
A Dissertation submitted in partial satisfaction of the requirements for the degree of

Doctor of Philosophy

in

History

by

Tony King Yang

December 2009

Dissertation Committee:
Dr. Roger L. Ransom, Chairperson
Dr. Richard C. Sutch
Dr. Molly McGarry
The Dissertation of Tony King Yang is approved:

_____________________________________
_____________________________________
_____________________________________

Committee Chairperson

University of California, Riverside
ACKNOWLEDGEMENTS

We have for once learnt to see the great events of world history from below, from the perspective of the outcast, the suspects, the maltreated, the power-less, the oppressed, the reviled – in short, from the perspective of those who suffer- Dietrich Bonheoffer to Hans von Dohnanyi and friend, Christmas, 1942. Letters and Papers from Prison.

Thanks to all my wonderful professors and mentors at the University of California, Riverside. In particular I’d like to thank Professor Ransom for his considerable time and effort in revising this manuscript and for the numerous years of support. I’d also like to give special thanks to Professor Richard Sutch for introducing me to the topic of life cycle savings and the history of savings. I have also been very grateful for having been able to work with both of these distinguished professors who not only are great scholars but great friends and outstanding teachers. Lastly, I would like to thank Professor McGarry for having stepped in on many occasions to answer questions and was always ready with a book recommendation.

I’d also like to thank my fellow graduate students for making my four years in the program a fun and enjoyable time. Thanks to Mike Cox for all the jokes and endless Elvis references, the Ladies of Kensington Palace for being fun and enthusiastic. Thanks go to Lindsay Johnson for always subtly editing much of my work. A special thanks goes to Sue Hall, for always being there for emotional support or a kind ear.

August, 28 2009
Most histories that examine the development of social insurance programs in the United States have long focused on the efforts of political action groups or government established programs. These histories and studies have ignored the impact of individual based decision making driven by precautionary savings motives, and the life-cycle theory of savings. By examining critical institutional developments both in the private market and public sector we can redefine our understanding of the economic landscape of the late-nineteenth century United States. Civil War pensions and life insurance are understudied institutions. Elderly men in the United States depended and relied on these two different programs to provide for them in old age in an era without Social Security.
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INTRODUCTION

Old Age Institutions

*The subversion of established institutions is merely one consequence of the previous subversion of established opinions.* –John Stuart Mill

In the Spring Quarter of 2006, the Department of History at UC Riverside offered a methodology course entitled Introduction to Economic History under Professor Roger L. Ransom. Eighteen enlightened, and if not pensive souls, decided to take the course. While discussing various course materials, we covered many topics and different economic institutions, but one particular conversation stood out to this scholar. When discussing the Great Depression and the New Deal’s response, we wandered onto the creation and legacy of one of its hallmark programs: Social Security. As a class still reeling from the debates surrounding the attempted privatization of Social Security under the Bush administration, it was naturally an energizing discussion for many in the class. Social Security was deadpanned as insolvent and inefficient by some. Even those who defended social security were at best ambivalent, noting that forty years from now, most of the graduate students in this class would be fortunate to see a Social Security check.

We believed that Social Security would not exist or would become bankrupt by the students in the class were eligible to drawn funds from it. If we were planning on retirement, we were not going to anticipate having Social Security funds available for our generation. Exploiting the differing generational views on Social Security, Professor Ransom quipped, “What makes you guys think that Social Security won’t be there for
you? It’ll be there if you all want it to be there.” This response simply stunned the class, because we all simply believed that the orthodox position to take on Social Security was that it was inefficient and badly managed. We never considered that Social Security was a flexible program that could be modified and changed to meet the needs of society. We did not understand that institutions and mechanisms designed to care for the aged and dependents were deeply influenced by cultural and social values that are flexible and changeable. The difference between our generation’s view of Social Security as a possibly dysfunctional government program and that of Professor Ransom’s New Deal inspired liberal position illustrated the change in social values. His comment made it clear that the institutions established for old aged care were not static institutions, but products and reflections of deeply held social values.

One of the fundamental questions for all societies from pre-modern man up to the present day is how a society secures the livelihood of the entire population. This question is a critical component of any economically based examination. Part of the equation is the ability to design and develop mechanisms to care for dependents: children or the elderly. Richard Sutch writes “every society needs to have life-cycle institutions (social mechanisms) to transfer output from the producing generation to the dependent generations.”¹ These institutions are not static and they can change over time. As the American population ages, that is as its average age gets older as the proportion of elderly that makes up society increases, it creates all types of economic questions: what type of economic burden is society willing to incur for more elderly dependents?; how does the

state approach the care of the elderly?; what is the standard of living that should be afforded these individuals?; and what type of mechanisms will be most efficient at providing the level of care that society deems sufficient? These questions are as important at the beginning of the twenty-first century as they were at the beginning of the twentieth.

The aim of this dissertation is to examine what prompted changes in savings patterns and behaviors as cultural values and economic institutions during the late nineteenth century. The transition from traditional local social safety nets towards financial institutions (and ultimately towards the welfare state) occurs during the nineteenth century. Traditional safety nets were made up of fraternal organizations and mutual assistance organizations which were affected by the development of financial institutions and instruments. We can look at the effect of what the development of modern capital markets and political structures had on the forms of savings patterns for retirement and aging during the nineteenth century. This in turn has implications for the development of the welfare state.

For both economists and historians, the study of savings and retirement has been difficult to fully develop into a field of study until the 1970s. For economists, a large part of the problem is the lack of data on older citizens and their savings and spending patterns. Records and surveys taken during the nineteenth century were sometimes crude and time consuming. Working with these surveys can have inherent problems due to differing interpretations of terminology. While we have written accounts of aging in the late-nineteenth century, the lack of comprehensive surveys about aging in the United
States prior to 1930 has left us with a gap in the savings data. Without a comprehensive set of survey data, we cannot construct a time series analysis that shows how savings patterns and retirement ages change over time. The lack of true panel data also does not allow for longitudinal studies which would reveal the in-depth savings patterns behavior of individual families. The result is the use of cross-sectional studies using different population samples using various state surveys. The surveys were not comprehensive and limited to descriptive information. This has given us some directions to explore in the field, but the imprecise survey data has prevented us from making broader generalizations. Seeking reliable data, economic historians have generally turned their focus towards savings rates and labor force participation, as measures of how aging affected savings and work, since the best data are in these key areas. Studying these correlations has produced various results that will be discussed later.

Most scholarly history on the social and cultural effects of aging and retirement have focused on aging and its effect on labor and savings. This too is a reflection of the materials that are available to a historian. Historians have both used qualitative and quantitative resources to varying degrees to make inferences about aging in the late nineteenth century. Social and cultural historians have come across very detailed accounts of aging, labor conditions, and the harshness of late nineteenth century life in the United States, resulting in some good qualitative narratives that describe conditions of aging. Most book-length scholarly treatments on the issues surrounding savings for retirement and aging tend to focus on specific aspects of aging, but they rarely have had specific interviews and written accounts of the elderly during the late nineteenth century.
Alternatively, most scholars in the field have attempted to answer why the United States developed a national welfare system, Social Security, Unemployment Insurance, etc… so much later than the European nations did. This focus on the reasons for the delayed development of state institutions for the public welfare often drowns out a broader discussion on the social components of retirement and aging. The polemical debates over the power or the lack of power of interest groups have underplayed the role of individual decision making. By focusing on the development and capacity of structures and institutions, we ignore examining the individual savings and spending decisions families would make regarding economic decisions. Scholarly work has tended to focus on public solutions to the problems associated with aging. Theda Skocpol noted that scholars have often tended to focus on the development of European style welfare states as the preferred model of insuring against old age. Having that end point in mind, it constrains our exploration of the development of the US welfare state, since it does allow for including other variables that affected savings and welfare in the US, particularly the private market. If the financial instruments that developed during the Gilded Age were effective as forms of precautionary savings for families, it could provide an explanation for the delayed development of the US welfare state.

The success of alternatives savings and social insurance instruments provides us with a counter-factual framework to search for alternative explanations to several key questions. If we base our study on the assumption that a national social insurance and old age pension system was not needed or feasible in the late nineteenth and early twentieth century, we are compelled to examine savings and retirement differently. Scholars must
look at different areas for insight into similar questions than scholars have previous
asked. The argument that alternatives to European style government sponsored social
insurance existed and work is not an argument that public relief and aid was not in fact
needed. In posing the counterfactual, scholars can make some reasonable assumptions
when examining the economic beliefs of many Americans of the late nineteenth century.
The fact that there was not enough of a coalition to form a national consensus to enact
universal national social insurance programs should be interpreted to mean that
European-style old age pensions and social insurance were unpopular with the majority
of Americans. So in a world without public assistance and safety nets, what did
individuals and families use to address the problems associated with aging and
retirement? The institutions explored by this dissertation represent areas that have been
somewhat understudied in the US political economy. These institutions will prompt
scholars to reframe the questions surrounding the redistribution of wealth via the
government when examining the development of the welfare state in the United States, as
well as savings in the United States.

First, we must explore how Americans viewed aging and old people in light of
alternative institutions such as Civil War pensions and life insurance. How did they
approach saving and insuring themselves against old age and job insecurity? This
dissertation attempts to also provide an inquiry into what resources Americans had in the
late-nineteenth century to prepare for old age and retirement. Additionally, what are the
implications that the success of these retirement resources and institution has on the
development of the welfare state in the United States? It is well documented that the
United States is a laggard in developing social safety nets when compared to Europe. The first compulsory old age pensions were developed in Germany in 1889, followed by universal sickness insurance around 1903. The United States passed Social Security in 1935 and a limited healthcare program in 1965 under the form of Medicaid. Did the alternative financial mechanisms and institutions that Americans developed delay the emergence of nationalized old age pensions as well as other forms of social insurance? If the private financial instruments and institutions worked, then they could have delayed the development of Social Security.

One has to be careful when developing a comparative examination between the United States and European nations. There are very real structural differences between the United States and European economies. Perhaps adopting a position that the notion of American exceptionalism, as the loaded a concept as it is, can reveal that what was unique to the United States political economy might have also enabled it to avoid or ignore using a nationwide social insurance scheme to take care of dependents until 1935. Here it is also critical to examine the changing demography of Americans. As birth rates declined (with immigration providing industrial labor and high wages relative to Europe) Americans could have created different institutions and developmental choices that Europeans could not make about their societies. Nevertheless, what role did U.S. policy play in changing the patterns of precautionary savings and capital accumulation? As is with most Americans today, Americans in the nineteenth century had most of their investments and savings in their homes and the land those homes were on. Homes and land are by far the most important and largest investments most American families
possess. How did the policy of homesteading and cheap available agrarian land in the western regions of the United States affect the development of savings and social insurance, when contrasted with land scarcity in Europe?

Rather than offer to do something even more ambitious and conduct a comparative analysis between the United States and Europe, this dissertation proposes to more humbly attempt to shed light on understudied, but vital institutions in order to understand the development of old age pensions and why they were adopted in a much later period. The best way to do this is to examine the availability of financial instruments in the private market that could have been used in the same way old age pensions provided income security for the elderly. This study does not advocate the privatization of Social Security or old age pensions, and it does not attempt to analyze at a macroeconomic level the success or failure of the financial instruments and institutions that emerged during the late nineteenth century at insuring the income needs of all elderly Americans. Instead, it proposes that these innovative institutions and instruments were part of the conversation, that savings and capital accumulation, along with social insurance and welfare, are part of the same question and debate. By broadening our discussion, we better analyze why the United States delayed implementing universal old age pensions until 1935.

In the US economy, individual decision making and financial planning play important roles in determining the response of the market. If a financial instrument is not needed, then it would not be developed. If a financial system is inadequate, another one will be adopted or developed. Therefore, the key to understanding savings behavior in the
late nineteenth century is to understand what institutions were available to individual savers and the relationships these institutions had with the individual savers. The terms and arrangements between financial institutions and savers let us understand what individuals were looking for in savings institutions. It is critical to look at different institutional structures that change the manner and method of savings. Also, we must keep in mind that retirement today is a very different concept from retirement the way individuals may have viewed it at the turn of the century. In the era of Social Security, retirement is legally codified at the age of 65 and it has been culturally accepted as such.\(^2\)

The evolution of retirement from adjusting productivity to match a decline in a worker’s health and productivity to years of leisure and consumption results from a cultural transition.

At the end of the nineteenth century retirement could have simply meant exiting from the labor force and productive activity. It did not mean years of leisure that accompanied a drawdown of lifetime savings. But the adjustment in the cultural definition of retirement caused individuals to change the pattern of their investments, impacting economic relationships with financial institutions. As cultural values shifted from that of a sedentary retirement to a more active and formal retirement, economic values changed with the shifting cultural values as did the financial institutions.

\(^2\) The age at which society regarded an individual as old and due for retirement needs to be investigated further for a full understanding of retirement at the end of the nineteenth century. Currently there is debate as to raising the age for Social Security, potentially redefining old age.
CHAPTER I

Life for the Elderly at the Turn of the Nineteenth Century

When I was young, I thought that money was the most important thing in life; now that I am old, I know it is. –Oscar Wilde

Life for the elderly at the turn of the nineteenth century involved the age related decline in strength and productivity. Many relied upon families and local community networks for relief and aid if needed. But scant attention was paid to the elderly, until the turn of the century when poverty was equated with old age. It was not until progressive social reformers began bringing attention to the plight of the elderly that the conditions facing the elderly were seriously documented and treated as a social problem. Compounding the problem of the elderly was the widespread relative poverty of the majority of the American population throughout most of the nineteenth century. Lee Soltow in 1975 calculated that only forty percent of all adults over the age of twenty held real property. Sixty percent of all Americans in 1850 did not own any land at all.3 With such limited amounts of real property and little or no individual banking available to most Americans, saving for retirement in the contemporary sense was impossible. Immigrants were in a particularly vulnerable position since the jobs they took often were in the lower socioeconomic strata.

3 Lee Soltow, Men and Wealth in the United States, 1850-1870, Yale Univeristy Press, New Haven, CT, 1975: 22
During the nineteenth century, Americans developed a complex variety of images and expectations of the elderly and how old age should be lived. During the eighteenth century, Americans held particular views of the human lifecycle that were deeply ingrained in Judeo-Christian theology. This theology specifically venerated the achievement of old age in society, and served to reinforce the social hierarchy. In this social hierarchy, seniority and patriarchy were intimately entwined with familial values that were idealized with the gospel. Though not legally codified, convention dictated that those who held the most wealth were those aged forty to sixty. They were often the most revered men in the community wielding the most power, as they had accumulated the years of wisdom necessary to lead the community. The eighteenth century idealized the notion of that the young were to serve the old. The role of gender also played a tremendous role in the experience of aging. Older women who were without family support were often shunned in society and were viewed as cursed by the abandonment of family support. Thus, while the elderly experienced great influence and power, they were still quite dependent upon their young family members for support.

Soltow and Cole both note that one tended to accumulate property and assets as they aged, with saving as a precautionary motive. Even at advanced ages, men continued to work well past the time where they were no longer as efficient as their younger counterparts. Older Americans instead may have worked out of cultural and social

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5 Ibid

6 Soltow 63
conventions that reflected ambivalence towards retirement and an attraction to continued productivity.

Agrarian families in the United States had, up until the 1820s, much in common with families in feudal societies in terms of their makeup. Peter Lindert in *Fertility and Scarcity in America* notes that children are an investment decision made by parents.7 Agrarian families would tend to have as many children as possible, since from an early age they could help with labor on the farm, and provide security in old age. In an agrarian society with limited capital markets, human capital was the most accessible form of capital and wealth. Labor from children could be coerced through a variety of social institutions tied to patriarchy. But in a world without modern markets and assets, children also formed the only security net for the elderly.8 Thomas Cole noted that most people who reached old age had tremendous difficulty in being completely independent from their children and often had to rely on the younger generation for some support.9 In Europe with a limited land base, the bequest of the father’s land gave patriarchy a powerful coercive tool to keep children in line, by threatening consequences for children to default on their outlined obligations to their parents.

William Sundstrom and Paul David point out that “that the value of old age support provided by children was determined within the larger context of intergenerational wealth transfers of parental wealth for old age support between parents

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9Cole 50
and their mature offspring.”

There was an unwritten generational compact which guaranteed a bequest of land or tools towards offspring who supported their parents. This pattern of support had an upward affect upon the fertility rate, so as to insure the parents against some children shirking their responsibilities towards their parents and spreading the burden of care amongst several siblings. Sundstrom and David note that fertility is affected not only by the “availability of alternate sources of income in old age but also the reliability and quality of the support children could or would provide,” something that would change drastically in nineteenth century America.

During the Republican period in America (1789-1840), most Americans did not participate in industrial production given that farming proved to be a self-sufficient way of life. Thomas Jefferson had viewed the fast growing American Republic not as an industrial power, but as a refuge for the values of the yeomen farmer and his family. Jefferson saw that with abundant land and resources, the agriculturalist lifestyle could continue to spread unabated. The alteration of values from the Jeffersonian view of a republic made up of yeoman farmers towards a popular democracy with Hamiltonian industrial capitalism is a stark transition.

But land expansion under the Louisiana Purchase in 1803 and the Mexican Cessation in 1848 opened up much of the North American continent towards settlement,

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10 Sundstrom and David: 165


12 Sundstrom and David: 165
thereby increased the potential of child default with the availability of cheap land.

Though the life patterns were changing, in Republican America the institutional changes were limited. Public policy in terms of settling the west was problematic given the disagreement on the expansion of slavery in the United States. The West itself was still populated by Native Americans, who had yet to be pushed onto reservations and the infrastructure was lacking in terms of transportation and irrigation that would provide the ability to penetrate the deep interior of the United States.

The failure of the compromises over the expansion of slavery ultimately led to the Civil War. Western expansion, particularly the expansion of slavery, had been a precipitating cause of the Civil War. While Northerners had thought of the western lands as an opportunity for young families to grow and accumulate assets (a view consistent with the changing life cycle), Southerners had focused on expanding not only the cotton industry, but also the growth of their principal assets—slaves. The two ideologies came to a head in 1860 when the South seceded from the United States. It was during the Civil War in 1862 (not coincidentally) that the North successfully passed the Homestead Act that opened up the western territories to settlement. By doing so, this opened up vast new areas of the west to settlement.

The Homestead Act opened up 80 million acres of western land to settlers by offering 160 acres to settlers who improved the land by building a home and who stayed on the location for five years. By meeting those two requirements an individual would get a land grant for 160 acres. This opportunity for relatively inexpensive land continued the of opening up western land for farm expansion that began with the Northwest Ordinance.
in 1787. An important caveat in the Homestead Act is a clause in section one that prevented Confederate Civil War veterans from claiming land grants under the act.\textsuperscript{13} In fact the South in general was fairly isolated from the economic changes in the North. While the North was economically dynamic with emerging markets and economic sophistication, the plantation and its successor the sharecropping economy of the South is relatively static.\textsuperscript{14}

The antebellum South however experiences a similar pattern of fertility decline as the North, but not due to child default, but because of slavery. Slaves represented a form of life-cycle asset; one that naturally reproduced itself and increased in value.\textsuperscript{15} This had the effect of removing old age care and burden from the children and placing it in slaves. With the removal of the majority of Southern wealth in the form of slaves as a result of the Northern victory during the Civil War, the South struggles to move forward with the North well into the twentieth century.

The Civil War did however offer public relief in the form of military service pensions. Those who served in the Revolutionary War, the War of 1812, and the Mexican American War received either land warrants or service related pensions.\textsuperscript{16} As a result of the Civil War and the successful lobby group for Civil War interest groups, namely the Grand Army of the Republic, a significant number of Northern war veterans received

\textsuperscript{13} Statutes at Large, 37th Congress, 2nd Session : 392

\textsuperscript{14} Roger L. Ransom and Sutch, Richard, \textit{Conflicting Visions: The Civil War as a Revolutionary Event}, Research in Economic History, Volume 20,: 288

\textsuperscript{15} Carter, Ransom, and Sutch : 312

\textsuperscript{16} William Glasson, \textit{Federal Military Pensions in The United States}, Oxford University Press, NYC 1918
pensions. The pensions were liberalized to the point where by 1912 old age was sufficient to receive a pension from the federal government. In 1910 over eighteen percent of the federal budget was spent on Civil War pensions representing nearly 160 million dollars in spending. Federal spending on retirement benefits, that were limited to soldiers amount to .46 percent of the gross domestic product. This is a relatively small amount of money coming from the public sector compared to the 4.67 percent of GDP in 1999 that was made up of Social Security and military pensions. While the Civil War pensions were broad, they were as costly as the programs that emerged after the Great Depression namely Social Security and unemployment insurance that made up a higher portion of GDP.

A powerful demographic shift also occurred in the years prior to the Civil and continued through the nineteenth century and provided an impetus for changing the economic and social landscape. Cheap and abundant land fueled the demographic transition leading to an alteration of life cycle behavior; rising industrialization also contributed towards accelerating the transition. The long term fertility decline that began in the 1820s continues at a linear rate until the 1920s. The decline in fertility amongst white native born women from 1820-1920 greatly altered the cultural landscape. Women went from having from seven births on average during their lifetime to three births during the lifetime. This profound shift towards a smaller family had tremendous psychological if not economic impacts upon the family unit, though this does not not explain the initial

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17 Ibid

change in familial patterns. Federal land policy which offered cheap land to farmers to settle the western United States caused families to be smaller units even if women continued having children at roughly the same rates historically. By creating a supply of cheap land in the west an economic impetus for children to default on family obligations emerged. The term “child default” coined by Jeffery Williamson, meant the default of familial obligations of children to their elderly parents.

Since children were a form of savings that required investment in, parents reaching old age expected children to return their parents’ investment through assistance. A child leaving meant that he or she would default on the family obligation to take care of elderly parents. Once a family member moved outside of a certain region it was highly unlikely they would return. Familial values thus changed under the threat of child default. A new strategy for dealing with old age emerged. Rather than basing it on land bequests or threats of disinheritance, parents began to accumulate assets for old age, either through investments or by increased savings. By relieving children of the burden of caring for parents in old age, there led to a revolution in child rearing. Carter, Ransom and Sutch write:

Growing children were relieved from much of the on farm labor extracted in the old system thus freeing their time for schooling and skill-acquisition. The parents gave up other income from unpaid child labor and invested it in their education. Education equipped the next generation for the richer set of opportunities that was beginning to appear in the towns and cities. The new strategy required a new ethic: “avoiding the shame of being a burden to one’s children.”

19 Carter, Ransom, Sutch, , Family Matters: The Life-Cycle Transition and the Unparalleled Fertility Decline in Antebellum America: 26
The rise of the public school system in the United States parallels this transition in the family. It allowed this next generation to hold a diverse series of jobs and have different economic opportunities than previous generations.

