors*	*Widows*	*Total*	*Survivors*	*Widows*	*Total*	*Survivors*	*Widows*	*Total*
1893	2,544	1,338	3,882	$158,076.26	$ 66,434.05	$224,510.31	—	—	—
1894	3,104	3,284	6,388	377,883.57	456,652.25	834,535.82	$121.74	$139.05	$130.64
1895	3,012	3,911	6,923	308,365.24	469,161.39	777,526.63	102.38	119.96	112.31
1896	2,718	4,237	6,955	268,778.30	468,694.44	737,472.74	98.89	110.62	103.03
1897	2,373	4,288	6,661	227,580.41	442,082.76	669,663.17	95.90	103.10	100.53
1898	2,019	4,067	6,086	189,981.39	418,997.35	608,978.74	94.10	103.02	100.06
1899	1,656	3,899	5,555	165,327.01	403,871.74	569,198.75	99.84	103.58	102.47
1900	1,370	3,739	5,109	138,142.82	379,035.07	517,177.89	100.83	101.37	101.23
1901	1,086	3,479	4,565	111,973.91	351,016.59	462,990.50	103.11	100.90	101.42
1902	903	3,320	4,223	87,968.89	324,183.09	412,151.98	97.42	97.65	97.60
1903	1,565	3,169	4,734	111,765.28	308,442.74	420,208.02	71.42	97.33	88.76
1904	2,367	3,519	5,886	349,549.35	396,933.03	746,482.38	147.68	112.80	126.82
1905	2,269	3,461	5,730	270,737.93	385,633.67	656,371.60	119.32	111.42	114.55
1906	2,173	3,367	5,540	251,664.84	371,210.01	622,874.85	115.81	110.25	112.43
1907	2,007	3,201	5,208	220,467.88	341,775.94	562,243.82	109.83	106.77	107.96
1908	1,820	3,018	4,838	205,289.63	328,034.20	533,323.83	112.80	108.69	110.24
1909	1,744	2,881	4,625	198,335.84	441,562.60	639,898.44	113.72	153.27	138.36

1910	1,560	2,822	4,382	184,294.60	437,214.93	621,509.53	118.14	154.93	141.83
1911	1,387	2,629	4,016	168,688.24	406,398.28	575,086.52	121.62	154.58	143.20
1912	1,210	2,439	3,649	148,853.04	372,550.95	521,403.99	123.02	152.75	142.89
1913	1,066	2,330	3,396	176,292.72	351,371.38	527,664.10	165.38	150.80	155.38
1914	915	2,182	3,097	225,664.88	334,582.52	560,247.40	246.63	153.34	180.90
1915	786	2,046	2,832	199,772.96	313,933.22	513,706.18	254.16	153.44	181.39
1916	676	1,902	2,578	173,415.46	301,656.48	475,071.94	256.53	158.60	184.28

Source: Glasson (1918, 115), as compiled from the reports of the Commissioner of Pensions; per annum mean pensions calculated by the authors.
The average total for 1893 is for only a portion of the year and is excluded as nonrepresentative.

TABLE 8.4. General Law Pensioners at Various Dates, 1865–1915

	General law Pensioners			*Expenditures*			*Per capita expenditures*		
Year	*Invalids*	*Dependent*	*Total*	*Invalids*	*Dependent*	*Total*	*Invalids*	*Dependent*	*Total*
1865	35,880	48,989	84,869	$ 2,206,342.06	$ 6,109,730.37	$ 8,316,072.43	—	—	—
1870	87,521	111,165[a]	198,686	9,137,362.43	18,643,443.38	27,780,805.81	$104.40	$167.71	$139.82
1875	107,114	106,669	213,783	11,934,158.61	15,860,406.95	27,794,565.56	111.42	148.69	130.01
1880	135,272	80,642	215,914	20,876,940.64	12,720,476.72	33,597,417.36	154.33	157.74	155.61
1885	244,201	80,767	324,968	47,845,006.93	15,361,993.66	63,207,000.59	195.92	190.20	194.50
1891	419,046	111,128	530,174	76,255,717.23	28,316,131.09	104,571,848.32	181.97	254.81	197.24
1895	357,223	102,663	459,886	59,382,212.01	17,626,721.04	77,008,933.05	166.23	171.69	167.45
1900	310,602	90,788	391,390	55,083,515.75	14,473,517.71	69,557,033.46	177.34	159.42	177.72
1905	219,384	84,482	303,866	45,534,661.39	13,489,908.88	59,024,570.27	207.56	159.68	194.25
1910	121,581	74,625	196,206	32,951,289.41	11,705,814.91	44,657,104.32	271.02	156.86	227.60
1915	45,336	56,020	101,356	16,520,301.03	8,965,970.28	25,486,271.31	364.40	160.05	251.45

Source: Glasson (1918, p. 144), with calculations by the authors.
Years are fiscal years.
[a] Includes 2,013 widows and dependents from earlier wars.

In addition to the disability pensions that eventually became old-age benefits, the Civil War ushered in a new era of retirement pensions for U.S. army officers and later enlisted men. At the onset of the war, Lincoln was confronted with a number of superannuated officers in all branches of the service. In an effort to reduce the number of older officers, in August 1861 Congress passed the first legislation creating a formal "retired list" for officers in all branches of the military service. From that date, officers were retired if deemed incapable of serving in the field by a retirement board, or upon application of the officer after 40 years of service. This act limited the size of the retirement list to 7 percent of the "active" list. This action kept officers in uniform during the war but subsequently proved troublesome for War Department administrators. The limitations placed on the size of the retired list survived in one form or another until World War I. There were numerous revisions to these rules; many of which were quite minor but a few were substantial. For example, when the 1861 act was amended in 1870, the major changes included: (1) placing a numerical limit of 300 on the retirement list (raised to 400 in 1875); (2) authorizing retirement at 30 years at the president's discretion; and (3) establishing retirement pay at 75 percent of base pay at the time of retirement.

