War, Taxes, and Income Redistribution in the Twenties: The 1924 Veterans' Bonus and the Defeat of the Mellon Plan

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I. INTRODUCTION

In the twentieth century, two world wars transformed the federal tax system. Before World War I, the federal income tax imposed low rates and raised little revenue; the federal government relied primarily on regressive tariffs and excise taxes to raise the modest revenue needed to fund its limited domestic agenda. But two major wars accelerated the growth of federal fiscal capacity via the progressive income tax. By the end of World War II, the federal income tax raised billions of dollars to fund a large federal government with an expansive domestic mission.

The impact of World War II on the federal fiscal system has been extensively studied.[1] President Roosevelt expanded the income tax to fund the war effort, and after the war's end, the income tax continued as the workhorse of the federal revenue structure, helping to support the beginnings of a modern welfare state. The postwar government also spent billions of dollars on the GI Bill of Rights, which helped millions of veterans return to civilian life and ascend to the middle class.[2]

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[1] See W. Elliot Brownlee, Federal Taxation in America 107-19 (2d ed. 2004); Sidney Ratner, American Taxation 491-514 (1942); John F. Witte, The Politics and Development of the Federal Income Tax 123-28 (1985); Carolyn C. Jones, Mass-Based Income Taxation: Creating a Taxpaying Culture, 1940-1952, in Funding the Modern American State, 1941-1955, at 107 (W. Elliot Brownlee ed., 1996).

[2] Michael J. Bennett, When Dreams Came True: The GI Bill and the Making of Modern America 126 (1999) (a total of $14 billion eventually was spent on the World War II GI Bill).

By contrast, the impact of World War I on the development of federal taxation and social provision has been less studied. Historians have ably documented the wartime crisis, when the leaders of big business acquiesced (temporarily, they thought) in the heavy taxation of high incomes by the federal government.[3] But the First World War, like the Second, worked a lasting change in the federal fiscal system. Well after demobilization in 1918-1919, federal taxes remained far higher than in the prewar period, and the federal tax structure remained more progressive than during any prior peacetime.[4] The income tax grew in importance in the federal revenue structure, while excise taxes and tariffs played a diminished role.[5]

High and progressive federal taxation during the 1920's poses a historical puzzle, because political and social conditions seemed hostile to high taxes and to progressive income redistribution. In some histories of taxation, the 1920's appear as a decade of Republican dominance and free-market ideology.[6] Republican Presidents and Republican Congresses promised tax cuts and, in Harding's phrase, a return to "normalcy"—not lingering high taxes targeted heavily on high incomes.[7]

In this Article, we suggest that the nation's experience in World War I helped shape the high level and progressive character of peacetime taxation in the 1920's.[8] First, the public debt attributable to the war helped keep federal revenues elevated throughout the decade. Second, the debate over the nation's financial obligations to World War I veterans became intertwined with the politics of taxation, and in 1924 the outcome was a noteworthy victory for progressive forces on taxes as well as the veterans' issue.

We begin with the connection between World War I and the level of federal taxation in the 1920's. The cost of the war was unprecedented, and billions had been financed by deficit spending. Wartime taxes had climbed to new heights–with federal revenue reaching a peak of $7

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[3] For historical accounts of federal taxation during World War I, see Brownlee, note 1, at 58-72; Witte, note 1, at 79-87.

[4] See text accompanying notes 41-42, 59-63.

[5] See text accompanying notes 59-63.

[6] See notes 27, 123.

[7] William D. Hassett, "Normalcy" and Prompt Peace Pledged By Harding in Speech Accepting Party's Nomination, Wash. Post, July 23, 1920, at 1.

[8] Our account dovetails nicely with Elliot Brownlee's depiction of the world wars as the events that precipitated a "democratic-statist" regime featuring high and progressive taxation. But while Brownlee's survey skips relatively lightly over the 1920's, we take a more sustained look at federal taxation in the 1920's and in 1924 in particular. See Brownlee, note 1, at 58-81. John Witte also spots the importance of World War I as a turning point in federal taxation, noting the lasting shift to income taxation and treating the 1920's as a "partial" return to normalcy. Witte, note 1, at 86-96.

billion in 1920[9] and marginal tax rates on the richest households soaring to 77% at their 1918 peak.[10] Still, the war cost even more–spending peaked in 1919 at nearly $19 billion.[11] The U.S. public debt amounted to $25 billion in 1919–an eye-popping figure for a federal government whose annual budget during the prewar years had never reached even $1 billion.[12] Thanks in large part to the fiscal hangover of World War I, mainstream Republicans acquiesced in continuing high taxes in order to give priority to paying off the federal debt. Ironically, their fiscal prudence helped solidify the federal government's taxing capability.[13]

These data suggest that the reputation of the 1920's as a decade of "tax cuts" has been exaggerated. Federal tax rates and federal tax revenue did fall from their wartime peak in the postwar decade, and the agenda of tax reduction was popular among politicians of both parties. But politicians' rhetoric is one thing, and reality another. By peacetime standards, federal revenues and federal income tax rates remained at unprecedented highs.[14] Even the crowning achievement of the Coolidge Administration, the reduction in the top marginal income tax rate to 25% in 1926,[15] left the tax bracket for the richest taxpayers at nearly four times its 1915 level of 7%.[16] Not quite "normalcy," after all.

We then turn to the more complicated question—why were federal taxes progressive as well as high in the 1920's, and how did World War I influence debates over redistribution via taxation in the postwar period? One critical background fact is that Republican control of tax politics was weaker than it appears. With Republicans in the White House and Republican control of Congress, the federal government of

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[9] See Bureau of the Census, U.S. Dep't of Commerce, Historical Statistics of the United States, Colonial Times to 1957, at 711 ser. Y 254-257 (1960) [hereinafter Historical Statistics].

[10] Id. at 703 tbl.VIII.

[11] Id. at 711 ser. Y 254-257. Although the Armistice was signed on November 11, 1918, the Treaty of Versailles was signed in 1919. Thus, during 1918 and 1919 the United States incurred costs for occupation troops, bringing some troops back home, and other matters following the end of hostilities. See Edwin R.A. Seligman, The Cost of War and How It Was Met, in Essays in Taxation 748, 751 (10th ed. rev., The MacMillan Co. 1925) (1895).

[12] Historical Statistics, note 9, at 711 ser. Y 254-257.

[13] Joseph Thorndike and Susan Murnane also have pointed out the irony that Andrew Mellon oversaw tax reforms that would improve the efficiency of the income tax and thereby help lay the tax foundations for the New Deal. Joseph J. Thorndike, The Republican Roots of New Deal Tax Policy, 100 Tax Notes 1201 (Sept. 1, 2003) (characterizing the 1920's as a period in which Republicans "led a popular campaign to slash federal taxes"); Susan Murnane, Andrew Mellon's Unsuccessful Attempt to Repeal Estate Taxes, 108 Tax Notes 1177 (Sept. 5, 2005).

[14] See Part II.

[15] Revenue Act of 1926, Pub. L. No. 69-20, §§ 210-211, 44 Stat. 9, 21-23.

[16] See Historical Statistics, note 9, at 703 tbl.VIII.

the 1920's seems on the surface to have been under the control of the GOP. But, in fact, the Republican congressional majority was relatively weak, reflecting a bitter division within the party between mainstream party members and left-wing "Radicals" (sometimes called "insurgents") led by Senator Robert La Follette (R-WI) among others.[17] Progressive politics were alive and well throughout the decade, and a coalition of Radical Republicans and populist Democrats fought with some success for redistributive taxation.[18] As Benjamin Rader observes in his 1971 article, "[o]n the whole, the congressional coalition of insurgent Republicans and Democrats was as much responsible for the revenue laws of the Twenties as Mellon."[19] More recently, Joseph Thorndike also has emphasized the impact of progressive congressional forces on 1920's taxation.[20]

Our contribution is to bring to light a lost connection between World War I and progressive tax politics in the 1920's. In 1924 the debate over retroactive pay increases for servicemen merged with the controversy over Republican tax cut proposals known as the "Mellon Plan."[21] Soldiers in World War I had missed out on the wartime economic boom and returned during the recession of 1920. The American Legion mobilized to demand "adjusted service compensation," which quickly became the "bonus," and the question of the nation's responsibility for the well-being of able-bodied veterans remained hotly contested through the mid-1920's. In 1922, Congress passed a bonus bill, but President Harding vetoed it.[22]

Anticipating another bonus effort, the Coolidge Administration tried a pre-emptive strike. The idea was to use the political popularity of tax reduction to defeat the bonus. In November, 1923, Treasury Secretary Andrew Mellon predicted a $300 million annual surplus and offered the Mellon Plan as the best use for the extra revenue.[23] He warned, early and often, that the nation could not afford a bonus as well. But the Administration's strategy failed. Congress rejected the fiscal tradeoffs posed by Mellon and opted for the more appetizing

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[17] See Subsection III.A.1.

[18] See Benjamin G. Rader, Federal Taxation in the 1920s: A Re-examination, 33 The Historian 415 (1971) (emphasizing the political power of Democrats and Progressives in shaping federal tax legislation in the 1920's); see also Sidney Ratner, Taxation and Democracy in America 416 (Octagon Books 1980) (1942) (noting that the 1924 Act was "essentially a Radical-Democratic measure").

[19] Rader, note 18, at 416.

[20] Thorndike, note 13, at 1201-09.

[21] See notes 105-115 and accompanying text.

[22] Paul Dickson & Thomas B. Allen, The Bonus Army: An American Epic 26-27 (2004); see notes 180-84 and accompanying text.

[23] Income Tax Cuts of $323,000,000 Urged by Mellon, N.Y. Times, Nov. 12, 1923, at 1 (Mellon estimates annual surplus for fiscal year 1924 of over $300 million and recommends a $323 million reduction in income taxes).

"pie a la mode" option—meaning a veterans' bonus and tax cuts too. Congress passed a bonus bill over the President's veto and enacted a tax bill that reshaped the Mellon Plan in a progressive direction.[24]

The events of 1924 represented a notable setback for the Administration's fiscal plans and a victory for progressive forces. The bonus represented a $2.25 billion, twenty-year entitlement program for the 4.7 million veterans of World War I.[25] All parties understood that the program involved progressive income redistribution, albeit redistribution with a patriotic face. On the tax side, while the Revenue Act of 1924 did reduce tax revenues, Radicals and Democrats put their stamp on the details. The new law kept income tax rates higher at the top and lower at the bottom than the Mellon Plan proposed, and it included deeper cuts in excise taxes, the highest estate tax rates ever enacted, and a new gift tax.[26] The final tax bill also cut taxes by more than the amount Mellon had originally requested.

The 1924 tax bill looked very different from the Mellon Plan, but in some histories of 1920's taxation, its progressive elements are muted, perhaps because the idea of tax cuts is so strongly identified with Mellon and the Republican Party.[27] The tendency may be to view Democrats and Radicals as adopting Mellon's agenda and just quibbling over the details. But, in fact, the politics of 1924 reflected a fierce ideological contest over income redistribution by the federal government. As the economic boom produced budget surpluses, the question became how to use the money–with Mellon urging the reduction of tax rates on high incomes to assist business, and the Radicals and Democrats insisting on retaining a more progressive pattern of taxation.

By reconnecting the debate over the veterans' bonus to tax politics, we hope to make clearer the bitter battle fought by the two camps in 1924 over tax and bonus legislation. Although the bonus bill and the tax bill were not legally bound together, the connection between the bonus and the Mellon Plan was well understood at the time. Indeed, Mellon and President Coolidge insisted on linking the two negatively from the moment the tax plan was announced.[28] For their part, bonus advocates attacked the Mellon Plan as an effort to reward fat cats and war profiteers at the expense of the ordinary soldier who had been

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[24] See Dickson & Allen, note 22, at 27-30.

[25] See Text of the President's Message Announcing Bonus Bill Veto, N.Y. Times, May 16, 1924, at 1. For the number of veterans, see note 162.

[26] Ratner, note 18, at 419 (discussing estate and gift taxes under the 1924 Act). The 1924 Act also included a credit for state death taxes, but the beneficiaries of that rule were the states, not taxpayers. Revenue Act of 1924, Pub. L. No. 68-176, § 301(b), 43 Stat. 253, 304.

[27] See notes 72-74, 123.

[28] See text accompanying notes 205-12.

paid a dollar a day for service in wartime.[29] In the end, despite Republican warnings about fiscal imprudence, Congress passed a tax bill that was more progressive and more expensive than the Mellon Plan as well as a major new expenditure program. Then as now, the projected surplus was red meat to an election year Congress with a big appetite for tax reduction and new spending. In the 1920's, a growing economy ultimately would produce even larger revenues than Mellon forecast, keeping the federal government well in the black, but in May and June 1924, Congress acted despite Mellon's prediction of huge deficits.

One can construe the 1924 victory of the progressive agenda on taxation and the bonus as the outcome of interest group politics–and we do. The veterans, via the American Legion and its allies in Congress, many of whom were veterans themselves, presented an effective lobbying force. The Radical Republicans' strength in the 68th Congress, and the Republicans' historic ties to the veterans' agenda, also paved the way for a party split that would help defeat the Administration's agenda. At the same time, a Congress facing an imminent election surely understood the mass appeal of a bonus for the millions of soldiers (and their families), as well as tax cuts targeted to more modest incomes than Mellon had in mind.

We also draw out the ideological debate over the federal government's role in income redistribution. Should the postwar government take a free-market approach, aiming for a balanced budget and rapid debt repayment in order to get the government out of the economy and out of business's way? Or should the federal government continue to redistribute income through progressive taxation during peacetime, while taking some responsibility for the economic security of disadvantaged veterans, beyond offering them the chance to compete in the marketplace? These questions remained contested for decades–and indeed, today–but the tax and bonus debates of 1924 illustrate one fork in the road during the 1920's.

Still, we do not want to exaggerate the role of the bonus in 1924. We do not assert that the bonus bill represented a romantic victory that somehow emboldened timid opponents of the Mellon Plan. The Mellon Plan had plenty of enemies in its own right, and the coalition that forced action on the two items was not precisely the same. But the political momentum behind the bonus helped destabilize Coolidge's political position, as it became increasingly clear that Coolidge and Mellon could not maintain party discipline even within mainstream Republican ranks.

[29] See text accompanying notes 232-42.

Nor do we claim that the progressive victory of 1924 set the tone for all of 1920's tax politics. During the decade, the progressives won some battles and lost others. In 1924, Radical Republicans failed to re-enact the excess profits tax; while the Radicals held the swing vote, ensuring that they could help shape tax policy, they could not enact legislation that lacked support from other quarters.[30] In 1926, Mellon proposed—and this time won—steeper cuts in the highest income tax brackets.[31] But even in that year, the progressives left their handprint, insisting on income tax cuts that benefited taxpayers in the lowest income tax brackets[32] and defending the estate tax against repeal.[33] As Benjamin Rader points out, "[a]ll of the tax legislation [in the 1920's] fell short of Mellon's requests; all required compromises between the competing interest groups represented in Congress."[34]

Finally, we suggest that the 1924 bonus merits attention not only for its interaction with the politics of taxation but also in its own right. The bonus represented a noteworthy shift in veterans' benefits. In previous wars, the government had provided disability pensions to soldiers, but the Civil War pension system had become associated with corruption and patronage politics.[35] In the 1920's, veterans' advocates promoted the bonus instead. The bonus was to be paid to every veteran, not just to the disabled, and it was payable in cash (although cash payments for most were deferred until death or the expiration of twenty years, whichever came sooner).[36] The bonus idea foreshadows the GI Bill strategy: Both took notice of the economic situation of the returning veteran, and both aimed to help with the economic transition back to civilian life. Earlier versions of the bonus bill presage the GI Bill even more clearly, offering a "menu" including vocational training and farm aid as well as cash.[37]

The bonus became front-page news once again in the 1930's. In 1932, as many as 20,000 veterans mounted a "Bonus March" on Washington to lobby for early payment of the bonus, which by its terms was due in 1945.[38] The ragged veterans exemplified the country's distress, and Herbert Hoover's use of military force against their encampment generated a national backlash that may have helped Roosevelt win

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[30] House Votes Down Effort to Restore Excess Profits Tax, N.Y. Times, Feb. 24, 1924, at 1 (re-enactment of excess profits tax fails by House vote of 74-157).

[31] Revenue Act of 1926, ch. 27, § 211(a), 44 Stat. 9 (enacted).

[32] Ratner, note 18, at 426.

[33] See Murnane, note 13, at 1189.

[34] Rader, note 18, at 416.

[35] See text accompanying notes 362-64.

[36] See text accompanying notes 367-71.

[37] See text accompanying note 376.

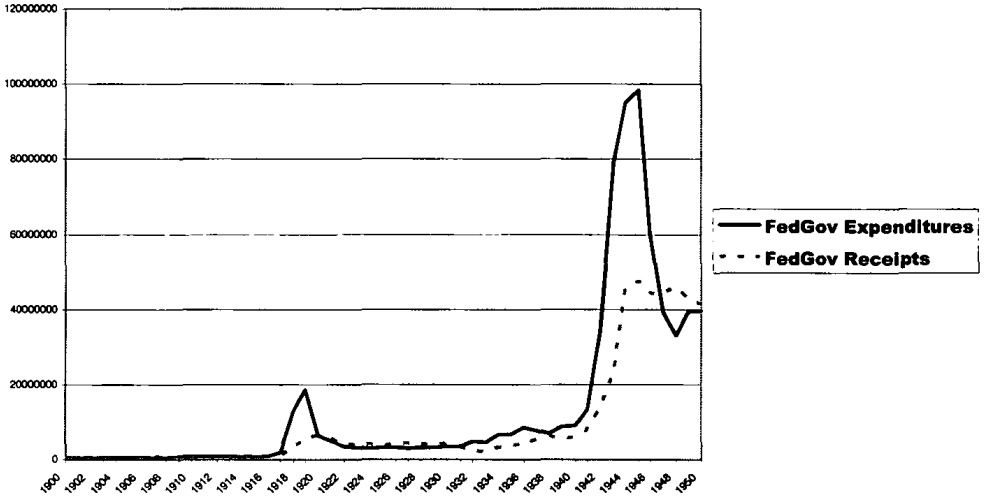
[38] See Dickson & Allen, note 22, at 137.

the presidential election.[39] The bonus eventually was paid in cash to the veterans in 1936—nine years ahead of schedule, and over Roosevelt's objection.[40] We suggest that the linkages between the 1924 bonus and the social initiatives of the 1930's and 1940's deserve further study.

II. World War I and Taxation in the 1920's

The impact of the two world wars on federal taxation is readily visible in Figure 1, which tracks federal revenues and spending from 1900 to 1950. Both wars produced a notable upward spike in spending and taxation. In the postwar period, demobilization led to a declining trend, but in both cases, expenditures and revenues remained at a higher level than in the prewar period. Both wars boosted federal fiscal power to a new, higher plateau of taxes and spending, as Elliot Brownlee has pointed out.[41]

Figure 1
Federal Government Expenditures and Revenues, 1900-1950[42]



[39] Id. at 184-85, 201.

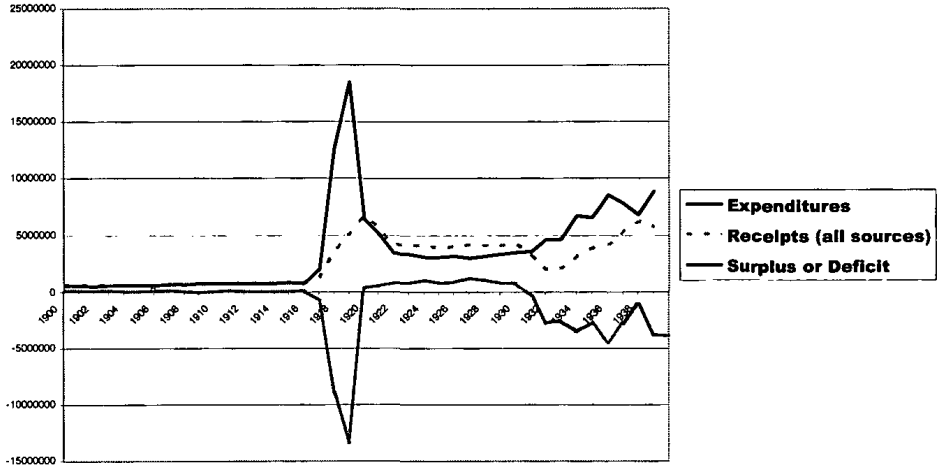
[40] Id. at 56-206 (describing the origins of the Bonus March, the events of the summer of 1932, and their aftermath).

[41] See Brownlee, note 1, at 58-59, 121.

[42] John Joseph Wallis, Federal Government Finances-Revenue, Expenditure, and Debt: 1789-1939, [hereinafter 1789-1939 Finances] in 5 Historical Statistics of the United States Earliest Times to the Present 5-80 to -81 tbl.Ea584-587 (Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L, Olmstead, Richard Sutch & Gavin Wright eds., Millenium ed. 2006) [hereinafter Earliest Historical Statistics]; John Joseph Wallis, Federal Government Finances-Revenue, Expenditure, and Debt: 1940-1999, in 5 Earliest Historical Statistics, supra, 5-102 tbl.Ea679-682 [hereinafter 1940-1999 Finances].