In the absence of industry well before the rise of industrial opportunities cheap land could prove to be an effective lure for young adults seeking economic opportunity. This movement away from the trans-generational family farm proved to be a strong factor in breaking down the agrarian lifecycle. By 1850 nearly a quarter of the native born population did not live in the state in which they were born.\footnote{Joseph P. Ferrie, “Interstate migration - native-born population, by race and residence within or outside the state of birth: 1850–1990.” Table Ac1–42 in \textit{Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition}, edited by Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch, and Gavin Wright. New York: Cambridge University Press, 2006.} Cheap land, rather than industrial growth fueled the early decline in fertility. As Americans moved further west it was led by young males leaving their parents for opportunities in the west. Peter McClelland and Richard Zeckhauser estimate that the rate of migration from the New England area to the Midwest was nearly five to six percent in the 1800s and seven to eight in the 1810s.\footnote{Peter D. McClelland and Richard Zeckhauser, \textit{Demographic Dimensions of the New Republic: American interregional Migration, Vital Statistics and Manumissions, 1800-1860}, Cambridge University Press, NY 1982} Carter, Ransom and Sutch note, that “the impending departure of this young cohort provoked considerable tension and anxiety within their parents’ families.”\footnote{Carter, Ransom, Sutch, \textit{Family Matters} 25}

Sundstrom and David argue as a result of children becoming increasingly unreliable assets for old age fertility continued to decline. In part, the improvements to
agriculture and mechanization required less labor from grown children and abrogated the need for more manual labor from the family.23 Also, the lure of jobs in industry for young adults also helped them break the bonds of patriarchy. Children did not have to wait for the bequest of land from their parents in order to be independent of parental rule. They could convert to a wage labor system in the cities, or seek to settle land in the west, freeing them from parental rule and obligations. It is important to note though that industrial opportunities late in the late 18th century and in the ante-bellum period were sparse, and while regional transportation was available it would not be as widely available until the proliferation of the railroads in the 1850s. So the fertility decline during the ante-bellum period perhaps had more to do with the availability of land in the west. As the transportation systems slowly expanded it not only produced employment opportunities for individuals seeking to escape the farm; but also reduced transportation costs for internal migration.24

Changing cultural norms also had profound effect upon the elderly and the economic and social relationships that they had with their families. Patriarchy and bequests of wealth typified European and Early American intergenerational relationships. But with the advance of Democratic and Republican ideals, that centered on individualism, wealth, and virtue, patriarchy and unused (unrighteous) wealth was frowned upon. Unrighteous wealth gained not through hard labor was corrupting, while wealth through virtue was to be desired. Stewart Davenport writes that mid 1850s

23 Ibid
24 Susan B. Carter, Roger L. Ransom, and Richard Sutch Family Matters 18
Americans viewed, “the pursuit of wealth could be consistent with a virtuous life, and that a nation composed of such pursuers would actually be stable and moral rather than unstable and immoral.”

Virtue was equated with wealth by Christian theology by moving away from the Puritan Calvinism that typified ante-bellum America towards a broader acceptance of Arminianist theology which accepted that man had free will and that salvation was not necessarily pre-destined. Evangelists notably Charles Finney took this new doctrinal shift and emphasized the born again conversion experienced by many of his followers. Evangelical Christianity placed a larger emphasis on the immediate ability of the informed person to accept salvation and experience a new spiritual rebirth, and the eternity of that salvation. Puritan Calvinism had asked for much more introspection from its followers, particularly the elderly, and avoided evangelizing the young, since they were viewed as dependents upon the families. Also by emphasizing conversion they tended to ignore the problems associated with aging. Revivalists also tended to ignore the admonition to Christians to venerate the old. They had assumed that devout Christians should as part of their duty care for the old and the poor.

By emphasizing the Arminianist values of free choice and coupling it with the notion of American economic exceptionalism, particularly because of the frontier, Americans viewed their Republic in the 1850s as a meritocracy. Their particular view

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26 Cole 81

27 Cole 85
was that “the rich can easily lose their fortunes through indolence and vice while, conversely, the low-born can amass a fortune through their personal industry, insight, and frugality.”

The result of these shifts in values resulted in an “ordered” world where one’s merit was based upon their virtuous deeds. The values of self-control, physical health, thrift, and individual excellence were the measure of someone’s virtue and how they were evaluated in life. Dependency, ill health, and lasciviousness were on the other hand result in miserable experiences in old age. Thomas Cole notes that this created a “dualistic vision” of aging, one vision of the ordered progression of aging and death that could be edified, and a premature or a slow lingering death that was to be reviled. The result of this dual view of old age left unfortunate individuals to defend their biologically determined old age reinforcing a sentimentalization of the preferred type of aging, alongside Victorian domesticity, separate spheres, and childhood innocence.

Dependency and particularly old aged male dependency was seen as non-masculine. Dependency was a state that was only appropriate for women or children. Therefore in the mind of many nineteenth century American males, not working or being dependent on savings or the public dole, was seen as being non-virtuous. The feminization of dependency we’ll see has powerful implications particularly with the development of Civil War Pensions. The way social conventions distributed power in the family also placed women in dependent positions.

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28 Davenport 103
29 Cole 145
Women were viewed as dependents for their entire lives, and were consistently placed in subservient positions either to husbands, sons, or male caretakers. A great example of this was Mary Todd Lincoln who after receiving a Civil War Pension was declared insane and institutionalized by her son Robert. It took nearly a year of legal action, ironically brought on by a female attorney to have her classified as sane and released. By placing women in a subservient position women were labeled with a certain ageless character that confined them to a singular type of role: nurturer. This role was dominated by what Lisa Dillon calls the domestic reproductive role. Their age was not defined by wage or earning capacity like men, but reproductive capacity. A woman became an adult once she reached menarche, while she reached old age when she could no longer reproduce. It’s a powerful cultural viewpoint that still holds many connotations to this day.

It is important to note here how pseudo-biology played a major role in shaping the cultural conventions of the time. With science taking infant steps towards understanding the biological processes governing the human life-cycle it’s interesting to note how individuals sought to control and advert the process of aging through vigorous physical and intellectual activity. This control over how one aged or dies was at the heart of the Victorian value structure that placed self-control and reliance above many other virtues. This is ironic given how little control science and people had over the actually aging process. Physicians had very little insight into the causes of aging. They ranged from

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31 Ibid
degeneration of vital energies to improper nourishment. What perplexed physicians were questions about why they could not restore some one to youth and vigorousness?32 Very little could be done to alleviate the chronic conditions associated with old age, aside from prescription of forms of opiates. Death they concluded was inevitable as was aging.

Towards a Life Cycle Framework of Savings

While cultural changes are important in examining savings behavior, we must also examine institutional innovations in order to understand the options available to individuals for precautionary saving. Since death and aging are certainties societies and cultures develop normative means to deal with the costs, both economic and social that accompany the process. Institutional innovations in the late nineteenth century US offered various avenues for accumulating enough wealth to support a given lifestyle in old age; increasingly one that included reduced labor. While perhaps not explicitly saving for retirement, workers and families saved money as a precaution. Precautionary savings created new institutions and financial instruments for savings. That’s why it is critical for scholars to examine changes in the political economy that allowed for the creation of new savings institutions. These new institutions arose during the nineteenth century that redefined the economic landscape. Understanding how these institutions developed and how they emerged gives us a framework upon which to view how individuals perceived economic environment of the late nineteenth century. The institutions will be discussed.

later in this chapter. By understanding how the financial landscape developed in the
nineteenth century will give us the ability to infer the reasoning and motivation
individuals used in formulating their decisions. Understanding their choice of savings
institutions and their reasoning we can better understand how individuals cope with
insecurity in an economic environment with limited social safety nets.

While thrift had always been a characteristic of American economic behavior
high rates of savings in the late nineteenth century became an integral part of American
behavior. Thrift was a cultural value that led to precautionary savings. Individuals saved
with a specific purpose in mind. Savings is the accumulated excess of income versus
expenses that would be put away for future use. Thrift on the other hand was a lifestyle
value that constrained spending. The question is what were Americans saving for?
Savings, though a highly valued virtue by nineteenth century Americans, also represented
precautionary behavior rather than investment behavior. But savings also represented
independence, a desired value, compared to dependency. Americans were saving to
insure themselves against the risk of catastrophic income losses, dependency in old age or
injury, and as a form of social capital. But, without modern forms of social insurance
many families were forced to insure themselves with higher savings. The higher savings
deposit rates represent sensitivity to income insecurity during the nineteenth century
since most Americans did not not have large incomes. It is these precautionary savers
who accumulated savings during peak earning years who did not have to use their
accumulated savings, could then use their savings as aging reduced their income. But
without savings institutions, Americans could not have adjusted their savings behavior.
The life-cycle transition as proposed by Roger L. Ransom and Richard C. Sutch is based upon the work of economist Franco Modigliani’s Life Cycle Theory of Savings. Modigliani originally postulated that “consumption and saving decisions of households at each point of time reflect a more or less conscious attempt at achieving the preferred distribution of consumption over the life cycle.”

Modigliani contended that consumption is self regulated in the present so as to be able to maintain consumption when productivity would decline in the future. Modigliani viewed that individuals act with regard to their economic behavior based on predicting their economic position in the future calling it a life cycle perspective. At the most basic intuitive level we can argue that most human beings have the ability to make economic decisions and choices with regard to some prediction of future income save accordingly. It all depends upon available institutions for savings. Using this theory of life cycle savings we can describe savings behavior over the course of a lifetime given the available institutions for saving. This in turn can tell us a great deal about the formation and development of social policy in the United States.

Americans the late nineteenth century began to transition from relying on kinship that works in families as forms of social insurance and two a life-cycle model of Savings behavior. The contemporary model of life cycle savings is based upon accumulating financial assets that are eventually consumed at the time productivity falls below consumption. This can take the form of social insurance, private savings, and income

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transfers. Douglass North writes that, “Institutions provide the framework within which human being interact. They establish the cooperative and competitive relationships which constitute a society and more specifically an economic order.” What we see in the late nineteenth century United States is a changing economic order which is very directly affecting aging in the United States in deep and profound way. While these changes are not immediately visible, over the long run the changes are dramatic. Savings for old age went from simply being a precautionary measure towards accumulating savings for increased leisure. Institutional innovations may not have affected those who were old and already in advanced stages of aging on the eve of the development of new financial institutions.

Institutional innovations had the most profound effect on those who were on the margin and needed to start saving for aging. Persons in their thirties and forties during the eighteen sixties and those who grew up during the gilded age were the demographic group most likely to benefit from new financial institutions that would provide them with income during their later years in life. By using the Life-Cycle savings model as a framework to examine the economic life of individuals over the course of their life assertions can be drawn about aging and retirement in the nineteenth century United States. Institutional innovations ultimately had a profound impact upon the development of social insurance by causing a switch. The framework predicts that over the course of the individual’s life he or she will begin to accumulate assets during their peak earning years in order to maintain their level of consumption when their earning power and

34 North 201
productivity declines with age. The human life-cycle is affected by biology. Though the length of time varies greatly for individual human beings, individuals can reasonably estimate mortality and quality of life throughout their lives and make economic decisions accordingly. Figure 1 gives us a model of behavior which indicates pro-active decisions of the family and individual to save for the period of declining productivity. By controlling consumption as Modigliani asserts, individuals stockpile assets predicting what will be required to maintain current levels of consumption in years of lower production. Saving too much can reduce the potential current consumption and saving too little may result in reduced consumption. The goal of the individual and family is to maintain consumption so total consumption for a lifetime equals the total production of a lifetime.

Figure 1.1
This perspective is useful because it shifts the perspective in the discussion from examining the lack of development of social institutions, to examining the individual decision makers. Examining how individuals react to the increasing need for economic security without pensions or social security can reveal economic innovations previously disregarded.

The transformation from a vision of America which Thomas Jefferson espoused to an America that Alexander Hamilton envisioned required an enormous shift in cultural values and the way persons were linked with each other. At the heart of Jefferson’s view is a yeoman republic of farmers, while Hamilton favored a strong industrial nation. These two ideals would come into conflict with one another and a shift allowed Hamilton’s vision of an industrial democracy to come to the forefront. One candidate for creating the shift is industrialization. Industrialization brings with it great social and economic upheaval sufficient to reorganize society and social institutions. As people try to grasp with a new industrial reality and economic order they race to develop institutions to cope and redefine their roles in society. The market revolution began to alter social and economic relationships.

Industrialization deeply affecting social institutions is well documented particularly during the Populist and Progressive Eras. Literature on the Gilded Age in the United States consistently mentions the Agrarian Revolt, the labor strife of the era, or the devotion to the Gold Standard. The Agrarian Revolt and Progressive era can be regarded the highest point of the battle between the two visions of America. But it fails to explain why at some point earlier in the nineteenth century values began to turn towards
industrialization. The revolt amongst farmers, populists, and progressives, were more about the nature of industrialization rather than whether it should occur at all; they desired industrialization to take course in a manner consistent with their morality and values.

The transition from localized modes of welfare, savings, and retirement towards modern complex (perhaps dispassionate) forms of welfare using state resources and private resources does not mean there’s a natural evolutionary path towards the modern welfare state. In fact the American experience in developing social policy is quite piecemeal and enacted on an ad-hoc basis. When these policies were beginning to develop in the 1870s it was uncertain how much of a role the state should have in providing welfare to all its citizens if at all. It is also unclear what combination of financial institutions could properly address the problems of aging and poverty. This is also layered upon the changing cultural values of society. The status of the aged, particularly those in industrial cities and workplaces declined relative to their historical position as revered elders.\textsuperscript{35} In the industrial world this meant that old men in particularly were confined to the industrial scrap heap as employers would favor their younger counterparts in the factories.

This was a marked changed from the Agrarian pattern of life. The biggest difference lies in the reliance upon wages in industrial cities for basic necessities. Wages were not as critical on rural farms during the nineteenth century. The fact that the vast

\textsuperscript{35} Carole Haber and Brian Gratton, \textit{Old Age and the Search for Security: An American Social History}, Indiana University Press, Bloomington, IN, 1994 : 5
The majority of Americans did not live in cities until the 1920s compounds the disconnect between agrarian families, and new industrial families that transitioned to a wage and savings based life-cycle. For most Americans of during this era regular wages were not a critical problem. Living on a farm tended to shield farmers in certain ways. While most farmers were never quite wealthy, nor were they by any measure more prosperous than industrial workers farms incorporated several precautionary and social insurance aspects to them. The farm could continually produce enough food to feed the family. While farmers might not have prospered at commercial farming, at the very least the farm would provide for the family at a subsistence level, depending upon environmental conditions. Secondly, the farm itself is a major savings and life-cycle asset. Developed farms and farmland were highly valued, particularly by banks. This would allow younger men to rapidly increase their wealth status. What had been an accepted social order in the Republican period of American history began to change on the evil of the Civil War.

The farm could be partially or entirely mortgaged if the family needed cash for emergencies or for farm improvement. Since most farm mortgages lasted only five years, the value of the land of a farm was a significant asset to farmers and their families. But on top of this farmers also had access to banks, life insurance companies, credit markets, etc…though not on the same scale as those living in the cities. All these factors combined to provide a limited safety net against the violent swings in the economy. Industrial workers and the emerging middle class had to instead use different financial institutions and instruments to insure against economic downturns and losses in income. Without the value of a farm either to borrow against, for shelter, or even to provide food for the
family, industrial and middle class workers in the cities was much more sensitive to declines to income. That’s why the middle class in particular focused on protecting income through savings and financial instruments. But the Jeffersonian agrarian republic was slowly being transformed into a powerful industrial republic that shifted the values of the American people.

The shift from using an agrarian based life cycle savings system based on land values and values of children towards one using financial markets parallels the development of for the shift from investing in children as a savings asset to other forms of savings for old age. With this shift children became investments for enjoyment and a form of leisure not as a form of precautionary or old age savings. The rise of public education is also partly a result of the change in the pattern of investment in children. Rather than requiring work from children, children could now be invested in through education. The rise of public education is the result of the availability for children for activities other than labor. 36 The demographic changes for the years leading up to the Civil war were a precursor of the rapid change that would happen after the Civil war. A whole sale restructuring of American society was necessary to accommodate not only the rising industrial basis of the economy, but changes in the social and cultural relationships between individuals within a modernizing United States that resulted in the life cycle transition.

Some recent assessments of the life cycle model of savings have tended to move the life cycle model to the margins of contemporary economics when viewing savings

36 Lindert 215
behavior. But rather than simply confining the life cycle theory to the scrap heap of discredited economic methodologies, economic historians should use it as a framework within which to view the economic structures at work in the late nineteenth century United States. Empiricists who model economic behavior often restrict life cycle behavior into very narrow temporal time frames that remove life cycle motives from economic behavior. Education, savings, children, marriage, labor, and risk often are all intertwined and disentangling them requires a framework that accounts for interaction effects. The result is often a complicated mathematical model that can have difficulty accounting for specific savings decisions that are made for specific reasons. Using the life cycle theory much more as a framework, however, allows economic historians to not only build models but to understand in a broader context what economic institutions might affect economic behavior. The lifecycle theory as a framework is particularly useful in helping to define the parameters of an economic study or model, while accounting for uncertainty and individual agency. Most empirical models have had major problems with heterogeneity with savings models. Even when controlling for various variables, studies on modern household savings have had problems dealing with the wide variation in retirement wealth accumulation.

In several studies high household savings is not strongly correlated with high amounts of retirement wealth or vice versa. The difficulty here is examining the past life

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38 Martin Browning and Thomas F. Crossley 2

39 Ibid 21
experience of individuals over time, that have had various life experiences that have very serious impacts on their economic lives. Accounting for those experiences accrued over 20 years in a model can be difficult even for the best econometrician. Also the notion that there is an ideal savings profile and curve per individual is predicated on a one size fits all notion. An empirical model will lack accounting for things such as taste, changing cultural views, which are unique to the individual leading to highly differentiated outcomes. It is also not clear if individuals aside from immediate precautionary savings adjust their income in as it fluctuates.

Retirement and savings expectations may be far more inelastic and unchanging than income fluctuations. Also how large of a systemic shock would be necessary to modify behavior is uncertain for most life-cycle models. While many life-cycle models have a high degree of uncertainty in real world conditions that make the models unreliable as a framework for thinking through socioeconomic questions the life cycle perspective is invaluable. It gives us a framework for interpreting the economic agency of households. Within this framework where individuals are guided in economic decisions in the present using past experience to predict the future, we can view adaptation. With a set of desired economic expectations that individuals desired, we can measure the success or encumbrances of those expectations. Additionally we can examine the role that inequality in outcomes, and the reasons for differentiated outcomes. But perhaps most critically, the life cycle perspective prompts scholars to broaden their examinations from short term studies towards long historical studies that emphasize changes over time.
From 1865 to 1914 Americans experienced several major economic downturns in economic upheaval that resulted in higher rates of unemployment and prolonged unemployment. Industrial workers were subjected to periods of prolonged unemployment in particular and were more sensitive to incomes and security. This prompted families to start saving whenever possible for the periods of unemployment and declines in income particularly as workers were increasingly dependent upon weekly wages. As workers at an advanced age experienced declines in productivity. Coupled with increasingly prolonged periods of unemployment reducing income to the family families had to plan and to save against the decline in productivity and income during old age. Understanding that aging would reduce income and earning power families began to adopt precautionary savings patterns. For industrial workers this would mean having sufficient savings and income during old age when the worker would not not be earning as much as they were during the peak years of their working lifetime. This savings could also be used to weather short term economic crises arising from unemployment, catastrophic injury, or sickness. But while many experienced these acute and devastating conditions these episodes of economic disaster were not sufficient to prompt major policy changes.

While much of the historical literature emphasizes the plight and suffering that industrialization had with regards to health and quality of life, it bears an additional note. Robert Fogel argues that the United States actually experienced a decline in relative health and vitality during the early nineteenth century, and by extension that early industrialization had a negative effect on health and quality of life. Using body mass,
height, and life expectancies to measure the quality of life of individuals who were born in the nineteenth century, Fogel shows that the nineteenth century did not bring prosperity. Life expectancy had peaks in the United States in 1790 and falls steadily until the 1860s. Height remains stagnant from 1790 to 1830 and actually declines until the 1890s. The health and well being of the individual whose quality of life particularly as one aged could be expected to decline sooner if not more drastically than contemporary persons.

Participation in industrial labor could cause the decline in productivity as the result age to be more pronounced than in contemporary America. It will be necessary to explore the affects of the industrial work place on the health and well being of individuals. The quality of life that industrial workers and other individuals may experience may have a pronounced impact upon their retirement decisions and savings pattern. The potential for injury and for age acquired chronic conditions increased as the quality of life decline throughout the nineteenth century. This combined with poor health could potentially demonstrate the increase of misery in the nineteenth century. In turn these factors would put pressure on social institutions, as an increasing proportion of the aged population became less productive at earlier ages. This forced institutions to respond the increased need to care for the aged persons and the development of new life-cycle institutions. The pressure on social institutions helped develop new institutions to cope with the aging of the population. The traditional life-cycle of children caring for the

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40 Robert Fogel, *The Escape from Hunger and Premature Death, 1700-2100: Europe, America, and the Third World*, University of Cambridge, Cambridge, UK, 2004: 17 Taken from Fig 1.2
parent however did persist well into the twentieth century (in some cases making a return as we proceed into the twenty-first century).

The economic historian on the other hand by using the life cycle perspective as a framework can examine social change. Rather than using the life cycle theory as an empirical model, economic historians should use this framework to examine in broad terms the changes in social institutions that come about as the results of shifts in population, cultural norms, tastes, political culture, etc… Economic historians can use this economic framework to jump off into broader narratives, in the case of this dissertation aging and savings in America. We can also measure the amount of insecurity during the era by examining the levels and extent to which Americans were precautionary savers. By using this broad framework we also avoid limiting the boundaries of discussion to a single institution or a small set of factors affecting old age savings in the United States.

Three institutions involved in financing retirement: life insurance companies, home ownership, and Civil War pensions, are widely used and available economic options open to Americans in the late nineteenth century. These are not inconsequential institutions for savers as well as the macro-economy. These institutions also represent precautionary savings institutions which provided relief to many Americans during periods of economic downturns.