The restrictions on the size of the retirement list proved to be a perpetual management problem for the War Department throughout the postbellum era. Many officers who should have been retired because of physical or mental infirmities, the latter often associated with drink, were maintained on the active list simply because there was no legal provision for doing anything else with them. This situation was ameliorated somewhat in 1882, when Congress imposed the first compulsory retirement law affecting army personnel. Under this legislation, retirement became mandatory at age 64. Unfortunately and somewhat obtusely, no change was made to the previously established limit on the number of officers who could be carried on the retired list. This untenable situation was rectified in the following year, when Congress established a second retired list for officers who were compelled to retire due to age. There was no numerical limit placed on this second list; however, one could not move from one list to another. Thus, an officer retired early due to unfitness for field duty could not be transferred to the mandatory retirement list upon reaching age 64. As a result, the "limited" retired list remained fully subscribed at 400. Thus, it remained the case that many officers who would have otherwise been retired early were kept on active duty until they reached the mandatory retirement age.

This situation was finally resolved de facto, if not de jure, in 1890. Legislation of that year mandated that officers failing to physically qualify for promotion to the next rank were automatically relegated to a newly created "unlimited" retired list. In the following year, officers on the old (limited) list were automatically transferred to the unlimited list upon reaching age 64. However, in response to the influential officers' lobby, Congress reduced the size of the limited list to 350 officers. Because of the logjam of senior officers, an officer entering military service in his early twenties would typically expect to rise no higher than lieutenant colonel before reaching retirement age.

The officer corps staunchly supported the legislative limitations on the number of officers who could be retired for a lack of "fitness." There were two "observationally equivalent" explanations for constraints. The first and more charitable of the two is that by limiting the number of officers who could be retired, Congress also limited the ability of the retirement boards to become embroiled in patronage politics. In any given year, the actual number of officers to be retired was quite small, perhaps no more than ten or twenty. With a relatively small number of retirements, "capturing" the process in order to bend it toward the settling of old scores and making new friends was hardly worth the time and effort it would take to do so. The second explanation is that the limitations were simply a form of rents Congress shared with senior military personnel. Through their many posts and contracts the army and navy were capable of showering visiting Congressmen with all the appropriate honors, and Congressmen with acquaintances in businesses seeking military contracts were always eager to support their men in uniform. Maintaining the good will of the officers was good business long before the term "military-industrial complex" was made a part of the lexicon by President Eisenhower in his farewell address.

It is important to note that these retirement acts only applied to officers. With the exception of the pension acts dealing with veterans of the Revolution and the War of 1812, the army offered no general retirement plan to enlisted personnel before 1885. The 1885 act created the first systematic retirement plan for enlisted personnel in the U.S. army. It permitted retirement upon the completion of 30 years' service at 75 percent of base pay. The plan was subsequently amended in 1890 and soldiers were permitted to count wartime service as double time in the calculation of years of service.

Recall from the previous chapters that the navy created retirement plans for its officers and seamen before the army did so. Specifically, the first navy *retirement* plan for officers antedated the Civil War, though the war interrupted the implementation of that plan, and in 1867 Congress established a retirement plan for seamen. The army and the navy had fundamentally different pension plans dating from the onset of the Revolution. From the Civil War, however, there was a general movement toward making the army and navy pension plans more uniform even though differences remained well into the twentieth century. For example, the act of 1885, which covered enlisted army personnel, was extended to enlisted navy personnel in 1899. The main difference in treatment of the members of the two services was that a seaman must have obtained the age of 50 to receive the retirement pension. This and other minor differences between the army and navy pension plans for noncommissioned officers and other enlisted personnel was changed in 1907. From that year on, all enlisted personnel in both services were entitled to retire voluntarily at 75 percent of their pay and other allowances after 30 years of service.

With respect to the convergence of pension plans covering officers, recall that naval officers were initially covered by the 1855 plan, the first formal retirement plan for U.S. military personnel. The 1861 pension act superseded that earlier legislation, and both the army and the navy were covered by acts passed during the war. However, from the time of the navy's 1867 plan, the key details of the two systems diverged, and the process of making the regular army and navy pensions more alike was interrupted somewhat by the Spanish American War. In 1899, under pressure from then Assistant Secretary of the Navy Theodore Roosevelt, Congress altered the navy retirement system without changing the army's system. Although not the kind of man to labor over the details of an annuity contract, Roosevelt actually had an excellent general understanding of both the economics and the politics of public-sector pensions, having begun his career in Washington as a member of President Cleveland's Civil Service Commission. Furthermore, Roosevelt's perpetual quest for reform, the urge to do *something,* led him to examine all aspects of naval operations, including the retirement of naval personnel. To Roosevelt, this was a good method to rid himself of officers who did not share his reformist leanings.

Roosevelt proposed that all mid-level officers (i.e., those in the grade of lieutenant, lieutenant commander, commander, and captain) become eligible to apply for retirement regardless of their age or time in uniform.[5] Applicants for retirement were to be listed according to seniority. The act then specified a minimum number of vacancies in a fiscal year. These vacancies were essentially opportunities for promotion to a higher rank. Promotional prospects were based on a specific number of vacancies above each rank; specifically these were: 13 vacancies above commander, 20 above lieutenant commander, 29 above lieutenant, and 40 above lieutenant junior grade. If the actual number of vacancies was less than the minimum specified in the act, then the President was authorized to retire enough officers from the voluntary list to achieve the minimum number of vacancies. Should this process still not yield enough vacancies, then the Secretary of the Navy was authorized to convene a retirement board of five rear admirals. This board was charged with reviewing all active-duty line officers and retiring enough of them to obtain the minimum number of vacancies. However, the maximum number of officers so retired each year was not to exceed five captains, four commanders, four lieutenant commanders, or two lieutenants.