A closer look demonstrates that World War I effected a dramatic change in the federal fiscal profile. In 1916, with war ongoing in Europe and on the horizon for America, the federal government's budget was under $750 million.[43] The budget grew to 24 times that size by 1919–to nearly $19 billion.[44] By 1922, federal spending stabilized at about $3 billion.[45] While the wartime spike is dramatic, peacetime growth is notable too: Federal spending in the 1920's was more than four times the size of the budget before the United States entered World War I.[46] Even adjusted for inflation, which ran to double digits during the war years, federal expenditures were nearly three times as large in 1924 as in 1916.[47]

FIGURE 2
FEDERAL GOVERNMENT RECEIPTS AND EXPENDITURES, 1900-1939[48]



Tax rates follow a similar pattern, falling after demobilization but remaining high relative to the prewar period. The top marginal income tax rate rose from 15% in 1916 to 25% through most of the mid-1920's (with a one-year decline to 24% in 1929).[49] And, according to

[43] Historical Statistics, note 9, at 711 ser. Y 254-257.

[44] Id.

[45] For the eight years from 1922-1929, federal expenditures averaged approximately $3.2 billion, with relatively little variation around the mean. Id.

[46] Federal expenditures were about $734 million in 1916 and $3.05 billion in 1924. Id. Federal expenditures also grew when measured on a per capita basis. See Jacob Metzer, How New Was the New Era? The Public Sector in the 1920's, 45 J. Econ. History 119, 120 tbl.1 (1985).

[47] Adjusting for inflation using the Consumer Price Index (CPI), federal expenditures were $1.153 billion in 1916 and $3.049 in 1924. Authors' calculations, using the nominal-dollar data referenced in note 46, adjusted for inflation using the Bureau of Labor Statistics CPI inflation calculator found at http://www.bls.gov/bls/inflation.htm.

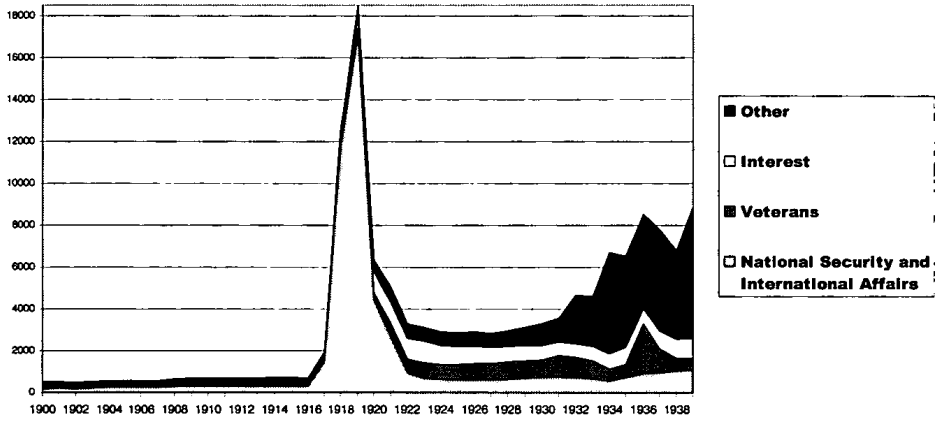
[48] Wallis, 1789-1939 Finances, note 42; Wallis, 1940-1999 Finances, note 42.

[49] Historical Statistics, note 9, at 703 tbl.VIII.

Treasury Department data, effective tax rates on the richest 1% of households also rose from 3% in 1916 to 7-9% through the 1920's.[50] From peacetime to peacetime, the United States witnessed a 60% increase in the top marginal federal income tax rate and a 233% increase in effective tax rates on the richest 1% of taxpayers.[51]

The peak-and-decline pattern reflects demobilization combined with the limited domestic mission of the federal government during the 1920's. In peacetime, the army was small, and there was not yet a modern federal welfare state or regulatory state. Social provision and business regulation (such as they were) were largely the province of the states. Figure 3 provides data confirming that point: In the post-war period, military spending declines dramatically, while the "other" category, which encompasses social programs and other domestic initiatives, remains flat. It is only in the 1930's that we see the expected, large increase in domestic spending by the federal government.

FIGURE 3
FEDERAL EXPENDITURES, 1900-1939, BY CATEGORY[52]



Debt service payments were one major factor driving the continuing high level of taxation and spending throughout the 1920's.[53] Looking again at Figure 2, one can see the sharp increase in the deficit, as World War I spending peaked earlier and more sharply than revenues, reflecting the fact that the war was financed both by current taxes and by borrowing to be repaid later. The costs of the war also would lin-

[50] W. Elliot Brownlee, Historical Perspective on U.S. Tax Policy Toward the Rich, in Does Atlas Shrug? 29, 45 tbl.2.3 (Joel B. Slemrod ed., 2000).

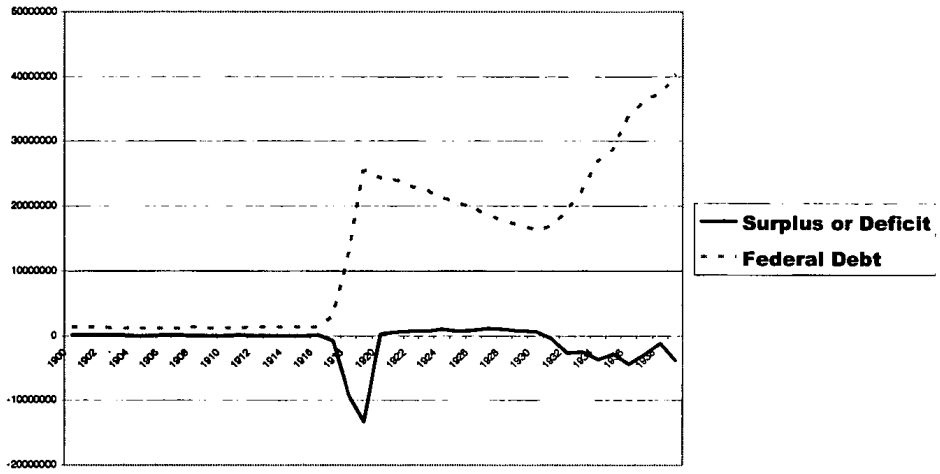
[51] Id. at 45 tbl.2.3 (effective tax rate data); Historical Statistics, note 9, at 703 tbl.VIII (marginal tax rate data).

[52] John Joseph Wallis, Federal Government Expenditure, by Major Function: 1900-1939, in 5 Earliest Historical Statistics, note 42, at 5-95 tbl.Ea644-649 [hereinafter 1900-1939 Expenditure].

[53] For a description of war finance, see Charles Gilbert, American Financing of World War I, at 65-115 (1970).

ger on into the 1920's in another form, as payments to disabled veterans and other financial obligations associated with the war continued at higher levels than in the prewar period. As Figure 4 shows, the federal government made steady progress throughout the 1920's in reducing the level of Treasury debt, but this did not happen overnight.

FIGURE 4
FEDERAL SURPLUS (DEFICIT) AND FEDERAL DEBT, 1900-1939[54]



Despite the enormous publicity given to tax-cut efforts, including the Mellon Plan, which is the subject of Part III, Republican Presidents in this era gave priority to debt reduction. Between 1920 and 1924, for example, the federal government paid off more than $4 billion of wartime debt, using funds that otherwise might have been used for tax cuts.[55] Mellon explained the seeming contradiction this way: "The public debt is a mortgage or lien upon national wealth . . . Debt reduction, in fact, is the best method of bringing about tax reduction."[56]

Figure 5 confirms the importance of war-related expenditures in producing the new, higher plateau of taxation and spending. Once we remove plausibly war-related items, including national security, international affairs, veterans' affairs, and interest expense, the federal government budget profile becomes relatively flat from the prior decade to the 1920's.[57] The non-war-related expenditure line also shows the expected change in the 1930's. Beginning in 1932, the federal government's total expenditures began to rise as the response to the De-

[54] Wallis, 1789-1939 Finances, note 42, at 5-80 to -81 tbl.Ea584-587.

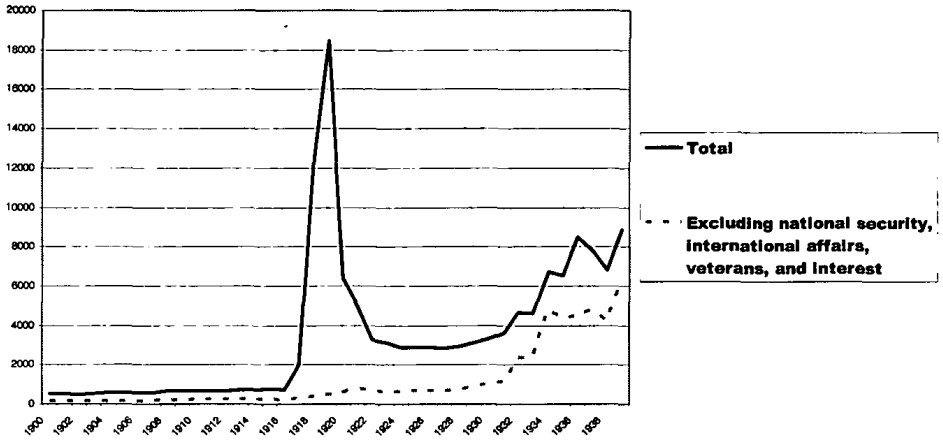
[55] Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1925, at 22 (1925) [hereinafter Treasury Annual Report].

[56] Id. at 26.

[57] Wallis, 1900-1939 Expenditure, note 52, at 5-95 tbl.Ea644-649.

pression got underway; in that decade, it was domestic programs and not the war that caused the increase in spending.

FIGURE 5
FEDERAL EXPENDITURES, 1900-1939, WITH AND WITHOUT WAR-RELATED SPENDING[58]



In addition to higher levels of federal spending and taxation, a second transformation associated with World War I was that taxation at the federal level remained strikingly progressive into peacetime. Throughout the 1920's, the federal government relied far more heavily on the income tax and less heavily on excise taxes and tariffs than before. Figures 6, 7, and 8 show the change. Before 1918, the nation relied heavily on excise taxes and tariffs to fund the federal government. During and after the war, by contrast, these regressive taxes declined dramatically in importance, and the income tax became the major source of federal revenue. In 1916, for example, individual and corporate income taxes together accounted for less than 16% of federal receipts.[59] Throughout the 1920's, in contrast, income taxes never dropped below 45% and generally ranged between 50% and 60% of federal receipts.[60]

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[58] The scale of the graph masks the fact that spending on other items did increase, but it correctly shows that the big dollars were devoted to the war-related items. Brownlee points out that federal spending on domestic programs increased during the 1920's; he highlights grants-in-aid to the states for items including the national highway system. Brownlee, note 1, at 79-80.

[59] Historical Statistics, note 9, at 712-13 ser. Y 258-263 & ser. Y 264-279.

[60] The data in the charts are taken from two sources. Income tax data from 1920 to 1924 are taken from Bureau of Foreign & Domestic Commerce, U.S. Dep't of Commerce, Statistical Abstract of the United States 1924, at 146, available at http://www2.census.gov/prod2/statcomp/documents/1924-03.pdf. Federal receipt data from 1920-1929 and the income tax data from 1925-1929 are taken from Historical Statistics, note 9, at 712-13 ser. Y 258-263 & ser. Y 264-279. The data overlap for only three years, 1915-1918, and there is some discrepancy in the data for those years. In Figure 7, the percentages for 1915 and

FIGURE 6
EXCISE TAXES VS. ALL INTERNAL REVENUE, 1900-1939[61]

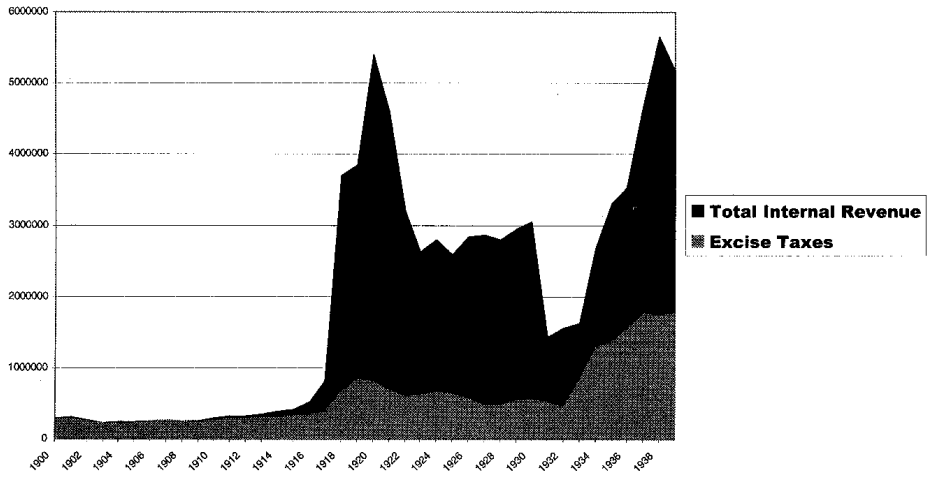
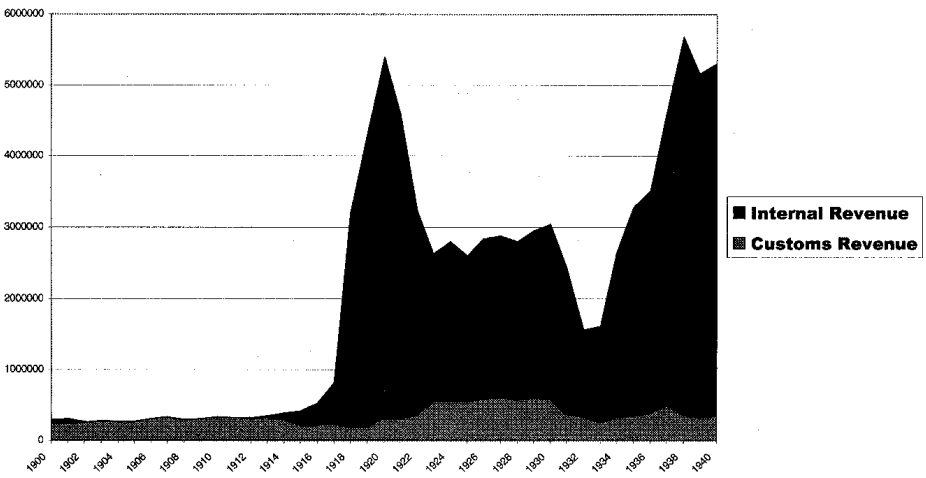


FIGURE 7
CUSTOMS REVENUE AND INTERNAL REVENUE AS SOURCES OF FEDERAL RECEIPTS, 1900-1939[62]

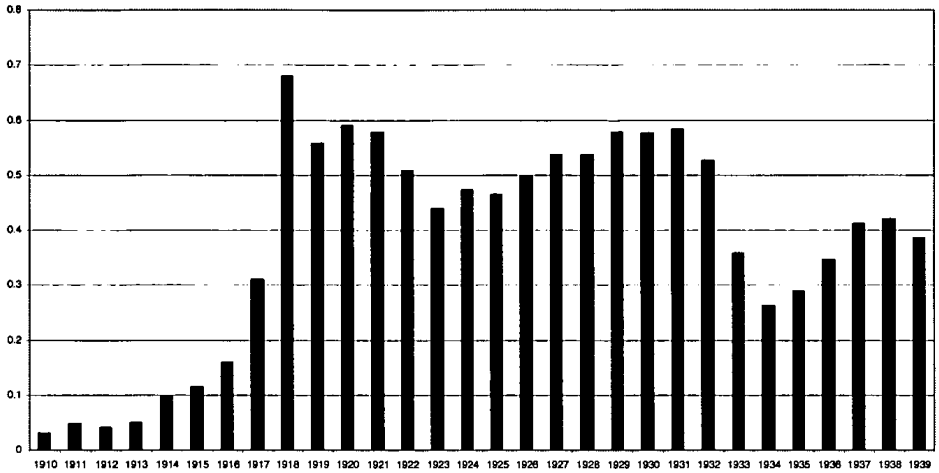


1916 would have been smaller, and the percentage for 1917 larger, if we had used the 1961 Census data source rather than the 1924 data source for those overlapping years. But both sources are entirely consistent with the point made in the text: that the federal government relied far more heavily on the income tax in the 1920's than in the prewar period.

61 John Joseph Wallis, Federal Government Internal Tax Revenue, by Source: 1863-1940, in 5 Historical Statistics, note 42, at 5-85 to -86 tbl.Ea594-608 [hereinafter Tax Revenue]; John Joseph Wallis, Federal Government Revenue by Source: 1789-1939, in 5 Historical Statistics, note 42, at 5-82 to -84, tbl.Ea988-593 [hereinafter 1789-1939 Sources].

62 Wallis, 1789-1939 Sources, note 61, at 5-82 to -84 tbl.Ea588-593.

FIGURE 8
INCOME TAXES (INDIVIDUAL AND CORPORATE) AS A PERCENTAGE OF FEDERAL RECEIPTS, 1910-1939[63]



This change in the mix of federal taxes shifted the burden of taxation toward the upper range of the income distribution. During the 1920's, the federal income tax was imposed only on upper-middle class and rich families.[64] In contrast, excise taxes and tariffs fall hardest on ordinary consumers in the middle and at the bottom of the income distribution. Excise taxes are consumption taxes on specific commodities: oil, cotton cloth, or movie tickets, for example. (Tariffs are excise taxes on imported commodities.) Economists predict that such taxes are shifted to the ultimate consumers of these commodities, that is, to families who use heating oil, wear cotton clothing, and go to the movies. Consumption taxes are regressive, because consumption accounts for a relatively high share of income as one moves down the income distribution: Poorer families spend relatively more of their income on heating oil, clothing, and entertainment, even if richer families spend absolutely more.

The income tax itself grew more progressive through the 1920's. Within the group of well-off people subject to the income tax, the very rich paid more than the merely comfortable. Figure 9 shows that, from 1920 on, the very rich (with incomes of $1 million or more) paid an increasing share of federal income taxes, while the upper middle class (incomes of $5,000 and below) paid a smaller share. The share paid by the ordinarily wealthy ($5,000 to $25,000) also fell.[65]

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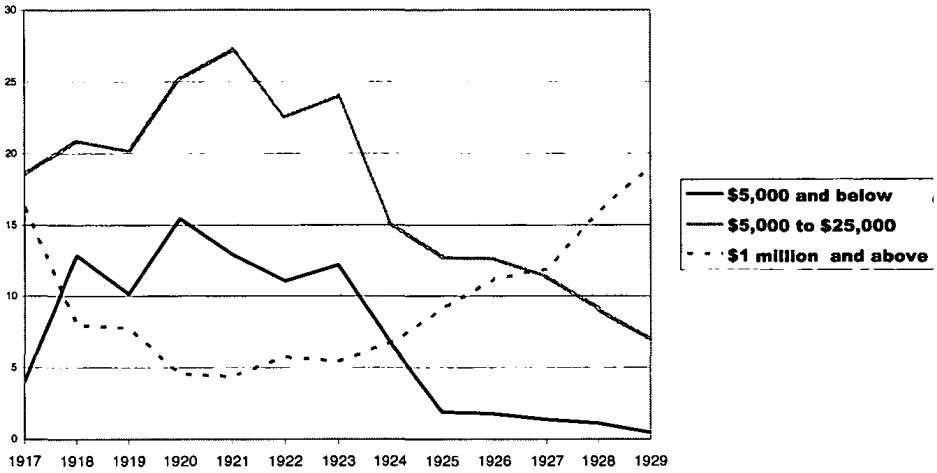
[63] Wallis, 1789-1939 Finances, note 42, at 5-80 to -81 tbl.Ea584-587; Wallis, Tax Revenue, note 61, at 5-85 to -86 tbl.Ea594-608.

[64] See text accompanying notes 65-68.

[65] Gene Smiley & Richard H. Keehn, Federal Personal Income Tax Policy in the 1920s, 55 J. Econ. Hist. 285, 294-95, 295 tbl.3 (1995). The Smiley and Keehn income breakpoints are not adjusted for inflation. Inflation from 1920 to 1929 was fairly modest, however. In

FIGURE 9
TRENDS IN THE PERCENTAGE SHARE OF INDIVIDUAL INCOME TAXES PAID BY DIFFERENT INCOME GROUPS, 1917-1929[66]



The changing distribution of the tax burden reflected both economic growth and legislative activity. The 1920's economy was growing rapidly, raising incomes and pushing more taxpayers into higher income classes, where they paid higher taxes.[67] At the same time, the Congress enacted progressive measures, reducing marginal tax rates in the lowest tax brackets and increasing exemption levels (that is, the threshold for paying federal income tax) as shown in Figure 10.[68]

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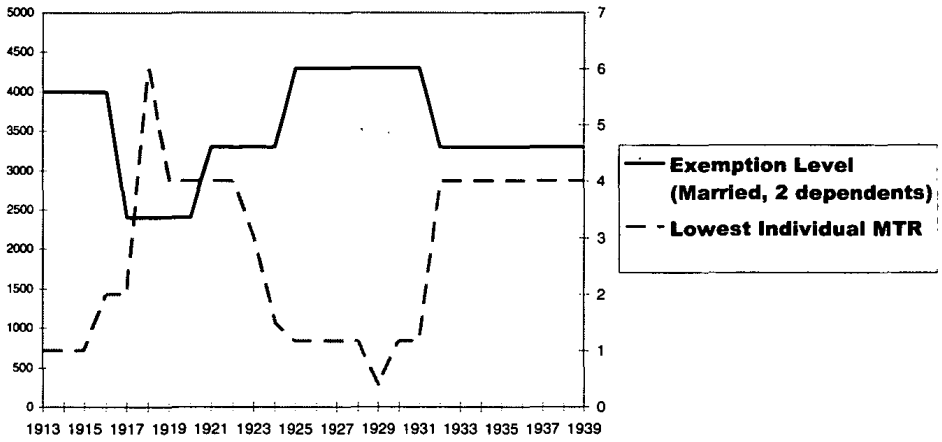
contrast to the period from 1916 to 1920, when the CPI nearly doubled (from 10.9 to 20), the CPI actually declined modestly from 20 to 17.1 from 1921-1929. For the CPI numbers, see Bureau of Labor Statistics, U.S. Dep't of Labor, Consumer Price Index, All Urban Consumers (CPI-U), U.S. City Average, All Items, 1982-84=100, ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt.