Precautionary savings models are particularly useful in examining the economic insecurity many Americans faced, as well as how Americans dealt with new institutional innovations that were designed to help them save. If we broadly define all savings and
most forms of investments as being precautionary in nature we can then begin to attempt to bridge the gap between empirical models and the life cycle framework. Individuals under this larger definition of precautionary savings are not solely saving for retirement but for a multitude of circumstances which result in a systemic shock resulting in the loss of income. Savings for retirement is therefore entangled with savings for a variety of other motives, blurring the notion of a definite wealth threshold for retirement. In fact the definition and nature of retirement under this scenario is much more of an elastic notion subject to change, than is savings rates. Precautionary savings is a particularly useful complimentary tool to exam savings accumulation and patterns over the life cycle. It explains why for example younger adults and students in particular are not high savers since they have a very low precautionary savings motive. Their youth, and their ability to make up for near term losses over the long term make them risk averse while middle age and older households are more risk sensitive since they cannot make up losses over time.41

One problem facing the examination of precautionary savings is in determining the liquidity of various components of wealth. Various economic resources have different terms and conditions placed upon them that cannot be so easily quantified. In addition to assets, there’s also the difficulty in examining the marginal utility of these assets, particularly real estate or other forms of capital. In addition to this, there is the complexity of housing equity, credit, and income transfers from children. But if we assume these institutions exist as forms of precautionary savings that insure an

41 Arthur Kennickell and Annamaria Lusardi, Disentangling the Importance of the Precautionary Saving Motive, NBER Working Paper 10888, NBER, Cambridge, MA, November 2004
individual, institutions that nineteenth century Americans could use, Americans then may have been far more secure in old age than we would initially assume. Their savings may have been somewhat secure given the wide fluctuations in the late nineteenth century economic cycles since most people held housing as their major asset. But risk was not only limited to income insecurity. Health risks, job related accidents, risks related to the destruction of durable goods are important aspects to consider when examining precautionary savings.42 Also old age was something that had to be insured against through savings. Aging and a decline in productivity was clearly recognized by nineteenth century Americans. The notion of a good death and good “old age” lifestyle may have delimited institutional developments, but it did not mean that households stood idly by as people age. They naturally would choose to act to prevent a poor aging process or any of the other forms of risk. But here we must also broaden the examination of precautionary and life cycle perspective from just the insurance of old age through liquid assets.

While mutual savings banks are the place to examine the immediate savings of individuals, other forms of savings perhaps were targeted at specific forms of risk and are no less important to examine. Fire insurance was directly aimed at protecting valuable property, life insurance was designed to protect against the catastrophic income loss that would result from a household head, job deskilling protected from income loss, or old age, and kinship networks could be used in other instances. Homes and land ownership

were also tremendous resources for income. A paid for house could easily be mortgaged to obtain temporary income or as a source of credit and capital. Families could also take on lodgers to augment the household income. Clearly there were institutional resources that existed for precautionary savings and potentially used for security in old age.

Adding to new scholarship showing the complexity of precautionary savings for households are two recent articles by John A. James, Michael G. Palumbo and Mark Thomas. Their papers on savings patterns and behavior by industrial workers in the United States are revealing about the savings motives of industrial workers. James et al, used the data drawn from state Bureau of Labor Statistics surveys which followed the format set forth by Carroll D. Wright. Wright was one of the first Americans who conducted serious social science surveys of industrial workers detailing their working conditions, household conditions, with demographics in mind. Wright began this work when in 1873 when he was appointed as the Commissioner of Labor Statistics in Massachusetts. Many states followed Massachusetts example and instituted data collection regarding workers. By 1885 the United States government too specific interest in surveying workers that it created the federal Bureau of Labor Statistics with Wright as the Commissioner of Labor. The US bureau along with state government bureaus created the first surveys of household wealth and wealth holding in the United States. Rather than condense the material into reports, Wright published the actual responses of the respondents to the survey.

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The worker surveys in particular were very revealing about industrial laborers at the turn of the century. Wright was one of the first statisticians to ask respondents questions in a consistent and systematic way. This made the results of the surveys he led particularly useful and relevant for its time and for scholars today. The surveys asked for key demographic variables such as age, job, ethnicity, residency etc… It also asked basic economic questions, such as savings, unemployment, and occupation. The household surveys went further detailing the relationships both social and economic within the family. Additionally special reports on loans, child labor, company stores, homes and mortgages provide valuable resources for scholars studying the time period. The success of Wright’s survey led to the widespread adoption of formal surveying of various industrial and non-industrial labor groups and segments of society, particularly in industrial states. The Historical Labor Statistics Project at the University of California led by Carter, Ransom, and Sutch converted paper reports into machine readable format available on eh.Net.44 James, Palumbo, and Thomas in a separate study produced a dataset from these state Bureau of Labor Statistics reports as well generating a dataset of 7,000 families from 1885 to 1908.45 In their 2005 article Have American Workers Always Been Low Savers? Patterns of Accumulation among Working Households 1885-1910, they estimate lifetime asset accumulation based upon data from their analysis of state Bureaus of Labor Statistics. Their paper focuses mostly on industrial job categories in the Northeast and Midwest.

44 Ibid

Their findings indicate that American workers saved at approximately the same savings as contemporary Americans; with little or no life-cycle savings. Their analysis of savings behavior show no life-cycle or precautionary savings located in financial institutions or liquid assets. The additional implication reached by James et al. is regarding the effect social insurance had upon savings rates by Americans. By using income transfers in the form of taxation and social security, the welfare state crowded out life-cycle and precautionary savings. If the savings rates of contemporary American were equal to the savings rates of Americans in the late-nineteenth century it would appear that the welfare state is not the primary cause of the decline in savings in the latter half of the United States. James et al (2005) argues that it appears that savings is constrained in episodes, where years of high income were then used almost immediately in lean years. Even accounting for equity gains in with home mortgages, the result of their simulations is that industrial American workers experience very little savings during their lifetimes, with the majority of it coming in the form of home equity.

While James et al. (2005) do challenge the notion of individual savings being sufficient to cover income reduction in old age; their conclusion does not exclude the life-cycle savings behavior or precautionary savings. While certainly empirical models based on asset accumulation would be challenged by their work; the life-cycle framework is still intact. If savings did not provide the additional income workers needed, what did? As mentioned earlier the value of independence and economic independence led workers to work through old age, generating additional labor. Though there is occupational deskilling by workers it is preferable to the complete loss of income. James et al. suggest
that income transfers from children either in the form of assistance; boarding or transfers may have offset the lack of savings from the elderly. Though this form of savings and investment may be inconsistent with an empirical model that focuses on the individual household head, it would not be inconsistent with historical life-cycle models which relied on children for old age savings and care. Also, James et al. (2005) constrain their simulation to the single head of household income model that is highly inaccurate historically.

Women and children have always worked, and produced income for the family. Even if they were not earning wages, women produced goods and services that effectively bolstered the family income allowing additional capital savings and goods. Now whether these are counted in the labor statistics surveys or not is uncertain. There is a high propensity during the late-nineteenth century to not mention the work of women and their earnings in public since the Victorian ideal of a proper woman was at home not in the factory. This undoubtedly skewed the responses of the surveyors and respondents causing an under reporting of income. Married women had relatively low labor force participation rates, but before they married they were highly engaged in wage work either for themselves or supporting the family they belonged to. Also additional income from children in the form of inter-generational transfers seemed to have provided income from younger children to older family members. Adult children subsidized their parents if they remained home, while those rooms could be used for boarders to supplement income if the children left.46 One important implication of James et al (2005) is that industrial

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46 James et al. (2005) : 157
workers in the nineteenth century did not save or could not save to become life cycle savers who could build up sufficient assets to meet the needs that unemployment, aging, or accidents would incur.

Industrial workers while representing a broad spectrum of Americans are not reflective of the old age population. James et al (2005) did not account for occupational mobility as an individual aged. In fact using a new Integrated Public Use Microdata Series with longitudinal data we can track the changes in professions that men occupied. This dataset available from the Minnesota Population Center links 500,000 individuals at two points in time. They use 1880 as the linking point between various censuses from 1850-1930. By using the sample of men from 1880-1900 we have a very good longitudinal sample population from which to draw inferences from. For table 1.1 a sample of white native born American men by the time they reached at least the age of fifty in 1900 was used. Table 1.1 shows us the occupational categories of men in their thirties and forties in 1880. Also reflected in the data is that most native born American men were not industrial workers by the time they were age fifty. Using this longitudinal dataset we find that very few Americans are industrial workers by the age of fifty.

The static occupational mobility model that James et al (2005) uses can underplay occupational mobility which adjusts with age over time. Of the 1,323 individuals who are categorized as industrial workers in 1880 nearly half, approximately forty six percent of industrial workers in 1880 have by 1900 other occupations. Seventeen percent are farmers, ten percent are accountants, salesmen, or agents, and ten percent have completely exited the labor force all together. This occupational mobility may incur costs
such as education, time off work etc… that might be viewed more as investment functions not just pure saving. Mobility also could suggest precautionary behavior as industrial work was subject to highly unstable conditions depending on the particular industry. As a person transitions to another job they’re likely to be seeking job security not just increased wages. This motive is quite difficult to capture in any precautionary savings model. Undoubtedly as a person aged they would have preferred income security over short term gains in wages.

### Table 1.1 Occupational Distribution of Men Aged 30 or older in 1880

<table>
<thead>
<tr>
<th>Occupational Category in 1880</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional</td>
<td>3.63</td>
</tr>
<tr>
<td>Farmers</td>
<td>40.55</td>
</tr>
<tr>
<td>Accountants &amp; Agents/Salesmen</td>
<td>14.91</td>
</tr>
<tr>
<td>Industrial Workers</td>
<td>26.15</td>
</tr>
<tr>
<td>Service Workers</td>
<td>0.15</td>
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<tr>
<td>Law Enforcement</td>
<td>0.20</td>
</tr>
<tr>
<td>Other</td>
<td>4.06</td>
</tr>
<tr>
<td>Retired</td>
<td>10.35</td>
</tr>
</tbody>
</table>

Table 1.1 Occupational Distribution of Men Aged 30 or older in 1880
James et al in 2007 continued their work on the Bureau of Labor Statistics dataset they had constructed in 2005. In their paper they explore the question the other critical aspect of precautionary savings and the life-cycle model; savings. While James et al (2007) continues to discount the notion of pure life-cycle savings patterns, particularly work done by Carter, Ransom, and Sutch in the 1990s, precautionary savings motives were strong motives in households in the late nineteenth century. They hold that the empirical evidence indicates that savings were produced as a buffer stock to ride out short term declines in income. This finding is remarkably consistent given the economic conditions of the time and economic environment. From 1865-1914 there were five major panics, along with several periods of long recessions in the United States, the worst of which was the Panic of 1873. While James et al (2007) might argue that savings strictly formed a buffer stock against these severe economic declines, economic instability could have completely undermined pure life cycle savings efforts. Constrained to limited incomes, savings opportunities, and social safety nets individuals were forced to use life-cycle savings for precautionary savings, therefore eroding their ability to save for old age. Lacking sufficient income for life-cycle savings using pure savings, individuals had to rely on traditional social capital, children, benevolence societies, and boarding, to compensate for the lack of income in old age.

James et al (2007) does point out that the existence of social structures that provided significant old age aid undermined the development of institutions that would

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48 Ibid 633
have provided pure life-cycle savings without the need of income transfers from outside the household. But these social structures in which the elderly received income transfers from their children were at time precarious. As discussed earlier children could be very unreliable sources of income, particularly in a wage economy with increasing mobility. James et al. (2007) points out that workers relied on security in the form of the mutli-generational family. Most elderly American did in fact live with relatives but there is a noticeable decline in the number of multi-generational families.\textsuperscript{49} If we consider boarders and others living with the elderly as offering some form of elderly support James et al has a fairly intriguing argument. But the composition of these households may tell a slightly different story and is critical in understanding the nature of the income transfer and social mechanism. Elderly Americans were dependent upon their children for support. Elyce Rotella and George Alter concluded that overall family income was highly correlated upon children’s income earnings.

Families in deficit tended to have fewer children at work, or were in industries where children could not work or had to wait until a certain age to.\textsuperscript{50} Families they argue voluntarily put themselves into debt in order to “pursue a strategy of sacrificing current income to invest in children.”\textsuperscript{51} High wage earners would not need children to supplement their income while low wage workers would need to, but if work was absent


\textsuperscript{51} Ibid 126
for children the account balance of the family would be in the negative, since they would have to fund expenditures through debt as opposed to tapping into additional revenue streams.

But if we take a look again at the IPUMS linked dataset from 1880-1900 we encounter something rather intriguing. The cohort that reached age 65 or older by 1900 had nearly half of all persons aged 65 or older lived in dwellings that were four persons or less. Nearly twenty percent either lived on their own or with only one other person.\textsuperscript{52} The middle quartile has a dwelling size range between 3 and 5. This meant that in advanced age the elderly were only receiving immediate benefits from one or two children at the most. If we look just at workers who continued to work as industrial workers in the sample, we find that 45.94 percent of these men either lived by themselves or in a dwelling size no larger than three persons. While these figures do not necessarily contradict the empirical evidence offered by James et al (2005) and James et al (2007) it does add breadth and complexity to the multigenerational model of support. If it is the case that earlier in the nineteenth century under an agrarian lifecycle model many children would share the burden it appears that by the nineteenth century, the burden of caring for the old is steadily being shifted to an ever smaller number of children. This undoubtedly put pressure on children. And given the economic climate during the period we should question the reliability of children as a form of old age support. Fewer children meant the remaining children had to increase their share of shouldering the burden of caring for their parents in old age.

\textsuperscript{52} IPUMS dataset
Theoretically this is payment in return for their rearing as children, but it would constrain the children’s own ambition. This form of life-cycle savings and investment should be highly suspect given the changing cultural views of children. The advance of public education, child labor laws, and Victorian values cherishing childhood and children at the very least undermined for many the notion that children are an asset for old age. Reliance on children also would have gone against the very notion of a good aging and death that required an individual to be in control of their faculties and actions by demonstrating independence. Victorian society obsessed over proper aging, prolonging productive life, and activity well into old age. The widespread dependence upon children’s income does not seem to fit into the cultural history of Victorian models. It is highly unlikely that a majority of American would so willing accepted something so contradictory to these Victorian social values to rely on a child into old age without some caveat. It is more likely that these industrial workers were forced to rely on children because economic conditions did not allow for the accumulation of assets sufficient for the desired independence. These workers were then forced to live with children, rather than having chosen this option as a lifestyle choice. This notion is more consistent with the declining birth rates in the country, the decline of patriarchy, and the greater geographic mobility of children. While not the sole focus of this dissertation future study in the values of aging would great bridge the gap between empirical studies and the value structure of society.

Another aspect of both precautionary savings and life cycle savings is an ability to accurately predict inter-temporal effects of decisions made in the present. Even with
powerful statistical software and mathematical model, economic forecasting is difficult in the twenty-first century. Making savings decisions at age twenty for economic conditions and goals at age sixty would be extremely difficult to achieve. Most of the savings models described earlier tend to view the risk aversion in old age or other risk factors to be constant, risk is not static. As one ages the economic risks become much more pronounced and immediate action should be under taken to address potential deficiencies. P.O. Gourinchas and Jonathan A. Parker noted that intertemporal choices young families seemed to be risk adverse discounting the future. They contend that up until their early forties families tended not to make decisions based upon risk aversion related to aging or retirement. After forty household begin to save actively in a manner consistent much more with lifecycle models. This produces a rapid savings phase of life as they prepare for old age. It is not clear if this behavior causes under savings for retirement, but it certainly is an underlying factor contributing to it. The problem with lifecycle and precautionary savings models is that they frequently discount for this type of behavior. They write, “the neoclassical representative-agent model of aggregate consumption is incorrect precisely because of this changing behavior over the working life.”

The mid forties often coincide with several key events of the human lifecycle. First and foremost is that childrearing and bearing are most likely complete. While there were crude forms of contraceptives by forty most women could expect with relative comfort that they would not have any more children. Since children consumed a great

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deal of household resources, savings behavior had to be constrained noting that other children might come. Also by their forties parents could reasonably expect assistance from adult children earning income to help temporarily aid the family, or return the family’s investment in them. Lastly the aging process accelerates from the mid forties onward, making families acutely aware of the aging conditions of their parents, bringing the question of retirement savings and precautionary savings to the forefront of economic issues facing the family. The family by the time the household head reached their forties could also expect a modest amount of asset accumulation that would have allowed the family to assess their economic situation. The mid-forties also correlate with the time most American workers through most occupational categories have the highest productive capacities, and pronounced increases in income. These factors undoubtedly lead Americans to begin to address issues related to aging through savings or investing in institutions that would provide a buffer stock available for old age. This could be in the form of housing, children, and supplemented by temporary employment.

The fact that most men worked well past the age of 65 poses a few questions for economic historians. What type of work were elderly men engaged in, what were the labor conditions like and what impact did this have upon the development of social security in the United States? While ample evidence suggests that retirement as we know it in the latter half of the twentieth century did not occur, the notion of a retirement full of leisure rather than employment is a logical extension of the Victorian principle of old age independence. David Hackett Fisher noted that long before social insurance, old age pensions, and the emergence of the welfare state, the idealized old age phase of life
would be accompanied by reduced labor and financial independence. Eventually this would lead to the contemporary view of old age retirement where there was little productive labor, while being independent of aide from the children in particular.

This type of financial and social independence was not particularly prevalent in the late nineteenth century. In fact it was quite rare. Still, retirement may have been more frequent and available to many during the nineteenth century than current scholarship suggests, since it ignores key institutional structures that allowed men to reduce their level of labor force participation in particular. Job mobility in particular is important. Economic models of savings need to incorporated changes in occupation over the life-cycle in order to effectively predict and model savings behavior. The case of industrial workers in the IPUMS longitudinal data shows that even industrial workers moved out of the industrial field. By 1900 only 57.27 percent of industrial workers remained in industrial occupations, in a cohort of Industrial working Americans which were between the ages of 30 and 55 in 1880. Many of these industrial workers had shifted to other occupations. Farmers and accounting/sales/salesmen were the top job categories that they entered into. But nearly 7 percent exited the labor force. Of this particular group which had no job occupation listed or was listed as pensioner, too old, or not working, the median age is 64 putting it relatively close to Social Security’s definition of 65. Ransom and Sutch (1986) were first to examine the phenomenon of job categorical mobility. While this dissertation has emphasized mobility upwards or to parallel job categories Ransom and Sutch (1986) emphasized deskilling as a method of reducing labor

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intensity. They argue that labor deskilling was a part of the life-cycle savings pattern since workers would have anticipated the likelihood of reduced income in old age, and that this should be regarded as a form of life cycle savings. Ransom and Sutch go on to present data based on the 1900 census which demonstrate that the actual retirement was closer to 33.94%. They adjusted the work categories of the individuals to be more inclusive of the likelihood that older men aged 60 and over were not as gainfully employed.

Using a similar technique by combining occupations categories listed under 1950 definitions of the new IPUMS longitudinal data series we can plot a new retirement rates. In a sample of 2,554 men aged 60 and older in 1900 we get a retirement rate of 23.22 percent of the male workforce. This number does not account for those who suffered severe unemployment. If we include persons who reported in 1900 more than three months of unemployment during the previous year as with Ransom and Sutch (1986) with the current longitudinal data set the retirement rate rises to 33.05% which is consistent with the Ransom and Sutch estimates. The new longitudinal dataset available through the Minnesota Population Center also confirms Ransom and Sutch’s hypothesis of men dramatically changing their occupational and labor force participation status in after the age of 50. While Ransom and Sutch equated periods of long unemployment

56 Ibid 11
57 Oddly there were several instances of hucksters listed as an occupational category
58 Ibid 13
and periodic employment with wholesale retirement and an exit from the labor force some differentiation should be made. The median was six months unemployment meaning that for most of these older Americans they only worked half a year.\footnote{59} IMPUS data is revealing since we can link the job categories the underemployed held. About 25% held jobs in categories in professional fields, farmers, accountant/sales, and industrial workers.

The remaining 75% are what has been categorized as others. This included janitorial work, gardening, and a wide variety of jobs that were highly specialized it seems and carried out by experienced self employed individual workers. This reinforces the deskilling work model that Ransom and Sutch have proposed, and suggests that part of the life cycle savings pattern deskilling of labor to secure income was a critical component in old age savings. Occupational mobility was another. As discussed earlier for industrial workers when they aged then tended to move into farm occupations at higher rates. The seasonal work on a farm offered periods of low or no employment which would be favored as one aged. Carter and Sutch point out that in studies by Dora Costa and Jon Moen farmers were much more likely to retire than non-farmers.\footnote{60} Carter and Sutch conclude that another factor influencing retirement and labor force

\footnote{59} Given the difficulty and propensity of Census enumerators and individuals to overstate individual labor force participation given the cultural stigma against dependency in old age, we may want to consider a category of individuals to desire to work differently from those who clearly could not. However the view of long duration of unemployment should not be seen as active participation in the labor force as well. See Roger Ransom and Richard Sutch, \textit{The Trend in Labor Force Participation of Older Men, 1870-1930: A Reply to Moen}, The Journal of Economic History, Vol. 49, No. 1, (Mar., 1989), pp 170-183

participation was the propensity for older individuals to be self-employed. The self-employed were much more likely to retire and that it is a lifecycle phenomenon. Secondly they point out that self-employment either as a farmer or as skilled craftsmen is a form of life cycle savings. Self-employment often meant acquiring enough capital stock to start small businesses and acquire tools and services, which could be loaned out and redirected towards others, producing a revenue stream for individuals, particularly if one was a farmer who could loan out land. Lastly, Carter and Sutch point out that the high retirement rates observed in the 1900 census study is a byproduct of significant lifecycle savings and income transfers. An analysis of the current IPUMS interlinked dataset does not dispute the high retirement rates. The question still remains what are the institutional mechanism that could have facilitated income transfers, lifecycle and precautionary saving?

*Examining Potential Life Cycle Institutions and Instruments*

Economic historians have had difficulty in explaining the lack of savings data in surveys and the high retirement rates in the late-nineteenth century. Much of the discourse has been involved in rejecting the hypothesis that there could be higher retirement rates since there’s just a lack of evidence of savings. Without demonstrating life cycle savings accumulations retirement would be very difficult for workers. Yet do
we discount the high retirement rates as proposed by Ransom and Sutch (1986). Or is there a possibility that we can bridge the gap?

While the dissertation will not focus on mutual savings banks as a form of life cycle savings or precautionary savings, we cannot ignore the influence of mutual savings banks and their role in life cycle saving. James et al (2005 and 2007), Royce and Alter (1993), use various liquid assets to account for savings by households. These included self reported savings in mutual savings banks if workers had any savings. All three of these studies indicated that there was little accrued savings in these banks, and that if there were savings; the majority of them would be held at home stuffed under the mattress or used to invest in children. James et al. (2007) points out that savings banks were not ubiquitous or evenly disbursed, being centrally located in the Northeastern United States. Royce, Goldin, and Alter (1994) examined the phenomenon of savings banks. The primary feature of savings is that it is designed for small savers catering to lower middle class workers. Savings banks were extremely attractive since they provided security and returns on savings deposits. Stuffing money under the mattress or in a jar did not provide additional benefits. Savings banks in the United States in the early 1820s and drawn upon examples from Great Britain.