These so-called "plucking boards," which were responsible for identifying those unfit to continue on active duty, were by all accounts quite unpopular among the officer corps. Still, despite subjecting officers to the vagaries of an early retirement, there were two features that ameliorated the impact of the act. Officers could avoid the ignominy of forced retirement by volunteering to retire, and there was a ceiling on the number who could be so retired. In addition, all officers retired under this plan were to receive 75 percent of the sea pay of the next rank above that which they held at the time of retirement. This last feature was amended in 1912 and officers simply received three-fourths of the pay of the rank in which they retired. During expansion of the navy leading up to America's participation in the World War I, the plan was further amended in 1915 so that the President was authorized, with the advice and consent of the Senate, to reinstate any officer involuntarily retired under the 1899 act.

As the byzantine act of 1899 suggests, the navy continued to struggle with its superannuated officers. In 1908, Congress finally granted naval officers the right to retire voluntarily at 75 percent of active-duty pay upon the completion of 30 years of service. In 1916, navy pension rules were again altered, and this time a basic principle—up or out (with a pension)—was established, a principle that continues to this day. The pension legislation of 1916 was part of the appropriations bill for the 1917 fiscal year. As such it could not be opposed without placing the expeditious financial preparations for war in jeopardy. There were four basic components that differentiated the new navy pension plan from earlier ones. First, promotion to the ranks of rear admiral, captain, and commander were based on the recommendations of a promotion board. Prior to that time, promotions were based solely on seniority.[6]

Second, the officers on the active list were to be distributed among the ranks according to percentages that were not to exceed certain limits; thus, there was a limit placed on the number of officers who could be promoted to a certain rank. Third, age limits were placed on officers in each grade. Officers who obtained a certain age in a certain rank were retired with their pay equal to 2.5 percent multiplied by the number of year in service, with the maximum not to exceed 75 percent of their final active-duty pay. For example, a commander who reached age 50 and who had not been selected for promotion to captain, would be placed on the retired list. If he had served 25 years, then he would receive 62.5 percent of his base pay upon retirement. Finally, the act also imposed the same mandatory retirement provision on naval personnel as the 1882 act (amended in 1890) imposed on army personnel, with age 64 being established as the universal age of retirement in the armed forces of the United States. The number of veterans covered by these "regular" pensions is shown in Table 8.6.

As for the army by the time war broke out between the United States and Spain, the army disability pensions discussed above were so well administered and considered to be so generous that Congress did not create a special pension plan for the veterans of the Spanish American War. Table 8.5 contains the information covering the eventual pensioners from that conflict.

TABLE 8.5. Regular Establishment Pensions Since 1904, Annually Through 1916

	Pensioners on the roll			*Expenditures*			*Per capita expenditures*		
Year	*Invalids*	*Dependent*	*Total*	*Invalids*	*Dependent*	*Total*	*Invalids*	*Dependent*	*Total*
1904	9,501	3,231	12,732	$1,610,413.84	$677,511.15	$2,287,924.99	$169.50	$209.69	$179.70
1905	10,030	3,403	13,433	1,723,017.24	696,568.49	2,419,585.73	171.79	204.69	180.12
1906	10,648	3,544	14,192	1,813,181.61	708,620.49	2,521,802.10	170.28	199.95	177.69
1907	11,076	3,615	14,691	1,897,963.48	737,068.37	2,635,031.85	171.36	203.89	179.36
1908	11,786	3,722	15,508	2,016,853.38	749,749.83	2,766,603.21	171.12	201.44	178.40
1909	12,426	3,870	16,296	2,101,797.19	774,282.95	2,876,080.14	169.15	200.07	176.49
1910	13,180	4,041	17,221	2,187,267.05	813,723.07	3,000,990.12	165.95	201.37	174.26
1911	13,757	4,179	17,936	2,358,731.34	839,102.85	3,197,834.19	171.46	200.79	178.29
1912	14,373	4,340	18,713	2,433,074.20	875,301.11	3,308,375.31	169.28	201.68	176.80
1913	14,561	4,397	18,958	2,560,379.27	886,762.61	3,447,141.88	175.84	201.67	181.83
1914	14,929[a]	4,412	19,341	2,581,190.51	893,957.18	3,475,147.69	172.90	202.62	179.68
1915	15,242	4,488	19,730	2,631,955.22	903,936.34	3,535,891.56	172.68	201.41	179.21
1916	15,553	4,549	20,102	2,711,946.09	913,964.15	3,625,910.24	174.37	200.92	180.38

Source: Glasson (1918, 146), as compiled by the Commissioner of Pensions; per capita calculations by the authors.
Years are fiscal years.
[a] Adjustment has been made in the number of invalids in order to match the total.