[66] Smiley and Keehn, note 65, at 295 tbl.3.

[67] For a study of the impact of economic growth on taxation in the 1920's, see id. They find that a portion of the revenue gains came from reduced tax avoidance among the wealthy, just as Mellon predicted. Id. at 302.

[68] The increase in exemption levels depicted in Figure 10 is somewhat overstated because the figure expresses exemption levels in nominal dollars. Adjusted for inflation, exemption levels did rise during the 1920's but remained lower in 1929, in real dollars, than during the prewar period. For example, in 1916, the exemption level for a married couple with two children was $6,280, compared to $4,214 in 1925 (expressed in 1924 dollars). Authors' calculations, using data from Historical Statistics, note 9, at 703 tbl.VIII and the Bureau of Labor Statistics inflation calculator cited in note 47. Thus, it is accurate to say that the Congress moved in a progressive direction by raising exemption levels during the 1920's but it would be inaccurate to claim that exemption levels were lower than in the prewar period.

FIGURE 10
EXEMPTION LEVELS AND LOWEST INDIVIDUAL MARGINAL TAX RATES, 1913-1939[69]



As discussed later, mainstream Republicans and progressives debated the degree of progressivity to be maintained in income tax rates.[70] But the income tax as then structured inevitably concentrated taxes on the upper range of incomes, and Mellon (among others) defended the income tax against competing proposals, notably a national sales tax.[71]

Given these data, it seems curious that some histories portray the 1920's as an era of tax cuts for the wealthy. The stereotype is most often is invoked by advocates of supply-side economics, who view the tax cuts of 1921, 1924, and 1926 as the impetus behind the economic boom.[72] A typical account asserts: "Tax rates were slashed dramatically during the 1920s, dropping from over 70% to less than 25%.

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[69] Robert A. Wilson, Personal Exemptions and Individual Income Tax Rates, 1913-2002, IRS Stat. Income Bull., Spring 2002, at 216, 219 tbl.1.

[70] See text accompanying notes 105-13, 213-40.

[71] Indeed, Mellon defended the income tax against efforts by business interests to replace it with a national sales tax. See Brownlee, note 50, at 49; Thorndike, note 13, at 1203.

[72] See Bruce Bartlett, The Futility of Raising Tax Rates, Apr. 8, 1993, http://www.cato.org/pubs/pas/pa-192.html ("During the 1920s tax rates were cut massively, with the amazing result that revenues actually increased, especially from the wealthy. . . . [Such revenue increases were] due to the vast expansion of the tax base as a result of the general economic expansion of the 1920s that was caused largely by the tax cuts." (citations omitted)); Veronique de Rugy, 1920s Income Tax Cuts Sparked Economic Growth and Raised Federal Revenues, Mar. 3, 2003, http://www.cato.org/pub_display.php?pub_id=3015 ("Secretary Mellon knew that high tax rates caused the tax base to contract and that lower rates would boost economic growth. . . . The tax cuts of the 1920s were the first federal experiment with supply-side income tax rate cuts."); Daniel J. Mitchell, The Historical Lessons of Lower Tax Rates, Aug. 13, 2003, http://www.heritage.org/Research/Taxes/wm327.cfm. For a challenge to the supply-side characterization of Mellon's views, see Joseph J. Thorndike, Was Andrew Mellon Really the Supply Sider Conservatives Like to Believe? (2002), http://www.tax.org/thp/Articles/andymellon.htm (emphasizing Mellon's commitment to balanced budgets and his willingness to raise taxes to achieve them).

What happened? Personal income tax revenues increased substantially during the 1920's, despite the reduction in rates."[73] Treasury's official history of taxation repeats the point, praising the tax cuts of the 1920's for strengthening the economy.[74]

Even serious histories of taxation sometimes overstate the significance of the 1920's tax cuts, portraying the decade as one in which Republicans successfully cut taxes on the nation's wealthiest individuals.[75] The familiar factoid is that top marginal tax rates fell dramatically from their wartime peak of 77% to just 24% by 1929.[76]

But one also can turn this account on its head: While marginal tax rates fell relative to their wartime peak, they increased relative to their prewar level. So one could just as well describe the 1920's as a booming economy despite (or because of) unprecedentedly high and progressive taxation. True enough, federal tax receipts fell to less than $4 billion in 1925 from a wartime high of $7 billion in 1920.[77] But these cuts reflect demobilization rather than a change in the government's peacetime mission: Without an army to support, and without a world war to fight, the federal government needed far less money.

The "tax cut" story also has a second flaw: Cuts in the top marginal tax rate during the 1920's were dramatic, but they are not a good proxy for 1920's taxation overall. The federal tax system was highly progressive in ways that the top rate cannot capture. Exemption levels rose, meaning that fewer people were subject to the income tax, and marginal tax rates fell at the lower reaches of the income tax. The so-called "normal" rate of tax, representing the lowest marginal tax bracket, fell from 6% during the war to just over 1% for much of the 1920's.[78]

The tax rate on capital gains merits special attention, since such gains tend to accrue to the wealthy.[79] Figure 11 shows that marginal tax rates on capital gains fell sharply during the 1920's, from more

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[73] Mitchell, note 72.

[74] Treasury's website depicts the 1920's this way:

> The economy boomed during the 1920s and increasing revenues from the income tax followed. This allowed Congress to cut taxes five times, ultimately returning the bottom tax rate to 1 percent and the top rate down to 25 percent and reducing the Federal tax burden as a share of GDP to 13 percent. As tax rates and tax collections declined, the economy was strengthened further.

Fact Sheets: Taxes: History of the U.S. Tax System, http://www.ustreas.gov/education/fact-sheets/taxes/ustax.html (last visited Jan. 17, 2007).

[75] Brownlee, note 50, at 47-49.

[76] Witte, note 1, at 88.

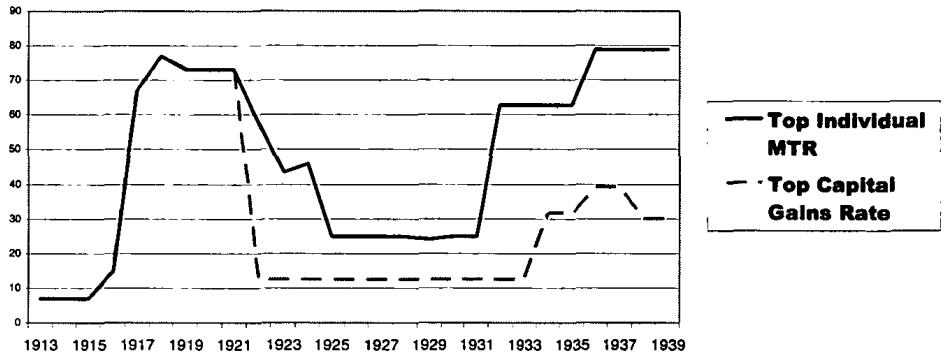
[77] Historical Statistics, note 9, at 712 ser. Y 258-263.

[78] Revenue Act of 1918, ch. 18, § 210(a), 40 Stat. 1057, 1062; Revenue Act of 1926, ch. 27, § 210(a), 44 Stat. 9, 21.

[79] See, e.g., Brownlee, note 50, at 48 (characterizing the 12.5% rate on capital gains as a "loophole" opened by Republicans in 1921).

than 70% during the war to just 12.5% for most of the decade. But what legal laymen may miss is that the capital gains rate during this period is a misleading indicator of federal tax policy.

FIGURE 11
TOP INDIVIDUAL AND CAPITAL GAINS RATES, FEDERAL INCOME TAX, 1913-1939[80]



Although Figure 11 and the Census Bureau tables assert confidently that capital gains were taxed at ordinary income rates until 1921, tax law experts would tell a different story. Until 1920, the taxation of capital gains was sharply contested, with some legal experts taking the position that capital gains were not income at all–meaning taxable at a rate of zero.[81] The tax status of capital gains was truly an open question until 1921. Nothing in the internal revenue laws explicitly included capital gains in taxable income, and respectable Supreme Court precedent suggested that the United States would follow the British model of excluding capital gains from an income tax.[82] At the same time, however, Treasury and Congress had adopted technical measures (notably, corporate reorganization rules) to defer gain on capital transactions, implying that capital gains were indeed taxable as income. The issue remained unsettled until the Supreme Court's decision in *Merchants' Loan and Trust v. Smietanka* in 1921.[83] While the

[80] Wilson, note 69; IRS, Statistics of Income 1937: Individual Returns with Net Income, 1913-37: Number of Returns, Net Income, Tax Before Credits, Tax Credits, and Tax 36 (1937).

[81] See Marjorie E. Kornhauser, The Origins of Capital Gains Taxation: What's Law Got to Do With It?, 39 Sw. L.J. 869, 875-77 (1985); Steven A. Bank, Mergers, Taxes, and Historical Realism, 75 Tul. L. Rev. 1, 44-56 (2000).

[82] See Bank, note 81, at 52-53 (discussing Gray v. Darlington, 82 U.S. 63, 64 (1872)), decided under the Civil War income tax regime. Bank notes that two cases during this period held capital gains taxable for purposes of the corporate income tax but that their rationale was not decisive as to the income tax. Bank, supra, at 54 (citing Hays v. Gauley Mountain Coal Co., 247 U.S. 189 (1918), and Doyle v. Mitchell Bros., 247 U.S. 179 (1918)).

[83] Merchants' Loan & Trust Co. v. Smietanka, 255 U.S. 509, 519-20 (1921) (holding that profit realized from sale or conversion of capital assets is "income" within the meaning of the 16th Amendment and the Income Tax Act of 1916).

Court's decision settled the issue with retroactive force, it also created a forward-looking political problem: Taxing capital gains at ordinary rates was politically unsustainable. Thus, the "tax cut" of 1921, which reduced the capital gains rate to 12.5%,[84] can best be understood as a political compromise, staking out an acceptable territory between full taxation and zero taxation.

The corporate tax rate is also worth special attention, since a casual analysis can be misleading. The data show that the top marginal tax rate on corporate income rose in the 1920's, even relative to wartime rates. Between 1916 and 1918, the top marginal tax rate on corporate income ranged from 2 to 12%.[85] That rate rose to 12.5% in 1922,[86] to 13% in 1925[87] and 13.5% in 1926.[88]

But the "corporate tax rate" does not include the wartime tax on excess profits, a tax on corporate and noncorporate businesses that raised enormous revenue during World War I. Properly factoring in the excess profits tax, and looking at average tax rates rather than the top marginal rate, corporate-sector income taxation in the 1920's follows very much the same pattern as individual income taxation. As Figure 12 shows, the tax burden on corporate income (measured by average tax rates) fell sharply following demobilization but remained at a higher level during the 1920's than during the prewar period. The average corporate tax rate in 1916 was just under 2%, while the rate rose to between 10 and 12% throughout the 1920's.

[84] Revenue Act of 1921, ch. 136, § 206(b), 42 Stat. 227, 233.

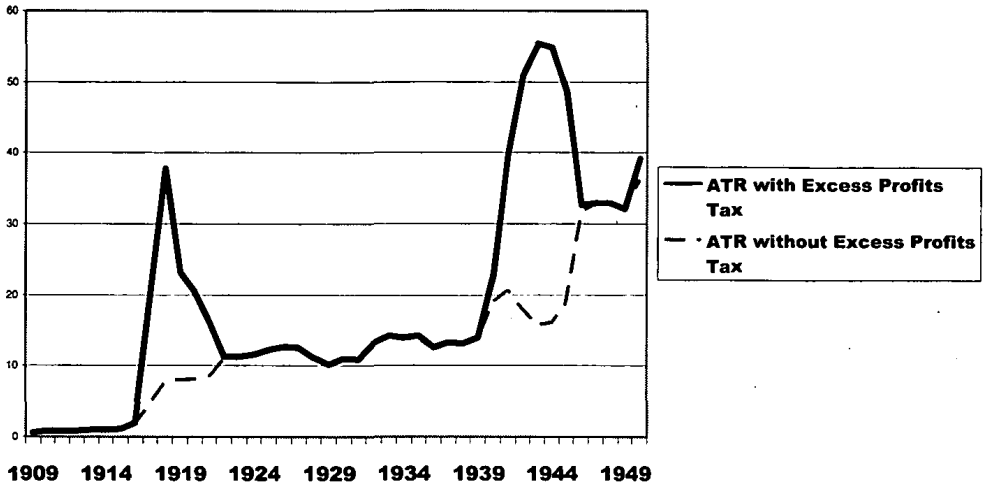
[85] Revenue Act of 1916, ch. 463, § 10, 39 Stat. 756, 765; Revenue Act of 1918, ch. 18, § 230(a)(1), 40 Stat. 1057, 1076.

[86] Revenue Act of 1921, ch. 136, § 230(b), 42 Stat. 227, 252.

[87] Revenue Act of 1926, ch. 27, § 230(a)(1), 44 Stat. 9, 39 (retroactively changing the rates for 1925).

[88] Id. at § 230(a)(2), 44 Stat. at 39.

FIGURE 12
AVERAGE CORPORATE TAX RATE, 1909-1950[89]



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This Part utilized aggregate data to tell a broad-brush story about high and progressive taxation in the 1920's. Part III takes a closer look at 1924 in order to illustrate the strength of progressive elements in Congress and the linkage between the veterans' bonus and the defeat of the Mellon Plan.

III. THE BONUS BILL AND THE MELLON PLAN

Andrew Mellon personified private wealth and public achievement in the 1920's. With a family fortune estimated in the billions, and interests in banking, coal, shipbuilding, oil, and other industries, Mellon was estimated to be one of the fifty richest men in the country when he joined President Harding's Cabinet in 1921.[90] Mellon served for twelve years, outlasting not only Harding but Coolidge and enduring well into the Hoover Administration. The familiar joke was that three Presidents served under Andrew Mellon.[91]

Mellon enjoyed considerable support, especially from business. The New York Times, a pro-Coolidge paper, praised him as "an honest

[89] Historical Statistics, note 9, at 714 ser. Y 280-291. The authors calculate average tax rates by dividing the corporate income tax (plus excess profits tax in one case) by reported net income, in each case for returns reporting net income. (Series 287, 288, and 289 in the table).

[90] Harvey O'Connor, Mellon's Millions: The Biography of a Fortune, at xv (1933) (estimating Mellon holdings through Union Trust at $2 billion); Who's Who at the New Cabinet Table?, N.Y. Times, Feb. 27, 1921, § 7, at 1 (counting Mellon as one of the fifty richest citizens in the United States).

[91] Randolph Paul attributes the joke to Senator George Norris. Randolph E. Paul, Taxation in the United States 125-26, 131-34 (1954).

watchdog of the Treasury."[92] Harold C. Richard, president of one of the largest national banks in 1924, summed up big-business sentiment when he opined that Mellon "is one of the strongest men in the country today and his tax bill measures up fully to the calibre of its author."[93] To be sure, Mellon was not universally admired. William Jennings Bryan called Mellon "the foremost reactionary in the United States" and a party "dictator,"[94] while veterans of World War I jeered Mellon's name at a 1924 rally in favor of the soldiers' bonus.[95] Still, Mellon's influence and public persona reached their zenith in the mid-1920's, when Mellon promoted a bold agenda for tax reduction.

To put the Mellon tax proposals in context, we begin with some facts about the federal income tax. In 1923, and indeed throughout the 1920's, the income tax was paid only by the well-off. Income tax rates in 1923 reflected a postwar tax reduction enacted in 1921, and rates on upper-middle class incomes were low, but marginal rates rose steeply at very high incomes. Exemption levels were generally $1,000 for single individuals and $2,500 for a married individual, plus $400 for each dependent.[96] The tax rate structure reflected a two-tier system: The "normal" tax, ranging from 4% to 8%, applied to all taxpayers, while the "surtax," ranging from 1% to 50%, began at income of $5,000.[97]

The generous exemption levels and low rates of normal tax meant that absolute tax liabilities were modest until incomes rose high into the ranks of the wealthy. A married man earning the average family income of about $2,300[98] would have owed no income tax. A better-off family earning $5,000 would owe just $51, while a very wealthy family with income of $100,000 would owe $22,557.

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[92] Secretary Mellon on Taxes, N.Y. Times, Nov. 12, 1923, at 16 (praising Mellon for "show[ing] his teeth to suspicious and dangerous intruders," referring to Mellon's letter to Rep. William Green, Acting Chairman of the Committee on Ways and Means, with the "intruders" presumably referring to the soldiers' bonus).

[93] Business Agrees that Mellon Plan Means Prosperity, N.Y. Times, Dec. 30, 1923, at 1.

[94] William Jennings Bryan, Op-Ed., Bryan Calls Mellon "A Party Dictator," N.Y. Times, May 11, 1924, § 9, at 3.

[95] "Mellon--Ouch" Veterans' Cry at Bonus Rally, Chi. Daily Trib., Jan. 14, 1924, at 1.

[96] Revenue Act of 1921, ch. 136, § 216, 42 Stat. 227, 242.

[97] Id. at §§ 210-11, 42 Stat. at 233-37 (normal tax and surtax, repectively).

[98] Income distribution data for the 1920's are difficult to come by, in part because the coverage of the federal income tax was so limited that the income tax itself does not provide records for the historian. The Census Bureau provides just one data point, showing average (mean) family income in 1929 of $2,335. The data do not reflect median income, but the lower bound cutoff for the top quintile was $2,810. Historical Statistics, note 9, at 166 (Ser. G 99-117).

TABLE 1
FEDERAL INCOME TAX FACTS, 1923

Number of taxpayers (counting taxable returns)	4.3 million
Individual income tax revenue	$662 million
Surtax component of total revenue	$349 million
Income tax owed by a married individual (with two children) at different levels of income[99]	
$ 2,000	$0
$ 5,000	$51
$ 10,000	$342
$100,000	$22,557

In 1923, about 7.7 million Americans filed tax returns (of which 4.3 million were taxable),[100] and the income tax raised a total of $1.599 billion, comprising $662 million in individual income tax revenue and $937 million in corporate income tax revenue.[101] Within the individual income tax, the surtax raised about $349 million, or 53% of revenue.[102]

The 4.3 million income taxpayers represented about 5% of the population of 81 million adults.[103] The income tax would have affected a larger percentage of the population than the simple calculation reveals, because income tax returns at the time were filed on an individual rather than a joint basis, meaning that some married individuals (primarily wives) would have too little income to file a return for themselves but would live in a family unit paying income tax. As an upper bound, if we compare the 4.3 million taxable income tax returns to the 36 million "consumer units" (meaning families plus unattached singles), the income tax affected something like one in nine, or about 12%, of families.[104]

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[99] Historical Statistics, note 9, at 716 ser. Y 319-332.

[100] Id. at 715 ser. Y 302-311.

[101] Id. at 714-15 ser. Y 280-291 & ser. Y 302-311.

[102] Bureau of Foreign & Domestic Commerce, U.S. Dep't of Commerce at 186 tbl.194, Statistical Abstract of the United States 1929, http://www.2censusgov/prod2/statcomp/documents/1929-01.pdf.

[103] The resident population of the United States in 1924 was about 114 million, with 33 million under age fourteen. Historical Statistics, note 9, at 8 ser. A 22-33. The table does not offer data on children under age eighteen, only age fourteen.

[104] There were 36.1 million "consumer units" in 1929 (the first year for which the Census reports data); these are defined as families plus unrelated single individuals. Id. at 166 ser. G 118-130.

At the time, tax returns were filed by individuals rather than by married couples, although married taxpayers were permitted a higher personal exemption. See Revenue Act of 1921, ch. 136, § 216, 42 Stat. 227, 242-43. This complicates the analysis of how many families paid income tax. The 5% figure probably understates the number of individuals living in families paying income tax, since many married women with little or no income in

Beginning in the spring of 1923, Mellon began to publicize the federal budget surplus and to drum up support for income tax cuts.[105] On November 10, 1923, Mellon officially announced the details of a tax program that quickly became known as the "Mellon Plan," and in December 1923, President Coolidge's budget message to Congress endorsed the Mellon Plan.[106] Mellon projected that the federal government would run an annual surplus of "something over $300,000,000" for the next few years.[107] Since Treasury already had retired a substantial amount of public debt, Mellon recommended devoting the surpluses for the next few years to the cause of tax reduction.[108]

The major features of the Mellon Plan are described in Table 2. Most controversial were the reductions in the surtax rates. Mellon proposed to cut the top surtax rate of 50% (applied to incomes of $200,000 and over) to 25% (applied to incomes of $100,000 and over). Mellon also proposed to raise the threshold for assessing surtax to $10,000 (from $6,000) and to reduce the rates of the normal tax.[109] Both of the latter moves would have helped taxpayers in the lower brackets, that is, the well-off rather than the super-rich.