Savings banks differed from commercial banks in several key ways. They explicitly were small savers limiting deposit amounts. In the case of the Philadelphia Savings Fund Society this was limited to $200 until 1851. 61 Most savings banks were developed as mutual savings banks. The objective of mutual savings banks was to

61 Ibid 739
encourage thrift and provide savings services to the working poor. Investment banks on the other hand were organized with the intent of generating profit for the trustees of that bank and for the depositors of the bank. With that intent in mind, minimum deposit requirements often kept small savers out of commercial and investment banks. But those promoting banking for small savers often espoused the values of thrift and savings by the concept of mutualization. Mutual savings were often subject to various exogenous legal constraints set forth by the state. These varied from state to state and affected the portfolios of the mutual savings banks. Legal changes would eventually allow for a broader portfolio, but this could in turn change the emphasis and organizational structure of the mutual savings bank.62

Bankers in the northeast justifying establishing new banks geared towards the working class justified their investment in mutual savings banks a philanthropic goal. They were after all trying to encourage thrift and spending from workers and immigrants whom they saw as wasting away their money. By providing safety and security, along with interest upon their deposits, they tried to encourage savings by the working class. The trustees who managed and provided the initial financing of mutual savings banks issues statements that often promoted paternalism upon the working class savers. They were attempting to protect the small savers from more nefarious schemes of investments and savings.63 It is unclear to what degree trustees early on in the antebellum period would have mismanaged or profited from the mutual savings banks. Given the legislative

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63 Ibid 16
checks and organizational structure mutual savings banks were not subject to the huge financial chicanery that investment banks were during the ante-bellum period.

Depositors were paid dividends from interest earned on bank investments, which averaged three to five percent in the ante-bellum period.\textsuperscript{64} These investments were initially just the surplus deposited with the large commercial banks, but as investment laws liberalized, the portfolios of the mutual savings banks began to diversify particularly into mortgages and collateral loans, that gave poorer Americans some small amount of credit. Though it was the intention of establishing thrift among the poor and working classes, Olmstead found that while there were workers and small savers using the mutual savings banks, there were significant amounts of savings by children of middle class and upper class families. Often these depositors held the most significant deposits in the bank.\textsuperscript{65}

Royce, Goldin, and Alter (1994) point out that while never a majority, a significant proportion of the population in Philadelphia would have at some point in their life hold an account with the savings fund.\textsuperscript{66} The majority of account holders were from the Trade/Skilled Worker and Transportation/Semi-skilled categories. The male age typically was anywhere from 30 to 55. Royce, Goldin, and Alter (1994) then linked the account holder to the 1850 census in order to establish a wealth profile, though they admit that land and farm values were difficult since they were not reported in the census. They found a stark difference in the savings pattern between men and women. While men

\textsuperscript{64} Ibid 44

\textsuperscript{65} Ibid 120

\textsuperscript{66} Royce, Goldin, and Alter (1994) :742
maintained a balance women seemed to be accumulating assets, particularly female servants in a life cycle pattern. It appears that most people simply maintained an account balance where two or three months salary was deposited into the bank only to be withdrawn later for some other purpose. It is unclear to Royce, Goldin, and Alter (1994) how lifecycle savings particularly of working middle class men worked, since they did not simply accumulate sufficient savings, though a small subset did. It appears they were using other institutional means to meet precautionary savings and life-cycle savings.

The primary front for the analysis for examining life-cycle savings should be the savings banks since they are where most workers and farmers would put their savings into. The savings banks and savings rates for industrial workers should take primacy in the discussion of how individuals planned for retirement and insurance. But if economic historians simply start and end our examination there we lose sight of the larger changes that are deeply affecting the behavior of families and individuals who will have to cope with aging. Examining savings in banks does not seem to be an effective location to continue searching for life cycle savings because it does not appear to be happening in the form of asset accumulation in the savings banks. While there is prolific savings there is the high likelihood that it is going on elsewhere.

We must begin to look at the development of life-cycle institutions during the nineteenth century and the effects they had on savings patterns and behaviors is critical to study. The development of new lifecycle institutions is the outgrowth of the broader

67 For a good treatment of Mutual Savings banks see Alan Olmstead, New York City Mutual Savings Banks, 1819-1861, University of North Carolina Press, Chapel Hill, NC, 1976
market revolution redefining and disrupting social relations. The market revolution created a new savings orthodoxy that emphasized thrift, independence and autonomy, particularly in old age. While there are many and will surely be many more quantitative and qualitative studies on life cycle savings patterns and the development of social insurance, it is critical at this time for us to develop a larger historical perspective and methodology to understand the development of social policies and savings institutions in the United States that resulted from the market revolution. Social legislation as broad as national old age pensions and social insurance do not appear in a vacuum. Nor do these policies appear without progenitors upon which to be modeled. It is no coincidence for example that when the Social Security Act was enacted in 1935 their office first occupied the old Civil War Pension building in Washington, DC. The phenomenon of path dependency limited the options that policy makers could use to develop the modern welfare state. The economic history and the developmental path of social insurance is very critical in determining the nature of the development of social insurance in the United States. The lingering effects of early American economic values, that valued economic independence, labor till death, and minimal government intervention prevented the development of a modern welfare state in the United States.


69 The Civil War Pension build has now been renamed the National Building Museum in Washington, DC housing an exhibit on the development of Architecture and Washington, DC.

Social policy is particularly path dependent since it is developed often on top of existing structures, institutions, and values. Savings behavior also experiences path dependency more acutely since it is generally predicated on economic expectations based upon past performance. The path dependency of savings institutional structures also meant that while initially they were limited in scope and relatively efficient their widespread adoption may have increased the returns to individuals and policy makers. But if inefficiency develops or other alternatives begin to emerge, path dependency can constrain an even more effective institution through added conversion costs to these new institutions, delimiting the ability of alternatives to emerge. Path dependency has a particularly constraining effect on individual economic decision making since individuals generally operate on past knowledge and experiences. In this situation the development of a system of national social insurance may have been constrained by a desire to maintain the status quo and the status quo’s relative efficiency at meeting obligations to the elderly. There is a dichotomy however, when we consider Civil War pensions as a life-cycle institution. Civil War pensions represented a broad based social insurance program for many veterans which steadily evolved from covering only immediate disabilities brought on from the Civil War, to a program where old age was the only requirement for benefits. Civil War pensions in the United States represent liberal spending for the aged far earlier than other European nations.

They guaranteed the first fixed defined benefit system for old age care not just for veterans but their dependents as well. Though this falls far short of the universal old age

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71 Ibid
pensions that industrial nations in Europe would eventually guarantee its citizens, the Civil War pensions at least provide a moment where the United States experimented in liberalizing social provisions. These pensions also proved to be quite large for the veterans much larger than the old age pensions in Europe at the time. The petition and memorials asking for relief pension submitted through congressional officials also indicated a need and complimentary path toward acquiring pensions. Citizens began advocating that the federal government relieve some of the poverty and economic hardships not necessarily of the poor, but of the middle class who had congressional connections. The fact that the middle class was looking into methods of accumulating assets is reflective of the expanding need for security in old age.

Theda Skocpol argues that a lack of institutional development deterred the ability of the United States to transform the Civil War pensions into a universal old age pension program. She limits the discussion to the Republican Party and their attempts to justify the high tariff rates through the use of political patronage in the form of Civil War pensions. By doing this she argues that this held back critical social programs that could ameliorate the conditions in the United States since the pensions were viewed as something for a special generation not a progressive institution. The result is what Scokpol terms as a “precious” spending state that was limited by its economic ideology and patriarchy which forestalled the development of the welfare state. Skocpol’s should be well respected on her points and efforts to reframe the debate around the development of the welfare state. Republicans ensured victory in close political elections, as the end of

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Reconstruction saw the re-emergence of the Democratic Party by combining high tariffs with Civil War pensions. Republicans kept the program limited to a select group of individuals and never attempted to expand the appeal of pensions from Civil War veterans to a broad spectrum of society. They missed an opportunity to address an emerging need and political issue in an industrial society. The application and politicization of the pension process led to accusations of graft and corruption that prevents the expansion of the pension system. This undoubtedly prevented expansion of the pension system. Dora Costa’s study on the *Evolution of Retirement* in the United States points out the expansive nature of the Civil War pensions, and is primarily based from data from the United States Pensions Bureau, and William H. Glasson’s work in 1918 entitled *Federal Military Pensions in the United States*. Glasson’s listing of information lists costs and pensions that were disbursed to dependents and widows, something that Costa seems to have not covered. In a quick investigation of the Bureau of Pensions reports starting in 1867-1877 nearly half of the new pensioners that were added to the rolls were widows or dependents of individuals killed during the Civil War making the Civil War pensions a far broader based social insurance program than previously thought.

The Bureau of Pensions report along with Center for Population Economics collection on Civil War veterans’ data does note the location of the majority of Civil War Pensioners. It is possible to construct a break down by state of where the pensioners

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74 Bureau of Pensions, *Commissioner of Pensions Report to Congress*,

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lived. It would follow that the highest concentration of Veterans should be in the most populous states that were necessary for Republicans to win the presidency. This would add to Skocpol and Richard Bensel’s argument that the Civil War Pensions acted as a form of political patronage.

Pension provisions are increased primarily because of the efforts of the Grand Army of the Republic (GAR), one of the first well organized political interest groups in the United States. Their specific lobby activity broadens the eligibility of pensions until old age was the only requirement for obtaining one. They also served as a proxy organization for the elderly since Civil War veterans made up a large portion of the American population in the nation. In some ways, though not perfectly, it served a function similar to that of the American Association of Retired Persons pushing for legislation. It would be useful here to investigate the GAR since it is one of first modern political lobbying groups. It is important understand why it stopped short of pushing for more legislation or possibly transforming into another organization. The pension file statistics are also useful for determining the level of labor force participation of veterans, keeping in mind that many were injured and less productive. But it also offers us a better picture of what retirement might look like for individuals. Individuals may have combined different life-cycle institutions diversifying the resources they could use to supplement their income in old age.

Skocpol’s interpretation is not exclusive of market alternatives that also factored in delaying the development of Social Security. While Skocpol primarily is concerned about the political processes and the formation of a polity sufficient to create social
policies, she does not focus on other economic institutions that might have provided alternatives to state sponsored social insurance benefits outside of Civil War pensions. If the private markets did in fact manage to compensate for the lack of a fully developed welfare state for significant time period, then they would be a complimentary aspect of the understanding the social insurance puzzle. Also, in her comparative of the Untied States and Europe, she does not broach the topic of land abundance in the United States vs. land scarcity in Europe. These are minor quibbles, but important points. Americans used their housing, savings in the form of life insurance policies, and potential short periods of work, to create individualized safety nets. The notion of the individual safety net had powerful resonance within the American culture, even to this day. This particular culture framework emphasizing individualized safety nets remained unshaken from its development as early as the 1820, until the 1920s nearly a hundred years. Part of the reason for institutional delay in the growth of the federal government’s role in social insurance is the success of these institutions.

Their widespread influence and diffusion had some measure of success in the late nineteenth century at alleviating the decline in income as a person aged. But these institutions failed to help develop a comprehensive old age policy. Instead the institutional innovations were set aside or attacked by a society which was not ready for the transition of social values and life patterns that are brought on by the life-cycle transition. This resulted in an impending crisis of caring for the elderly. Without a comprehensive national policy public sector initiatives or private markets could not provide for the elderly. The result was an ad hoc system which covered great number of
people but not all. The crisis ultimately led to a social problem that would not be solved until the advent of Social Security in 1935 under the New Deal.

Individuals could and did use these institutions from the private market, accumulated housing savings, and government institutions to attempt to achieve the preferred life cycle profile at the turn of the century. Most of the literature available on home ownership does not relate to the labor force participation of individuals at the turn of the century. Housing and land is an asset that is relatively low risk and more available in the United States than in Europe. Improvements to farm land or housing over the course of a lifetime increases the values of homes. Land could always be leased or sold for additional income. Housing also is an asset that appreciates over time and can be considered a major source of wealth savings. Owning a home should have a marked affect on the decision of persons to retire from the labor force or transition to something else.

Other than savings banks tontine life insurance provided to be another high source of savings for Americans. The basic tontine functions when a group of individuals buy into a policy clearly outlining their obligations to pay into the tontine fund. The individual or individuals who survive would eventually divide the fund. The dividend an individual received would be comprised of the surplus gained through investment, forfeit dividend payments from persons who died, and the individual’s contribution.\(^{75}\) The tontine savings policy or the deferred dividend policy developed in the United States combined the features of life insurance and the principles of a tontine. It functioned by

withholding the annual dividend an insurance policy holder would receive as a result of paying insurance premiums. Under these tontine policies, dividends would be withheld for a period of time specified in a contract. Regular whole life insurance returned premiums to individuals at regular intervals during the life of the policy. Those who lapsed or died could not claim the surplus under the tontine insurance plan. This provided an increased rate of return that mutual savings banks were not able to match. Tontines provided an investment feature to precautionary savings, giving if a life cycle savings function. Endowment policies and high dividends allowed individuals to cash out significant amounts of accrued equity when insurance policies matured. That you had to wait for the policy to mature was one of the major drawbacks to this form of savings, but that many policies were ten to twenty year policies meant that there was some life-cycle and precautionary motives at work. Death benefits also provided the family with generous precautionary savings protection against catastrophic income losses. This should be seen as precautionary behavior though it is perhaps difficult to quantify in a model.

Public opinion and opposition also play a critical role in understanding the delayed development of universal old age pensions. Institutions are formed from cultural values that are more deeply held than just economics. While the institutions for asset accumulation for retirement were productive (they were by no means perfect) they clashed with the larger cultural values that prohibited accumulating wealth through investment. The result was to set back the development of old age care for a generation.

76 Ibid 12
Individuals in the nineteenth century probably did not completely exit from productive labor during the early years of the development of retirement institutions. While there is savings for old age, leaving the labor force maybe too much to expect. There likely would be some form of labor for older men, just as it would be expected on the farm. The hard labor would be taken by the grown children older adults would still contribute to the household production. Government and public institutional responses fell short for filling the needs of the elderly while the private market responded in a broader fashion to fill in gaps for the elderly.\textsuperscript{77}

Aside from Skocpol most of the history of retirement in the United States is dominated by social and political historians looking at various interest groups and political factions that helped shape and form social insurance and social security in the United States. These histories are helpful in looking at the development of the institutions of retirement. However, they lack or understate an economic framework to examine individual decisions that workers or the aged would make. Without accounting for individual decisions that drive economic decisions in the United States, the emphasis on institutional development overplays the case that workers worked until they died without having the possibility of retirement and that they had very little agency in old age, counter to the cultural values of the time period.

The role of consumers and individuals is critical because they did have choices and did respond to the changes in society by altering spending patterns. We need to understand what institutions savers had in hand at the turn of the century to save rather

\textsuperscript{77} Glasson, Appendix, Only a maximum of a million pensions per year was ever reached
than assuming that savers in fact could not save. In viewing these alternatives we can
construct a broader narrative of the social, political and cultural forces shaping aging.
While Skocpol used a polity centered approach in her examination of the development of
social insurance in the United States, she does not delve into institutional developments
in the U.S. economy.

This is where if we use the counterfactual proposed above, that there were
alternatives to social insurance, and if workers used them we can re-imagine the
economic landscape for the elderly. Alternatives in the American economy exist, such as
life insurance savings, mutual savings banks, and home mortgages. Skocpol and many
others leave such institutions out of their narratives of the development of social
insurance not out of ignorance or carelessness. There are many understudied facets of the
US financial markets in the late nineteenth century that could have played key roles in
defining the socioeconomic landscape for older Americans. Demographic factors also
played a huge role in shifting social policies in the United States.

The decline in fertility results in an aging of the U.S. population. This presses the
issue of caring for the aged to the forefront of U.S. politics. An aging population with
increasing life-expectancy creates an impending population and demographic. A smaller
cohort of individuals now assumes the responsibility of care for the elderly and other
dependents. Immigration abates some of the economic impacts of the aging of the
population, but economic and institutional innovations in the United States develop to fill
the gap. The delay in developing Social Security in the United States is the result of
institutional innovations that addressed the problems of the aged and not the result of a
social need being ignored. Republicans as victors of the Civil War use the pension issue as part of political patronage and combined with private market alternatives this makes some headway in alleviating old age poverty. This however, is only a temporary solution, as the US population continued to age, requiring the development of Social Security in the midst of a massive crisis.

The expanding financial markets of the late nineteenth century offered tremendous risk but also reward to those who could invest properly. The national savings rate approach 20% of all household income in the late nineteenth century. What exactly individuals saved in can reveal a lot about the ability and risk associated with planning for retirement and old age during this period of transition. Raymond Goldsmith in *A Study of Saving in the United States* details in three volumes some annual estimates of savings in various sectors of the US economy. While his data may be dated and considered somewhat inaccurate by current standards, the work does include good avenues through which to view individual investment decisions: household savings, and savings through life insurance and mutual savings banks. Household savings and mutual savings banks are fairly straightforward institutions, life insurance as a form of savings was a bit more complicated.

Most insurance in force at the end of the century was based on the tontine deferred dividend plan. The tontine insurance plan was originally developed in the 17th century by Lorenzo Tonti. Tonti’s plan was developed in France under King Louis XIV

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78 Compiled using Goldsmith’s table on private savings

who needed to raise massive amounts of money for French militarism. In the United States the development of tontine insurance occurred after the Civil War. The life insurance industry in the nineteenth century United States was mostly state regulated. This led toward differences in the industry, but insurance companies for the most part mirrored one another. Equitable insurance company of New York was the first company to aggressively market tontines to the general population. The plans required annual premiums for policy holders. Tontine savings plans combined life insurance with the tontine principle. An individual is insured for the amount that was on the policy. Upon their death they could not receive the accumulated surplus unless the policy had matured and they had survived the tontine policy period.

Equitable initially led the industry in offering tontines because of the difficulties it had in competing with Mutual Insurance Company. Mutual had larger surpluses that were being distributed to its policy holders trying to undercut Equitable. Equitable stopped the run on its surpluses by deferring surplus payments through the use of tontines.\textsuperscript{80} The tontines provided a method for savings in retirement. In the era before national banking insurance companies prove to be one of the broadest and some of the largest national institutions dealing with money. The tontines prove so prolific that an estimated third of the American population held tontines. Tontines could produce better rates of returns over mutual savings banks. Mutual savings banks averaged 4.5\% rates of return while the rate of return from tontines from 1871- 1891 are around a nominal rate of 6.5\% which not

\textsuperscript{80} Ibid 14
only was significantly higher, but in an era of falling prices represented a real growth of wealth through savings.\textsuperscript{81}

Axa-Equitable Archives (the corporate successor to Equitable) contains quite a bit of information in the form of pamphlets and marketing materials for tontine insurance.\textsuperscript{82}

Tontines account for the vast majority of insurance sales through 1905. Ransom and Sutch contend that tontine insurance was an innovation for accruing assets for old age.\textsuperscript{83}

It serves as a tremendous life-cycle asset for the individuals who could buy it. The interesting thing to consider about tontines is just how broad the tontines were in their appeal to all segments of society. While the impoverished could never really afford to save for old age, an increasing segment of the middle class, and low level professionals began to save through this plan. In fact company memos detail the marketing of tontines towards Pastors and clergy members, as a way to make tontines more respectable.

The data available at Axa-Equitable Archives finds that tontines are both economically and actuarially sound, though the aggressive marketing tended to overemphasize potential returns. The Armstrong Commission reports contains a damning report on the insurance companies and their excesses, though not the actual economic


\textsuperscript{82} AXA financial group acquired Equitable Life Assurance Society in 1991, and its chief rival in the nineteenth century Mutual of New York in 2004

soundness of tontines and their benefits to individuals. The reports describe and attack the various excesses of the insurance industry and pushed for regulations, that eliminated the tontines. Attacks on the excesses of the Civil War pension system were equally visceral and pronounced. By 1905 with fewer living Civil War pensioners drawing aid from the federal government and inconsistencies in the performance of tontines politicians could effectively eliminate two programs aimed at old age savings.

The limitations of Civil War pensions and the elimination of tontine insurance removed two significant institutions and methods for the individual to fund their old age care. There were few alternatives other than saving. Also apparent is the cultural and social hostility that typified both the private and public responses toward caring for the elderly. The Civil War pensions were accused of being at the whim of party politics, and were corrupt and therefore never expanded. Tontines and their insurance companies were discredited with the alleged graft and corruption. This study will aim to try and explain how these institutions are undermined and actively removed as avenues to save for the life-cycle which are fundamentally sound. The demise of these institutions suggests that there is a great deal of cultural and social lag as the definition and reality of retirement in an industrial world changed. The previous patterns of the life-cycle had a set of values and judgments that were associated with it. Even if agriculture no longer proved profitable the family farm could provide a basic security need. Even in advanced aged,

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84 New York State Legislature, Testimony, Exhibits, Report, and Index of the Joint Committee of the Senate and Assembly of the State of New York to Investigate and Examine into the Business and Affairs of Life Insurance Companies Doing Business in the State of New York, 10 vols, (Albany 1906)

85 The Armstrong Commission Records along with Equitable Archive’s were burned in 1910 and 1911 limiting some more useful data and internal correspondences.
one could be productive enough to provide enough foodstuffs for survival. The farmhouse provided shelter that could last the entire lifetime of the elderly family members.

As the United States moved into the twentieth century Americans began to realize that the agrarian pattern of life would no longer be replicated because of industrialization and migration. The producer ethic of the era also clashes with new values of leisure and consumption brought on by industrialization. The negative view held by Americans of banks, insurance companies, and large government, limited institutional development and growth. This resulted in an environment hostile towards innovation by the Progressive Era. Stifled innovation had a negative effect on aggregate social saving and spending for the old age. Company pensions rush to fill in the gap but the cohort that was born 1870-1890 that follows the Civil War generation but is at an institutional disadvantage when it comes to saving. By 1910 they were too young for Civil War pensions, or tontine insurance, and too old to begin pouring money into savings and company pensions in hopes of retirement.

When individuals reached the age of retirement without tontines, pensions, or government spending for old age care they were left with housing and whatever they could have saved. It left individuals without sufficient mechanisms for saving and while prices fell in the late nineteenth century, they begin to rise in the twentieth. For persons with declining productivity financial hardships occur in the face of rising inflation. Whereas deflation throughout the late-nineteenth century increased wealth, inflation would reduce the value of one’s savings. This particular cohort for a decade or so after
the Civil War would bear the brunt of the Great Depression since they had so few avenues to save and buffer themselves from economic hardships. When combined with the fertility decline the situation results in the elderly with few or no children being the poorest persons during the Great Depression. Individuals who did not save, or whose savings had been wiped out by the losses in the financial markets had nowhere to turn. This eventually leads to the advent and need for Social Security in 1935.