TABLE 8.6. War with Spain and Phillipine Insurrection Pensions Since 1899, Annually Through 1916

	Pensioners on the roll			*Expenditures*			*Per capita expenditures*		
Year	*Invalids*	*Dependent*	*Total*	*Invalids*	*Dependent*	*Total*	*Invalids*	*Dependent*	*Total*
1899	123	176	299	$9,430.51	$19,176.30	$28,606.81	—	—	—
1900	882	873	1,755	156,807.94	176,097.31	332,905.25	$177.79	$201.72	$189.69
1901	3,555	2,049	5,604	682,020.24	493,205.52	1,175,225.76	191.85	240.71	209.71
1902	6,611	2,854	9,465	1,175,178.61	563,267.67	1,738,446.28	177.76	197.36	183.67
1903	9,200	3,662	12,862	1,532,648.77	671,435.44	2,204,084.21	166.59	183.35	171.36
1904	12,440	4,389	16,829	2,237,024.57	869,907.21	3,106,931.78	179.83	198.20	184.62
1905	15,711	4,780	20,491	2,551,267.21	858,731.33	3,409,998.54	162.39	179.65	166.41
1906	17,646	4,975	22,621	2,603,721.87	838,434.66	3,442,156.53	147.55	168.53	152.17
1907	19,031	5,046	24,077	2,628,619.17	842,538.10	3,471,157.27	138.12	166.97	144.17
1908	20,548	5,117	25,665	2,804,849.66	849,273.32	3,654,122.98	136.50	165.97	142.38
1909	21,967	5,128	27,095	2,970,800.84	849,368.96	3,820,169.80	135.24	165.63	140.99
1910	22,783	5,106	27,889	2,970,601.92	837,317.99	3,807,919.91	130.39	163.99	136.54
1911	23,383	5,107	28,490	3,110,900.63	840,350.62	3,951,251.25	133.04	164.55	138.69
1912	23,841	5,009	28,850	3,130,991.22	840,094.83	3,971,086.05	131.33	167.72	137.65
1913	24,157	4,858	29,015	3,240,844.86	830,323.56	4,071,168.42	134.16	170.92	140.31
1914	24,250	4,660	28,910	3,132,372.53	775,137.00	3,907,509.53	129.17	166.34	135.16
1915	24,370	4,542	28,912	3,105,807.74	745,893.73	3,851,701.47	127.44	164.22	133.22
1916	24,101	4,371	28,472	3,076,733.88	723,491.83	3,800,225.71	127.66	165.52	133.47

Source: Glasson (1918, 145), as compiled by the Commissioner of Pensions; per capita calclulations by the authors.
Years are fiscal years.

With respect to retirement plans, the pension act of 1882, with its subsequent revisions, remained the basic army plan until after World War I. After the war, the army followed the navy in moving to a system whereby officers who were no longer in line for future promotions were automatically retired with no regard to extenuating circumstances. The first step in this direction came in 1919, when Congress allowed the War Department to place officers retired early due to the inability to perform their duties on the "unlimited" list as opposed to the 350-man "limited" list. This finally broke the bottleneck in army promotions that had plagued army administrators since the Civil War.

In the following year, Congress created an army retirement plan not unlike that adopted in 1916 by the navy. As part of their evaluations by their superiors, all officers were placed in either Class A or Class B. Those categorized as Class B were evaluated by a board of officers, and if the board determined that a Class B officer had been so designated because of neglect of duty or misconduct, then the officer was discharged without compensation. If, however, the officer had served 10 or more years and was not deemed negligent, then he was placed upon the unlimited retired list. As such, he was to receive a retirement benefit equal to 2.5 percent multiplied by years of service not to exceed 75 percent of his base pay at the time of retirement. This maximum was subsequently reduced to 60 percent in 1924. Although there were subsequent revisions to the army and navy pension plans, the acts of 1916 for navy personnel and 1920 for the army established the foundations of the modern U.S. military pension plan. The key elements of the unified military pension were mandatory retirement, a limited time to demonstrate superior potential for promotion to the next grade, and a defined benefit retirement plan for those who failed to demonstrate that potential or who reached the mandatory retirement age. Interestingly, it was at almost the same time that Congress established a retirement plan for federal (that is, nonmilitary) civil servants (Chapter 9).

Overall then, Table 8.7 contains a summary of most important legislation pertaining to military pensions in the United States from colonial times through the Great War. Table 8.8 contains a summary of pension outlays after 1866, while Table 8.9 presents the inflation-adjusted expenditures in 2000 dollars.

Modern Military Pensions and the Principles of Economics

Although for many readers this history of post-Civil War military pensions will be interesting in its own right, others will be edified to learn that it provides additional evidence illustrating how military administrators, service men, and policymakers in the late nineteenth century responded to the economic environment they faced. There are several characteristics of this

TABLE 8.7. Important Military Pension Acts of the United States, by Date, Act, Service, and Key Provisions

Date	Act	Service	Key Provisions
1775	Continental Congress	Revolutionary navy	A portion of the proceeds of prizes taken by the navy would be used to pay disability benefits to officers and seamen, and death benefits to widows and children of those who died in service.
August 26, 1776	Continental Congress	Revolutionary army	Half-pay for life or the term of disability, with proportionate amounts for minor disabilities that interfered with earning a livelihood.
May 15, 1778	Continental Congress	Revolutionary army	Half-pay for 7 years for officers serving for the duration (not to exceed half-pay of a colonel) and $80 per year for enlisted personnel.
August 24, 1780	Continental Congress	Revolutionary army	The Act of 1778 was extended to widows and orphans.
October 21, 1780	Continental Congress	Revolutionary army	Officers serving for the duration half-pay for life.
March 22, 1783	Commutation Act	Revolutionary army	Veterans were granted five years' full pay in money or 6 percent securities in lieu of half-pay for life.
April 30, 1790	1 Stat. 119, Ch. 10	Regular army	Compensation for total disability was not to exceed half-pay for officers or $5 a month for enlisted personnel, with proportionate amounts for lesser disabilities.
August 4, 1790	1 Stat. 138, Ch. 34	Revolutionary army	The Act of 1783 was honored with interest-bearing securities of the new government.
			(Payments to disabled veterans and survivors were authorized on an annual basis until they were finally continued for life in 1828.)
February 28, 1793	1 Stat. 324, Ch. 17	Revolutionary army	Claims for Revolutionary War Pensions had to be submitted within two years of the date of the Act. (Later acts permitted veterans to file for subsequent disabilities that were associated with war injuries.)
1798,	1 Stat. 799, Ch. 24,	Regular navy	Legislation enacted for the government of the navy formally established the pension fund as a depository for the government's share of the proceeds from the sale of prizes.
March 2, 1799	1 Stat. 709, Ch. 24	Regular navy	Officers/seamen disabled in the line of duty were to receive half-pay for life, with provision for payment for life to their widows if they were married at the time they received the injury that resulted in death.