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their own name would have lived in households with a taxpayer. The 12% figure may overstate the number of families that paid taxes, because it presumes only one tax return per family, while some wealthy wives might have paid income tax on their own.

[105] Cut Surtax More, Mellon Now Urges, Citing Income Gain, N.Y. Times, Apr. 9, 1923, at 1.

[106] Houses Applaud Message, N.Y. Times, Dec. 7, 1923, at 1.

[107] Letter from A.W. Mellon, Sec. of the Treasury, to William R. Green, Acting Chairman, House Ways and Means Comm. (Nov. 10, 1923), reprinted in Income Tax Cuts of $323,000,000, note 23 [hereinafter Mellon Letter].

[108] Id.

[109] Id.

TABLE 2
THE MELLON PLAN

Provision	*Details*[110]			*Revenue cost*[111]
Reduction in normal tax rates	On the first $4,000 of income, normal tax rate cut from 4% to 3%			($92 million)
	On income over $4,000, normal tax rate cut from 8% to 6%			
Reduction in surtax rates	Income	1921 Act	Mellon Plan	($102 million)
	$6,000-$10,000	1%	0	
	$10,000-$12,000	2%	1%	
	$12,000-$14,000	3%	2%	
	$100,000-$150,000	48%	25%	
	Over $200,000	50%	25%	
25% reduction in tax on earned income	Tax credit equal to 25% of income tax attributable (on a pro rata basis) to wages and salaries			($97 million)
Capital loss limitation	Losses limited to 12.5% (the capital gains rate)			$25 million
Limitations on interest and losses	Interest deduction and capital losses deductible only to the extent they exceed tax-exempt interest income			$35 million
Community property amendment	Prevent income-splitting by spouses in community property states			$8 million
Repeal of telephone & telegraph excise tax				($30 million)
Repeal of admission tax				($70 million)
Total				($323 million)

A notable feature of the Mellon Plan was the 25% reduction in income tax on earned income. Mellon explained that salary income was subject to the vicissitudes of life in a way that investment income was not.[112] But this provision was not quite the working class benefit it might appear. Since the income tax reached only well-off families, it would benefit primarily highly-paid professionals. In addition, the calculation of the cut as 25% of the tax due would produce a larger dollar benefit for a richer earner than a poorer one. Still, the change

[110] Details are taken from id.; Text of Tax Provisions of Administration Revenue Bill Including Clauses for Reductions in Levies on Incomes, N.Y. Times, Dec. 29, 1923, at 15; Statement of the Changes Made in the Revenue Act of 1921 by the Treasury Draft and the Reasons Therefor, 68th Cong. (1924), in 96 Internal Revenue Acts of the United States, 1909-1950 (Bernard D. Reams, Jr. ed., 1979).

[111] Figures from Mellon Letter, note 107.

[112] Id.

would have benefited professionals like doctors and lawyers and would have provided no tax relief at all to a passive investor.

The Mellon Plan also devoted $100 million of the total $391 million in tax cuts to the elimination of excise taxes on telephone and telegraph messages and on theater admissions.[113] On the assumption that these taxes were shifted to consumers and/or workers at all income levels, these cuts would have benefited even lower income families not subject to the income tax.

The Mellon Plan was a careful mixture of tax relief for the very rich (surtax reductions), the well-off (normal tax reductions, low-bracket surtax reductions, and earned income relief), and the ordinary taxpayer (excise taxes). In percentage terms, the tax relief for income taxpayers in lower brackets was significant, although the absolute dollar amounts were not large. For instance, a family of four with an income of $4,000 would have paid $15.75 in income tax under the Mellon Plan, compared to $28 under prior law, a savings of 44%.[114] The tax cuts for the very rich, however, would have been large in both absolute dollars and percentage terms: A family of four with an income of $500,000 would have saved $116,784 in taxes under the Mellon Plan, or 44%, while a millionaire would have saved $251,784, or 45%.[115]

Coolidge's motivations were transparent. The constituency for tax reduction was broad and deep in 1924,[116] and the unelected President was facing his first election campaign in the fall of 1924. The Mellon Plan promised to make use of Mellon's sterling reputation and to give the Administration a first-mover advantage.[117] The Plan was promoted throughout late 1923 and into 1924 by a national publicity—some said "propaganda"–campaign, which we revisit shortly.[118]

Fending off the bonus was reputedly—and plausibly—another motive for the Mellon Plan. The Administration's hostility to the bonus colored its framing of the Mellon Plan from the first. In the two final paragraphs of his opening letter of November, 1923 to Acting Ways and Means Committee Chairman Green (R-IA), Mellon made it clear that tax cuts would mean the nation could not afford a bonus:

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[113] Id.

[114] Tax Saving Shown Under Mellon Plan, N.Y. Times, Dec. 30, 1923, at 2 (reprinting Treasury data).

[115] Id.

[116] For instance, Woodrow Wilson's Treasury Secretary, Carter Glass, argued as early as 1919 that "[t]he upmost brackets of the surtax have already passed the point of productivity." S. Rep. No. 68-398, at 5 (1924), reprinted in 1939-1 C.B. (pt. 2) 266, 269.

[117] See Robert H. Ferrell, The Presidency of Calvin Coolidge 167-70 (1998) (discussing Mellon's reputation and the politics behind the Mellon Plan).

[118] Ratner, note 18, at 415.

> [T]o embark on any soldiers' bonus, such as was considered in the last Congress, or any other program calling for similarly large expenditure, would make it necessary to drop all consideration of tax reduction and consider instead ways and means for providing additional revenue.[119]

Using language that would be quoted in the lead paragraph of a front-page story in the *New York Times*, Mellon's letter concluded:

> A soldiers' bonus would postpone tax reduction not for one but for many years to come. It would mean an increase rather than a decrease in taxes, for in the long run it could be paid only out of moneys [sic] collected by the Government from the people in the form of taxes.[120]

Officials of the American Legion were outraged. The day after the publication of Mellon's letter, John Thomas Taylor, a Legion official, wrote to Acting Chairman Green, charging that Mellon's tax proposals were "in fact . . . a personal and direct attack upon the solders' adjusted compensation measure."[121] Taylor argued:

> [The] issue is simply this: Shall 22,000 millionaires, men who profited greatly out of the war, have their income taxes further reduced by $85,000,000 a year, or shall 5,000,000 soldiers and their families be now paid the just debt owed them by the nation for five years?[122]

The battle pitting the Mellon Plan against the veterans' bonus was joined.

Popular histories, including Treasury's website, sometimes portray the Revenue Act of 1924 as the successful enactment of the Mellon Plan.[123] But, in fact, 1924 produced compromise and ultimate defeat

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119 Mellon Letter, note 107.

120 Id.

121 Letter from John Thomas Taylor, Vice Chairman, Nat'l Legislative Comm. of Am. Legion, to William H. Green, Acting Chairman, House Ways and Means Comm. (Nov. 13, 1923), quoted in Arraigns Mellon on Bonus Figures, N.Y. Times, Nov. 14, 1923, at 5.

122 Id.

123 According to Treasury's website:

> In November 1923, Secretary Mellon presented to the Chairman of the House Ways and Means Committee a letter in which he outlined what has come to be known as "The Mellon Plan." It was a balanced program for tax reform based upon the common sense idea of lowering taxes out of surplus revenues. It subsequently became law as the Revenue Act of 1924, although without some of the reforms Mellon advocated. It did reduce the taxpayers' bill by some $400 million annually over what would have been collected if the 1921 tax rates had remained in effect.

for Coolidge and Mellon.[124] By June, 1924, the Mellon Plan had undergone radical surgery: The Revenue Act of 1924 kept taxes on the rich relatively high while cutting tax rates for upper-middle class taxpayers.[125] The bill raised estate tax rates, enacted a gift tax, and cut excise taxes. Coolidge and Mellon were bitterly disappointed in the Act, which Mellon termed "unsatisfactory, uneconomic, and impracticable."[126] Coolidge nearly vetoed it but refrained, perhaps because the votes to override the veto were present.[127]

In this Part, we enrich the history of tax politics in the mid-1920's by examining the linkage between the bonus and the Mellon Plan. While some tax histories mention the bonus, they do so only in a sentence or two,[128] and we have not found any stand-alone history of the enactment of the 1924 bonus bill. A re-examination of the tax debates in 1924 with an eye to the bonus controversy illustrates just how profound was the political defeat of the Mellon Plan. Progressive forces not only reshaped the tax bill but also repudiated Mellon's call to limit new spending in the cause of a balanced budget. At the same time, a coalition of progressives and veterans' advocates enacted a federal entitlement program that ultimately would pay hundreds or thousands of dollars to every veteran of the World War.

Our story focuses on the interplay between the tax debates and the bonus debates. Rather than trying to duplicate the histories of the Mellon Plan or to produce a complete history of the bonus, we want to demonstrate the connections between the two issues. We begin our study with some political background, drawing out three factors that contributed to the defeat of the Administration's legislative agenda and describing the origins of proposals for a veterans' bonus. We then proceed to the narrative of 1923-1924, which highlights the multiple

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Treasury Dep't, Biography of Secretary Andrew W. Mellon, http://www.treasury.gov/education/history/secretaries/awmellon.shtml (last visited Oct. 24, 2006). Note the bland statement that the Act omitted "some of the reforms Mellon advocated." In fact, Mellon reviled what the Act did as well as what it failed to do. See text at notes 338-39.

124 Benjamin Rader, Sidney Ratner, and Joseph Thorndike, among others, correctly note that the 1924 Act little resembled the Mellon Plan and that a coalition of Democrats and Radical Republicans essentially forced it through. See Rader, note 18, at 426-28; Ratner, note 18, at 415-16; Thorndike, note 13, at 1206.

125 See Ratner, note 18, at 416-21.

126 Mellon Denounces Tax Bill Agreed To; Said to Urge a Veto, N.Y. Times, May 23, 1924, at 1.

127 See text accompanying notes 343-46.

128 Rader passes lightly over the bonus: "Besides the promise of even greater prosperity, tax reduction might stave off a Treasury raid by the veterans of World War I." Rader, note 18, at 426. Rader also notes that Congress enacted the bonus over Coolidge's veto. Id. at 428. John Witte, similarly, devotes only brief mention to the bonus. Witte, note 3, at 102 (discussing Congress's 1936 passage of the bonus, and President Roosevelt's efforts to raise revenue to fund the expense).

connections between the debate over the Mellon Plan and the bonus bill.

A. Political Background

Three factors help explain the political conditions that contributed to the success of the bonus bill and the defeat of the Mellon Plan in 1923-1924. While some histories have picked up on some of these factors, our focus on the linkage between the tax debates and the bonus controversy helps to identify additional sources of political weakness that plagued the Administration and its allies.

1. Radical Republicans Held the Swing Vote

First, Republican congressional strength in 1923-1924 was more apparent than real, with swing votes in both houses of Congress lying with the Radical Republicans, who could not be relied upon to side consistently with the old guard Republicans.

Republicans had fared badly in the 1922 elections, losing eight seats in the Senate and 76 seats in the House.[129] The result was a slim Republican majority of two votes in the Senate and twenty votes in the House.[130] The reversals for the GOP in the 1922 congressional and state elections had taken many Republicans by surprise. The *New York Times*, which at the time supported President Harding and the mainstream Republican Party, declared that "something stronger than logic swayed the passions of the electorate,"[131] while the *Washington Post* admonished Congress to stand by President Harding in the coming term.[132]

In the first session of the 68th Congress, lasting from December 1923 to June 1924, the Republicans' narrow majority in both houses was vulnerable because of the internal division of the Republican Party between mainstream Republicans and Radical Republicans (sometimes termed "insurgents"). Mainstream Republicans, including Coolidge, who had replaced President Harding upon Harding's death the previous August, and Mellon, tended to hail from the Northeast and to represent big-business interests. In contrast, the Midwestern Radicals took a more populist and progressive line, hold-

[129] Stephen G. Christianson, Facts About the Congress 306 (1996).

[130] Id.

[131] Editorial, After the Election, N.Y. Times, Nov. 12, 1922, § 2, at 6.

[132] Editorial, Aspects of the Election, Wash. Post, Nov. 9, 1922, at 6.

ing views often well to the left not only of the Republican Party but the Democratic Party as well.[133]

Radicals wanted to continue high wartime taxes on the rich, including the excess profits tax, which had begun as a wartime measure to limit profiteering. Robert La Follette and other Radicals endorsed excess profits taxation,[134] which had given the government a large infusion of cash from 1917 to 1921,[135] as a means of taxing the rich without harming the working man. Ultimately, the Radicals failed to enact much of their program, but they nevertheless left their handprint: Throughout the 68th Congress, the Radicals would be a nettle to Coolidge and his mainstream Republican supporters, forcing legislation leftward.[136]

On the numbers, the mainstream Republicans were highly vulnerable. Rader notes the slimness of the Republicans' twenty-vote House majority, given the seventeen "'insurgent' Republicans, two Farmer-Laborites, and one Socialist who might join the Democratic minority on any tax measure."[137] In the Senate, the situation was similar: The Republican leadership held only 46 votes, compared to 43 Democrats and "about seven" votes attributable to Radicals.[138]

Because Coolidge and the Radicals were bitter antagonists, the "Republican" majority was fragile. To prevail, Coolidge either would need to hold the Radicals in line or curry favor with Democrats.[139] In the end, Coolidge managed neither.

2. *The Veterans and the American Legion Had Political Clout Among Mainstream Republicans*

A second political factor at work in 1923-1924 was the importance of veterans as an interest group and of the American Legion as their political voice. Coolidge and Mellon apparently thought that, like Harding, they could stonewall the veterans' interests, using tax reduction as the prize for party loyalty. Over and over again, the Administration and its allies asserted that enacting a bonus would forestall tax

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133 See, e.g., Next Congress Foreseen as Forum of Clashing Blocs, N.Y. Times, Nov. 4, 1923, § 9, at 3 (discussing divisions within the Republican Party and divisions based on geography).

134 Republicans Make Gains in Congress, N.Y. Times, Nov. 5, 1924, at 1.

135 Radicals Hold Whip Hand in New Congress, N.Y. Times, Dec. 2, 1923, § 9, at 1.

136 Malcolm H. Bryan, The Federal Reserve System, The Excess Profits Tax, pt. I tbl. (1934), available at http://www.taxhistory.org/civilization/Documents/Surveys/hst23741/23741-1.htm.

137 Rader, note 18, at 426.

138 Id. at 427.

139 See Fight by Radicals Disturbs Congress on Eve of Opening, N.Y. Times, Dec. 3, 1923, at 1.

relief.[140] But they miscalculated badly. There was widespread support for the bonus within the ranks of the Republican Party, and it cut across traditional alliances on matters of taxation. Veterans' interests commanded political attention, both in the "old guard" East Coast Republican Party that generally supported low taxes and the administration, and in the Midwestern Radical wing of the party.[141] Historically, the GOP had had very close ties with veterans and veterans' organizations. The Republicans were the party of Lincoln—the party of the north in the Civil War, and thus the party that drew most on the support of the Grand Army of the Republic, the Civil War veterans' organization, in the years following the Civil War. Between Lincoln and McKinley, every Republican president, with the exception of Chester Arthur, had been a General Officer in the Union Army.[142]

While the historical consensus is that the American Legion ultimately never reached the same political heights as the Grand Army of the Republic, in 1923 the Legion's views mattered, and few politicians dared risk this gamble. As discussed in more detail later,[143] the leading bonus proposals originated with representatives from the Republican Party.

The problem for the Administration was that the veterans' bonus issue had the potential to muster a political coalition that not only would cross party lines but would cut deep into the ranks of mainstream Republicans. The same states that paid the highest taxes—New York, Pennsylvania, New Jersey, and Illinois[144]—and thus whose representatives were most likely to support the Mellon tax cuts–also

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[140] See text accompanying notes 207-227.

[141] For instance, among the leaders of the "soldier bloc" advocating the bonus were Reps. McKenzie (R-IL), Sidney Anderson (R-MN), John D. Clarke (R-NY), and Hamilton Fish (R-NY). See House Republicans Will Act Promptly on Tax Reduction, N.Y. Times, Dec. 12, 1923, at 1; Bonus Advocates Demand Early Vote, N.Y. Times, Dec. 30, 1923, at 1; Confer With Mellon on Tax Reduction, N.Y. Times, Dec. 13, 1923, at 4.

[142] Ulysses Grant had been general in chief of the army from 1864. 2 Congressional Quarterly's Guide to the Presidency 1489 (Michael Nelson ed., 2d ed. 1996). Both Rutherford Hayes and Benjamin Harrison had been brigadier generals and James Garfield had been a major general. Id. at 1490, 1492, 1496. Chester A. Arthur did not see uniformed service, but served as Quartermaster General of the troops of New York during the war. Id. at 1493.

[143] See text accompanying notes 170-84.

[144] New York paid a per capita income tax of $20.29, while Pennsylvanians paid $15.28. South Dakota, one of the only states that did not support Mellon's plan in the Literary Digest's poll in 1924, paid a per capita tax of 82 cents and Mississippi paid 62 cents. Radicals Hold Whip Hand, note 134; see Mellon Plan Wins by 21-3 to 1 in Poll, N.Y. Times, Apr. 12, 1924, at 19. In support of the Mellon Plan in a congressional debate, a New Jersey representative reported that New York, with 9.8% of the national population, paid 29.3% of the national income tax bill. 65 Cong. Rec. 2426, 2462 (1924) (statement of Rep. Ackerman).

had high percentages of veterans.[145] Some of the strongest bonus supporters, like A. Piatt Andrew (R-MA) and Hamilton Fish (R-NY), were also from high-tax states.

In 1924, these and other mainstream Republicans would break ranks with the Administration on the bonus issue, and some would abandon the Administration on the Mellon Plan as well, voting instead for compromises engineered by Radicals and Democrats. The Administration had hoped to hold Republicans in line by making tax reduction the "carrot" for obedience on the bonus issue, but Republicans instead broke ranks on the bonus and voted for tax reduction as well, though not in the form the Administration had proposed.

3. *Coolidge's Political Position Was Compromised by the Legacy of Scandal Inherited from Harding*

Finally, Coolidge's administration, and Coolidge himself, began from a weak political position; Coolidge was an unelected President, beset throughout this period by major scandals inherited from the Harding administration. Coolidge had only become president in August 1923, following Harding's untimely death while on a lecture tour of the western states.[146]

Unlike Harding, Coolidge was little-known in Washington.[147] Coolidge's greatest disadvantage, however, lay in three scandals that dominated newspapers through the spring of 1924.

The first scandal played neatly into the hands of pro-veteran legislators. During Harding's administration Colonel Charles Forbes ran the federal Veterans' Bureau.[148] Forbes ran a four-year scam operation, buying land for veterans' hospitals at inflated prices from known associates, sub-contracting construction contracts for the hospitals to companies he owned, and selling government supplies to assorted private parties at cut-rate prices.[149] Harding had dismissed Forbes, but the Senate's investigation into the scandal only began in November 1923.[150] Malfeasance with funds that should have supported veterans

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[145] New York, Pennsylvania, New Jersey, and Illinois accounted for 10%, 8%, 3%, and 7% of veterans, respectively. See New Yorkers Will Get 10% of All Bonus on Basis of Origin of American Forces, N.Y. Times, May 26, 1924, at 1.

[146] Robert Sobel, Coolidge: An American Enigma 229-32 (1998).

[147] Before becoming Vice President, Coolidge had been governor of Massachusetts. During his brief period in Washington as Vice President, Coolidge was largely anonymous. Ferrell, note 117, at 13-19, 39-40.

[148] Andrew Sinclair, The Available Man: The Life Behind the Masks of Warren Gamaliel Harding 191 (3d ed. 1967).

[149] Ferrell, note 117, at 43.

[150] Id.

strengthened the hands of pro-bonus legislators in Congress, both Democrat and Republican.

Coolidge also was hampered by investigations into Attorney General Harry Daugherty's role in the supposed payment of bribes by German citizens eager to reclaim title to property seized during the war.[151] While no investigation ever pinned clear guilt on Daugherty, the scandals resulted in the suicide of one of his closest friends, his own nervous breakdown, and finally his departure from the cabinet in the spring of 1924.[152]

The great scandal of the 1920's—the Teapot Dome—overshadowed both Forbes and Daugherty. While this scandal–the leasing of naval oil reserves at Teapot Dome and the Elk Hills to oilmen who gave Secretary of the Interior Albert Fall a $100,000 bribe–had occurred during Harding's presidency, the investigation into it did not become front page news until January 1924. In the same month that Mellon's original tax proposal went through the House Ways and Means Committee, front pages around the nation were dominated by news of the Teapot Dome scandal.[153]

Coolidge himself was not implicated, but the constant focus of public opinion on Executive Branch misdeeds helped diminish Coolidge's political capital.