The goal of this dissertation is to document two of the widespread institutional developments of the late nineteenth century that played a large role in life-cycle and precautionary savings. By studying the institutions of life insurance and the Civil War pensions we can glean just how innovative the American economy was at the turn of the century in terms of providing institutional alternatives for the elderly. The success of these institutions acting as financial intermediaries transferring income warrants study. These are two institutions put fort vast amounts of capital formation, either through taxes or insurance policies that have profound macroeconomic effect. But they also deeply influence the lives of the policy holders and pensioners. It is here where we can see the capital formation that’s driving the American economy, which in turn is providing investment and savings opportunities for American workers. In this dynamic it begins to change the values associated with aging. It is at best an imperfect system, one in which the poorest are left out to fend for themselves.
CHAPTER 2
Gambling on Life Insurance

_The most winning woman I ever knew was hanged for poisoning three little children for their insurance money, and the most repellent man of my acquaintance is a philanthropist who has spent nearly a quarter of a million upon the London poor._

—Sir Arthur Conan Doyle

High drama in the financial world played itself out before a vast national media as the New York State Legislature convened in September of 1905. The lead counsel for the State of New York was none other than Charles Evans Hughes, future Secretary of State, presidential candidate, and eventual Chief Justice of the United States Supreme Court. The Armstrong Committee of 1905 had gathered to conduct hearings into the business affairs of life insurance companies. As he prepared for the hearing of a lifetime, Hughes carefully sought to expose the excesses of the companies, as well as attack the speculative forms of insurance that the insurance companies had come to engineer. Life insurance executives would be paraded before the committee, forced to account for their actions, and chided for their excess.

The New York insurance company executives who wanted to enter into speculative financial ventures in New York had a readily available corporate partner in the form of New York banks. Insurance companies were left unchecked. They used of funds to purchase real estate for directors and board members, which was cited as one of the most egregious abuses of power and authority. It was the well-publicized graft and corruption of insurance executives in New York, along with the unrealized rates of return
that had been promised to policyholders, which ultimately spurred state investigation and reform. One notable real estate company failure was owned by New York Senator Depew, which went under in 1903 and resulted in a multimillion-dollar loss to Equitable, of which Depew was a director.  

This negative event came to light with the muckraking reports at the turn of the century in New York. The insurance industry (already under disrepute because of discrepancies between its projected returns to policyholders versus actual returns) received another beating in the press. Equitable Assurance Society, founded by Henry Baldwin Hyde, was embroiled in a very public power struggle between James Hazen Hyde (Hyde’s son) and William Alexander (the President of Equitable after the elder Hyde’s death). This battle played very badly in the press. While Hyde managed to retain control of the insurance company, he had done so with a princely attitude that had marginalized him from the American press. He had spent much of his youth in France and Europe, living a prince’s life. Although he was Princeton-educated, he demonstrated very little interest in the actual day-to-day running of the insurance company. Patricia Beard described Hyde’s view of his relationship with his father’s company as one of a “custodial responsibility to the heir to a family estate.” The lavish lifestyle that Hyde displayed, especially when considered with his spendthrift father, was widely unpopular.

When the Armstrong Committee hearings began and Hyde was called forth before the committee, it was a moment of high drama. The committee also revealed an ugly

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86 Armstrong Committee Report 1905: 92
87 Beard 2007:289.
truth of the life insurance industry; they cooperated in the financial chicanery of the banking industry. While Hyde demonstrated, in some sense, his own detachment from the insurance company, he was forced to grapple with Charles Evans Hughes who was the lead attorney for the committee. When questioned about a special account that had been set up by the Equitable at the Mercantile Trust Company, unethical business practices emerged. The following is an excerpt from the Committee Hearings:

Q (Charles Evans Hughes): Did you learn for what purpose this account had been used?

A (James H. Hyde): The Purpose----

Mr. Untermyer: Did Mr. Alexander state it?

A (James H. Hyde): Mr. Alexander stated to me the purpose, which was threefold. First, to settle suits which might tie up the affairs of the Society in a long litigation and generally interfere with the business and cause great complication and make a great deal of loss of time, and bother. The second purpose was the purchase of stock, as this stock from old stockholders had been bid up by speculative interest in a fictitious value, basing that value on the rights of the stock in the surplus. It was hurting our agents in the field, being used as an argument against them in canvassing, and it was considered advantageous to counteract that as far as possible. The third purpose was political contributions.

Q (Hughes): And what were they, so far as you were informed of them?

A (Hyde): I know of only one of those, which was for the last presidential campaign.88

The hearing revealed underlying problems within the political economy. Through connections in the Tammany Hall political machine, and control of upstate Republican lobbying groups, the life insurance companies effectively controlled legislation until

88 Armstrong Committee Hearing 1905:2915
By that time, the insurance industry was intimately intertwined with the investment banking firms, and that intimate political and economic association provoked a populist reaction against insurance companies that fundamentally altered the industry. Within months of the hearings, reforms were adopted that separated the insurance industry from the banking syndicates effectively creating a wall between the insurance companies and banking institutions.

The banks and board directors who had controlled the life insurance companies bought back most of the assets that the insurance companies had to sell off.\(^{90}\) Ironically, this had the effect of shielding the insurance companies from the Panic of 1907, but it also removed them as a potential solution to the liquidity crisis that J.P. Morgan had to contend with. The Panic of 1907 was the result of a short term liquidity crisis stemming from a general lack of money that spurred a banking panic. The story of runaway insurance and financial corruption revealed by the Armstrong Committee in 1905, other banking excesses exposed by the National Monetary Commission from 1909-1912, and the revelations of Pujo Committee in 1913-1914 represented a change in the economic orthodoxy of the late nineteenth century. The values of thrift and rugged individualism had begun to crack. Additionally, conglomerated wealth as a result of financial engineering was becoming unpopular. No one put it better than Justice Louis Brandeis. Brandeis wrote that the vast fortunes of robber barons “are inconsistent with democracy.

\(^{89}\) Armstrong Committee Hearings 1905:2568-73 One of the more interesting characters was a person called Judge Coman who was put on retainer by Equitable at a salary of $6000 a year to “fix” certain problems that plagued Equitable officials.

\(^{90}\) Brandeis, Louis, \textit{Other People’s Money: And How the Bankers Use It}, Frederick A. Stokes Co., New York, New York, 1914: 28
They are unsocial. And they seem peculiarly unjust when they represent largely unearned increment.”\textsuperscript{91} Regulatory reforms put an end to tontines, by requiring annual dividends, removing interlocking directorates, and initiated a whole host of accounting reforms at the state level.

In the Midwest, Northwestern Mutual was investigated in 1907 by a similar legislative panel. Northwestern Mutual of Wisconsin was the panel’s largest target. In a moment that is particularly reminiscent of a contemporary credit crunch, Northwestern had, by policy, refused to loan to farmers throughout the upper Midwest, choosing instead to focus on less risky real estate in Chicago.\textsuperscript{92} Farm loans in Wisconsin were a particularly sensitive issue. The Committee attacked Northwestern for having chosen bonds that were yielding 3.61\% instead of issuing mortgages (which would have yielded 5\%). The majority of loans that were issued by Northwestern were at a generous 4\%, with nearly a quarter of them being civic loans to cities and municipalities. This shortage of credit, the committee contended, was deeply affecting the farming sector of the Wisconsin economy. The committee investigating Northwestern Mutual was quite blunt in its assessment of the lack of lending to farmers in the state of Wisconsin:

We are also convinced that the difference between the real estate loan in Minnesota, Iowa, and Wisconsin, is due chiefly to the inexperience and incompetency of the son of the first vice-president who is at the head of the farm mortgage loan department in the state of Wisconsin.

They continue:

\textsuperscript{91} Brandeis 1914: 222

\textsuperscript{92} Ibid 68
He admitted that he had no knowledge of lands located in Washington county adjoining Milwaukee County, and that he made no trips to the country except to investigate applications already made. His incompetency to hold this position is demonstrated by a remarkable absence of results in securing Wisconsin farm loans. His appointment is an example of nepotism which has resulted in loss to the policy holders, and which ought not be tolerated by the trustees.  

Northwestern attempted to justify the non-issuance of farm mortgages in Wisconsin as the result of legislative limits, which limited farm loans to 50% of the assessed value of the farm land without structures. When pushed, state attorneys pointed out that there were no such laws and that Northwestern was limited only by its own charter and rules that it could have modified.  

Farm loans, while limited to 50% of the assessed value of the land, still provided vital credit to the farmers. A standardized blank form was usually required where the farmer filled out every detail of the land. Then a financial correspondent, usually a loan agent associated with the insurance company, would inspect the property. It would detail the landscape, crops, soil, acres in cultivation, and buildings. Those receiving farm loans would also be expected to take on insurance policies as well for the buildings that were located on the property, protecting them against fire. The terms were standard five-year balloon mortgages that allowed the farmer to pay the principal for five years before a balloon payment that included interest. They could not use other loaned money to pay off this loan as well. Insurance companies required the signed affidavit of two residents free of mortgages in the county to attest to the credit worthiness of the farmer. The Union

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93 Ibid 70
94 Ibid 77
Central of Ohio was the insurance company that was the most prolific at issuing farm mortgage loans in the Midwest. Insurance incorporation laws forbid the company from holding more than twenty percent of its assets in stock and bonds, resulting in heavy investment in mortgages.

Northwestern, being the largest company in the Midwest, did hold a substantial portfolio in real estate, but most of its holdings were apparently not farm mortgages, but municipal mortgages. This created a serious lack of credit, particularly in Wisconsin. And while Union Central did issue mortgages, the company was several times smaller than the larger Northwestern. The result was high mortgage rates issued by Union Central, which ran from 4.5% to 9.81% in 1880. The average Union Central loan was well above 6.5%. Northwestern seems to have had some sort of risk aversion towards investing in farm loans, despite the fact that they were rather profitable, perhaps even exhibiting tendencies favoring long-term secure returns (as North and Zartman argue). And in this sense, life insurance companies preferred to be much more conservative preferring long-term investments over short term gains. This would be a hallmark of the twentieth century life insurance company.

Mortgages in the late nineteenth century had features that were detrimental to long-term investments. They often were five-year loans that required almost immediate principal repayment. They were small loans often floated to farmers in the Midwest, which was the most profitable mortgage market. This hardly served the long-term needs.

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95 Ibid 100
96 Ibid 101
of the insurance industry. That being said, the sheer amount of money that the insurance companies held in mortgages had to have a profound effect on the macro-economy. In 1888, mortgages assets in the insurance industry were totaled at $260,965,200, representing forty percent of all life insurance assets.97 By 1904, mortgage assets totaled $623,691,963, but represented only twenty-eight percent of all assets held by life insurance companies.98 This statistic is slightly skewed, since the New York companies were so much larger than most of the other companies, and were much more intimately tied to the investment banks that required their capital. To Farmers who needed credit, and individuals who needed savings in the form of life insurance policies, these excesses created vitriolic discontent and fueled movements for reform.

_Life Insurance after the Civil War_

American economic activity in post-Civil War America displayed tremendous growth and social upheaval. Life insurance companies mirrored the same type of volatility as major industries in the United States. In the antebellum period, life insurance was composed of a group of ad-hoc companies centered on the northeastern United States. These companies were generally located in the Baltimore and Philadelphia areas. Early laws governing the behavior of life insurance companies required that they

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maintain high reserve levels to insure policyholders. Early insurance incorporation laws required these high reserves as a way to ensure financial stability and to guard against catastrophic losses in case there was an event with a massive loss of life.

Legal changes spearheaded by insurance companies in Pennsylvania and New York in the 1860s changed the way insurance companies could be formed. Due to the high requirements for reserve levels, insurance companies had to often sell stock and shares of the companies in order to raise the cash necessary to back up the values of their insurance policies. Joint stock insurance companies were viewed as being institutionally stronger, since (in theory) they could quickly raise capital from stockholders to cover catastrophic capital losses. To give these shareholders an incentive to invest, insurance policies had to be sold at a cost sufficient to make the company highly profitable while recovering the initial investment of stockholders. Life insurance companies lobbied for lowering reserve requirements on life insurance. The reserve requirements were designed as minimum cash on hand requirements. This cash on hand was designed to cover expenses related to paying out death benefits. This held back money from premiums from being reinvested by in the insurance companies.

By lowering the reserve requirements, life insurance companies not only allowed more life insurance companies enter the market, but also for the insurance companies to be structured differently. The Panic of 1819 affected the industry as many stock companies had insufficient cash reserves to pay benefits as their portfolios declined.


100 Sharon Ann Murphy 203
States sought to restrict insurance companies and their policies by introducing remedial legislation mandating high cash reserve requirements of nearly ten percent. Insurance companies, along with banks, had overleveraged themselves during the first major panic in the United States, and quickly became insolvent as people began to default on their policies and remove their deposits. Many states, New York in particular, sought to prevent fraud and abuse from what they perceived as a risky business. Chartering new insurance companies became extremely difficult, since the startup costs were prohibitively high. Companies had to use stock and shares to raise the capital necessary to maintain the high reserve requirements for business. Few insurance companies would be incorporated as shared stockholder companies because of the stringent regulations enacted at after the Panic of 1819. However, mutual insurance, which had lower capital reserve requirements, negated the need for high capital accumulation, began to expand. This form of insurance proved highly popular with those buying insurance, since policyholders had added benefits when compared to non-mutual insurance.

Incorporation laws favored the formation of mutual insurance, since theoretically the shareholders were the policyholders. Mutual insurance companies had a preferential advantage in having states approve their corporate charters. Mutual banks, like mutual insurance, could incorporate with lower initial capital outlays and lower reserve requirements. Mutual insurance was designed to appeal to non-traditional insurance policyholders. These policies would be cheaper, and the premiums were meant to be lower. Like mutual savings banks, they were designed to promote the financial benefits of insurance and responsibility to the poorer classes of society.
Mutual insurance operated by providing dividend payments to policyholders. Previously, the only benefit policyholders purchased was the value of the policy. Under mutual insurance, individuals would receive dividend payments, because in theory, the policyholder was a stakeholder in the company.\textsuperscript{101} Under previous insurance regimes, policyholders could only receive a death benefit, in part because of the higher reserve requirements prior to 1840. Since the old insurance companies had to hold much more money in reserve, they could not provide a dividend for policyholders. These high reserves also constrained the amount of money that could be invested to return profits to shareholders. While mutuals were constrained in the types of investments they could hold, lower reserve requirements freed up capital for other purposes. The shareholders in stock companies, who had raised the capital to start the insurance company, would receive dividends from investment profits, but not policyholders. This often limited the attractiveness of insurance from stock companies to individuals in the upper echelon of society. In the Antebellum period, life insurance was purchased mostly for individuals who were either college students or travelers.

Most early colleges were private institutions and required a fair amount of monetary investment from the family to send their son to college. Insuring the life of a son away at college was critical. Typically, young men were at higher risk for death or injury, particularly away at college. The enormous amount of money invested in the son’s education required insurance against this risk.\textsuperscript{102} Another common category of...
policyholders was travelers. During the Antebellum period, travel in the United States was haphazard. Crossing vast geographic regions took days, weeks, and even months, particularly if they were trying to get goods to market. This required some insurance against the loss of goods or life while traveling. This left life insurance as a specialized financial service that only catered to the upper strata of society. Insurance policies became much more prolific after the advent of mutual insurance.

Not only was the dividend feature attractive, but the increasing number of companies drove down premiums and made insurance available to a wider segment of society. Mutual insurance companies were easily formed since they used annual premiums to cover life insurance policy losses during the course of the year. If a sufficient number of policies could be sold, the annual premiums would be able to cover potential losses in any given year, allowing the company to hold a reserve that could be invested with the returns from invested assets to be distributed to policyholders annually. The intuition for organizing a company along mutual lines was that it did not require the level of capital that older companies needed to insure each policy. Legal changes in most states required joint-stock insurance companies to have higher reserve requirements than mutuals. Mutual companies argued that if they could reasonably calculate deaths and payouts per year, then they could manage payouts to policyholders without the need of larger reserves. The reserves would be drawn from the annual premiums which when

\[\text{103 Owen J. Stalson 110}\]

\[\text{104 Murphy 207}\]
priced, would incorporate the required reserved amount by law, typically at three percent of the value of the policy.

Life insurance companies felt that it was highly unlikely that a sufficient number of individuals would die in one year to make the insurance company insolvent, as long as policies were sold to the right individuals. If they developed effective sorting mechanisms they could limit risks to the company. Life insurance agents became critically important since the company would rely on them to evaluate the risk of insuring an individual. However, this did not insulate the companies from the problems of the economy. The Panic of 1873 in particular would force many companies out of business as deteriorating financial conditions created solvency problems for many of the smaller life insurance companies that did not have sufficient liquid assets and reserves to carry them through periods of acute economic crisis. The surviving companies managed to weather the economic conditions though a combination of increased policy sales and diversification of their portfolios.

Figure 2.1 shows the result of the Panic of 1873. The resulting exit of companies effectively purged the insurance industry of marginal providers. The remaining companies survived since they had larger reserves and surpluses than other companies. The surviving companies also had a unique feature, they all offered tontine insurance. As will be discussed later, tontines delayed payment of dividends allowing larger surpluses by deferring dividend payments. This allowed companies to weather severe financial crises since payments to policyholders were not frequently demanded.
The initial growth of mutual insurance from 1840-1860 was minimal and most likely reflected limited demand for life insurance and general legislative hostility towards life insurance companies.\textsuperscript{106} In the period after 1865, the number of policies in force grew exponentially as well as the number of companies. Figure 2.1 shows the rise in the number of insurance companies shortly after the Civil War. While many of these companies did not survive the severe economic disruption of the Panic of 1873, there was at least a net increase in the number of companies that provided life insurance. While the number of companies is not indicative of the growth of life insurance, as we see in figure

\textsuperscript{105} Figure 1.1 is compile using Table Table Cj713 in, \textit{Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition}, edited by Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch, and Gavin Wright. New York: Cambridge University Press, 2006.

\textsuperscript{106} Murphy 2005: 24
1.2, the values of the policies in force grew steadily well into the twentieth century.\footnote{Figure 1.2 is compiled from Table Cj715 in \textit{Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition}, edited by Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch, and Gavin Wright. New York: Cambridge University Press, 2006.}

The companies that survived the Panic of 1873 underwrote most of the growth in new business. While Owen Stalson attributes much of the rise in life insurance to the heavy marketing and organization of the life insurance companies, it seems more likely that there was an increasing demand for life insurance. Livi Di Mateo and J.C. Herbert Emery studied the correlation between wealth and life insurance in Ontario, Canada for 1892. They found a strong negative correlation between wealth and life insurance. They concluded that life insurance was particularly in demand by segments of the population with little wealth, since they had little accumulated reserves.\footnote{Livio Di Matteo and J.C. Herbert Emery, \textit{Wealth and the demand for life insurance: evidence from Ontario, 1892}, Explorations in Economic History 39 (2002) 446–469}

The upper echelon of society, who had accumulated substantial assets in the form of land, cash, and businesses
could easily provide for their families in the event of their death. Demand for life insurance increased in part due to the industrialization of society. Wage workers were far more insecure in terms of their economic well-being than farmers.

Living on wage income meant protecting oneself against a loss in wages. In a single breadwinner household, this became very important. Coupled with familial responsibilities, men and women increasingly sought economic protection for their spouses and especially children in the event of the loss of a spouse. It is important here to note that life insurance most often was purchased by middle-class Americans. The rise of the middle class in the United States and the rise of life insurance are strongly correlated. Purchasing life insurance exemplified a precautionary savings motive. It insured against lost income in the event of death, while the surplus and dividend accumulated by purchasing life insurance could earn interest. The increasing tendency for social savings in the form life insurance represents the sensitivity of families to the loss of income while also representing a modest life cycle saving behavior. We can view life insurance as a life cycle and precautionary savings institution since one conceivably invests in endowment, annuities, or paid up insurance as returns once a policy matures. The development of surrender values ensured that policyholders under stress could see some return on their investment.

Insurance companies advised men in particular that they needed to have polices that would insure them completely “yielding capital that will produce an income equal to his money-making ability.”

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over several years that would occur to the household associated with the death of the breadwinner. The new Victorian values that stressed control and providing for family obligations induced many men to begin taking out insurance policies on themselves. William Alexander writes that:

A man of moderate means should take as much [insurance] as he can carry without embarrassment. His aim should be to provide through his insurance a sufficient amount of capital to yield an income equal to that part of his own earnings that he spends in the support of his family. In addition to that, if possible, he should have enough to supply ready money to settle up current obligations at his death, to pay extraordinary expenses, and to protect his assets against shrinkage.110

Life insurance with the development of mutualization was no longer was a financial service and institution that catered to the elite. Life insurance was specifically marketed towards middle class men who desired to insure themselves and their families against their death.

Owen J. Stalson accredits much of the growth of life insurance to the success of marketing towards a new emerging middle class that required insurance to secure the livelihoods of their families.111 Agents engaged in person-to-person contact to solicit new business and develop basic canvassing techniques. This differed substantially from previous soliciting methods in particular, because agents began going door to door in the cities, where previously agents would have set up on street corners, saloons, and banks. Sales agents had since the 1860s carried with them rate books detailing the rates of a variety of policies. They were often 3x5 inch books with gold inlays that contained the

110 Ibid
111 Stalson 333
various rates and ages for different insurance policies, with projected returns.\textsuperscript{112}

Equitable gave these books out to all their agents, which were entitled \textit{The Manual of Policies and Rates}.

Agents found that this booklet was particularly useful at answering technical questions regarding life insurance policies, but they were bad at soliciting new business or introducing life insurance to new individuals. Experience showed that pocket sized booklets that could be handed out were much more effective for agents and for the potential customers. Many of these booklets would address specific issues related to life insurance and anticipated potential objections to purchasing life insurance. Often the literature would stress Victorian morality as part of its sales pitch. In several booklets, life insurance companies noted that life insurance reduced poverty and therefore crime.\textsuperscript{113}

Agents were the most effective means of generating new business. Life insurance, after all, was about protecting families, and companies preferred to make personal connections to solicit new policies. A tremendous amount of effort was put into having effective agents. Although there was a lack of training or formalized standards, there was also the amount of money made by commissions that judged effectiveness of an agent: The more effective the agent, the higher the commission. In fact, by 1862 Equitable commissions almost equaled salaries.\textsuperscript{114} Still this did not mean there was not oversight. Equitable insurance agents received semi-annual notes giving them directives and tips

\textsuperscript{112} \textit{Manual of Policies and Rates, 1906}, Spectator Company, NY, NY 1906, Romaine trade catalog collection, 1791-1981, Box 1

\textsuperscript{113} Stalson 336

\textsuperscript{114} Stalson 390
regarding solicitation of new business. The general agency developed in the 1860s empowered selling agents with the insurance company’s power of attorney, acting as the legal principal representative of the insurance company. This gave the agent tremendous authority in far flung regions of the nation where they were selling insurance. General agents oversaw subagents who were contracted to do the solicitation and day-to-day operations of the insurance company. Given the geographic distances these agents had with their home offices, incongruities in their performance began to surface.115

Agents, particularly in regions such as San Francisco and various areas in the West, had very little contact with offices in the New York City. It is also uncertain how effective these insurance agents were at generating new business. At best, it was in an ad-hoc manner, since there is very little data on how well each individual agent performed. Agents were tasked with the job to redefine how life insurance was perceived in by society. While institutional innovations had made life insurance more affordable, it did not mean that it was acceptable to society, particularly middle class Victorian society. Since life insurance policies essentially pay a benefit upon the death of an individual, many Americans had deep moral objections to life insurance. It would have been a violation of Christian morality for someone to profit off the death of another individual.