June 26, 1812 — 2 Stat. 759, Ch. 107 — Regular navy
A pension fund supervised by the Secretary of the Navy was established for privateers in which was deposited 2 percent of the prize money earned by U.S. privateers.

April 16, 1816 — 3 Stat. 285, Ch. 55 — War of 1812 army
Half-pay was granted for five years to widows and orphans.

April 24, 1816 — 2 Stat. 296, Ch. 68 — Regular army
Maximum pay for disabled enlisted personnel was raised to $8.00 and junior officers by $2.00–$3.00. (Throughout this era officers and enlisted personnel received severance pay, and this payment aften included land warrants in the so-called military reserves. These benefits were extended to widows and orphans. See in particular the Act of Dec. 24, 1811 [2 Stat. 669, Ch. 10].)

1824 — 4 Stat. 4, Ch. 15 — Regular navy
This legislation repealed the Act of March 3, 1817 which had (after the War of 1812) broadened the five-year half-pay pension entitlements to include widows and orphans of naval officers and seamen who died as a result of disease contracted in the naval service, as well as from wounds received in battle.

May 15, 1828 — 4 Stat. 269, Ch. 53 — Revolutionary army
All surviving veterans covered by the October 1780 legislation were granted full pay for life retroactive to March 3, 1826.

June 7, 1832 — 4 Stat. 529, Ch. 126 — Revolutionary army
Benefits of the May 15, 1828 Act were extended to all veterans, with the maximum equal to a captain's pay and proportional payments for time served.

1842 — 12 Stat. 600, Ch. 204 — Regular navy
fund was completely exhausted Navy pensions were paid from annual appropriations until reestablishment of the fund under the Act of July 17, 1862.

June 15, 1844 — 5 Stat. 667, Ch. 58 — Regular navy/marines
Responsibility for the payment of pensions to seamen (or their wives or orphans) by virtue of wounds incurred in combat with the enemy while on board armed privated ships of the United States was assumed by the government (retroactive to July 1, 1837, when the privateer pension fund had been depleted).

May 13, 1846 — 9 Stat. 9, Ch. 16 — Mexican War army
Half-pay was not to exceed half-pay of a lieutenant colonel.

July 21, 1848 — 9 Stat. 249, Ch. 108 — Mexican War army
Half-pay for five years was granted to widows and orphans.

February 28, 1855 — 10 Stat. 616, Ch. 127 — Regular navy
"An Act to Promote the Efficiency of the Navy" provided a board to examine and report to the Secretary of the Navy the efficiency of officers in the navy, ashore and afloat. Those officers found incapable of performing their duties would be dropped from the rolls or placed on the reserved list under which they would receive leave of absence or furlough pay.

January 16, 1857 11 Stat. 153, Ch. 12 Regular navy
Amendments to the 1855 statute were enacted to permit officers to be restored to the active list after application and appropriate examination by a board of inquiry. If the board recommended restoration, the President might nominate the retired officer to the Senate. If not, the officer remained on the retired list, receiving leave of absence or furlough pay.

June 3, 1858 11 Stat. 309, Ch. 85 Mexican War army
The provisions of the 1848 Act were extended to life.

July 22, 1861 12 Stat. 268, Ch. 9 Civil War army
Civil War volunteers received the same disability pension as those disabled in the regular army. The widows/legal heirs of those killed in service received $100 plus any arrears of pay due the deceased member.

August 3, 1861 12 Stat. 287, Ch. 42 Civil War army
Provided for the transfer of career officers to the retired list as a result of incapacity for active service, on approved findings of a retirement board, or for retirement after 40 years of service, on application of the officer. Retirement pay was equal to pay proper of their grade plus 4 rations a day, commuted to 30 cents each ration. A fundamental weakness of the act was that it limited the total number of officers on the retired list to a maximum of 7 percent of the authorized strength of the active list.

July 14, 1862 12 Stat. 566, Ch. 166 Civil War army
established the general law pension system, subsequently amended by the Act of July 17, 1862.

July 17, 1862 12 Stat. 596 Civil War army
Officers of the army or marine corps over age 62 or with more than 45 years' service might be retired at the discretion of the President. The 7 percent limit on the size of the retirement list was retained.

March 2, 1867 14 Stat. 515, Ch. 14 Regular navy
Enlisted men who had served honorably in the navy for 20 years or more and were disabled for sea service because of age or infirmity received 50 percent active-duty pay. Any disabled person serving honorably for 10 or more years could apply for aid from the pension fund, receiving no more than half of active-duty pay.

1870, 16 Stat. 315, Ch. 294 Regular army
authorized retirement based on 30 or more years of service (at the discretion of the President) and fixed the pay of retired officers at 75 percent of the pay of the grade at which retired.

July 15, 1870 16 Stat. 315, Ch. 294 Regular army
Further reduction in active-strength ceilings along with some relief from the 7 percent limit previously placed on the retirement list.