B. The Bonus Controversy

To understand the impetus behind the bonus, it is useful to begin with some facts about the army that fought the First World War and the conditions of their service. The first important fact is that this was primarily an army of conscripts. In May 1917, before the advent of conscription, the regular army consisted of 138,000 men, of whom 5800 were officers.[154] The officers, for the most part, were low ranking but of older age due to the army's slow promotion system.[155] The National Guard, the purview then, as now, of the then forty-eight individual states, had about 70,000 men, of whom 3200 were officers.[156] Registration and conscription were introduced in the Selective Service

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[151] Id. at 48.

[152] James N. Giglio, H.M. Daugherty and the Politics of Expediency 155-56, 158-59, 172-73 (1978); Ferrell, note 117, at 48-51; Sobel, note 146, at 266-67.

[153] See, e.g., Doheny to Tell Oil Lease Story Today; Fall "A Traitor," Caraways Says in Senate; Walsh Favors Barring Out Doherty, N.Y. Times, Jan. 24, 1924, at 1; Walsh to Demand President Proceed to Annul Oil Lease, Wash. Post, Jan. 24, 1924, at 1; Arthur Sears Henning, Senate Votes to Annul Oil Leases Today, Chi. Daily Trib., Jan. 31, 1924, at 1.

[154] James H. Cooke, The American Soldier in France, 1917-1919, at 243, in Facing Armageddon (Hugh Cecil & Peter H. Liddle eds., 1996).

[155] Id.

[156] Id. at 244.

Act of 1917, signed into law on May 18, 1917.[157] On June 5, 1917, all males between the ages of 21 and 31 were required to register with their local draft boards, and nine million did so on the first possible day.[158]

By November 11, 1918, the armed forces had grown to nearly 3.7 million men, of whom 2.2 million were draftees.[159] The average new recruit into the U.S. Army was single and in his early twenties.[160] Soldiers and sailors were paid $1 per day for home service, and $1.10 for overseas service.[161] How many members of the armed forces actually went abroad was a subject of dispute immediately after the war and into the 1920's; the numerical uncertainty complicated efforts to estimate the cost of a bonus. Today, however, we know that 4.7 million military personnel served at some point during the war, including 2.8 million draftees.[162] The average soldier served twelve months, and 53% saw overseas service, serving an average of five and one-half months overseas.[163] U.S. forces suffered nearly 120,000 deaths and about 200,000 nonfatal wounds.[164]

The massive wartime army was swiftly demobilized. By the end of 1919, the regular army numbered 19,000 officers and 205,000 men, and by 1925, just after the bonus battle discussed below, it had shrunk almost to its prewar level of 135,000 officers and men.[165] For those regulars who stayed in the army, the coming of peace meant the loss of their wartime ranks and a steep pay cut, events which led many officers to resign by the early 1920's.[166] For those who chose or were chosen for demobilization, the government gave them each a $60 cash payment and permitted them to take home their uniforms, a coat, and a pair of shoes.[167] Combat veterans also were allowed to take home a helmet and a gas mask.[168]

Returning home in 1918, veterans found major social and economic changes underway, and the years between 1919 and 1923 were marked

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157 Selective Service Act of 1917, ch. 15, §§ 2, 5, 40 Stat. 76, 77-78, 80.

158 Byron Farwell, Over There: The United States in the Great War, 1917-1918, at 51 (1999). Eventually 24 million men would register with the Selective Service Board. Id.

159 See id. at 53.

160 Id. at 51.

161 S. Rep. No. 68-403, pt. 2, at 2 (1924) (minority views).

162 Historical Statistics, note 9, at 735 ser. Y 715-762. By Armistice in 1918, there were two million men in the U.S. Expeditionary Force in France, of whom one million were actually on the front lines or in immediate support. Cooke, note 154, at 242.

163 Historical Statistics, note 9, at 735 ser. Y 715-62.

164 Id.

165 Farwell, note 158, at 288.

166 See Farwell, note 158, at 289; Army Officers Hit By Cost of Living, N.Y. Times, Aug. 17, 1919, at 1.

167 Farwell, note 158, at 288.

168 Id.

by economic recession. In the early 1920's, the American Legion emerged as the leading veteran's organization, with special strength within the Republican Party, historically the party of the veteran. The Legion began lobbying to "adjust" the servicemen's compensation retroactively.[169] "Adjusted service compensation" quickly became known in popular terms as "the bonus."

The bonus took a number of forms before adoption in 1924. The first major proposal, known as the Fordney bill, was proposed in 1920 by Congressman Joseph Fordney (R-MI) and Senator Porter McCumber (R-ND).[170] Although the Fordney bill was never enacted into law, its five options helped shape later proposals, including the 1924 bonus as finally adopted:

1. Cash, paid at a rate of $1.25/day for overseas service and $1/day for domestic service, up to a maximum of $625 for overseas service and $500 for domestic service.

2. Adjusted Service Certificates equal to 140% of the cash payments, bearing interest at 4.5% annually and payable in full in 20 years.

3. $1.75 per day of service for vocational training.

4. 140% of adjusted service pay as a loan for the purchase or improvement of a home or a farm.

5. 140% of adjusted service pay for participation in the "National Veterans Resettlement Plan," which would move veterans to desert areas in Arizona, Nevada, and southern Utah.[171]

The cost of the bill was initially estimated at $2.3 billion over the course of its twenty-year existence, a number that would rise for later versions of the bill, as Treasury adopted more conservative assumptions.[172] Fordney and McCumber suggested that this be paid for by raising income and excise taxes.[173] The Fordney-McCumber bill passed the House easily, by a vote of 289-92 but was defeated in the Senate.[174] During the 1920 presidential campaign, neither major party put the bonus bill into its platform.[175] William Jennings Bryan, the perennial bridesmaid of presidential politics, running as a third party candidate, promoted the idea around the country.[176]

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[169] See, e.g., Legion Puts Bonus Up to Congress, N.Y. Times, Nov. 13, 1919, at 17; American Legion Asks Early Bonus, Wash. Post, Dec. 17, 1920, at 4.

[170] Roger Daniels, The Bonus March 25 (1971).

[171] Id. at 25-26. See also Bonus Bill Passed Under Gag in House by Vote of 289-92, N.Y. Times, May 30, 1920, at 1.

[172] See Treasury Secretary Houston's estimate reported in Houston Proposes Revenue Sources, N.Y. Times, Dec. 28, 1920. See text accompanying notes 257-79.

[173] 66 Cong. Rec. 7933-34 (1920).

[174] Id. at 7940-41.

[175] Daniels, note 170, at 27.

[176] Id.

The Fordney bill was reintroduced in the following session of Congress and according to some observers had a good chance of success in the Senate.[177] In an unusual move, President Harding intervened, appearing in person before the Senate in order to persuade the Republican leadership to keep the bill bottled up in committee until the close of the session.[178]

In 1922, bonus supporters reframed the bill for a third try. The cash option was completely revamped. Only veterans who were eligible for payments of $50 or less could apply for immediate cash payment.[179] Everyone else would receive the deferred "adjusted compensation certificate."[180] Veterans who could demonstrate "dire financial need" could apply for a government loan of 50% of the face value of their certificates, but everyone else would have to wait for twenty years to collect the full value.[181] The home loan, resettlement, and vocational training provisions remained the same.[182] Treasury estimated the cost of the new bill at $4 billion,[183] but it passed the House and the Senate before being vetoed by President Harding.[184]

In his veto message, Harding claimed that paying a bonus would be an unpatriotic act, a "perversion of public funds."[185] This rhetoric, according to the *Chicago Daily Tribune*, which supported the bonus, was greeted in the House with silence.[186] One day later, the House voted to override the veto, but the Senate effort to overturn failed by eight votes.[187]

By December 1923, the battle for a bonus was about to heat up again, and this time the veterans would win. Some early proposals followed the Fordney-McCumber model, providing veterans with a choice among cash, a credit on any form of government insurance,

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[177] H.R. 14157, 66th Cong. (2d Sess. 1920); see Daniels, note 170, at 28-29.

[178] President Asks Delay on Bonus, Christian Sci. Monitor, July 13, 1921, at 4. Harding argued that addressing soldiers' compensation would "imperil the country's financial stability."

[179] See Bonus Changes by Senate Give Three Plans to Veterans, Wash. Post, Sept. 1, 1922, at 4; Conferees Agree on Bonus Bill; Four Major Changes, Wash. Post, Sept. 12, 1922, at 1.

[180] See Bonus Changes, note 179, at 4.

[181] See id.

[182] See id.

[183] See the text of Harding's veto message, reprinted in Text of Harding's Bonus Veto Message, N.Y. Times, Sept. 20, 1922, at 2.

[184] The bill, H.R. 10874, 67th Cong. (1922), was accepted following a long and contentious conference on September 14, 1922. See 68 Cong. Rec. 12607-10 (1922).

[185] "Bad Finance, Not Patriotic": Bonus Vetoed, Chi. Daily Trib., Sept. 20, 1922, at 1.

[186] Id.

[187] For the vote in the House, see 67 Cong. Rec. 13004 (1922) (a vote of 258-54, with 115 abstentions); for the Senate, see 67 Cong. Rec. 13000 (1922) (a vote of 44-28 in favor of overturning the veto, with twenty-four Senators not voting.)

vocational training, and aid for purchasing farms or homes.[188] The key variable–whether any veterans could collect cash immediately–would be debated until the last moment.[189]

How would the bonus be financed? A few early proposals contained explicit suggestions for new taxes.[190] But when Secretary Mellon projected, in July 1923, a federal surplus of $300 million available for tax reduction,[191] the debate changed. Suddenly, the nation had money to spend. The focus became the best use of the surplus–tax reduction or a veterans' bonus?[192]

Hidden in the fine print, but surely known to the participants, was that the "surplus" Mellon announced in 1923 represented political calculation as well as accounting practice. Treasury calculated budget surpluses or deficits by comparing "ordinary receipts" (taxes and other "ordinary" inflows) and expenditures "chargeable against ordinary receipts."[193] The critical issue was the treatment of war debt repayments. Scheduled sinking fund payments were includable in expenditures chargeable against ordinary receipts, but additional debt repayments were not. By this measure, the federal government had run "surpluses" in every year after the war ended, even after tax cuts in 1921.[194] But Mellon's judgment was that these surpluses were best spent on debt retirement,[195] and in the years 1920-1923 the federal government deployed its excess cash in that way.[196]

But in 1923, Mellon (on behalf of a Republican President facing an imminent presidential election) decided that the time had come to put

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188 See, e.g., Drafts a New Bonus Bill, N.Y. Times, Dec. 2, 1923, at 18 (describing bill proposed by Elton Watkins (D-OR)).

189 Since the attempted passage of the last bonus in 1922, nineteen states had passed state bonus bills, ranging in value from Illinois' $55 million to Vermont and New Hampshire's $1.5 million. The nineteen states were Illinois, Iowa, Kansas, Maine, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Dakota, Ohio, Oregon, Rhode Island, South Dakota, Vermont, Washington, and Wisconsin. See Editorial, Taxes and the Bonus, Wash. Post, Dec. 5, 1923, at 6.

190 One early Democratic proposal would have enacted poll taxes on immigrants and alien residents and a new income tax on foreign corporations, while increasing the inheritance tax and reinstating the excess profits tax. Drafts a New Bonus Bill, note 188. Later in the debate, some bonus proponents suggested luxury taxes. M'Lean [sic] Urges Bonus; Suggests Luxury Cut, N.Y. Times, Jan. 17, 1924, at 5; Curtis for Levying Bonus on Theatres, N.Y. Times, Jan. 16, 1924, at 1.

191 See Income Tax Cuts of $323,000,000.

192 See, e.g., Calls for Strict Economy, N.Y. Times, Dec. 11, 1923, at 1 (reprinting text of Coolidge's budget message, in which Coolidge reported that the nation had spent $40 billion on war expenditures, had paid off $18 billion of that through taxation, and that the nation was entitled to "a substantial reduction of taxation" now that the war debt was under control).

193 Treasury Annual Report, note 55, at 16.

194 Id. at 20.

195 Id. at 21-22, 26-28.

196 Id. at 23-24.

tax cuts ahead of further debt retirement. Treasury explained its calculus this way:

> In view of . . . the fact that provisions have been made in the ordinary budget for liberal debt retirements . . . it was the Treasury's view that a reduction in the country's burdensome taxes to the extent of the annual surplus would prove more advantageous to business than the additional debt retirements, and would facilitate the much-needed program of tax reform.[197]

C. The Linkage Between the Bonus Bill and the Mellon Plan: 1923-1924

Throughout the winter of 1923-1924 and into the spring and early summer, Congress would debate, and the nation's newspapers would cover, the bonus question and the Mellon Plan side by side. The linkage of the "two big problems facing the Sixty-eighth Congress"[198] was well known at the time. The linkage is present in the congressional debates and hearings, and it becomes especially clear if one reads newspapers of the period.

Our narrative draws on two sets of sources. First, we studied legislative sources, including the Congressional Record, bills, committee reports, and committee hearings. Second, we examined four national newspapers from October 1923 to December 1924: the *New York Times*, the *Washington Post*, the *Chicago Daily Tribune* (as it was then called), and the *Christian Science Monitor*. All four were independent at the time, operating separately from the large Scripps-Howard and Hearst chains that then dominated U.S. journalism.[199] The *Times*, then as now, was considered a paper of record for the United States, and we have deployed it as our baseline source for facts not available from a more authoritative source (for example, the Congressional Record in the case of congressional debates or bills in the case of legislative provisions).

We have looked to all four papers for editorials and features on the Mellon Plan and the bonus bill–and especially the linkage between

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[197] Id. at 22.

[198] Congress Line-Up on Bonus and Tax Cut, N.Y. Times, Dec. 16, 1923, § 10, at 4.

[199] For an ownership history of each paper, see New York Times, Encyclopedia Britannica online, found at http://search.eb.com/eb/article-9055543; Washington Post, Encyclopedia Britannica online, found at http://search.eb.com/eb/article-9076195; Chicago Tribune, Encyclopedia Britannica online, found at http://search.eb.com/eb/article-9023991; Christian Science Monitor, Encyclopedia Britannica online, found at http://search.eb.com/eb/article-9082421 (all web sites visited on Feb. 27, 2007).

them. The *Times*, representing an elite East Coast business constituency, was pro-Coolidge, pro-Mellon Plan and vehemently anti-bonus.[200] We selected the *Tribune* because it was a major paper based in the Midwest and because it took a more positive view of the veterans' bonus than did the other newspapers studied. The American Legion was based in Chicago, and Midwesterners on average had less to gain from the Mellon tax plan than their East Coast counterparts did. The *Washington Post*, then as now, had extensive coverage of Washington politics. In the 1920's, the *Post* was closely tied to the Harding and Coolidge administrations and eventually took an anti-bonus stance.[201] The *Christian Science Monitor* was one of the only national newspapers in 1923-24 that took an editorial position independent from party politics, though in this case it supported the Mellon Plan and opposed the veterans' bonus.[202] All four newspapers had national circulation and influence, both on the East Coast and in small towns around the United States.[203]

Before we launch into the narrative, two caveats are important. First, Rader[204] and others have ably recounted the political history of the Mellon Plan, and we do not propose to rehash it in detail. Our account focuses, instead, on the trajectory of the bonus and how it interacted with the politics of the tax bill. Second, although we draw on newspaper sources to inform our account, we do not attempt either a comprehensive history of news coverage or an in-depth analysis of public opinion. Our aim is to blend official and news sources to highlight the connections between the bonus debate and the tax controversy, showing the rhetorical, financial, and procedural linkages that connected the two issues.

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[200] See, e.g., notes 217, 230, 231.

[201] For evidence of the paper's pro-Coolidge stance, see, e.g., Harry N. Price, Insists Allies Pay U.S., Backs Mellon Plan and Dry Laws, Wash. Post, Dec. 7, 1923, at 1 (with a subheading reading "His [Coolidge's] Calm Presence Amazes Thousands"). The owner of the Washington Post, Edward B. McLean, even became embroiled in the Teapot Dome scandal, when Secretary of the Interior Albert Fall claimed that he had borrowed $100,000 from McLean. When McLean denied this, an oilman to whom Fall had sold the rights to Nay oil reserves testified that he had given Fall the $100,000 as a bribe. See Ferrell, note 117, at 45. For the *Post*'s opposition to the bonus, see Editorial, Republican Party Facing Disaster, Wash. Post, Dec. 19, 1923, at 6 (criticizing Radicals and urging that they be "cast out" of the party); Editorial, The Bonus Question, Wash. Post, Dec. 26, 1923, at 6 (supporting the Mellon Plan and opposing the bonus).

[202] Editorial, Benefits Which All May Share, Christian Sci. Monitor, Dec. 29, 1923, at 18 (opposing the bonus as necessitating higher taxes).

[203] For example, in Muncie, Indiana, where Robert and Helen Lynd were conducting research for their book *Middletown* at the same time as these debates were occurring in Congress, the four papers studied here were among the most widely read of the national newspapers available in Muncie. Robert S. Lynd & Helen M. Lynd, Middletown: A Study in Contemporary American Culture 471-72 (1929).

[204] See Rader, note 18.

1. The Rhetorical Linkage

As early as December 1923, in his inaugural message to Congress, Coolidge began promoting the Mellon Plan and inveighing against the bonus, warning that the nation could not afford tax reduction if the veterans' lobby prevailed.[205] Coolidge made it clear that he, like Harding, would veto any bonus bill, and so pro-bonus forces knew that the challenge was not only to pass the legislation but to assemble the two-thirds vote needed in each house to override a presidential veto.[206]

The Administration and its allies marshaled four arguments against the bonus and in favor of the Mellon Plan: fiscal responsibility (the nation could not afford a bonus in addition to tax cuts), uncommodifiable patriotism (the idea that sacrifice could not be cashed out in dollars and cents), the equality of able-bodied veterans with ordinary citizens, and the greater good of tax relief "for the many" compared to a bonus "for the few."

At every turn, Coolidge and his supporters linked the prospects for tax reduction to defeat of the bonus.[207] Coolidge's budget message reported a $300 million surplus for 1923 and projected surpluses for 1924 and 1925 of $329 million and $395 million.[208] Coolidge argued that the projected surpluses made tax reduction possible, but "only if the present pressure and co-ordinated effort for economy in our public expenditures be continued without relaxation."[209] In case anyone missed the negative implications for the bonus bill, Coolidge spelled it out: "I am not unmindful of the demand for adjusted compensation for soldiers of the World War . . . I question if there is any sound reason for such a measure. The country is prosperous, and remunerative employment is available for the able-bodied veterans as well as for other citizens."[210]

Over and over, bonus opponents would contrast the (pressing) need for tax reduction with the (lesser) need for a bonus. In the House, for instance, a minority of the Ways & Means Committee asserted that "Congress can best promote the welfare of the people by relieving

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[205] 68 Cong. Rec. 99 (1923).

[206] See Fight by Radicals, note 139; Coolidge Program Faces Hard Fight in Both Houses, N.Y. Times, Dec. 8, 1923, at 1.

[207] See, e.g., Cut the Taxes, Let Bonus Go, Borah Demands, Chi. Daily Trib., Jan. 6, 1924, at 17.

[208] Calls for Strict Economy, note 192.

[209] Id.

[210] Id.

them to the fullest possible extent of the present crushing burden of taxation."[211]

Coolidge's budget message presaged the themes that would dominate Republican opposition to the bonus. Like Harding, he disclaimed any special obligation to the able-bodied, and he portrayed the bonus as special-interest legislation that would be too costly for "the people":

> [T]he fit and able-bodied veterans are offered the opportunities open to every other citizen. The Government has no money to distribute to any class of its citizens that it does not take from the pockets of the people and the payment of a bonus to millions of our former soldiers could only be accomplished at a cost to the whole community, including the veterans themselves, far outweighing the benefits intended to be conferred.[212]

The Administration and its allies argued that tax reduction would favor the whole country, not just the rich, while the bonus would harm everyone and benefit just a few. Mellon's November 10, 1923 letter to Acting Ways & Means Chairman Green, for example, argued: "The benefits of the [tax] reduction will be distributed among all classes of taxpayers, and the revision generally will help to free business and industry of vexatious interference and encourage in all lines a more healthy development of productive enterprise."[213]

By contrast, said Administration allies, the bonus would require higher taxes, burden business, and even promote inflation. For example, the *Christian Science Monitor* wrote on its editorial page:

> To grant a bonus which would even reasonably compensate those who sentimentally are entitled to monetary benefits would necessitate the imposition of additional federal taxes, not upon industry and wealth merely, but upon every wage-earner and every household. This added burden could not be borne by industry . . . . There would, of necessity, be additional inflation, . . . with all the hardships that such a process would entail.[214]

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[211] Minority Committee Report, quoted in $2,119,000 Bonus Will Be Reported in the House Today, N.Y. Times, Mar. 17, 1924, at 1.

[212] Calls for Strict Economy, note 192.

[213] Income Tax Cuts of $323,000,000, note 23.

[214] Benefits Which All May Share, note 202. For an example of the same argument from Mellon himself, see Bonus Is Shelved; Coolidge Demands Tax Relief First, N.Y. Times, Jan. 9, 1924, at 1.