Additionally, insurance was seen as gambling, since a person had to die in order for another person to profit. These particular social norms made life insurance seem at best a highly speculative product, and at worse a product that required someone to die and as a result was a product that was evil and filled with malice. In order for life

115 Stalson 397
insurance to expand, it had to be legitimized for middle class Victorian homes and families. Mutualization of the insurance agency had an effect on this, as we shall see later, but the effective marketing, aimed at protecting Victorian middle class values were much more important in reshaping the image of life insurance in America.

Henry Baldwin Hyde, who founded Equitable Life Assurance, was a member of the Presbyterian Church in New York City. When he formed Equitable, seventeen members of the board of directors were from his church, including the pastor’s younger brother William Alexander (president of the company).\textsuperscript{116} Clergymen were targeted for life insurance policies, including pamphlets touting Clergymen’s insurance.\textsuperscript{117} In 1863, the Union Mutual Life Insurance company of Boston, MA put out a publication entitled: \textit{The American Manual of Life Insurance: Answering all questions necessary to a Full Understanding of the Whole Subject}. The manual’s author is listed as “by a clergyman.” In a section arguing for the adoption of life insurance policies for clergyman, the manual notes:

\begin{quote}
Life insurance is particularly obligatory upon clergymen, who, with a limited salary and the closest economy, are generally only able to sustain themselves respectably, with scarce a thought or possibility of providing a future competency for their families.\textsuperscript{118}
\end{quote}

\textsuperscript{116} Stalson 362

\textsuperscript{117} \textit{A guide to Clergyman's Insurance}, Romaine trade catalog collection, 1791-1981, Box 2

\textsuperscript{118} Union Mutual, \textit{The American Manual of Life Insurance: Answering all questions necessary to a Full Understanding of the Whole Subject}, Boston, MA, 1863, Romaine trade catalog collection, 1791-1981, Box 2 : 48
Using the clergy as a starting point, the manual moves on to professional and salaried individuals, linking their economic circumstance to that of the clergy through their fixed salaries. The manual reads:

It [Life Insurance] is the only way that those with limited salaries and with growing families, entirely dependent upon them, can secure a competency for them, or hardly leave them above want. Something may be commenced in a Savings Bank, but in most cases it will not, from some cause or other, amount to much.\textsuperscript{119}

Even farmers were urged to buy life insurance policies lest their families lose the farm due to encumbered debt. This may have been a particularly effective sales pitch, given the credit constraints that farmers faced, since they had to mortgage the farm to provide short-term credit. What is interesting about this particular experience, is that the insurance policy was sold right after the mortgage was sold to the farmer by the insurance agent. The manual writes:

Another farmer, having mortgaged his two little farms for $1,000 was reminded by an agent of the company who drew up the mortgages, that life was uncertain even to the most vigorous and healthy, and was advised to effect assurance for the amount of the mortgages; he did so, and the summer following dislocated his spine by a fall from his cart, and died. The policy paid the mortgages.\textsuperscript{120}

Companies often would argue that life insurance was in fact a benevolent institution that protected individuals against catastrophic losses. They would play up the risks associated with life in order to convince their prospective client that they had to leave behind large

\textsuperscript{119} Ibid 42
\textsuperscript{120} Ibid 43
bequests to the family to cover expenses as part of their obligation to their families.

William Alexander writes:

It is true that statistics prove that few rich men keep their money, and that the men who fail are usually responsible for their losses, but if you have tact you will talk to your customer as if he were an exception, and needed insurance, not to protect him against his own errors, but against risks from without, such as every capitalist of business man is necessarily exposed to. 121

They went further, espousing how a life insurance policy was absolutely vital to preventing pauperism from the loss of the husband. Pauperism particularly of women and children in society was linked with the destruction of the family unit by some kind of outside force, noting “families are to be found whose circumstances have been straitened and reduced by the death of their natural protector…”122 The company goes on to promote life insurance by saying:

This practice would do more to eradicate pauperism and crime, than the combined wisdom of legislators; and these effects would be produced without any donation, sacrifice, or act of beneficence by the public, or by individuals; being the natural and easy results of the spontaneous thrift, prudence and forecast of individuals in conducting their own concerns. 123

This fear of unexpected death is pervasive throughout the insurance literature in the nineteenth century. By building on this fear, insurance companies could in fact provoke men into action, particularly since their role was to make provisions for the family, even in the face of an accidental death. It would also prevent the negative social consequences

122 Union Mutual, American Manual 46
123 Ibid 46
equated with the disruption in the family hierarchy. Additionally, insurance could promote good behavior and temperance particularly in marriage. Union Mutual writes:

that a party already married, in making an assurance, gives bond for his good behavior to the partner of his life, and to his offspring, and adds another link to the chain which binds him to order, sobriety, and diligence to business.  

Another quote from the pamphlet reads:

How much more improvident is he who refuses to assure his life! Every house may not be burned, but every man must die. The day is not far distant, when public sentiment will compel all men to assure their lives, or their families will be treated with neglect if they are suddenly left poor. Wives are very especially interested in this question; and would men but advise with them, and confide in them; in most cases they would find the means of affecting the assurance, and of keeping it in force.

Women were, in fact, quite intimately involved in this financial decision with their husbands, at least with the insurance companies marketing to households with women’s active involvement in mind. While purchasing life insurance would have been a significant investment of family resources, since average family incomes varied between roughly four to five hundred dollars in from the 1860s-1910s, to see life insurance overtly advertise the influence of women in the purchasing decision is unique.

There were various pamphlets given out aimed at women between the 1860s and 1910s. Some titles were fairly subtle: *Words to Wives, The Woman of Today*, to more overt titles such as *Why women should insure*, and perhaps the most audacious title of them all: *Investing His Money*. These pamphlets were aimed explicitly at women and

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124 Ibid 49
125 Ibid 45
prima fascia violated the notion of separate spheres. After all, men were the ones managing household finances and providing for the family. This distinction of women being brought into influence their husbands in financial planning and investment had generally been a taboo. But in this particular issue, it seems that an exception had been made. And it was made because these women, who would receive the benefits of the insurance policy, would have been viewed as justly deserving the financial support of the policy in the event of widowhood. Theda Skocpol points out that widowhood put a woman in a category that justified additional aid and support. Assisting widows was one of the cultural values that justified aid from the public in an era that shunned public aid and relief.

This categorical definition allowed women some pronounced autonomy of their own financial affairs. But since life insurance was bought with the distinct possibility of their husbands dying and leaving their wives in a state of widowhood, women (because of the potential of widowhood) exerted much more economic influence on this issue. Life insurance was intended to protect the family. Protecting the family was a powerful influence, not only on how life insurance functioned, but also with respect to how it could be sold. Social responsibility prompted families to have proper financial planning for the loss of the household breadwinner. Life insurance companies capitalized on these social norms by aggressively marketing towards women as well as men. Pamphlets included children’s stories, better housekeeping ideas, and coloring books for children. It can be assumed that women initially rejected the need for life insurance, since they may not

have wanted to intrude into the financial affairs of her husband. An Equitable pamphlet dated in 1881 notes:

While it may be regarded as indelicate for a wife to be unduly solicitous about her husband insuring his life for her benefit – when once it can be established that she is neglecting her duty to her children by not doing so – it may be safely inferred she will let no false delicacy prevent her from maintaining a favorable attitude on this all important question.\(^{127}\)

Another passage from a New York life pamphlet reads:

Has the married woman no plans that death will frustrate? Has she not an equally strong interest in the education of her children in case of premature death, and in a comfortable old age in case of survival? Endowment insurance will cover the risks to which both are subject.\(^{128}\)

These particular passages emphasized the wife’s duty to the children in protecting them from loss of their father and her entitlement to the comforts produced by her husband’s work. This countered accusations of life insurance as a form of gambling. Proper women would not gamble and benefit from their husband’s death. On the contrary, insurance companies noted, insurance policies were a virtue not a vice. Women were to urge their husbands to take out insurance policies encouraging proper investment of their money. New York Life went so far as to publish a pamphlet entitled: *Investing His Money*, which laid out to women how earning and investing were related to life insurance. They noted that a man could more easily earn money than keep it, and so men in general focused on earning men, and they naturally focused on making money rather than saving it. They had


to learn how to save and invest, and profitable investments were much more difficult. New York Life noted that investment was a “specialty.” Life insurance companies employed specialists specifically trained in investments. They write:

Men of the highest endowment for this calling and favored with the broadest opportunities become the best specialists in this line, exactly as they do in law, medicine or any other line. The 400,000 policy holders of the NEW-YORK LIFE INSURANCE COMPANY have for investment, on joint account, over 200,000,000 of dollars. They are able to command the very best specialists in the business.

Insurance companies argued that they had the best investments available to them for profit. Insurance companies did not limit themselves at marketing towards married women only. Teachers and professional women were a target group of insurance companies. The pamphlet reads:

There are more women engaged in the profession of teaching than there are men. Teaching is a business that not only wears out men and women rapidly, but they become superannuated – behind the times and must step aside for the younger and more advanced. The period of remunerative service is limited, and the service itself unfits, in a large degree for commercial employment, where one must begin at low wages.

Women and conceptions of womanhood were undergoing changes as a result of industrialization. The dependence on salaries and wages made women much more sensitive to losses in income than previous eras. In redefining their economic roles, women (particularly married women) were regarded as tempering voices, who promoted

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130 Ibid

131 Ibid
positive values in their husbands. In a Mutual life insurance pamphlet with an unknown
date, women were lauded for their financial independence and wisdom:

She is eminently practical and as a financier-de-luxe is greatly man’s
superior. She can make one dollar go further than a man can make ten. She
may be reckless in spending when she has much to spend, but she is
equally careful and shrewd when she has little. She does not expect to
make a fortune by the investment of a few dollars. Men do. She prefers
safety to risk. Many men do not.\textsuperscript{132}

Women as independent financial agents were not a new concept, for they had always
been part of the economic structure and decision making of the household. But the overt
tone encouraging women to involve themselves with the investment of their husbands is
somewhat more pronounced than with other pamphlets soliciting purchases.

In addition to the pamphlets soliciting insurance policies, companies also
provided various forms of literature. Home Life and Metropolitan Life Insurance
companies created publications for policyholders sent to families for children. An
undated Home Picture Book contains various pictures of animals to help educate young
children. The cover has a young girl with flowers in her hair, depicting the vulnerability
of young children. Another Home Life picture book depicts two small children, a boy and
girl in a garden. Both these photo books (which run four to six pages long) are essentially
children’s publications. There are only a few small advertisements for Home Life
insurance policies in these two pamphlets. In 1898, Metropolitan put out a series of
pamphlets that, like Home Life, featured children on the front of their pamphlets. On the
back of the pamphlets, there was contact information for the purchases of life insurance

\textsuperscript{132} Mutual Life Insurance Company, \textit{The Woman of Today}, Mutual Life Insurance Company, NY,
NY date unknown :2, Romaine trade catalog collection, 1791-1981, Box 3
policies, or for subscriptions to these children’s pamphlets. Inside the pamphlets there was a coloring book for children, a section concerning family health, and a section about news pertaining to the life insurance industry. The cover of each of the pamphlets had a series of small toddlers on them, emphasizing the innocence and vulnerability of children. The pamphlets promoted the notion the dependency of children upon adults, and subtly hinted at the need for parents to protect their children with the purchase of life insurance policies.

Overall, the insurance industry was able to use a variety of powerful and effective marketing strategies for promoting life insurance by tapping into deeply rooted cultural values that sought the protection of the home and family by the breadwinner. In doing so, the insurance industry successfully created a market for life insurance. Americans felt that there was a specific need for economic security in the face of insecurity in a rapidly industrializing economy. The need to take care of one’s family and to meet these familial obligations drove the development of insurance policies and resulted in the growth of the insurance industry. While it would be easy to attribute much of the success of the expansion of life insurance companies to successful management and marketing, successful institutions were often more rooted in the fact that they were needed. Americans desired security, knowing that life and income were insecure. And lacking other safety nets, they chose the best option available to them, as there were very few other options.
The Structure of Life Insurance Policies

Life insurance worked in concert with the expansion of mutual savings banks to offer a variety of new financial services to the population. Like mutual savings banks, mutual life insurance companies catered to a wider stratum of society, but paid dividends from accumulated reserves and death benefits instead of holding savings deposits. Unlike mutual savings banks, the annual premiums required by insurance companies made life insurance difficult to purchase by average workers. Most annual premiums per $1000 ran from $21.49 to $43.34 from 1896 to 1908 for a man aged 25 from Equitable Insurance of New York at the point of issue. These rates varied due to the different policies an individual could buy.

Rates increased as age increased, since the risk of death was much higher. By the time a man was aged 55, if he so chose to take out a twenty-year life policy, he would pay annual premiums ranged from $60.72 to $70.51. While these premiums represented a general reduction from life insurance before the Civil War, they were not insignificant amounts of money. Average annual non-Farm income increased from $453 to $577 per year during the same time period. In relative terms, since insurance premiums were fixed increasing income and a general deflation of the nineteenth century, life insurance

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133 Alan Olmstead, *New York City Mutual Savings Banks, 1819-1861*


was becoming vastly more affordable. The annual premiums represented a significant portion of annual income, and thus life insurance represented a serious financial decision. This is clearly reflected in the high default rates in the first year.

Since mutual companies operated with lower reserve requirements than joint stock companies, risk assessment and actuarial soundness became critical for mutual insurance companies. Operating under the mutual model allowed for cheaper policies, since the reserve was held as a portion of the premiums, instead of being a fixed cost associated with having to raise capital through some other means to underwrite the insurance policies. Insurance companies could now underwrite policies based on the number of policyholders paying their premiums on time. Stock companies eventually followed suit, having to offer dividends to policyholders as well in order to compete with mutual insurance. Stockholders, however, retained control of the company. Lowering costs increased the demand for life insurance and prompted two important innovations in the life insurance industry. These innovations also accelerated the development of the life insurance industry. The first innovation was the advent of the America Life Table of Mortality developed by Sheppard Homans in 1868.\textsuperscript{136} Murphy writes:

\begin{quote}
Throughout the nineteenth century the America life insurance industry privately struggled to understand the risk at the core of its existence, while publicly touting the scientific rigor supposedly underlying the permanent and financial stability of life institutions.\textsuperscript{137}
\end{quote}

\textsuperscript{136} Murphy 81

\textsuperscript{137} Ibid
Sheppard Homans was the chief actuary of Mutual Life Insurance based in New York, and he undertook the task of calculating the expected rate of deaths based upon Mutual’s experience. Before Homans’ table, life insurance companies were often plagued with inaccurate data in constructing their own life tables. They often relied on the British experience, which by the mid-nineteenth century had clearly deviated enough from what the United States experienced. This meant that a critical revision of the life tables used to determine premium rates for insurance companies had to be revised.

Since death is certain for everyone, insurance companies required accurate measures in order anticipate expenses and payouts as part of their operating costs. Mutual Insurance Company of New York and Homans worked quite hard in making the life table that he constructed the industry standard. It eventually became the legal standard in the state of New York. Most of the companies who were industry leaders and had chartered insurance companies in New York quickly adopted this table. The American Experience Mortality table created by Sheppard Homans proved to be more accurate than the previous life tables which had been different for each company. Homans had originally intended to create the life table using industry wide information, but he found other insurance companies unwilling to share their experience information with Mutual, fearing that this information would be used against them.

Once Homans’ table was developed, it resulted in the standardization and legal codification of Homans’ table by the State of New York. Since New York was the hub of the largest insurance companies, it made the industry uniform. By having a uniform set of actuarial tables, the insurance industry could set their rates in a more uniform fashion. It
helped the industry as a whole predict the costs a company could expect resulting from payouts due to deaths, defaults on payments, and other costs associated with new business. It helped stabilize the fierce competition in the insurance industry and made the industry relatively sound financially. By having uniform actuarial standards, the state of New York set ground rules for new companies and how they were financially managed. Other states followed New York’s lead in insurance legislation, which made New York the key state in adopting regulatory legislation nationwide.

Like all financial firms, life insurance companies are institutions that leveraged their reserves and accumulations for the benefit of their policyholders. In theory, the money held by the insurance company was available to policyholders upon the death of the insured. This allowed insurance companies to accumulate capital at very high rates. But it also required accurate actuarial tables by the insurance companies to make sure that death, default, and lapses were accounted for. Failure to accurately anticipate losses would cripple an insurance firm’s ability to pay its losses and therefore make the firm insolvent. Overestimating losses would reduce the insurance firm’s ability to invest surpluses and limit returns to investors. Homans’ table of Mutual’s experience with life insurance allowed a much more accurate prediction of losses and costs in the insurance industry. While Homans’ table is crude, particularly in regard to contemporary actuarial science, it was an advancement since it was the first table to attempt to describe American behavior. Homans’ table was the minimum and most conservative actuarial table upon which insurance companies could base their financing upon. State
requirements for insurance company reserves had to be based upon the American Experience Life Table.

This table, while providing a basis for financial planning, did not disallow insurance companies from making their own predictions and judgment based upon their own experience. It provided a template to build policies around. In particular, when Equitable Life insurance built tontine insurance policies, it would alter assumptions of Homan’s table to anticipate much more favorable predictions of its returns than would actually occur. Equitable would assume a higher lapse rate than it actually experienced, lower expenses and more favorable insurance rates. Homan’s table had helped to anticipate costs and helped investment decisions by insurance companies, but actual economic conditions would vary. Economic downturns, changes in the insurance industry, and changes in social policy would impact how accurate the actuarial tables would be in predicting future business costs and returns.

An equally important innovation was the development tontine insurance in the 1860s by Equitable Insurance Company of New York. Equitable’s tontine insurance was so popular that by the end of the nineteenth century, most insurance in force was based on the tontine deferred dividend plan. Originally the tontine was developed by Lorenzo Tonti in 17th century France. Tonti’s plan was built in 1653 and was borne out of the need to raise massive amounts of money for French militarism. The tontine operated by pooling capital investments by several individuals together and then investing them together in a giant fund. Depending on the various types of tontine funds, annual
dividends could be paid out to holders of the tontine. The survivor or survivors, depending upon how the tontine was structured, would not only have received annuity payments, but a share of the remaining initial capital investments from the original investment. In the United States, the development of tontine insurance occurred after the Civil War. The life insurance industry in the nineteenth century United States was and still is mostly state regulated. This led toward some differences in the industry, but insurance companies for the most part mirrored one another. Equitable Life Insurance Company was the first company to aggressively market tontines to the general population.

The tontine insurance plans, like most term life insurance plans, required annual premiums for policyholders. Also named as a tontine savings plans, it combined life insurance with the tontine principle. The individual is insured for the amount that was on the policy (on average $2,000). During the 1850s, mutual insurance companies came to dominate the industry by offering regular dividends to their policyholders. Mutual insurance companies had a benefit for policyholders in that policyholders were also shareholders in the company and were entitled to dividends on investments and surpluses that the company generated. Insurance laws generally allowed insurance companies to determine their own timetable for declaring dividends and surpluses, usually in five-year periods. In advertising annual dividends, Mutual attempted to force a run on Equitable’s

138 North, Douglass, The large life insurance companies before 1906: a study of their growth, their domination of the industry, and their alliances with investment banking as revealed by the Armstrong Investigation of 1905-1906, Ph.D. University of California, 1952, 228 pages :81

139 This amount is highly speculative given the limited information gleaned from the accounting ledgers available at the Axa-Equitable Archives in New York.
surpluses. The amount of surpluses for insurance companies, that is money in excess of expenses incurred in operating insurance, were advertised as symbols of health and strength of insurance companies. Equitable stopped the run on its surpluses by deferring surplus payments through the use of tontines. They deferred dividend payments by promising to reinvest the dividends and provide a greater return on the surplus than if the shareholders received their dividend annually. Upon the death of a policyholder, the beneficiaries could not receive the accumulated surplus unless the policy had matured and the policyholder had survived the tontine policy period. Surviving policyholders would receive a portion of the differed dividends of those who died.

Equitable initially led the industry in offering tontines, because of the difficulties it had in competing with Mutual Insurance Company. Mutual had larger surpluses that were being distributed to its policyholders as they tried to undercut Equitable. This particular innovation was the result of intense competition in the New York life insurance industry. Henry B. Hyde, the founder and president of Equitable Insurance, engaged in an insurance war with the Mutual Life insurance company. Not only were both companies slashing premiums rates, they competed for sales agents and waged pitched battles in the press. Mutual attempted to drive Equitable out of business by offering (unheard of up until then) annual dividends from the insurance surplus. Equitable, being a newer company, had a significantly smaller surplus and was vulnerable to a run on its surplus. Mutualization had meant that policyholders were the shareholders of several

140 Buley The Equitable Life Assurance Society of the United States...145

of the large insurance companies. But through complicated charters and legal maneuvers, control of these companies never really gravitated out of a few hands at any one time. Mutuals, through dividend offers, had highly leveraged life insurance companies. They had very little capital reserves to survive protracted economic crises. The result was that insurance was quite unreliable, as all major financial institutions during a particularly sharp downturn. The advance of a new actuarial table by Sheppard Homans certainly helped to more accurately predict costs due to policy lapses and death benefits. But it was really the tontines that allowed companies to build up huge capital reserves that were reinvested in a variety of financial instruments.

Tontines account for the vast majority of insurance sales from 1865 through 1905. Ransom and Sutch contend that tontine insurance was an innovation for accruing assets for old age. It serves as a tremendous life-cycle asset for the individuals who could buy it. The interesting thing to consider about tontines is just how broad the tontines were in their appeal to all segments of society. While the impoverished could never really afford to save for old age, an increasing segment of the middle class and professionals began to save through this plan. The Equitable company memos detailed that the adoption of tontine life insurance by salaried professional workers, particularly Pastors and clergy members, made tontines more respectable.