February 14, 1871 16 Stat. 411, Ch. 50 War of 1812 army
general service-pension like that of May 15, 1828 for Revolutionary War veterans was extended to War of 1812 veterans.

June 30, 1882 22 Stat. 117, 118, Ch. 254 Regular army
introduced the compulsory retirement principle based on age 64.

February 14, 1885 23 Stat. 305, Ch. 67 Regular army
Provided for retirement upon completion of 30 years' service with retirement equal to 75 percent of the pay of the rank in which retired.

January 29, 1887 24 Stat. 371, Ch. 70 Mexican War army
Disability, indigence, or age 62 entitled veterans or their widows to $8 a month for life or the length of disability or indigence. (All widows' payments required that the widow remain unmarried.)

September 30, 1890 26 Stat. 504, Ch. 11252 Regular army
Enlisted men were allowed to compute certain active wartime service as double time when computing the 30 years necessary for retirement.

October 1, 1890 26 Stat. 562, Ch. 1241 Regular army
provided for the compulsory retirement of officers failing physically upon examination for promotion.

1899 30 Stat. 1004, Ch. 413 Regular navy
The 30-year retirement privilege was extended to enlisted members of the navy with the added proviso that applicants must concurrently be at least 50 years of age.

March 3, 1899 30 Stat. 1004, Ch. 413 Regular navy
Captains, commanders, and lieutenant commanders might apply for voluntary retirement without limit to age or service.

March 2, 1907 34 Stat. 1216, Ch. 2515 Regular army
added an allowance in lieu of quarters, fuel, and light.

TABLE 8.8. Pension Outlays for the Army, Navy, and Total, 1865–1917, Number of Pensioners, and Average Outlay per Pensioner

	Fiscal year outlays				
Year	*Army*	*Navy*	*Total*	*Total pensioners*	*Annual average*
1866	$15,158,598.64	$291,951.24	$15,450,549.88	126,722	$121.92
1867	20,552,948.47	231,841.22	20,784,789.69	155,474	133.69
1868	22,811,183.75	290,325.61	23,101,509.36	169,643	136.18
1869	28,168,323.34	344,923.93	28,513,247.27	187,963	151.70
1870	29,043,237.00	308,251.78	29,351,488.78	198,686	147.73
1871	28,081,542.41	437,250.21	28,518,792.62	207,495	137.44
1872	29,276,921.02	475,825.79	29,752,746.81	232,189	128.14
1873	26,502,528.96	479,534.93	26,982,063.89	238,411	113.17
1874	29,603,159.24	603,619.75	30,206,778.99	236,241	127.86
1875	28,727,104.76	543,300.00	29,270,404.76	234,821	124.65
1876	27,411,309.53	524,900.00	27,936,209.53	232,137	120.34
1877	27,659,461.72	523,360.00	28,182,821.72	232,104	121.42
1878	26,251,725.91	534,283.53	26,786,009.44	223,998	119.58
1879	33,109,339.92	555,089.00	33,664,428.92	242,755	138.68
1880	55,901,670.42	787,558.66	56,689,229.08	250,802	226.03
1881	49,419,905.35	1,163,500.00	50,583,405.35	268,830	188.16
1882	53,328,192.05	984,980.00	54,313,172.05	285,697	190.11
1883	59,468,610.70	958,963.11	60,427,573.81	303,658	199.00
1884	56,945,115.25	967,272.22	57,912,387.47	322,756	179.43
1885	64,222,275.34	949,661.78	65,171,937.12	345,125	188.84
1886	63,034,642.90	1,056,500.00	64,091,142.90	365,783	175.22
1887	72,464,236.69	1,288,760.39	73,752,997.08	406,007	181.65
1888	77,712,789.27	1,237,712.40	78,950,501.67	452,557	174.45
1889	86,996,502.15	1,846,218.43	88,842,720.58	489,725	181.41
1890	103,809,250.39	2,285,000.00	106,094,250.39	537,944	197.22
1891	114,744,750.83	2,567,939.67	117,312,690.50	676,160	173.50
1892	135,914,611.76	3,479,535.35	139,394,147.11	876,068	159.11
1893	153,045,460.94	3,861,177.00	156,906,637.94	966,012	162.43
1894	136,495,965.61	3,490,760.56	139,986,726.17	969,544	144.38
1895	136,156,808.35	3,650,980.43	139,807,788.78	970,524	144.05
1896	134,632,175.88	3,582,999.10	138,215,174.98	970,678	142.39
1897	136,313,914.64	3,635,802.71	139,949,717.35	976,014	143.39
1898	140,924,348.71	3,727,531.09	144,651,879.80	993,714	145.57
1899	134,671,258.68	3,683,794.27	138,355,052.95	991,519	139.54
1900	—	—	138,462,130.65	993,529	139.36
1901	—	—	138,531,483.84	997,735	138.85
1902	—	—	137,504,267.99	999,446	137.58
1903	—	—	137,759,653.71	996,545	138.24
1904	—	—	141,093,571.49	994,762	141.84
1905	—	—	141,142,861.33	998,441	141.36
1906	—	—	139,000,288.25	985,971	140.97
1907	—	—	138,155,412.46	967,371	142.82
1908	—	—	153,093,086.27	951,687	160.86
1909	—	—	161,973,703.77	946,194	171.18
1910	—	—	159,974,056.08	921,083	173.68
1911	—	—	157,325,160.35	892,098	176.35
1912	—	—	152,986,433.72	860,294	177.83
1913	—	—	174,171,660.80	820,200	212.36
1914	—	—	172,417,546.26	785,239	219.57
1915	—	—	165,518,266.14	748,147	221.24
1916	—	—	159,155,089.92	709,572	224.30
1917	—	—	160,895,053.94	673,111	239.03

Source: Data until 1899 from Glasson (1900); data from 1900 from Glasson (1918) based on Reports of the Commissioner of Pensions, especially the 1917 report, pp. 29–30. Per capita outlays calculated by the authors.
Years are fiscal years.