Some suggested that the soldiers themselves should prefer the Mellon Plan to a bonus. Rep. Charles Underhill (R-MA) characterized the Mellon Plan as a "rainbow of hope" for the "overburdened taxpayer" and predicted: "If anything or anybody can prevent a passage of the bonus I believe it will be greatly appreciated by the majority of able-bodied ex-service men, who realize that the burden of payment is greater than any advantage which can possibly accrue to them."[215]

The President also sought to discredit the bonus as an inappropriate payment for the patriotic services of the veterans: "No one doubts the patriotism of those who advocate the bonus . . . . But the service they rendered was of such a nature that it cannot be recompensed to them by the payment of money . . . . The American soldier did not enter the service for the purpose of securing personal gain."[216]

The *New York Times* highlighted the linkage between higher spending (the bonus) and higher taxes with some vehemence, accusing supporters of the bonus of:

> shov[ing] the essential [the Mellon Plan] into the background and put[ting] its great heart into the bonus give-away of billions . . . Tax reduction waits. Tax increase goes blithely on. When is something going to be done? . . . The United States has a President to be proud of. But Congress suggests, by its conduct and its misconduct, the inmates of an institution for defective children "playing" Congress and making themselves ridiculous in their game.[217]

The *Washington Post*, also a pro-Coolidge paper, expressed its views more moderately, arguing that a federal bonus was inappropriate and unneeded. The *Post* noted that nineteen states had enacted soldiers' bonuses, and that the bonus states, together with three additional states that had put bonuses to a referendum, paid three-quarters of federal taxes, implying that a federal bonus would require double taxation to confer a double benefit on the soldiers.[218] The *Christian Sci-*

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[215] Trend in Congress Is to Mellon Plan, N.Y. Times, Nov. 14, 1923, at 1.

[216] Will Permit No Politics, N.Y. Times, Feb. 13, 1924, at 1 (reprinting text of Coolidge speech to the National Republican Club). House Republicans opposing the bonus sounded a similar theme:

> [W]e cannot agree to the justice or wisdom of increasing [the financial burden on the public] for the benefit of those who are in the prime of their manhood, the physical pick of the nation, by the payment of a reward which must be necessarily inadequate for the services rendered.

Minority Committee Report, quoted in $2,119,000,000 Bonus, note 211.

[217] Editorial, Do-Nothings and Do-Wrongs, N.Y. Times, Apr. 18, 1924, at 18.

[218] Taxes and the Bonus, note 189; see also The Bonus Question, note 201 (supporting the Mellon Plan and opposing the bonus in part because it would represent "double taxation" to the states that have voted for bonuses already); Editorial, The Bonus Bill Veto,

ence Monitor put tax reduction first, arguing that a bonus would be "economically impossible,"[219] and that the United States had already surpassed its allies in spending on veterans, even without a bonus.[220]

The *Literary Digest* poll on the Mellon Plan reported that the country overwhelmingly supported the Mellon Plan,[221] and it explicitly linked the tax cut and bonus questions, asking, "Do you favor the Mellon plan for tax reduction? Secretary Mellon says his plan can not [sic] be carried out if the bonus to ex-service men is paid."[222] While the *Digest* poll (which reported 82% support for the tax cut plan) was not scientific, relying on voluntary response rather than a random sample, Mellon Plan advocates invoked this support as evidence that the public not only supported tax reduction but also opposed the bonus.[223]

The *Chicago Daily Tribune*, traditionally a Democratic paper, took a more moderate line, supporting tax reduction and elements of the Mellon Plan while also supporting the bonus. In the *Tribune*'s view, tax reduction and Prohibition were the two great issues of the year for Midwesterners, and the tax burden "has piled a load on the citizen that is making him bowlegged."[224] The *Tribune* pointed out that the Mellon Plan had gained bipartisan support[225] and would help taxpayers of moderate income as well as the rich.[226] But the *Tribune* also favored a bonus to redress the "gross injustice" of the low pay given to soldiers during the war.[227]

For bonus opponents, the bonus also represented an opening wedge to even greater expenditures. The controversy expanded to the possibility of veterans' pensions for World War I servicemen–a prospect understood by both sides as negative, given the nation's dismal experience with Civil War pensions, which had been used as a patronage program and were perceived to be corrupt.[228] For example, an Amer-

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Wash. Post, May 16, 1924, at 6 (supporting veto of "fraudulent" bonus bill); Editorial, Congress Against the Taxpayers, Wash. Post, May 20, 1924, at 6 (criticizing Congress' override of the President's bonus veto).

219 Editorial, Tax Reduction and the Bonus, Christian Sci. Monitor, Dec. 10, 1923, at 20.

220 See Editorial, A Side Glance at the Soldier Bonus, Christian Sci. Monitor, Nov. 21, 1923, at 22.

221 Mellon Plan Wins by 21-3 to 1 in Poll, note 144. Of about 2.1 million respondents to the Literary Digest's poll, nearly 1.5 million supported the Mellon Plan. The only state to come out against the Plan was South Dakota, which had only 21,681 taxpayers out of a population of 636,547. Id.

222 Reprinted in 68 Cong. Rec. 2670 (1924) (reprinting the *Digest* poll).

223 See A Side Glance, note 220; Tax Reduction and the Bonus, note 219.

224 Arthur Evans, Mellon Tax Cut Aims at Burden up in Billions, Chi. Daily Trib., Dec. 23, 1923, at 1.

225 Editorial, Ten Democratic Senators, Chi. Daily Trib., Jan. 9, 1924, at 8.

226 Editorial, Relief for the Smaller Taxpayer, Chi. Daily Trib., Jan. 15, 1924, at 8.

227 Editorial, Coolidge on the Bonus, Chi. Daily Trib., Dec. 7, 1923, at 8.

228 See text accompanying notes 354-64.

ican Legion official characterized the bonus, rather boldly, as a money-saving measure, since it would forestall a system of veterans' pensions.[229] But an editorial in the *New York Times* answered with the dark prediction that "[veterans' pensions] will be demanded in due course,"[230] whether or not the bonus is enacted. The *Times* noted that the government already had provided to soldiers "war risk insurance . . . [which] was to take the place of pensions, a fact that already has been forgotten. Now the advocates of the endowment policy declare that it will be accepted instead of service pensions. How soon that view would be laid to rest!"[231]

For their part, bonus advocates invoked several strands, including fair exchange, need, and desert. Veterans, they said, had been underpaid for their service (the fair exchange claim), had returned to high unemployment (the need claim), and had sacrificed their own prospects at the nation's call (the desert claim). Class conflict underlay the debate, and veterans' advocates made the most of the contrast between the wealthy interests who would gain most from the Mellon Plan and the financial straits of the ordinary veteran.

For instance, in November 1923, an American Legion official rejected the Mellon Plan as a dishonest attempt to aid the rich and harm the veteran:

> He [Mellon] wants to again fool the people. He wants to get their backing, under a misapprehension of the facts, for his plan to cut the big millionaires' taxes, so he is forced to include the little fellow in his tax reduction plans. Then . . . he attempts to deceive the little taxpayer, the ordinary citizen, into thinking that he will not get his taxes cut if the honest and square thing is done by the soldiers.[232]

Radical Republicans kept the class issue at center stage. Representative James A. Frear (R-WI), a leader of the Radicals in the House, brought Mellon's personal wealth into the debate early on, noting that

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[229] Editorial, Saving of Billions Seen in Bonus Bill, N.Y. Times, Mar. 20, 1924, at 23.

[230] Editorial, The Cash Bonus Postponed, N.Y. Times, Mar. 20, 1924, at 18.

[231] Editorial, Bonus Bills in the Senate, N.Y. Times, Mar. 21, 1924, at 18. In January, 1924, the *Times* ran a feature contending that soldiers' bonuses during the American Revolution were "trouble," producing corruption and scandal. Emery T. Smith, Bonus Idea Meant Trouble in George Washington's Day, N.Y. Times, Jan 13, 1924, at 33 (the author was identified as a Lieutenant Colonel in the U.S. Army). The *Times* sounded the anti-pension theme later on: Urging a Coolidge veto, the *Times* warned that the bonus bill was just "an entering wedge" to even greater raids on the treasury by the soldiers. Editorial, The President Can Stop It, N.Y. Times, Apr. 25, 1924, at 16.

[232] Arraigns Mellon, note 121; see also Mellon Tax Plan Draws Fire from Legion, Congress, Wash. Post, Nov. 14, 1923, at 3.

the Secretary collected "from $15,000 to $20,000 every day of the year" and asking:

> Why, then, begrudge $1.25 a day bonus during service to the fellow who got only $1 a day during the war to be shot at while living among the trenches, mud, and vermin, or why oppose giving a dollar a day to the boy who perchance lost his job when we seized him bodily and sent him to war?[233]

Senator Copeland (D-NY) also invoked the class issue. In a dinner speech to the Silk Association of America at the Hotel Astor in Manhattan, Copeland was "hissed and frequently interrupted" as he sounded his theme:

> There are two kinds of bonuses, the bonus for the soldier and the bonus for the rich . . . Now you can have your choice, gentlemen. In this plan of Mr. Mellon's, twenty-one men, including Mr. [Henry] Ford, are to be given a reduction of $31,000,000 in taxes, a million and a half per man . . . . Now . . . I am going to vote for the essential features of the Mellon plan. But if I am the last man in Congress to vote for it I am going to vote for a decent cash bonus.[234]

A. Piatt Andrew (R-MA) was a key bonus advocate, drawing on his own service experience and his connection to the American Legion. He invoked fair exchange, arguing that the veterans were treated harshly compared to their fellow-citizens:

> [A]t least 95 per cent of the veterans to-day feel that they have been unfairly and unjustly treated by their Government.
>
> They feel that when four and a half million men were seized at the outset of their career, drawn into the Army, kept from their normal occupations for, in many cases, a period of two years, they not only were cut out of the earnings which they might have received but that they lost the momentum toward their careers.[235]

Representative John C. McKenzie (R-ILL), another prominent bonus supporter, emphasized the low pay of the soldiers and the ravages

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[233] 65 Cong. Rec. 1, 647 (1924).

[234] Copeland's Views on Bonus Hissed, N.Y. Times, Jan. 13, 1924, at 16. In a similar vein, see remarks by Rep. Edward Little (R-KS), quoted in Trend in Congress, note 215.

[235] Soldiers' Adjusted Compensation, 1924: Hearings Before the House Committee on Ways and Means, 68th Cong. 19 (1924) (statement of Rep. Andrew).

of wartime inflation. In contrast to farmers, workers, and businessmen, who could raise their wages and prices, the soldier worked for a fixed wage.[236] Twenty-one New York Democrats in the House agreed:

> It is not a gratuity, but an equable obligation recognized at once if we remember that the pay of the Army and Navy was about $1.35 a day and food and clothes while common laborers were receiving over $5 per day for eight hours' work. It is compensation, not a gift.[237]

The American Legion took the same theme one notch further, characterizing the economic situation of the returning soldier as outright discrimination:

> The President adheres to the old theory, since discarded by the awakened conscience of America, that, in addition to bearing all the hardships and dangers of battle, the soldier alone for his privilege must be denied the right of adequate maintenance of his family in wartime . . . and that while cheerfully compensating in full the losses that others sustained the soldier must be denounced as unpatriotic because he shows his empty larder and says, "While I was fighting and you were profiting, my family suffered poverty which has not yet been overcome."[238]

The *Chicago Daily Tribune* framed the bonus as a proper tribute: "Our soldiers and sailors, having carried themselves gloriously in war, are entitled to the laurel and bay leaves. A bonus will be a material evidence of the honor and appreciation in which they are held . . . [J]ustice, principle, and expediency are one in this case."[239]

Senator McLean (R-CT) contrasted the bonus's modest cost with the $24 billion spent by the nation on luxuries like cigarettes, soft drinks, and ice cream in 1923:

> If we were willing . . . to spend 1 per cent. [sic] less on these luxuries for establishment of a bonus fund, if we could endure the awful suffering that would result, we could save $242,190,000–considerably more than double the bonus requirements [by his calculations]. To my mind the nation

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[236] Id. at 2-3 (statement of Rep. McKenzie).

[237] $2,119,000,000 Bonus, note 211.

[238] Bonus and Anti-Bonus Appeals, N.Y. Times, May 17, 1924, at 2.

[239] Editorial, Political Aspects of the Bonus, Chi. Daily Trib., Jan. 1, 1924, at 8.

> which pays a debt of honor which it can well afford to pay will find permanent prosperity much sooner than the nation which sees nothing in its civilization but machinery and money, nothing at either end of its rainbow but fleshpots.[240]

The most emotional arguments evoked the realities of service on the Western Front and contrasted the comfortable situation of the fat cats. Speaking to a rowdy group in the House, Congressman Percy Quin (D-MS) cried:

> The people who have the wealth, the ones who stayed at home, the ones who profiteered during the war, lying down in good warm beds, eating three square meals a day, asking the divine blessing every morning at table, now oppose giving these boys the bonus, while these boys, who were on the high seas with submarines and German assassins trying to sink them every day, who, while they were across, yonder in France, in Belgium, and even on the soil of Germany itself, were standing waist deep in mud, with bullets whistling all around their heads, gas floating around them, now simply ask through their organizations that the people of the United States give them one little lousy dollar a day, none of them to get in excess of $500. Yet these great fortune holders of the country object to that, and upon what grounds? They say that it will disturb business. How could they have maintained any business at all if these boys had not gone out and done their duty by defending the flag of this country? [Applause.][241]

Along the same lines: "We didn't go to France on a pleasure trip," wrote one veteran to the *Washington Post*, "and many of us sacrificed our jobs to go. My loss was $2,200 in salary during my eighteen months' visit to that hell hole."[242]

Scandals involving the organized propaganda campaigns promoting the Mellon Plan and opposing the bonus added to the debate. During 1923 and 1924, congressmen received a flood of letters in support of the Mellon Plan. In December 1923, the *Chicago Daily Tribune* reported that each member of the Illinois congressional delegation had just received "several thousand" letters signed by Chicago citizens but

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240 M'Lean Urges Bonus, note 190.

241 65 Cong. Rec. 3, 3110 (1924).

242 H.C. Van Robin, Letter to the Editor, Why He Wants a Bonus, Wash. Post, Jan. 14, 1924, at 4.

following a "stereotyped form[ ]."[243] One congressman reported receiving "several hundred" in one day, all exactly alike and addressed in the same handwriting.[244] Representative Frear estimated in January 1924 that the House Ways and Means Committee was receiving 300 letters a day in support of the Mellon Plan.[245] Representative John Nance Garner (D-TX), never one to mince words, characterized the letters as "the result of a huge organized conspiracy on the part of the predatory interests constituting special privilege."[246]

On the bonus side, a curious organization called the Ex-Servicemen's Anti-Bonus League generated a temporary tempest. The League had been active since 1922 in its opposition to the bonus, and its letter-writing campaign met with some success in the national press.[247] The Anti-Bonus League, which focused its message on the "insulting" nature of offering a gratuity to those who volunteered to serve their country, reported 20,000 members nationwide by April 1924.[248] Its New York branch counted Kermit Roosevelt, son of Theodore Roosevelt, and Charles E. Hughes, Jr., the son of Coolidge's Secretary of State, among its charter members.[249]

The American Legion managed a counter-stroke against the anti-bonus forces. On January 6, 1924, when the bonus lay in the Ways and Means Committee and House Democrats and Radicals were preparing tax proposals to counter the Mellon Plan, the Legion charged that a "barrage of organized propaganda" had been launched by bonus opponents, and that some employers had "coerce[d]" veterans in their

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243 Chicago Floods Congress with Mellon Tax Plea, Chi. Daily Trib., Dec. 25, 1923, at 5.

244 Id.

245 65 Cong. Rec. 1, 645 (1924).

246 Garner Calls Mellon Tax "Conspiracy of Interests," Chi. Daily Trib., Dec. 31, 1923, at 10.

247 For example, one J. Bentley Mulford published multiple letters to the editor of the *New York Times* and to the editor of the *Washington Post* calling the bonus "unpatriotic" and reporting his belief that 85% of American Legion men opposed the bonus. J. Bentley Mulford, Letter to the Editor, Danger to the Legion, N.Y. Times, Feb. 24, 1924, at 16; see also J. Bentley Mulford, Letter to the Editor, The $2,000,000,000 Bonus, N.Y. Times, Mar. 19, 1924, at 20; J. Bentley Mulford, Letter to the Editor, Legionnaires Oppose Bonus, He Says, Wash. Post, Jan. 23, 1924, at 6. For additional examples of veterans' letters to the editors opposing the bonus, see W. Francklyn Paris, Letter to the Editor, Veteran Denounces the Bonus, Wash. Post, Jan. 6, 1924, at EA2; L.W.R., Letter to the Editor, A Veteran Opposes the Bonus, Wash. Post, Jan. 14, 1924, at 4. Mulford was identified in his letters as a veteran of combat in France and a member of the American Legion, but the papers omitted to mention that Mulford also was a member of the Ex-Servicemen's Anti-Bonus League. For early publicity for the Anti-Bonus League, see Bonus-or-Tax-Slash Question Divides Members of Congress, Christian Sci. Monitor, Nov. 14, 1923, at 1; Ex-Service Men, Pleading Aid for Disabled Only, Open Drive to Defeat Bonus Legislation, Christian Sci. Monitor, Nov. 15, 1923, at 2.

248 Anti-Bonus League Forms a Unit Here, N.Y. Times, Apr. 2, 1924, at 9.

249 Id.

employ to write to Congress in opposition to the bonus.[250] The *Chicago Daily Tribune* reported the story, calling for congressional investigation,[251] and reported that there was some truth to the Legion's charge.[252] The *New York Times* reported that at least one corporate manager was dismissed when it came to light that indeed, he had encouraged workers to write to Congress opposing the bonus.[253] The Legion publicized the distribution by other companies of anti-bonus form letters to workers and made much of the association between some of these companies, including Gulf Oil and Koppers, both based in Pittsburgh, and Secretary Mellon.[254] At one point, the Legion produced a list of 400 purported contributors to the Ex-Service Men's League. The list included a variety of business leaders and rich men, including Ralph Pulitzer, Harold Vanderbilt, Cleveland Dodge, and Paul Warburg.[255] In March, the question of the Anti-Bonus League prompted a "committee row" in Ways and Means Committee hearings, as a "former officer" of the League testified that an executive of Gulf Refining Company of Pittsburgh, a Mellon company, had raised funds for the League.[256]

2. *The Financial Linkage: The Tradeoff Between Tax Cuts and the Bonus*

A key issue linking the tax bill to the bonus debate was the revenue question: Would the bonus cost so much that it would preclude tax reduction, as the Administration claimed?

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[250] Legion Chief Replies in Support of Bonus, N.Y. Times, Jan. 7, 1924, at 21. In late February, John R. Quinn, National Commander of the American Legion, repeated his coercion charge and added the allegation that "Mellon interests" had been involved and were helping fund the anti-bonus cause. Coercion Charged Against Bonus by Mellon Interests, Wash. Post, Feb. 21, 1924, at 4.

[251] A Raw Case, Chi. Daily Trib., Feb. 19, 1924, at 8.

[252] The Tribune also reported another case of a company urging workers to write to Congress to support the Mellon Plan. The company's president and its director of public relations "could not be reached," although an unnamed "official" said that the letter was distributed "only to department heads and not to the rank and file" worker. Letter Boosts Mellon Plan to Gas Employes [sic], Chi. Daily Trib., Feb. 28, 1924, at 6.

[253] Dismisses Manager for Anti-Bonus Plea, N.Y. Times, Feb. 20, 1924, at 4 (reporting that an officer of a New York corporation had been fired for writing to employees suggesting they write to New York senators opposing the bonus, and further suggesting that the manager could check on which workers had "acted on the suggestion").

[254] Says Bonus Foes Coerce Employes [sic], N.Y. Times, Feb. 21, 1924, at 3.

[255] See Soldiers' Adjusted Compensation Act Hearings, note 235 (dialogue among John Thomas Taylor, Vice Chairman, Nat'l Legislative Comm. of Am. Legion, and Committee members, when Taylor offers the list of 400); the matter was reported in Bonus Fight Shifts for a Cash Option, N.Y. Times, Mar. 5, 1924, at 6.

[256] See Soldiers' Adjusted Compensation, 1924 Hearings, note 235 (statement of Edward Allen); the controversy was reported in the N.Y. Times in Bonus Fight Shifts, note 255.

Mellon consistently portrayed the bonus as a budget-busting expenditure that would foreclose tax reduction. In a December 1923 letter to Rep. Piatt Andrew, Mellon estimated that the bonus ultimately would cost the nation $5 billion[257] if enacted in the form vetoed by Harding in 1922, and he declared that it would be impossible to have both his tax reduction plan and the bonus:

> It must be obvious to any impartial mind that a new obligation of the United States made in time of peace to pay over $5,000,000,000, of which $1,000,000,000 comes in the first four years, and an average drain on the Treasury of $211,000,000 a year, which is one-fifth of the total pre-war cost of Government, cannot be undertaken without serious economic consequences. If such a commitment is made, any reduction of Federal taxes upon a comprehensive plan will probably not be seen in this generation.[258]

He predicted dire consequences for the economy, stating that veterans' right to borrow against their certificates would "raise the interest rates which the Government as well as the general public will have to pay on borrowed money. At the same time the mere passage of the bill would depress the price of Government bonds and increase their basis of return."[259]

In reply, the American Legion minimized the cost of the bonus and insisted that the nation could have both the bonus and "very substantial" tax reduction.[260] In a December 1923 letter to Congress, Quinn argued that the bonus would cost less than $90 million per year, a sum so small that the nation still could afford three quarters of the $323 million tax reduction promised by the Mellon Plan.[261] The Legion objected in particular to the surtax cuts:

> The real nub of the situation is the $85,000,000 a year which Mr. Mellon wants again to cut off of the income taxes of the war millionaires . . . This proposed cut of $85,000,000 will pay the Adjusted Compensation bill year by year, al-

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257 Cost of Soldier Bonus to the Nation as Estimated by Secretary Mellon, N.Y. Times, Dec. 22, 1923, at 2.