The tontines also provided a method for savings in retirement. In the era before national banking insurance, companies were some of the largest national financial

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institutions. Life insurance companies represented safe savings institutions. The tontines and life insurance proved so prolific that an estimated third of the American population held policies. Tontines could also produce better rates of returns over mutual savings banks and constituted most of the new policies written after 1880. Mutual savings banks averaged 4.5% rates of return while the rate of return from tontines from 1871-1891 were around a nominal rate of 6.5%, which not only was significantly higher, but in an era of falling prices, represented a real growth of wealth through savings.¹⁴³

Tontine insurance differed only marginally from normal level premium life insurance, since the policy surplus would be reinvested by the company for the policyholder and disbursed at the end of the term, not throughout. Henry Baldwin Hyde, working with Sheppard Homans, the chief actuary of Mutual, developed tontine life insurance in 1862. It operated under various titles with other insurance companies. Hyde and Equitable aggressively marketed tontines as a form of savings rather than simply a form of insurance. Tontine savings plans combined life insurance with the tontine principle.

By delaying the payment of the policyholders’ surplus/dividend, Equitable’s surplus remained intact despite pressure from Mutual. Though Equitable stopped the run on its surpluses by deferring surplus payments through the use of tontines, this form of insurance initially sold quite poorly.¹⁴⁴ Some changes were made to the tontine insurance


plans in order to attract more customers. The policy on lapse and defaulting on the insurance plan proved too punitive to potential policy holders. Instead, Homans and Hyde revised the program, allowing individuals at set periods to draw the surplus in cash, as well as be given a surrender value.\textsuperscript{145} The Semi-Tontine incentive allowed policyholders some financial leeway without losing their entire investment if they could not afford an annual payment, since they could have a policy surrender value. That way, if a policy lapsed there was the option of either taking paid up assurance or the cash surrender value on the policy. Rather than locking a person into a twenty-year commitment, this gave the consumer some leeway in case of exigent circumstances. Semi-Tontines came to represent nearly all the policies written in the United States.\textsuperscript{146}

Under normal term life insurance, the policyholder would receive dividends that were disbursed at some pre-determined period during the life of the contract, usually five years. Under tontine insurance, annual dividends were withheld and reinvested by the company, who would have theoretically given the policyholder a higher rate of return than under normal term insurance for the duration of the policy. In addition, the policyholder would receive the reinvested dividend when the policy matured, along with the differed dividends of those who defaulted on their policy and the surplus of those who died under the policy. In addition to having the paid up the cash value of the policy, the ultimate payout of the policy after twenty years would be quite significant. This was the major selling point of the life insurance policies, as returns from the tontine policies

\textsuperscript{145} Ibid 9
\textsuperscript{146} Ibid 17
offered significantly better rates of returns. Tontine policies often were advertised using projected returns that were calculated via Sheppard Homans’ American Experience Mortality table\(^{147}\). The mortality table was then combined the interest rate and the rate of probable default by policyholders within a certain cohort.

From the Armstrong Committee reports on the insurance industry in 1905, we can see that Homans’ table calculated not only the death rate, but also the expected lapse rates for specific cohorts of policyholders.\(^{148}\) These projections primarily were to allow the insurance industry to project costs well in advance, but under the tontine plan, the projections could help predict return rates for policyholders. Homans based his return calculations in four parts. The first was that invested funds would earn an interest rate of six percent. He assumed mortality would be low and be only eighty percent of the mortality table since medical screening would remove bad risks. He predicted that company expenses would be constant and a fraction of the premium. This meant that the dividend would also be constant. Lastly, Homans assumed that lapses in premium payments resulting in default would be constant.\(^{149}\)

While the projected payments of the period were very generous and useful as a marketing tool, many policyholders would be disenchanted with the actual performance of the policy. The policies underperformed when compared to the initial projections during the point of sale. When called to testify before the committee, Joel Van Cise, the

\(^{147}\) See Appendix

\(^{148}\) New York State Legislature, Testimony, Exhibits, Report, and Index of the Joint Committee of the Senate and Assembly of the State of New York to Investigate and Examine into the Business and Affairs of Life Insurance Companies Doing Business in the State of New York, 10 vols, (Albany 1906) :913

\(^{149}\) Van Cise 1895: 30
chief actuary of Equitable insurance company, attempted to explain the reason for the large disparity between advertised potential returns and actual returns. Van Cise argued that the largest reason for the disparity in the projected returns and the actual returns was mostly due to the decline in prevailing interest rates. The following table is taken from Historical Statistics of the United States table Cj1250.

This chart correctly demonstrates Van Cise’s contention that the projections Homan’s had developed in the 1870s did not reflect actual business conditions. Homans’ assumption of a six percent continuous interest rate was significantly off. This period in
American history had an average interest rate closer to 4.5 percent. Homans’ assumptions of a favorable interest rate to policyholders were not corrected in light of the actual business environment of the time. Advertisements and projections for tontine insurance still used Homans’ calculations in the 1880s and 1890s that were created under more optimistic business conditions from the 1870s. Clearly, the insurance companies knew that lower insurance rates were affecting the returns. Privately, Van Cise was deeply concerned about the generous results the tontine rate books used for marketing purposes.150

Equitable Insurance Company in 1889 issued a note to agents on how to handle estimates.151 Agents were encouraged to provide estimates based on the rate books provided by the insurance companies, particularly while canvassing for new business. Insurance agents were, for the most part, employed through soliciting agents. Agents were often recruited from other insurance companies and without regard to much formal training. While the insurance agent profession was in its infancy, it appears agents may have been overzealous in their estimates of potential returns from tontine insurance. At the very least, the insurance companies did very little to correct the problem of overestimating returns. Agents’ commissions for new business increased from 20% in the 1870s to 50% of the first year’s premium, and by the 1900s the commissions undercut the accumulative value of the tontines.152 The commissions for new insurance were drawn from the surpluses and reserves in the first year of the insurance. The first year of

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150 Van Cise 1895: 19

151 Equitable Insurance Company, *Note to Agents No.59*, Axa-Equitable Archives

152 North 212
insurance also represents the largest single contribution to the tontine fund by policyholders. Still, the amounts that went into the surplus eventually were no laughing matter. If we take a look at the accumulated surplus in table 3.3, we see that the accumulations were not small amounts. Now it was small from the policyholder’s perspective, who had expected higher surpluses from the first year, but from the companies’ perspective, even the diminished surplus was still quite a large amount.

More policyholders lapse in this one period than any other. By drawing insurance agent commissions from the surplus, the cost of insurance directly greatly reduced future returns from the investment of the tontine. With a 50% commission, only a small portion of the money would actually go into the tontine fund. The actuaries who calculated the rate of return and kept the ledger books of the insurance companies when called before the Armstrong Investigation in 1905 seemed to ignore this fact in their calculations. In addition to the problem of commission, Homans’ calculations also did not prove accurate in accounting for the lapse rate of policies. Because of the popularity of the tontine fund and the successful screening of applicants, the lapse rate on tontine policies was much lower than expected.153 The lower lapse rate (combined with lower prevailing interest rates and higher than expected administrative costs) drove down the actual performance of the tontine policy.

When individual policyholders began to cash in the paid up policies, they found their policies were worth significantly less than what was projected by the sales agent.154

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153 Ransom and Sutch 1987: 390
154 Ransom and Sutch, draft 1986: 30
Obviously, this caused much consternation amongst the policyholders who had expected higher earnings on their policies. Angry policyholders would eventually petition the government to redress their grievances. By 1905, a full-scale investigation of the life insurance industry was underway in New York.

The question of what explains the disparity between what returns should have been versus the actual, somewhat disappointing, performance of the tontine lies in the business practices of the life insurance industry. These business practices resulted from the intense competition, particularly amongst New York insurance companies, necessitated large work forces of agents ready and able to sell life insurance policies. Marketing of life insurance became extremely critical. In addition to these extra costs associated with a competitive marketplace was the cost of maintaining a political environment that quashed reform legislation that targeted the insurance companies. These costs increasingly undermined the profitability of the tontines, resulting in even lower rates of return to the policyholders. In their drive to generate additional business, life insurance agents and companies resorted to a practice of twisting (a practice where insurance agents would offer cash and rebates to individuals to change insurance companies).\(^{155}\)

It is important to note however that standard industry practices may have further undermined the returns to policyholders of tontine insurance. The practice of rebating policyholders for shifting policies from one company to another, along with high commissions for insurance agents placed the surplus fund in a precarious situation.

\(^{155}\) North 1952:20
Douglass North noted that due to these increased expenses, companies would consume the surplus accumulated to pay off the expenses incurred in underwriting new business. In some instances, the costs associated with new business were so significant that the normal loading associated with life insurance premiums in the first year were tripled, resulting in the company having to withdraw money from the surplus fund. If we run a simulation with a scenario where the first year’s tontine fund contribution is wiped out due to administrative costs, it reduces the rate of return nearly two percent. This is not a trivial amount of money. This first year contribution is the largest amount of money and it is the principal amount that will grow the most compared to any other year. The expected costs of new business built into the premiums, also known as loading, were ineffective. Loading consistently violated established margins of expenditures that were set up internally by every company. Equitable, Mutual, and New York Life each ran over the three hundred percent of their margins set aside for new business.

Also, additional costs that were kept off the books contributed to the costs associated with life insurance. Money used to purchase subsidiary organizations and their involvement in syndicates undermined the profitability of the insurance companies. The companies in New York were placed into dependent positions with respect to the New York investment banks and syndicates. Life insurance companies accrued massive accumulations of capital but they had been effectively blocked from investment opportunities through the various banking syndicates Gould, Fisk, and Morgan. They

156 North 1952: 20
157 Armstrong Committee report 1905: 304-317
could not invest without participation in one of these major syndicates. The large accumulation of capital based on life insurance savings had led the largest insurance companies into intimate relationships with the major investment banks of New York City. Their accumulation of capital, especially after the development of tontine insurance, proved the ideal source of liquid assets for the banks. Tontine insurance had allowed insurance companies to accumulate massive amounts of capital that was not subject to calls by depositors or creditors. Insurance companies not only bought shares or companies as parts of a syndicate, but also propped up prices through purchase and holding agreements.\(^{158}\) These accounts were often off the book, run through individual board members as collateral loans, or subsidiary organizations. The result of this linkage with the banking houses of New York was that life insurance companies became dependent upon the investment banks for investment opportunities for the capital that insurance companies accumulated. Securities were increasingly preferred over mortgages as investment for life insurance companies.

The Spectator Insurance Yearbook contains quite a bit of industry wide data. Though the Spectator Life Insurance Yearbook does not contain every single life insurance company, we can still make generalizations since the Spectator Insurance Yearbook does record the major life insurance companies. The data includes yearly totals on annuity payments, investments, and debt data. With this data, we can more accurately assess the legacy of Tontine life insurance. But the yearly reports and exhibits also reveal information about the investments of life insurance companies and their impact upon the

\(^{158}\) Armstrong Committee 1905:191
overall economy. Of note to finance and monetary specialists are the tables that record the investments of life insurance companies into mortgages and mortgage-backed securities. By the 1890s, most major insurance companies had half of their portfolios made up of mortgages or mortgage-backed securities. Given the wide accumulation of money, this accumulation had the effect of lowering interest rate nationally. A database of life insurance assets and holdings developed from the top thirty insurance firms from the Spectator Yearbooks was used to analyze tontine performance and firm behaviors.

Ransom and Sutch [1987, draft 1986] argue that despite the graft and corruption that occurred in the insurance industry, tontine insurance was actually economically sound. The rate of return as calculated by Ransom and Sutch [draft 1986] was 6.17 percent compared to the projected rate of 10.4 percent. Ransom and Sutch corrected for the declining interest rate, lower lapse rate and increasing administrative costs. While the 6.17 percent return rate was lower than advertised, in an era of declining prices it still would have been a significant amount. Also, the rate of return was still higher than what mutual savings banks could offer, and given the volatility of banking in the late nineteenth century, it may have been safer to put money away in life insurance. Using a series of simulations Ransom and Sutch [draft 1986] postulate that:

Only about 18-20 percent of difference between the predicted and actual rates of return can be attributed to an inaccurate forecast of expenses. By contrast the fall in the rate of interest explains close to 40 percent and Homans’ miss estimate of the lapse rate accounts for one half of the difference.
The decline in the general interest rate is well documented for the late nineteenth century United States. The resulting lower returns of tontine insurance were mostly the result of lower insurance rates, and lower lapse rates as individuals held on to tontine policies as a form of investment and not merely a consumable good.

With the available Spectator Yearbook data, additional calculations could be made about the historical performance of tontine insurance, since we can chart the annual growth of assets on insurance companies to infer a year-to-year rate of interest. Combining that with reported annual dividends on annual twenty-year term life policies reported in Spectator’s *Annual and Differed Dividends, for all companies up to 1909*, we can then generate a simulation using historical data to examine the performance of tontine insurance. We can also test the supposition suggested by Ransom and Sutch (1986) and see if interest rate adjustments and lower lapse rates can explain most of the declines in returns to the policy holders.

For Table 3.1, the interest rates were developed by compiling all the reported growth of assets reported by twenty-eight life insurance companies that had continuous data contained in the Spectator Yearbook in the Compendium of Life Insurance Reports from 1883-1903. This is for a theoretical tontine policy purchased by a forty-year-old man in 1883 and matures in 1903. The lapse rates are taken from Sheppard Homan’s calculations for Equitable Life Insurance Company. This remains constant despite whatever the age category is. The adjustment factor was constructed by Homans,

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159 This was the method Actuary Joel Van Cise had used in calculating the interest rate on dividend policies at Equitable.

suggesting that sorting mechanisms would make the mortality and lapse level much more favorable for the company. And for the table 3.1 the dividend is assumed to be $1 a piece mirroring the simulation in Ransom and Sutch (1986 draft). The dividend is just an annual contribution of one dollar per year, which multiplied by the rate of interest compounded by year’s remaining before the policy matures, resulting in the compounded survivor’s contribution. In the case of the first year of the policy, this is $3,119.66.

The lapse and mortality rates are taken from calculations made by Sheppard Homans. We simply multiply those by the number of survivors at the beginning to the year to generate the number of survivors for next year. This is expressed as Survivors = Survivors₁ − adjustment factor × ((mortality rate × Survivors₁) − (lapse rate × Survivors₁)). The math for calculating the survivors contribution works as a simple interest rate calculation where (Survivors × Dividend) × (1 + rate of interest)^n when n= the number of years until the tontine policy matures. Then the amounts having been compounded over the corresponding time periods are summed to get the total contribution to the tontine. The surviving policyholders divide the return, yielding the survivor’s share and then the rate of return. We can calculate the return using some basic algebra, the rate of return on a $20 investment in installments over twenty years results in a 13.07% return. This certainly was a hardy return, since mutual savings banks at best were returning 4-5% annually. With the Spectator guide of Annual and Deferred Insurance dividends, we can input actual year-by-year dividends that were deferred into the tontine. Joel Van Cise, was Equitable’s chief actuary from 1898-1910, and was originally an assistant under Sheppard Homans when tontine insurance was created.
Table 2.1 Tontine Simulation #1

*Based on $1.00 Contributions
*Ransom and Sutch (1987 draft)

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<th>Age Mortality</th>
<th>Decrease %</th>
<th>Lapse Rate</th>
<th>Deaths</th>
<th>Lapses</th>
<th>Survivors</th>
<th>Rate of Interest</th>
<th>Dividend</th>
<th>Survivor Contribution*</th>
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Survivor's Share $72.27
Rate of Return 13.07%

Table 2.1 Tontine Simulation #1
Table 2.2 Tontine Simulation #2

Based on Spectator Insurance Yearbook Data
1883-1903

Sheppard Homans Table *Based on Observed Dividends from Mutual Life Insurance Company
* 26.83 Annual Premium for 20 year life

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<th>Year</th>
<th>Age</th>
<th>Mortality</th>
<th>Adjustment</th>
<th>Lapse Rate</th>
<th>Deaths</th>
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Survivor's Share $513.75
Rate of Return 12.36%

Table 2.2 Tontine Simulation #2
Since modern accounting had yet to take hold, tontines were managed in large groups of separate classes. These classifications were group A which had no surrender value and B which would allow for a paid up policy in which no other payments had to be made for a policy. Class C and D had surrender values, or cash values.\textsuperscript{161} Rather than keeping separate yearly accounts, clerks kept ledgers in which placed each policyholder in a separate classes with policies of the same class. The returns and dividends for classes were calculated as a whole, not differentiating between individual policies.\textsuperscript{162} They would calculate how much money was in that specific fund for the year ending in December, add the interest to that class\textsuperscript{163}, and then subtract expenses incurred from that class in the given year. Table 2.2 incorporates the dividend data from a Mutual life insurance policy for years 1883-1903. It uses data listed under a twenty-year ordinary life policy and returns a nominal rate of 12.36\%. These rates are consistent with Ransom and Sutch (1986 draft) and their calculation of the rate of return on tontine insurance, with the only modification of using actual dividend and interest rates. This is rather astounding given how poorly tontines were received. But these simulations also vastly differ from all the results for tontine insurance reported in the Armstrong Committee Investigation of 1905. Exhibit no. 920 in the report lists a series of tontines including a twenty-year ordinary life tontine policy that is similar to the one offered by Mutual Life of New York.

\textsuperscript{161} Van Cise 10

\textsuperscript{162} Van Cise 21

\textsuperscript{163} Based upon the average rate of interest of Equitable’s investments
<table>
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<tr>
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<th>Estimate of Policy in 1885</th>
<th>Result at Maturity</th>
<th>Non-Forfeiture</th>
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</thead>
<tbody>
<tr>
<td>10 Year Ordinary Life</td>
<td>$85.81</td>
<td>$85.34</td>
<td>$75.31</td>
</tr>
<tr>
<td>15 Year Ordinary Life</td>
<td>$256.47</td>
<td>$209.57</td>
<td>$158.49</td>
</tr>
<tr>
<td>20 Year Ordinary Life</td>
<td>$592.57</td>
<td>$379.40</td>
<td>$294.07</td>
</tr>
<tr>
<td>20 Payment 10 Year Life</td>
<td>$97.88</td>
<td>$97.45</td>
<td>$81.13</td>
</tr>
<tr>
<td>20 Payment 15 Year Life</td>
<td>$308.93</td>
<td>$253.03</td>
<td>$173.47</td>
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<tr>
<td>20 Payment 20 Year Life</td>
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<td>$467.62</td>
<td>$324.20</td>
</tr>
<tr>
<td>20 Endowment 10 Year Life</td>
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<td>$118.30</td>
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</tr>
<tr>
<td>20 Endowment 15 Year Life</td>
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<td>$327.70</td>
<td>$177.17</td>
</tr>
<tr>
<td>20 Endowment 20 Year Life</td>
<td>$968.00</td>
<td>$619.25</td>
<td>$376.32</td>
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</tbody>
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Table 2.3 Expected vs. Actual Tontine Results

The projected result of the tontine insurance policy when it was taken out in 1885 was $592.57. The actual result of the tontine that matured in 1905 was $379.40. This represented a 36% loss on the expected value of the surplus. The real question is that even if we make adjustments using real historical data as Ransom and Sutch suggest, there still is quite a large discrepancy between the actual returns of the tontine and the mathematical model it implies. Here, we get a return of $513.75, which is a diminished return, but does not explain the huge gulf between the actual and projected results. There appear to be hidden costs and factors associated with life insurance that undermined its performance. The first of these elements was the effect of loading, where expenses were loaded on to the first year’s premium expenses. These costs included commissions (which ran from fifty to eighty percent of first year premiums), medical examination costs, traveling expenses, losses from policies a year old or less, and other agency

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164 Armstrong Committee Exhibit no. 920

165 Armstrong Committee Exhibits No.920, New York State Legislature, Testimony, Exhibits, Report, and Index of the Joint Committee of the Senate and Assembly of the State of New York to Investigate and Examine into the Business and Affairs of Life Insurance Companies Doing Business in the State of New York, 10 vols, (Albany 1906) Vol. 8: 1031
Also, additional loading was added onto the subsequent two years of the renewal.

Depending upon the level of commission, this could easily wipe out the first year’s surplus and dividend. Additionally, the practice of twisting compounded the problem, since up to 50% of the first year’s premium could be rebated in cash to new policyholders. In the worst-case scenario, first-year expenses could run up to 339% of first year premiums result in an account deficit on first year policies. Loading margins for insurance were designed so that startup costs would not exceed the value of the first year premium per policy. But because of twisting and additional loading costs, premiums were insufficient in covering costs associated with businesses. Whether the costs associated with tontine insurance were justified or not is a fairly subjective question.

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution w/o Load</th>
<th>With Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$22,960.73</td>
<td>$(45,187.47)</td>
</tr>
<tr>
<td>2</td>
<td>$17,715.62</td>
<td>$17,715.62</td>
</tr>
<tr>
<td>3</td>
<td>$24,400.16</td>
<td>$24,400.16</td>
</tr>
<tr>
<td>4</td>
<td>$19,056.74</td>
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<tr>
<td>6</td>
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<tr>
<td>11</td>
<td>$4,660.94</td>
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<tr>
<td>12</td>
<td>$7,230.79</td>
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</tr>
<tr>
<td>13</td>
<td>$6,394.30</td>
<td>$6,394.30</td>
</tr>
<tr>
<td>14</td>
<td>$5,691.50</td>
<td>$5,691.50</td>
</tr>
</tbody>
</table>

166 Armstrong Committee Exhibit no. 727

Premiums were not raised in lieu of using future deferred dividends to cover the associated costs of new business and other expenses. If we assume a loading of 254% of the first year premium, which is the average of all investigated companies indicated by the Armstrong Investigation, the tontine performs badly—returning $315.70 with a 5.67 percent rate of return.\footnote{Ibid 409} It is not clear how to handle the dividends to first year policyholders. Given the grouping of all policyholders into specific classes and the accounting practices of the time, policyholders would get their dividends for that year and that is included in this simulation. In table 2.4, we can see what happens when we apply a loading of 254% of the first year’s premium of $26.38.

The results of the simulation seem consistent with the results of the Armstrong Committee investigation. The difference between the Armstrong Committee investigation and the simulation is attributable to minor price fluctuations between Equitable and Mutual policies, and the adjustment towards historical interest rates. The innovation of tontine life insurance should not solely be viewed as a marketing tool for the expansion of the insurance industry. There was a growing demand for a savings method of some
sort. The remarkable flexibility of the insurance policy as a financial tool also was a powerful incentive for possessing an insurance policy. Insurance companies would allow individuals to take out loans on a portion of the policy, widening the credit available to the policyholder.