TABLE 8.9. Inflation-Adjusted Total Pension Outlays and Real Outlays per Pensioner, 1866–1917 (in dollars of 2000 purchasing power)

Year	*Total pension outlays ($M 2000)*	*Per pensioner ($ 2000)*
1866	143.690	1,133.86
1867	209.926	1,350.27
1868	242.566	1,429.89
1869	310.794	1,653.53
1870	337.542	1,689.89
1871	342.226	1,649.28
1872	351.082	1,512.05
1873	337.276	1,414.63
1874	392.688	1,662.18
1875	392.223	1,670.31
1876	377.139	1,624.59
1877	403.014	1,736.31
1878	401.790	1,793.70
1879	471.302	1,941.52
1880	827.663	3,300.04
1881	708.168	2,634.24
1882	765.816	2,680.55
1883	888.285	2,925.30
1884	874.477	2,709.39
1885	997.131	2,889.25
1886	987.004	2,698.39
1887	1,128.421	2,779.25
1888	1,223.733	2,703.97
1889	1,430.368	2,920.70
1890	1,665.680	3,096.35
1891	1,923.928	2,845.40
1892	2,188.488	2,498.03
1893	2,677.413	2,761.31
1894	2,421.770	2,497.77
1895	2,404.694	2,477.66
1896	2,432.587	3,627.01
1897	2,421.130	2,480.65
1898	2,603.734	2,620.26
1899	2,352.036	2,372.18
1900	2,423.087	2,438.80
1901	2,382.742	2,388.22
1902	2,255.070	2,256.31
1903	2,286.810	2,294.78
1904	2,313.935	2,326.18
1905	2,328.857	2,332.44
1906	2,224.005	2,255.52
1907	2,182.856	2,256.56
1908	2,449.489	2,573.76
1909	2,478.198	2,619.05
1910	2,495.595	2,709.41
1911	2,391.342	2,680.52
1912	2,264.199	2,631.88
1913	2,525.489	3,079.22
1914	2,482.813	3,161.81
1915	2,333.808	3,119.48
1916	2,005.354	2,826.18
1917	1,705.488	2,533.72

Source: Nominal total outlays and per pensioner averages from the previous tables. Conversion to inflation-adjusted (real 2000 dollar purchasing power) done using multiplicative factors for December of each fiscal year. The average factor over the period shown as measured by the arithmetic mean was 17.74 and the median was 15.25. The range of the factors was from 9.3 in 1866 to a high of 18.0 in 1898.

history that closely follow our discussion of the economics of pensions in general and military pensions in particular. The first is the initial divergence, and subsequent long-run convergence, of the basic features of the army and navy pensions plans. The economic reasons for the early divergence of the basic features of the two plans was discussed at length in earlier chapters. Basically, the argument was that, in the age of sail, monitoring ships at sea was prohibitively costly and many forms of naval compensation, including the funding of the navy pension plan, were based on an incentive scheme tied to the capture of prizes. As a component of overall compensation, navy pensions were also covered by the prize system. Army activities could be monitored more directly, and, as a result, army compensation was not tied to any formal incentive scheme nor were army pensions; rather army wages and pensions were paid on a pay-as-you-go system.

Eventually, however, the two systems converged. There are several reasons for that convergence. The first is based on the evolution of the technology and organization of modern warfare. One of the striking features of the evolution of naval warfare from the age of sail to the that of the dreadnought was the demise of the prize system. As naval vessels grew in size and speed, developments that themselves were the result of improvements in metallurgy and power transmission, it became increasingly difficult for one ship to render another immobile for boarding and seizure. In the age of sail, a man-of-war could attempt to disable an opponent by shooting away spars, masts, sails, and rigging. Before the prey could repair the damage, it was boarded and seized. Such was not the case with a more modern man-of-war, nor was it the case for a modern merchantman.

Another technological change that fundamentally altered the economics of naval warfare was the advance in the size, velocity, and accuracy of naval gunnery. Killing with a firearm is essentially an exercise in physics; that is mass and velocity, coupled with accuracy, determine the effectiveness of the shot. An accurate, large-caliber weapon fired at a high velocity offers the most deadly combination. This characteristic of modern naval warfare was all too obvious to observers of the American success in the war with Spain in which two American fleets on opposite ends of the world devastated their Spanish counterparts with their effective fire power. As Admiral A. S. Barker said of the U.S. engagements with the Spanish fleets in 1898: “An hour or two at Manila, an hour or two at Santiago, and the maps of the world were changed” (Miller 1997) and so too was naval warfare. In the age of Nelson, ships of a few hundred tons lobbed shell after shell at one another from a few hundred yards, often with little effect; 140 years later the *Bismarck* sank the *Hood*, all 41,000 tons of her, with one shot fired from five miles away. The escalation of the killing power of naval vessels rendered obsolete any notion of a commerce raider capturing and hauling a fellow man-of-war into a prize court.