258 Bonus Sidetracked in House Committee; Mellon Tells Cost, N.Y. Times, Dec. 20, 1923, at 2.

259 Id.

260 Quinn Sure of Bonus Despite President, N.Y. Times, Dec. 7, 1923, at 3.

261 Legion Urges Bonus and Tax Cut Also, N.Y. Times, Dec. 10, 1923, at 4; Disputes Mellon on Bonus, N.Y. Times, Dec. 11, 1923, at 4.

> though Mr. Mellon proposes tax reductions of $323,000,000 a year or four times the sum needed to pay it.[262]

Mellon replied that if 100% of eligible soldiers accepted the adjusted service certificate plan, the total cost would be $5.4 billion, based on a twenty-year annual sinking fund of $211 million per year plus $23 million in administrative expenses.[263]

The different estimates offered by Mellon and the Legion reflected certain technical problems as well as their ideological priors. One issue was the difficulty of estimating how many veterans would choose each option. Recall that the bonus bill vetoed by Harding would have permitted veterans to make different choices, some of which would be costly in the short term (for instance, farm loans) and some of which would be costly later on (for instance, the adjusted compensation certificates). In addition, the parties debated the necessity for a sinking fund (Mellon's preference), which would show higher revenue costs from the first year. Mellon argued that the government should set aside money in level amounts each year to create a fund that would meet its deferred obligations.[264] The Legion and bonus supporters replied that the government, unlike a private company, could raise taxes later or borrow the money later on, thus minimizing the short-term cost of the bonus plan:[265] "There is no reason for discussing at present the ways and means to meet an expenditure in 1946, which, at the highest estimate, will not amount to more than a quarter of what Europe owes us [in war debt]."[266]

Representative Henry Rainey (D-ILL) had a more colorful suggestion: Dismissing the Mellon Plan as a "rich man's bill," he proposed to fund the bonus entirely with additional taxes on John D. Rockefeller, Henry Ford, William Wrigley Jr., and Andrew Mellon.[267]

By February 1924, bonus advocates began to calculate that their proposal would draw greater support if it took a simpler form. Aban-

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[262] Arraigns Mellon, note 121 (quoting John Thomas Taylor, Vice Chairman, Nat'l Legislative Comm. of Am. Legion).

[263] Bonus Sidetracked, note 258.

[264] Id. at 2.

[265] Id.; see also $2,119,000 Bonus, note 211, at 1. Without any consistent and accepted methodology for estimating the revenue cost of legislation, the parties could change their estimates freely. Charging Mellon with inconsistency, Representative Piatt Andrew, who was a former Assistant Secretary of the Treasury as well as a key bonus advocate, pointed out that Mellon's new estimates exceeded those produced by Treasury in prior years, which had placed the cost of the bonus at just $80 million per year for the first three years. Bonus Sidetracked, note 258. The difference between the two proposals was that Mellon's new estimates included an immediate (and constant) sinking fund to set aside funds to pay the amount due in twenty years.

[266] Id.

[267] Bonus Advocates, note 141, at 1.

doning the choices offered by earlier bonus bills, Representative Piatt Andrew weighed in with a bonus bill that (like the final legislation) offered only deferred cash payments to veterans.[268]

The stripped-down bonus avoided the question of how many veterans would choose each option, but the linkage between tax cuts and the bonus recurred as the bonus made its way through the House. The Ways and Means Committee reported the total cost of its bonus bill as $2.026 billion, with an annual cost ranging from $100 million to $135 million, including sinking fund payments sufficient to retire the deferred obligation in twenty years.[269] Committee dissenters expressed a worry that enacting such a large obligation "without at the same time providing the revenue to meet that obligation, is, in our judgment a very unsound practice."[270] On the House floor, opponents warned that "people want lower taxes . . . the assumption of a new burden . . . is directly contrary to the expressed wish of the people for tax reduction."[271]

The financial linkage between the Mellon Plan and the bonus took center stage during Senate consideration of the bonus.[272] Senator Reed Smoot (R-UT), the chairman of the Senate Finance Committee, took the opening shot, announcing that the House's bonus bill would cost approximately $4.8 billion, far more than the approximate $2 billion figure presented by the House Ways and Means Committee.[273] Mellon's hand was evident in the higher figure: Treasury supplied Smoot with the figures, which caused "an immediate clash" between House and Senate Republicans.[274]

Acting Ways and Means Chairman Green, the Iowa Republican, was by this time openly at odds with the leadership of his party; he protested the new methodology and charged Mellon with bias:

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[268] 68 Cong. Rec. 3, 2853 (1924).

[269] H.R. Rep. No. 68-313, at 4 (1924).

[270] Id. at 8.

[271] 65 Cong. Rec. 5, 4440 (1924) (statement of Rep. Treadway).

[272] An Act to Provide Adjusted Compensation for Veterans of the World War; To Provide Revenue Therefor; And for Other Purposes: Hearing on H.R. 14157 Before the S. Fin. Comm., 68th Cong. 3-53 (1924) (focusing on matters related to the revenue cost of the bonus).

[273] Mellon's new estimate, ingeniously, added interest charges to the nominal payment amount. While previous estimates had simply added up sinking fund (principal) payments, in effect treating interest accruing on the sinking fund as an asset of the government, the new approach treated interest accruals on the sinking fund as a liability of the government, on the rationale that the return on the money set aside otherwise could be used to retire government debt. Senate Committee Puts Mellon Rates Back in Tax Bill, N.Y. Times, Mar. 25, 1924, at 1.

[274] Id. (reporting clash between Smoot and Rep. Green, the acting Ways and Means Committee chairman).

> [T]his theory is absurd. It is another attempt to juggle bonus figures, and to attempt to mislead the Congress and the people. So openly has the Treasury Department lobbied against this bill, and so numerous have been its errors in calculation, that the Ways and Means Committee of the House apparently ignored the Treasury Department entirely in its recent hearings on the bill and went to the Veterans' Bureau for its actuarial information.[275]

On April 15, a bonus bill came to the Senate floor amidst heated debate over its cost. The Finance Committee report laid out the difference in cost estimates: from a low of $2.2 billion to a high of $3.6 billion (with the latter estimate coming, not surprisingly, from Treasury).[276] The bonus sailed through the Senate nevertheless, although opponents on the Senate floor characterized the cost as high as $4 or $5 billion.[277]

President Coolidge had the last word in his veto message, and he took the high ground, using the (lower) Veteran's Administration estimate of $2.3 million, while acknowledging that Treasury's estimates were "materially more."[278] He linked the bonus to higher taxes one last time, noting: "The people have labored during the last six years under a heavy tax burden. This was necessary to meet the extraordinary costs of the war. . . . If this bill becomes law, we wipe out at once almost all the progress five hard years have accomplished in reducing the national debt."[279]

The debates over the cost of the bonus highlighted the trade-off between tax reduction and government spending. But, in the end, the Coolidge-Mellon strategy relied on Congress' willingness to give priority to a balanced budget. The zero-sum claim (the idea that the bonus would foreclose tax cuts) held true only if one took the $300 million surplus as the outer limit for the sum of tax cuts and new spending. As the next Subsection shows, Congress rejected the zero-sum theory and opted for the tastier "pie a la mode"[280] option–passing both a bonus bill and a tax cut bill far more expensive (and more progressive) than the Mellon Plan.

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[275] Mellon Tax Rates Will Go to Senate, N.Y. Times, Mar. 26, 1924, at 1.

[276] Bonus Bill Is Presented to the Senate with Widely Varying Estimates of Cost, N.Y. Times, Apr. 16, 1924, at 25; S. Rep. No. 68-403, at 4 (1924).

[277] Bonus Bill Passed by Senate, 67 to 17; Cash Option Beaten, N.Y. Times, Apr. 24, 1924, at 1.

[278] Text of the President's Message, note 216.

[279] Id.

[280] See Smoot Insists Senate Will Beat Any Bonus Veto, N.Y. Times, Dec. 27, 1923, at 1.

3. *The Procedural and Political Linkage*

The linkage between the Mellon Plan and the bonus bill also colored the political process. In both the House and Senate, the same committees (Ways and Means in the House and Finance in the Senate) had jurisdiction over the bonus matter, and supporters and opponents continually jockeyed for procedural advantage. Coolidge was adamant that Ways and Means should consider the tax bill before the bonus, while bonus proponents and the American Legion lobbied for the bonus to move into committee first.[281] The *New York Times*, eager for the Mellon Plan to enter the House, called the bonus "a wrench thrown into the machinery of Congress."[282]

By January, both proposals were active in the Ways and Means Committee, and the fight moved to which would be reported first for floor action.[283] Although Radicals mustered sufficient votes to force a Republican conference on the question in mid-January, they lost their bid to force action on the bonus, and instead House Republicans agreed to report out the tax bill first.[284] In a one-sided vote, the Committee's mainstream Republicans shut out Democratic and Radical representatives to report a bill to the floor that preserved the Mellon Plan's normal and surtax rates. The bill did cut excise taxes somewhat more heavily and in a more populist manner than the Mellon Plan.[285]

The Administration's victory in committee was short-lived. The Mellon Plan ran into trouble on the House floor, where a coalition of Democrats, Radicals, and farm-state Republicans opposed the cut in the top surtax rate.[286] The Garner Plan (named for Texas Democrat John Nance Garner) proposed more costly tax cuts than those in the Mellon Plan[287] but would have redistributed the cuts to benefit income taxpayers at the bottom of the rate schedule and consumers bearing the burden of excise taxes. Garner's plan would have raised

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[281] See Coolidge Program, note 206; Confer with Mellon, note 141, at 4; House Chiefs Decide to Put Bonus Ahead of Tax Reductions, N.Y. Times, Dec. 18, 1923, at 1; Bonus Men Block Work on Tax Bill, N.Y. Times, Dec. 19, 1923, at 3; Bonus Sidetracked in House Committee, note 258; Bonus Advocates, note 267; Bonus Bloc Shows Signs of Weakening, N.Y. Times, Jan. 5, 1924, at 9.

[282] Editorial, The Mischief-Making Bonus, N.Y. Times, Dec. 19, 1923, at 18.

[283] Republicans Move to Hold Up Bonus, N.Y. Times, Jan. 8, 1924, at 1.

[284] House Republican Caucus Bars Bonus Until Tax Reduction Bill Is Reported; Soldier Bloc Is Beaten by 109 to 87, N.Y. Times, Jan. 11, 1924, at 1.

[285] See H.R. Rep. No. 68-179, at 36-72, 77-87 (1924). The excise tax cuts restored the tax on admissions over 50 cents (presumably, to continue to tax higher-income amusements) and repealed taxes on beverages, candy, carpets, and bowling alleys.

[286] See Danger of Split on Surtaxes, N.Y. Times, Jan. 12, 1924, at 1; Leaders Admit Need of Tax Bill Change; Coolidge Is Firm, N.Y. Times, Jan. 13, 1924, at 1.

[287] Treasury estimated that the Garner Plan would cost $620 million, compared to $323 million for the Mellon Plan. House Votes Down Effort to Restore Excess Profits Tax, N.Y. Times, Feb. 24, 1924, at 1.

exemptions, lowered normal tax rates, and raised the surtax threshold, while setting the top surtax rate at 44%.[288]

With Radical Republicans threatening to defect to the Garner Plan,[289] Republican leaders including Nicholas Longworth (R-OH) engineered a compromise that deviated significantly from the Mellon Plan.[290] The final House bill set the maximum surtax rate at 37.5%, raised estate tax rates, and included a new gift tax.[291] As an additional gift to the electorate, the House bill included a 25% cut in 1923 taxes that were payable in 1924.[292]

The compromise bill carried the House on February 29 by a margin of 408 to 8, with just a handful of Administration supporters voting against.[293] The key vote, however, was closer: The House adopted the Longworth compromise over the Garner plan by 216 to 199, with the Radicals joining the mainstream Republicans against the Democrats.[294] The Radicals carried the day, with seventeen led by Frear joining the majority against Garner.[295] Making the best of the Administration's loss, the *New York Times* trumpeted "The Defeat of Garner," but Coolidge was said to be sorely disappointed in the failure of the Mellon Plan in the House.[296]

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288 H.R. Rep. No. 68-179, note 285, at 77-87.

289 Radicals Demand 40 Per Cent. [sic] Surtax on Threat of Bolt, N.Y. Times, Feb. 17, 1924, at 1 (noting that "Radicals . . . are again completely in control of the House of Representatives"). At one point, the House, including the Radicals, voted for an amendment inserting the Garner rates into the tax bill. Garner Tax Rates Adopted by House, 222 Votes to 196, N.Y. Times, Feb. 20, 1924, at 1.

290 Tax Bill Is Passed; Republicans Unite on Compromise Plan, N.Y. Times, Mar. 1, 1924, at 1. Longworth claimed on the House floor that the compromise was within the $323 million revenue cost of the Mellon Plan. Id.

291 Id.

292 Id.

293 Id.

294 Id.

295 Id.

296 Editorial, The Defeat of Garner, N.Y. Times, Mar. 1, 1924, at 12. Coolidge's views were reported in Tax Bill Is Passed, note 290.

TABLE 3
THE MELLON PLAN COMPARED TO THE REVENUE ACT OF 1924[297]

		Revenue Act of 1921	*Mellon Plan*	*Revenue Act of 1924*
Normal Tax Rates		4% of 1st $4,000 8% over $4,000	3% of 1st $4,000 6% over $4,000	2% of 1st 4,000 4% over $4,000 up to $8,000 6% over $8,000
Surtax Rates	Income			
	$6,000-$10,000	1%	0	0
	$10,000-$12,000	2%	1%	1%
	$12,000-$14,000	3%. . .	2%. . .	1%. . .
	$100,000-$150,000	48%	25%	37%
	Over $200,000	50%	25%	40% (over $500,000)
25% reduction in tax on earned income		No	Applies to all earned income, without limit	The first $5,000 of income is presumed to be earned. Earned income capped at $10,000. In computing the 25% credit, the tax attributable to earned income is calculated by reference to the lowest brackets (i.e., as if the taxpayer only had earnings).
Capital loss limitation		No	Yes	Yes
Limitation on interest and capital losses		No	Yes	No
Excise taxes			Repeal taxes on telephone and telegraph message and on theater admissions	More extensive excise tax reductions
Estate tax		Top rate of 25% on estates over $10 million	No change	Top rate of 40% on estates over $10 million
Gift tax		None	None	Gift tax created

At about the same time, bonus advocates began reshaping their proposals. On January 13, 1924, the *Times* reported the change in strategy that eventually would lead the bonus forces to victory: Advocates began to suggest that the bonus should be modified "so that [immediate] cash payments would not figure so prominently and the insurance benefits [that is, the deferred cash payment] would be put to the front."[298] In late February, Representative Andrew, the key pro-bonus congressman from Massachusetts, introduced a bill that would offer only a deferred cash payment, taking the form of "adjusted service certificates" to mature in 25 years. The new proposal eliminated the vocational training option and the farm and home aid option but permitted veterans to borrow from private banks, using as collateral

[297] H.R. Rep. No. 68-179, note 285, at 36-72, 77-89.
[298] Leaders Admit Need, note 286.

their adjusted service certificates.[299] Andrew's statement emphasized that the new bill would make it possible to fund a bonus and tax cuts too.[300]

Andrew (and Hamilton Fish (R-NY), who made a similar proposal) cast their proposals as "insurance" for the veterans. The plans blended life insurance with a long-term investment: Living veterans would wait twenty (or twenty-five) years to collect the full value of their adjusted compensation, while the heirs of veterans who died in the meantime would receive the full amount.

Not all bonus advocates embraced the insurance option. House Democrats continued to take a more radical line, promising veterans the option to take an immediate cash payment.[301] But cash was the deal breaker for Republicans, and the Andrew-Fish move to deferred compensation ultimately would carry the day.

By February 1924, a coalition of veterans in the House pushed for a full vote on the bonus.[302] On March 6, the Ways and Means Committee, by a vote of 16 to 4, approved a bonus bill to be reported to the floor in some form, after "riotous" discussion, including an episode in which Representative Allen Treadway (R-MA), a bonus opponent, and Representative Frank Crowther (R-NY), an advocate, nearly came to blows.[303]

The Committee reported to the House a bonus bill that rejected the immediate cash option, except for minimal payments to veterans who served short terms (less than 110 days).[304] For the great majority of ex-soldiers, the bonus would take the form of a twenty-year "endowment insurance" policy,[305] administered by the federal government's Veterans' Bureau, and maturing in twenty years on January 1, 1945.[306] The face amount would be determined based on soldiers' length of service, with a maximum of $500 for home service and $625 for overseas duty, and would bear interest at 4%. Veterans could borrow against their policies with private banks.[307] On March 18, 1924, the

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[299] New Bonus Plan Urged by Andrews [sic], N.Y. Times, Feb. 21, 1924, at 3.

[300] Id. Representative Hamilton Fish (R-NY), another veteran and key bonus supporter, introduced a similar measure in March 1924. The Fish plan would have restricted benefits to a single, deferred cash payment, payable in twenty years. Paid-Up Insurance Urged for Veterans, N.Y. Times, Mar. 4, 1924, at 4.

[301] Bonus Fight Shifts, note 255.

[302] Longworth Promises Early Vote on Bonus, N.Y. Times, Feb. 24, 1924, at S8.

[303] House Committee Votes for Bonus, N.Y. Times, Mar. 7, 1924, at 17 (reporting that Treadway and Crowther "clashed" and that "it was feared for a time that a personal encounter was imminent," until Rep. Isaac Bacharach of New Jersey intervened).

[304] Id.

[305] Id. (reporting Acting Committee Chairman Green as opposing cash); Committee Cuts Cash Bonus to $50, N.Y. Times, Mar. 9, 1924, at 3.

[306] Bonus Bill Ready to Go to House, N.Y. Times, Mar. 13, 1924, at 4.

[307] Id.

bonus passed the House by a vote of 355 to 54.[308] Significantly, and ominously for the Coolidge forces, the bonus vote blurred party lines, with 177 Democrats and 175 Republicans (as well as three independents) voting for the measure.[309]

As the bonus bill left the House for Senate consideration, the linkage with the Mellon Plan came to the fore again. The Senate Finance Committee nominally had begun consideration of the tax bill for more than two weeks by the time the bonus arrived, but no substantive work on rates or other contentious issues had yet been accomplished.[310] By this point, the bonus had the greater momentum, and by mid-April, the bipartisan bloc now known as the "bonus men" outvoted the committee's Administration men. The bonus entered the Senate chamber first.[311]

The Senate revisited the battle over cash, with Republicans eager to limit benefits to a deferred payment and some Democrats favoring an immediate cash payment.[312] In the end, however, Senate Democrats split on the question of cash, the Republicans held ranks against cash, and the deferred-payment program sailed through.[313] Helping to close the political deal was the American Legion, which sent an eleventh-hour message to each Senator indicating its approval of the deferred bonus.[314]

On April 23, 1924, the Senate approved the bonus bill, 67 to 17,[315] a margin that, if it held, would override a Coolidge veto. Once again, allegiance to the bonus crossed party lines, with 33 Republicans and 32 Democrats voting with the majority.[316]

Coolidge had as much difficulty holding Republicans in line on the bonus issue as on the tax bill. Some old guard Republicans, such as Piatt Andrew, supported a veterans' bonus regardless of their loyalty to the administration. Radical Republicans led by La Follette[317] had

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[308] Bonus Bill Passed by House, 355 to 54, in Forty Minutes, N.Y. Times, Mar. 19, 1924, at 1.

[309] Id.

[310] Senate Awaits Bonus Bill, N.Y. Times, Mar. 17, 1924, at 2; Bonus May Delay Tax Bill in Senate, N.Y. Times, Mar. 18, 1924, at 4.

[311] Tax or Bonus First Is Senate Problem, N.Y. Times, Mar. 20, 1924, at 1 (reporting the procedural jockeying and using the term "bonus men"); Senate to Put Bonus Ahead of Tax Bill; New York Moves to Set Distribution Date, N.Y. Times, Apr. 15, 1924, at 1.

[312] Battle over Bonus Opens in Senate, N.Y. Times, Apr. 19, 1924, at 3 (describing Democrats' split on the cash question in floor debate).

[313] Drop Cash Bonus to Prevent Veto, N.Y. Times, Apr. 20, 1924, at 3; see also Democrats Give Up Cash Bonus Fight; Bill to Pass Today, N.Y. Times, Apr. 21, 1924, at 1.

[314] Legion for Insurance Bonus Only, N.Y. Times, Apr. 20, 1924, at 3.

[315] Bonus Bill, note .

[316] Id.