But what about strictly commerce raiding? If a commerce-raiding capital ship caught a lone merchantman, the raider could often persuade the captain of the merchantman to surrender the ship, but then the question arose as to what to do with the potential prize. Because of the advances in the speed of the capital ships and wireless telegraphy, after the capture, the raider simply assumed the merchantman's problem. How to get the captured ship into a safe port? Compounding the difficulty of the prize game for both parties were two other developments, one old and the other new. The former was organizational, the latter technological. In order to solve the lone merchantman's problem, combatants adopted the convoy system, which had been common in the age of sail—a large number of merchant vessels guarded by a smaller number of naval vessels. The accompanying vessels were fast destroyers that could launch torpedoes at the larger capital ships engaged in commerce raiding. No lone raider could successfully attack a convoy.

The technological innovation that solved this problem and led to a new type of raiding was of course the submarine. The submarine solved several problems for the raider. In terms of being able to sink a ship, it had all the firepower it needed, since the killing power of a torpedo was vastly multiplied by the energy unleashed by striking at or below the waterline. Until well into the Second World War, finding and catching a submarine was quite difficult. However, the same technology that made the submarine so deadly made its capture of a prize impractical. The submarine was a small highly specialized instrument, and it was provisioned for and maintained by a small crew with nothing to spare. Surface raiders could carry the extra men to seize and guide a prize into court; a submarine could not spare the men. Furthermore, even if a submarine could capture rather than sink a merchantman, the submarine would have not been able to defend the prize against the subsequent attack of an enemy raider or, later, aircraft. Taken together these developments killed the prize system. During the War of 1812, the U.S. frigate *Constitution* and H.M.S. *Shannon* represented the apex of vessels designed to wage a war in which capture not destruction was the ultimate end. The dreadnought, however, was designed to send an opponent to the bottom, not to a prize court.

The U.S. Congress formally dismantled the prize system after the annihilation of the Spanish fleets during the war with Spain. A sunken warship still yielded "gun" and "head" money (see Chapter 3), but the cost of settling disputes concerning ships sent to the bottom of the sea proved prohibitive and the practice was outlawed. During World War I, some private merchants offered to pay U.S. seamen "gun" and "head" money for sinking German ships. Secretary of the Navy Josephus Daniels respectfully declined to accept their offer (Perry 1919). The British continued the practice through World War II, but compared to the past it yielded little income to British seamen (Oliver 1946).

Another reason for the convergence of the army and navy pension plans is related to the technological innovations described above. With advances in the speed of sea transportation and in wireless communication, monitoring naval activity became a much less costly affair. In the age of sail, a ship of the line might have gone for long periods with little or no contact with the admiralty or fellow combatants. In the age of the dreadnought, a captain's actions or inaction could be monitored much more closely, thus ameliorating the need for an incentive scheme based on prizes.

The final explanation of the convergence of army and navy plans was the quest for a reduction in the cost of managing two entirely separate pension plans. After the Civil War, the navy pension plan received a great deal of criticism because it had the potential to be much more lucrative than that offered to army veterans. From a managerial standpoint, Congress viewed the two services as roughly equal contributors to the welfare of the republic. Therefore, large differences in compensation between the two services were bad for the morale of at least one of them. From a managerial point of view, this would have led to an overallocation of certain resources, such as skilled workers, to the higher-paying service. There were also basic issues of equity. Risking one's life for one's country was perceived as equally valuable whether one did so on a blockading vessels, or in the trenches, or in a cavalry regiment facing a native insurrection. As a result, there was a long-run movement in Congress to equate the compensation of the two services.

These phenomena explain the convergence of the two plans. Let us now turn to the other important characteristics of military pensions in the United States. Among these is the emergence of a *retirement* pension plan—that is a deferred compensation plan regardless of disability. As discussed in Chapter 2, the deferred nature of the compensation was designed to bond the soldier or seaman to the service. However, one of the problems faced by nineteenth-century civilian leaders was that the bonding of military personnel, particularly officers, to their services was all too strong. Once in the military, they chose to simply retire on the job, continuing to receive full pay rather than the reduced pay offered by off-job retirement. So it became necessary to induce soldiers to retire through various schemes, including presidential prerogative, plucking boards, and mandatory retirement. The basic problem with the early attempts at mandatory retirement was that promotion occurred almost entirely based on seniority. Therefore, there was no effective way of weeding out unfit officers. It was only at the end of the nineteenth century that the navy finally solved this problem by promoting on merit while simultaneously limiting the time a less-then-meritorious officer could spend in a particular rank.

Finally, it is worth noting that in addition to emerging before those for other workers, U.S. military pensions were quite lucrative relative to other early plans. Few public sector workers could equal the 75 percent replacement rates on the typical U.S. military pension in the late nineteenth and early twentieth centuries. Although U.S. retirement pensions generally came later than those for European soldiers, excluding the exceptional military pension that accompanied a peerage in Europe, U.S. military pensions typically exceeded those offered in Europe. The same cannot be said of U.S. civil service pensions, for the simple reason that there was no U.S. civil service pension plan until 1920.

Notes

1. See Chapter 4.

2. The Newburgh Conspiracy has received many different treatments in the literature of the American Revolution. This discussion owes much to Ferguson (1961). For a more recent treatment, see Teipe (2002).

3. See Chapters 4 and 5.

4. Much of the material in this section is taken from Congressional Research Service (undated); Congressional Research Service (1972); and U.S. House of Representatives (1975).

5. Ranks in the U.S. services can be confusing to those unfamiliar with them. A lieutenant in the navy holds essentially the same rank as a captain in the army; whereas a captain in the navy is equivalent to a colonel in the army. The two junior commissioned grades in the navy, ensign and lieutenant (junior grade), correspond with the army ranks of second lieutenant and first lieutenant, respectively. To add to the confusion the commanding officer of a navy vessel carried the title of "captain" even if his formal rank was lieutenant or commander.

6. The highest navy ranks of admiral and vice-admiral were made essentially by political appointment.