[317] La Follette himself did not vote in the April 23 vote as he was absent due to ill health. See LaFollette to Resume Work Soon, N.Y. Times, Apr. 19, 1924, at 13.

always supported a veterans' bonus and never paid attention to administration desires. The conference was short and simple, because the two bills were similar, and by May 2, both houses of Congress had approved the measure by voice vote, sending it on to Coolidge.[318]

While the bonus bill was making its way through the Senate, the Senate Finance Committee acted on the tax bill, voting to restore Mellon's original tax rate schedule.[319] But that too was a short-lived victory for the Administration, as Senate floor amendments by Radicals and Democrats drove the rates upward again.[320] While the Senate Finance Committee was dominated by Administration men, the Senate as a whole depended on the swing votes of the Radicals.[321]

The Senate bill, which drastically altered the Mellon plan with amendments described as everything "except the kitchen sink," passed on May 10, 1924 by a vote of 69-15, with opponents of the bill all Administration men except one Radical (who favored farm legislation over tax relief).[322] Hoping to sway the conference committee, Senator Smoot announced that the bill would produce a federal deficit of $111 million and that appropriations pursuant to bonus legislation would add $162 million.[323] Mainstream Republicans were appalled by the radical turn taken in the Senate; some urged Coolidge to veto the bill if it did not emerge in more suitable form from the conference committee.[324]

By this point, the "pie a la mode" preferences of Congress had become apparent. The Congress had passed both a bonus bill and a tax cut bill, despite the Administration's warnings that the nation could not afford both. Moreover, the House tax bill and the Senate tax bill both cost more than the original Mellon Plan and the originally-estimated $300 million surplus. As the conference committee considered the tax bill, the Administration (via Senator Smoot) replayed its fiscal-prudence card, warning that the combination of the bonus bill and the Senate tax bill would produce deficits on the order of $300 million.[325] But Congress once again spurned the balanced budget ideal. Senator

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318 Senate Adopts Bonus Without Roll-Call; House May Send It to Coolidge Today, N.Y. Times, May 2, 1924, at 1; House Adopts Bonus Bill by Viva Voce Vote; Sends It to Coolidge, Expecting a Veto, N.Y. Times, May 3, 1924, at 17.

319 Senate Committee, note .

320 Democratic Surtax Tax Voted into Tax Bill by Senate, 43-40, N.Y. Times, May 6, 1924, at 1.

321 See text accompanying note 133; Bonus May Delay, note 310, at 4 (noting that La-Follette was the Finance Committee's only Radical).

322 Senate Passes the Tax Bill, 69 to 15, N.Y. Times, May 11, 1924, at 1.

323 Id.

324 Id.

325 Id. (estimating a deficit of $111 million for the Senate tax bill and $135 million for the bonus bill).

Smoot himself changed tune when reporting the conference bill, predicting blandly that the looming deficit "could be absorbed by present and future income of the Government."[326]

TABLE 4
ESTIMATED REVENUE COST OF DIFFERENT VERSIONS OF THE REVENUE ACT OF 1924, AS OF MAY 22, 1924[327]

Mellon Plan	*House Bill*	*Senate Bill*	*Conference Bill*
$323 million	$446 million	$557 million	$472 million

Coolidge vetoed the bonus on May 15, 1924, warning that "patriotism can neither be bought nor sold. . . . To attempt to pay money for it is to offer it an unworthy indignity which cheapens, debases and destroys it."[328] Coolidge's message was "received in silence" when read in the House chamber.[329] When Representative John E. Rankin (D-MS), a veteran himself, complained that the veto statement "goes out of its way to offer a gratuitous insult to the ex-service men," applause erupted.[330]

In mid-May, the stakes on both the bonus and the tax bill remained high. As the House-Senate conference committee took up the "bleeding remains" of the Mellon Plan (per the editorial page of the *New York Times*),[331] Congress took up the Coolidge veto of the bonus bill, with the tax bill prominent in the background. Mellon's Treasury announced that the bonus plus the Senate tax bill would result in a deficit of $300 million,[332] and Coolidge threatened that he would veto the tax bill if it emerged in its Senate form.[333] On May 17, the House overrode the bonus veto, as expected, by 313 to 78, leaving a margin of victory of more than 50 votes,[334] and on May 19, the Senate voted to override, 59 to 26.[335]

Two days later, the conferees announced a tax bill, with a 40% top surtax rate and a 2% normal tax rate.[336] Garner claimed victory in

326 Conferees Quickly Agree, N.Y. Times, May 22, 1924, at 1.

327 The Mellon Plan cost is calculated in Table 2 while the other figures were presented by Senator Smoot in connection with the announcement of the conference bill. Id.

328 Text of the President's Message, note 25.

329 Veto Read in the House, N.Y. Times, May 16, 1924, at 1.

330 65 Cong. Rec. 9, 8661 (1924).

331 Editorial, Riding for a Veto, N.Y. Times, May 12, 1924, at 16.

332 Tax Bill Is Dead if Bonus Survives President's Veto, N.Y. Times, May 17, 1924, at 1.

333 Id. (attributing reports of the likely veto to "inner Administration circles").

334 House Passes Bonus over Coolidge Veto by Vote of 313 to 78, N.Y. Times, May 18, 1924, at 1.

335 Bonus Bill Becomes Law, N.Y. Times, May 20, 1924, at 1.

336 Tax Bill, with $472,000,000 Cut, Agreed To, N.Y. Times, May 22, 1924, at 1.

typically colorful language: "[S]omebody had to bell the cat [Mellon], and we went to work and settled it, and now, by jiminy, its ninth life is going out right now, as you put this thing [the Revenue Act of 1924] on the statute books."[337]

Initially, Mellon "denounce[ed]" the tax bill; his concerns included the estate tax increase, and the increase in the deficit resulting from the bill.[338] Later, Mellon calmed down, deeming the bill the best revision possible in a Congress where the Republicans had only a nominal majority.[339]

In a dramatic but politically expedient development, Mellon cut the financial linkage between the bonus and tax cuts at the last moment. As the Senate debated the conference bill, Senator Smoot announced Treasury estimates that the tax bill would cost less than earlier estimated and that the government surplus was larger than had been announced. Instead of costing $472 million and producing a deficit of $100 million or more, the tax bill would cost only $390 million and leave the federal government with a surplus of nearly $140 million, sufficient to fund the bonus bill and still balance the budget.[340] Senate Democrats took Smoot to task, reminding their colleagues that Treasury had deployed its earlier forecasts to oppose the bonus. Senator Royal Copeland (R-NY), a bonus supporter, remarked, "It is clear that the country is not going to smash and it is clear that all these gloomy forebodings were silly."[341]

Senator Hiram Johnson (R-CA), remarked that: "[T]he claims that there could not be both tax reduction and a bonus were without foundation and without merit. I congratulate the Senate, House and conferees on giving to the country, not the Mellon plan but a just tax reduction."[342]

On June 2, President Coolidge signed the tax bill, having perhaps noted that the conference version had passed each chamber by a veto-proof majority: in the House, 376 to 9,[343] and in the Senate, 60 to 6.[344] In a statement, Coolidge opined that the present tax bill "does not represent a sound permanent tax policy" but noted that no further

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337 Less Critical of Tax Bill, N.Y. Times, May 27, 1924, at 1.

338 Mellon Denounced Tax Bill Agreed To; Said to Urge a Veto, N.Y. Times, May 23, 1924, at 1.

339 House Passes the Tax Bill 376 to 9; Mellon Studies It, May Not Ask Veto, N.Y. Times, May 27, 1924, at 1.

340 Senate Adopts Revised Tax Bill, 60 to 6, Smoot Estimates the Cut at $390,900,000; Surplus Above Bonus in 1925 Indicated, N.Y. Times, May 25, 1924, at 1-2.

341 Id. at 2 (quoting 65 Cong. Rec. 9, 9403 (1924) (statement of Sen. Copeland)).

342 Id. (quoting 65 Cong. Rec. 9, 9417-18 (1924) (statement of Sen. Johnson)).

343 House Passes the Tax Bill, note 339.

344 Senate Adopts Revised Tax Bill, note 340.

action could be accomplished in that session of Congress.[345] He expressed special displeasure with inadequate surtax reductions, the publicity rules, the failure to pass a constitutional amendment taxing tax-exempt securities, and the estate and gift taxes.[346]

In the very next Congress, the Coolidge-Mellon forces would retake some ground as Republicans gained seats in the 1924 Presidential election.[347] The media campaign for tax reduction swung back into action,[348] and tax legislation enacted in 1926 cut the top marginal tax rate to the 25% level proposed in the Mellon Plan.[349] Still, Republicans never managed to enact anything like the Mellon Plan tout court. The Revenue Act of 1926 cut the top surtax rate to 20% but retained the estate tax despite Mellon's opposition, and it raised exemption levels in the income tax, dropping more upper-middle-class households from the tax rolls.[350]

III. Veterans' Benefits and the American Welfare State

To this point, we have focused on the linkage between the bonus and the Mellon Plan in order to frame a lesson in tax history: Progressive politics were alive and well in 1924, and opposition to the Mellon Plan drew strength from–and helped fuel–the movement for a veterans' bonus.

In this concluding Part, we briefly consider the significance of the 1924 bonus in its own right. Is the 1924 bonus a major or minor footnote to the history of veterans' benefits and the American welfare state? We already have suggested how the bonus contributed to the development of federal taxation: By helping defeat the Mellon Plan, the bonus contributed to a political climate that kept federal taxes high and progressive during the 1920's, building taxing capacity for the more ambitious federal programs of the New Deal and World War II. But did the bonus mark a notable stage in the development of veterans' benefits or the welfare state (understood to encompass not only poverty relief but also social insurance) more broadly?

At first, it may seem a stretch to link the 1924 bonus to the "welfare state." Judged by today's social programs, or even those adopted in the 1930's and 1940's, the bonus seems cautious and conservative. According to the terms of the bonus, veterans could borrow a little cash

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345 Coolidge Assails But Signs Tax Bill as Better than Existing War-Time Law; Will Seek Revision in Next Congress, N.Y. Times, June 3, 1924, at 1.

346 Id. at 1-2.

347 J. Leonard Bates, The Teapot Dome Scandal and the Election of 1924, 60 Am. Hist. Rev. 303, 303 (1955).

348 See Ratner, note 18, at 415, 424.

349 Revenue Act of 1926, Pub. L. No. 20, §§ 210-11, 44 Stat. 9, 21-23.

350 Id. §§ 210-11, 216, 300-325, 44 Stat. at 21-23, 29, 69-87.

in the short term, but the big payout would come in twenty years (sooner for veterans dying in the meantime). But by the standards of the 1920's, the bonus represented a large and lasting commitment, especially by the federal government, which to that point had had a limited role in social policy.[351] As bonus opponents pointed out early and often, the bonus eventually would cost the equivalent of one year's federal budget (by 1924 standards) and would enact a lasting debt by the federal government to a powerful, new interest group.[352]

While our ideas remain preliminary, pending future research, we offer a working thesis: The bonus marked a notable change in the form of veterans' benefits, breaking with the tradition of disability pensions and presaging the GI Bill. Instead of providing a monthly income to those unable to work, the bonus– and later, the GI Bill—offered grants to able-bodied men in their prime working years. By linking work and citizenship (in the case of the veterans, a kind of hyper-citizenship, marked not only by membership in the polity but by service at the risk of life and limb) to social provision, both the bonus and the GI Bill may have foreshadowed other kinds of citizen entitlements.

The striking fact is that World War I veterans sought a "bonus" rather than a pension, which was the familiar means of settling veterans' claims on the nation.[353] At their peak in 1895, the federal government paid approximately $160 million in Civil War pensions to one million men who had served in the Union Army and to their dependents.[354] (Confederate veterans were ineligible, although many received state pensions.)[355] By 1922, 193,000 veterans and 272,000 widows remained as Civil War pensioners.[356] The Civil War pensions remained a live issue in federal politics in the 1920's, as pensioners and veterans of other wars sought to increase the pension payments.[357]

But World War I veterans settled on a bonus instead. The structure and rhetoric of the bonus helped convey the disjunction: The veterans

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[351] But see Michele L. Dauber, The Sympathetic State, 23 Law & Hist. Rev. 387, 394-407 (2005) (tracing a tradition of federal "disaster relief" that arguably provided aid for unemployment and other economic hardships).

[352] See Dickson & Allen, note 22, at 26; Daniels, note 170, at 23-24.

[353] See Daniels, note 170, at 5-12.

[354] Theda Skocpol, America's First Social Security System: The Expansion of Benefits for Civil War Veterans, 108 Pol. Sci. Q. 85, 97 fig.1 (1993). Skocpol notes that in terms of percentage of Union veterans taking up the pension, the highest figures are in the 1910's, when close to 94% of eligible Union veterans were pensioners. See id. at 95-96 tbl.1.

[355] The National Archives, Confederate Pension Records (2005), available at http://www.archives.gov/genealogy/military/civil-war/confederate/pension.htm.

[356] Pension Roll Declining, N.Y. Times, Dec. 8, 1922, at 16.

[357] See, e.g., 65 Cong. Rec. 8, 8415 (1924) (debating federal legislation that would increase pensions for veterans of the Spanish-American war).

wanted a "bonus" for every soldier, not a "pension" for the disabled, and the lump-sum payment followed objective criteria (age and days of service), thus avoiding discretionary (and potentially partisan) eligibility determinations.[358]

Why did the American Legion and congressmen in the "soldier bloc" adopt the bonus model rather than the pension model? The most likely answer is that the Civil War pensions had fallen into political disrepute. Civil War pensions persisted for decades after the war ended and became closely connected with the patronage politics of the nineteenth century.[359] As Theda Skocpol points out, the pensions provided ideal fodder for patronage politics.[360] The process for adjudicating "disability" was often run by political operatives, and by the early twentieth century, reformers had begun to publicize the political and sometimes fraudulent use of the pensions to reward political supporters.[361]

Ironically, one of the last attempts to expand Civil War pensions would fail in 1924–at very nearly the same time the bonus was approved. The so-called Bursum pension bill, first introduced by Senator Holm Olaf Bursum (R-NM) in 1922, would have increased pensions for veterans of the War of 1812, the Mexican-American War, the Civil War, and the Spanish-American War and their widows.[362] President Harding vetoed the bill in 1922, and President Coolidge followed suit when the bill was again introduced and passed in 1924.[363] The Senate failed to override the veto by one vote, with twenty-eight voting for the veto and fifty-three against.[364] Bonus opponents hoped–in vain, as it turned out–that the defeat of the Bursum Bill foretold the demise of the bonus.

The bonus created a new form of veterans' claim that anticipated, in certain respects, the GI Bill. The bonus was available without regard to disability or to age, and it offered a one-time payment for past service, without regard to need. "Need" arguments played a role in the bonus debates, but the claim was that the veterans were disadvantaged as a class in the marketplace, having lost their jobs while others

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358 See Daniels, note 170, at 25 (discussing a bonus plan that based on payment on days of overseas service).

359 Skocpol, note 354, at 109-10.

360 Id.

361 Id. at 109-10, 115. Skocpol notes that the pensions initially were payable only to the disabled but in 1906 were extended to all veterans (age 62 or over), who were conclusively presumed unable to work due to old age. Id. at 115.

362 66 Cong. Rec. 8, 8415 (1924); see also Coolidge Vetoes Big Pension Bill, N.Y. Times, May 4, 1924, at 1.

363 Daniels, note 170, at 32-39.

364 Pension Bill Veto Upheld in Senate, N.Y. Times, May 14, 1924, at 1.

profited, rather than as individuals suffering an inability to work.[365] These were not people who had simply fallen on hard times–instead, it was their service to the country that–so the argument ran–had led them to financial hardship.

The bonus did share some features in common with pensions. In the final bill, only short-timers were eligible for cash upfront, while everyone else received a twenty-year deferred payment,[366] which had a paternalistic cast. The passage of twenty years would bring old age for some, and mid-life for others, and the deferred payment was cast as providing a certain degree of financial cushion for the future (rather than a catalyst for immediate investment). In addition, the adjusted service certificates incorporated an element of life insurance: The bonus was payable in twenty years or at death (if earlier).[367] The life insurance feature was most valuable for older veterans and for those with dependents–as were pensions.

Still, the bonus created an unconditional entitlement based on service to the country. This would be the hallmark of the GI Bill of Rights adopted following World War II, which likewise provided an immediate and unconditional recognition of military service.[368] Earlier incarnations of the bonus, notably the Fordney-McCumber bill, foreshadowed the structure of the GI Bill, which offered veterans a choice among options that would immediately improve their earning power.[369]

The GI Bill originated with the American Legion in 1944, which proposed a menu of benefits, including not only aid for the disabled veteran but also unemployment aid, college tuition assistance, and low-interest loans.[370] Some of the remaining Bonus supporters in the House, including Mississippi's John Rankin, were instrumental in writing and supporting the GI Bill itself,[371] and it would be worth plumbing further the connections between the two measures. According to Skocpol, "[t]he Legion's bold approach stimulated the national publicity and grassroots pressure on Congress that moved legislative decisionmaking over many obstacles during 1944."[372] The GI Bill has

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365 See notes 233-42 and accompanying text.

366 World War Adjusted Compensation Act, Pub. L. No. 120, §§ 401-501, 43 Stat. 121, 125 (1924).

367 Id. § 501, 43 Stat. at 125.

368 Servicemen's Readjustment Act of 1944, Pub. L. No. 346, §§ 100-1505, 58 Stat. 284, 284-301.

369 Daniels, note 170, at 25.

370 Bennett, note 2, at 90.

371 Id. at 114-15.

372 Theda Skocpol, Delivering for Young Families, Am. Prospect, Sept.-Oct. 1996, at 66, 68-69 (arguing that U.S. social policy was more generationally balanced during the GI Bill era).

been credited with notable effects on educational attainment and home ownership for 16 million World War II veterans, and even with the creation of a new American middle class in the postwar era.[373]

The structure of the GI Bill mirrored the structure of the bonus in important respects: Instead of retreating to the disability/old-age pension model, the GI Bill continued in the vein of a universal entitlement for working-aged men, with eligibility based on service rather than injury.[374] The GI Bill diverged from the 1924 bonus by paying immediate benefits rather than a deferred amount–but in this respect, the GI Bill harked back to the Fordney-McCumber Bill vetoed by Harding in 1922.[375]

While the conceptual linkage between the bonus and the GI Bill is clear enough, the historical connection merits deeper exploration. The experience of the 1920's (and 1930's) with the bonus would have remained within recent memory for American Legion leaders and congressmen as well. It is a reasonable hypothesis that the linkage to the Fordney plan, which was after all the Legion's original and preferred 1920's proposal, is more than coincidence. Confirming that prediction requires further research into the origins of the GI Bill. At the very least, however, the 1924 bonus was a step in the process that led to the abandonment of the pension model and the adoption of the GI Bill framework for veterans' benefits.

The linkage between the bonus and the New Deal also may merit further research, focusing on the dramatic events of 1932 (the Bonus March) and 1936 (when the Congress authorized immediate cash payment–over Franklin Roosevelt's veto).[376] What role, if any, did the bonus play in the politics of relief during the Depression? The Bonus March in 1932 put a patriotic face on the case for cash relief: These were not ordinary jobless men but soldiers who had lost everything and came to the Capitol seeking cash that, they argued, was theirs by right.[377] While the Bonus March failed, pressure for early payment continued, and the veterans succeeded in 1936 in winning early payment of the bonus, despite Roosevelt's opposition.[378] The big question is whether the cash payment of the bonus had any lasting impact, or whether it was a one-time event, another dead end. Did the 1936

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[373] See, e.g., Interview by Jim Lehrer with Stephen Ambrose and Doris Kearns Goodwin, historians (July 4, 2000), available at http://www.pbs.org/newshour/bb/military/july-dec00/gibill_7-4.html (crediting the GI Bill with major effects on the U.S. economy and on economic opportunity for a generation).

[374] Servicemen's Readjustment Act of 1944, Pub. L. No. 346, §§ 100-1505, 58 Stat. 284, 284-301.

[375] Bad Finance, Not Patriotic, note 185; Daniels, note 170, at 25.

[376] See Dickson & Allen, note 22, at 253-54.

[377] Daniels, note 170, at 50, 80.

[378] Dickson & Allen, note 22, at 253.

payment make cash relief more acceptable? How (if at all) did it interact with the politics of the nascent Social Security program, created in the very same year?[379]

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Whatever the answers to these questions, one conclusion is clear: World War I dramatically altered the course of federal taxation in the United States. The financial cost of the war itself and the nation's lingering obligations to veterans kept the federal government's revenue needs higher than otherwise and helped build taxing capacity that would be critical to 1930's and 1940's efforts to build the welfare state and to finance the Second World War.

Further, the debate over the bonus and the Mellon Plan began to paint visions of–and to express anxiety about–a federal government with a larger role in social policy. Implicit were competing visions of a national community. Would the nation urge its citizens simply to go about the business of business, leaving veterans to take whatever jobs they might find? Or should the federal government take notice of the financial plight of veterans, assisting them even at the price of higher taxes? More broadly, should the return to "normalcy" mean low taxes and a shrinking federal government–or should the nation preserve a larger federal government with a mature tax system and an ambitious domestic agenda?

In 1924 Congress defied the Administration to take a step toward the more progressive vision.

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[379] Social Security Act, Pub. L. No. 271, 49 Stat. 620 (1935).