Having a tontine insurance policy meant more than simply insuring income to a family in the event of a premature death. Rather, tontine insurance once paid up over a ten or twenty-year period could help fund retirement or supplement a policyholder’s income as they grew older. According to the life cycle theory of economic behavior, individuals would save during peak earnings years in order supplement consumption. Life insurance from 1865-1905 proves to be one of the critical life cycle institutions in a remarkably dynamic period of change in the United States economy. If it was needed, the policy or account holder could withdraw their accumulated savings and investment at a premium. In this sense, the tontine is merely a level premium plan that had a fixed annuity feature that accumulated savings for the policyholder. At the end of the tontine period, you could draw your accumulated surplus in addition to the reserve that had been set aside in the policy, which had also accumulated interest.

Typically, the three main options for a policy that had matured were a cash value, paid up policy, or cash surplus. One could directly cash out the cash surplus directly at the end of the tontine period. This would be the accumulated surplus cost of the insurance. In the case of Northwestern Mutual (Northwestern only issued tontine insurance for a brief time period), the reserve and the surplus were available at the end of the policy. The cash value option allowed the policyholder to draw money against the
value of the insurance policy. And lastly, the paid up option allowed individuals to continue their insurance without premiums.\textsuperscript{169} Since the average insurance policy was approximately $2,000, the accumulated cash value of the policies would be near $1000 based on projections from Northwestern Mutual.\textsuperscript{170} Depending on the insurance company, the returns could vary significantly. And if we assume that individuals cashed out their policies along with the surplus for somewhere in the neighborhood of $1000, that would roughly be two to three years of annual income during the nineteenth century. Or, some plans allowed that paid up insurance policies could be converted to annuity payments.

To be sure, there were clear problems with graft and corruption of the insurance industry that required reform. Clear accounting practices and separation between the insurance functions and investment banking were needed. This is important for us to understand in the examining savings behavior in the late nineteenth century. Americans were remarkably inventive in finding ways to save and accumulate capital. In looking at life-cycle savings or precautionary savings, we must not accept the simple notion that there were no alternatives to state-sponsored social insurance programs.

The tontine mathematically worked under fairly normal conditions. We can subject our simulation to several systemic shocks that definitely impact savings and life insurance systems even to this day. These shocks will be noted in the appendix and they take a look

\textsuperscript{169} Northwestern Mutual, \textit{Points for Agents Concerning the Tontine Dividend Plan of the Northwestern Mutual Life Insurance Company}. Northwestern Mutual Company Archives, Madison, WI, 1895

\textsuperscript{170} The Average policy size here is assumed to be the mean of the number of policies divided by the total value of policies in 1904 from the Spectator Insurance Yearbook
at two rather large phenomena that occurred during the twentieth century. The first is the 1918 flu pandemic. Here, we will investigate how the flu pandemic, depending on the cohort, would affect the accumulation of differed dividends as well. Secondly, we can introduce an economic shock such as a protracted recession or economic crisis that would undermine income for a sustained period and produce higher lapse rates and what that would do to the returns. The Armstrong Commission reports contain a damning report on the insurance companies and their excesses, though not the actual economic soundness of tontines and their benefits to individuals. The reports describe and attack the various excesses of the insurance industry and pushed for regulations, eliminating the tontines. This included better accounting practices and increased policyholder control in the decision making process of the insurance company. It also called for the end of differed dividends and required annual dividends. The commission appears to have accepted the argument that the large surpluses in the insurance companies had proved to be too much of a temptation for individuals to use for personal gain.

*Life Insurance Companies as Financial intermediaries*

Mortgages represented 59.2% of all life insurance assets in 1860 which were in the form of mortgages issued, but by 1900, mortgages were only 28.8% of all life insurance

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171 A Special thanks here for Prof. Alan Olmstead who suggested this idea at an ALL-UC Economic History Group meeting. I am eternally grateful for his comments and insights.

172 Armstrong 1905: 934

173 The Armstrong Commission Records along with Equitable Archive’s were burned in 1910 and 1911 limiting some more useful data and internal correspondences. What survives is the Committee report published in 1905 and 1906.
assets.\textsuperscript{174} The shift away from mortgages to securities represented the demands of the New York investment banks, not necessarily the profitability of these securities. Mortgages, though incurring higher origination costs, were more profitable than securities in syndicates, which (due to their dependent positions relative to the banks) had lower rates of return. The Armstrong Investigation revealed that some of these securities paid out only 2\% to 3\% returns under the syndicate rules. Instead, these securities were purchased for enriching the board members by increasing stock prices etc.\textsuperscript{175} The shift away from mortgages was justified to life insurance companies by Zartman who notes:

Mortgages run for short periods, and with a decline in the interest rate they are paid off. After 1890 the rate of interest declined sharply, and as a result most of the companies seem to have been animated with a desire to get the funds under their control invested in long-time securities.\textsuperscript{176} New York State laws also made it increasingly difficult to sell mortgages outside of the state of New York. Most insurance companies in New York eventually limited themselves to mortgages in the city of New York.\textsuperscript{177} The effect of this capital flowing into the mortgage markets in the United States must have had some profound effect on mortgage rates in the United States. It warrants further investigation to see how these loans were originated and obtained by individuals.

\textsuperscript{174} Compiled from Lester W. Zartman, \textit{The Investments of Life Insurance Companies}, New York, Henry Holt and Company, 1907 : 14

\textsuperscript{175} Armstrong Committee Report 1905:316

\textsuperscript{176} Zartman 1907: 32

\textsuperscript{177} North 1905: 117
Insurance agents or agents acting under the authority of the company could issue loans. There is a lack of secondary literature upon how these loans originated and what criteria were used to establish loans upon collateral and property. Indeed, the secondary literature does not mention any of the formal relationship between mortgages and insurance companies at all, at least until the 1930s. Farm mortgages were the most lucrative form of mortgages to the insurance companies, while the New York companies began to shift their portfolios towards securities Northwestern Mutual, located in Wisconsin, was one of the largest insurance companies and maintained nearly half its portfolio in mortgages and bonds backed by mortgages through 1904. Still, insurance companies in from the Northeast held quite a few mortgages and mortgage backed securities. This represents capital flowing out of the Northeast to the Midwest where it was needed. Clearly this helped to expand the credit markets in the Midwest and West as insurance companies were willing to finance farming throughout the country using Northeastern capital. In fact, given how effective insurance companies had been in establishing themselves throughout the country, they could get across interstate rules governing mortgages much more easily than banks could. What exact effect this had on the credit market is unclear, but we can make a few generalizations about it. Credit was more widely available, and because more readily available credit, it was cheaper to borrow since insurance companies were ready and willing to lend. It is unclear at this point whether the mortgages were issued directly by the insurance companies or solely subsidiary institutions. The Spectator insurance catalog, which was

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an industry publication, lists the category as Bonds and Mortgages. Insurance companies clearly hold property backed bonds and mortgages, but the mechanism of how they came to own them is unclear. It is also unclear how these loans were issued. There perhaps is a clue in the charter of the Northwestern Mutual. The original charter of Northwestern Mutual allowed the company to hold its reserve assets in the forms of mortgage loans that could be secured by real estate, so long as the value of that real estate was twice the value of the originated loan.\(^{179}\) This gave Northwestern the authority to issue mortgage loans, with a statutory requirement that the mortgage could only be half what the property was worth.

This form of mortgage and bond was perfectly structured for farms, since the working farm could represent added on value to help originate the loan. These loans, however, could not be issued to unimproved farmland. Section 25 of the Northwestern Mutual’s charter states:

\[
\text{No loans on Unimproved Country Real Estate. – Investments of the company’s funds may be made in the form of notes as well as bonds, secured by mortgage or security or trust deeds of unencumbered real estate, and no loans shall be made by the company on security of agricultural lands, except on improved farms, and then not beyond half the value of the property offered as security, exclusive of the buildings.}^{180}\]

Most of these mortgages appear under these conditions to be short term functioning as a credit mechanism for farms year to year. This mortgage was most likely to give short-term credit to farmers and finance small-scale capital improvements. In

\(^{179}\) Spectator Company, *Charters of American Life Insurance companies; being a compilation of the original charters and all amendments...*, Spectator Company, New York, NY, 1911: 217

\(^{180}\) Spectator, *Charters of American Life Insurance* 1911:235
1887, a law was passed allowing companies to hold mortgaged backed bonds and securities with the same stipulations on the property that was the collateral for the bond or note. The finance committee of the Northwestern Mutual was the internal department that was responsible for issuing these loans and overseeing the requirements for these loans. On the other hand, mortgage loans in New York were used for urban residential property. New York state law had limited what mortgages New York insurance companies could issue.

By 1905, most of these mortgage loans in the state of New York were geared towards commercial real estate since banking laws in New York limited the amount of loans that New York insurance companies could issue outside of New York. The investigation was much more interested in sweetheart loans and corruption in the mortgages. There were coincidentally very few mortgages issued by insurance companies in New York. Conversely, Wisconsin’s state investigation in 1907 did investigate the mortgage dealing of insurance companies. But the large surplus accumulations made the life insurance companies powerful financial companies and in a world where there was not a lot of liquid capital floating around, life insurance companies were perhaps second only to investment banks in power. Even with the loading of policies, the companies did not lose money. Policyholders definitely suffered in the long run, due to the high costs associated with life insurance, but life insurance companies as financial intermediaries were a wild success. Their vast surpluses predicated on the deferred

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181 Spectator, Charters of American Life Insurance 1911:231

182 Joint committee on Life Insurance Companies, Wisconsin, Report of a Joint committee of Senate and Assembly on the affairs of life insurance companies, Democrat Printing Company, State Printer 1907
savings of policyholders, which allowed for a massive accumulation of capital for investment. In New York, this was particularly obvious as they participated in all varieties of financial syndicates allowing Morgan, Fisk, and Gould to have the necessary capital to consolidate railroads and capital-intensive industries. This ultimately got them into trouble.

While the return to policyholders was less than spectacular, a 5% rate of return was not out of line with the prevailing interest rates of the period. There were problems with accounting and costs, nothing perhaps that could not have been fixed with better accounting practices. But we should not simply look at the rate of return for these companies. By being a policyholder, you could ask for loans against the policy, making mortgages easier to secure with a policy than without, because the policy was a valuable asset in and of itself. Any loss that the insurance company took in terms of credit default on a loan or mortgage would simply be recouped by the forfeiture of the policy to the life insurance company. In this way, it gave the policyholder vast financial privileges and flexibility that we should consider when examining the economic behavior of individuals during this time period. We cannot simply consider life insurance policies as only a cost or merely as a form of precautionary savings. There too was the obvious death benefit to policyholders. Clearly the vast majority in contemporary terms profited from having these policies.

The difficulty for the life insurance companies was the financial scandals that rocked the finance world. Also, the tontine was labeled as a gambling speculative interest to which an individual could only profit through someone else’s death. Indeed
that’s what part of the profit was. These moral attacks, along with real concerns about financial integration with banks made insurance companies vulnerable to the attacks that plagued the banking industry. This was particularly true when the returns to policyholders began to fall well short of estimates. There are interesting implications of the development of life insurance industry. First, they were and are successful financial intermediaries serving to accumulate capital and then investing it.

Secondly, the development of the tontine itself has important lessons. Even the best financially engineered instrument or model is subject to real world economic conditions. Forecasting interest rates of behavior well in advance is highly speculative at best and basing financial instruments on assumptions several decades out is somewhat unrealistic. Yet, the tontine was profitable and successful. The 5% interest rate was well in line for the time period. In contemporary terms, it would something similar to a 401k or a 403b. If you have a truly diversified portfolio, it would be very difficult to beat the general rate of return in the larger economy.

The pro-business unfettered capitalism hegemony of the Republican Party that emerged from the Civil War had finally given way to something different; though it would have to wait until the Great Depression to be codified. Despite much about graft and corruption, the life insurance industry’s story is also about incredible innovation with financial products that were sound and provided alternatives to traditional forms of savings. They did have a transformative power in the American economy and they did expand life insurance to a wider segment of society. The experience in using life insurance in the United State as a savings method provides not only the historian with a
different way of viewing the development of social insurance, but also the economist with a period of experimentation to examine the implications of privatized retirement. Tontines held out the possibility to fund retirement and represented precautionary savings, because tontine policies could be converted to annuity payments. If after ten years of payment, the policyholder decided to have his surplus drawn and paid out as a fixed annuity; it would provide a fixed income for the policyholder. The data from 1883-1905 reveals approximately the ratio of money the life insurance industry was annually spending on annuity payments. This suggests a much higher rate of spending for old age than previously thought.

How well tontine insurance worked is rather subject to debate. But the existence of private market alternatives gives us a new narrative that scholars, both in economics and history, must debate. The answer to why the United States was so late in developing a welfare state is much more complex than a lack of institutional or political capacity. It transcends the simple explanation of the lack of a united union effort or an overpowering pro-business culture. Rather, if we look at the margins of individual decision-making, we might find that there were alternatives to the welfare state, however incomplete, as forces that might constrain the development of a welfare state. Tontine insurance can be one of those mechanisms.

The key features of the tontines are essentially the key features of modern social insurance, savings plans, and pensions. All depend upon a large group of depositors leaving their money with an institution that manages the funds for a small administrative fee. These funds are available after some pre-determined time period to the policy or
account holder for their usage. In fact, if one were to further the analogy, we can argue that Social Security is essentially a modified tontine. One of the Social Security program’s key component is that the Old-Age Insurance program pays retiree benefits in the form of an annuity, and the survivors’ benefits for children and survivors of workers who are insured. Most American workers pay into the system but do not necessarily have to take advantage of it. So tontine insurance, despite its reputation, is in some sense present with us to this very day.
Figure 2.4
Total Growth of Mortgages and Stock Assets of Life Insurance Companies

$1,000,000.00

$10,000,000.00

$100,000,000.00

1880 1885 1890 1895 1900 1905 1910

R² = 0.9931

R² = 0.9785

R² = 0.9866
Fig. 2.5 Home Life Insurance Picture Book #1 (Romaine Trade Catalog Box #2)
Fig. 2.6 Home Life Insurance Picture Book #2 (Romaine Trade Catalog Box #2)
Fig. 2.7 Home Life Insurance Picture Book #3 (Romaine Trade Catalog Box #2)
Fig. 2.8 Home Life Insurance Picture Book #4 (Romaine Trade Catalog Box #2)
Fig. 2.9 Metropolitan Insurance Pamphlet #1 (1903) (Romaine Trade Catalog Box #2)
Fig. 2.10 Metropolitan Insurance Pamphlet #2 (1903) (Romaine Trade Catalog Box #2)
Fig. 2.11 Metropolitan Insurance Pamphlet #3 (1903) (Romaine Trade Catalog Box #2)
Figure 2.12 The Woman of Today (1883) (Romaine Trade Catalog Box #3)
Investing His Money.
CHAPTER 3
Civil War Pensions

The average man at seventy years becomes incapable of supporting himself by manual labor, which is the basis which the pension-laws contemplate...we think that the average soldier who reached the age of sixty-five is then incapable of support himself and family by manual labor. The pension laws contemplate manual labor, and the body generally fails before the brain.

- General George Merrill Commander of the Grand Army of the Republic Post

Civil War pensions for many are viewed as an exogenous shock to the life cycle model. With the development of back dating pension applications, which resulted in arrearage payments (back payments of claimants), many individuals who may not have previously sought to accumulate sufficient savings for retirement now had sufficient savings if they could secure a pension. Yet this view underplays the extent to which there was a conscientious policy by Congress and the Grand Army of the Republic to liberalize pensions. Throughout the 1880s, Civil War pensions became a hot button political topic. In the spring of 1880, 1884 and 1886, several major attempts were made at reforming the pension system. The debate of the period centered around the adjudication of pension claims that were inundating the pension office as a result of the Arrears Act of 1879 which allowed back filing of pension claims. The resulting arrearage payments, payments for the years from when the injury occurred to the time an applicant filed, would be fairly large one time lump sums of money. It was well worth the costs associated in attempting to file for a pension.

But the rise in the number of claims as a result of the passage of the Arrears Act in 1879 was an unforeseen consequence prompting investigations into the proper role of
the Pension Bureau and the pension system. The military pension system of the United States had been established shortly after the Revolutionary War and had remained to serve veterans of the Mexican-American War and the Civil War. The system was based on upon an ideal of just compensation for health related disabilities. A soldier who suffered a disability due to service related injury or sickness would be awarded a pension on a scale commensurate with their rank, occupation and type of injury. It did not mean however, that pensions were based upon the length of service or conduct. The injury had to be sufficient enough to impact productive labor for the applicants. Injuries that could be traced backed to origins in the service were the only ones theoretically that should have been paid. Bureau of Pension’s Commissioner J.A. Bently in 1880 well aware of the rising tide of applications attempted to introduce rigorous reforms to the pension system by creating a series of reforms designed to verify the service based origin of a disability. These disabilities had by 1879 become quite difficult to adjudicate given medical science of the time period. A minor injury in 1864 could be a very serious one in 1879 particularly if it was degenerative. Pension attorneys successfully argued that these reforms would have placed excessive burdens upon the applicants, and the reforms were quickly dropped.

By 1884 there was a move to broaden pensions from merely disability related pensions towards basing pension requirements on simply military service. This pushed the pension system from simply a disability program to the nation’s first entitlement program. Leading this charge was the Grand Army of the Republic. The GAR has been viewed often by Skocpol, Gratton, Bensel, Orloff, and others as an institution that cared
solely for its own members and constituents. They argue that the GAR could not successfully have transformed itself into an organization that could effectively lobby for the support of old aged persons in the United States. Yet the intellectual capacity to do so existed. General Louis Wagner a post commander in the Grand Army of the Republic went as far to equate old age and need:

No man who is able bodied should be pensioned; it should be age and inability to support himself. It is no disgrace to be poor, but it is inconvenient and exceedingly unpleasant. I think when a man reaches sixty five if you please he will be willing to admit that this money, would be of great service to him, and that he needs it. I would be.\textsuperscript{183}

Wagner and the GAR had come to the committee hearing without a specific bill to support or advocate for. They had preferred to emphasize points that they believed would help craft a new bill, an age or service provision should be included in a new pension bill, along with the extension for the filing of arrearages. Wagner was particularly concerned by the deadline for filing of arrearages since it was disenfranchising a great deal of veterans. He noted, “the men who hesitated to apply heretofore are compelled to apply now by reason of the fact that their disability is growing worse year by year.”\textsuperscript{184} But the GAR did desire to limit their pension reforms to justly deserving veterans. Even if the GAR limited its advocacy to itself, the society certainly allowed for persons aged 65 or older do express some form of dependency and disability.

The age that the GAR used wasn’t simply a number that they had developed randomly. They developed and old age definition that clearly was at the very least

\begin{footnotes}
  \item[183] Ibid 5
  \item[184] Ibid 6
\end{footnotes}
acceptable to the Committee on Pensions members, if not to the society as a whole in 1884. The age and service pension bill recommendations in 1884 proved far too radical for Congress and none of the GAR’s recommendations were adopted for that year. In fact in 1886 the GAR Committee on Pension explicitly pointed out that they did not support service based pensions. George Merrill notes, “We are opposed to the service pensions, and that is a service pension in fact.”185 However by 1890 a Dependent Pension Bill was passed, that equated old age with disability at age 65 was passed.

The implications are large for the linking age of 65 to dependency. For old age pensions to be enacted there has to be two causal links working in concert, both associated with age, in the society to justify a universal old age pension policy. The first is that age 65 is linked to some form of dependency that results in the reduced ability to garner income. Older Americans would have to use some form of savings or aid to maintain their consumption and lifestyle. For a universal policy, old age also must be linked with poverty as a result of dependency. That link is not made until the 1930s, even with those advocating for the broadening of the pension system. The perplexing question of why the pensions weren’t expanded to cover all elderly Americans can be answered by examining the pension system’s success and constraints that created political and cultural barriers for the expansion of pensions.

While these pensions were quite effective at providing relief for a vast segment of elderly American men who had fought in the Civil War, they were deeply divisive

185 Testimony taken before the Committee on Pensions (May 3,1886); Committee on Pensions, Testimony before the Committee, March 3, 1884 (49A-E19); 49th Congress; Records of the U.S. Senate Record Group 46; National Archives Building, Washington, DC.: 6
politically. Federal spending on Civil War Pensions was confined primarily to the Northern states since only Union veterans could receive pensions. While Bensel places much of the blame on the delayed development of a centralized state polity on Southern opposition to centralized authority, which could enact social welfare program, this point is definitely over stated.\textsuperscript{186} Bensel after all adopts a social democratic view eyeing the lack of development of interest groups and coalitions that would have centered on social welfare groups. But it is much more likely that the American experience of Civil War pensions soured Americans to the idea of pensions overall as we will see later in the chapter.

\textit{Invalid Pension System 1865-1890}

Spending on Civil War pensions were a huge part of the overall federal budget for 1865-1914. At its peak in 1893 expenditures on Civil War pensions represented 42.19\% of all federal expenditures. Chart 4.1 shows the growth of pension expenditures relative to that of the federal expenditures. In 1867 there were 155,474 pensioners. As pensions grew, by 1902 pensions supported 999,446 pensioners. Two key pieces of legislation passed in 1879 and 1890 promoted the growth of federal pensions by liberalizing pension requirements. By 1904 newly enacted pension legislation provisions merely required old age to provide a pension to veterans. While the mechanics of the pensions are not terribly complex or difficult to understand, their meaning to the society is of inherent importance.

Figure 3.1

Federal Expenditure 1867-1916 in Millions
Log Scale

$y = -11436x^3 + 7E+07x^2 - 1E+11x + 8E+13$
$R^2 = 0.9645$

$y = -3622.1x^3 + 2E+07x^2 - 4E+10x + 2E+13$
$R^2 = 0.9427$
Civil War pension program spending ignited questions as to how the nation could pay for such a large program. Answering these questions resulted in visceral debates. But underlying the visceral debate was the socio-economic question focused on meeting the needs of an aging population of Civil War veterans. Wars often have long term macroeconomic consequences well into the future for any nation. And here the United States fought the bloodiest war by any measure in its history. Given the carnage of Civil War battles, and the subsequent ill health produced by having fought in the war, many aging veterans did in fact find themselves in need. Their needs were justified by the fact that they had fought to save the Union, and that without their sacrifice the Union would not exist as it did. Their victory allowed them to claim support in a way no other group have claim over the federal government.

Southern Democrats hounded Republicans over the extravagance of these pensions, but their obstruction seemed quite ineffective. Such was their antipathy towards pensions that they frequently called for investigations and strict policies towards granting pensions. Nonetheless, pension legislation became highly politicized topics and events. Despite the vitriol, the Republican and Northern led policy of pension liberalization continued unabated well into the twentieth century. Much of the historical literature on Civil War pensions have focused on the alleged graft and corruption of the system. Yet this view has not experienced a serious challenge, since William H. Glasson’s Work *Federal Military Pensions in the United States* was published in 1917. Glasson’s historical work is fairly critical of Civil War Pensions particularly after 1880. By extension the liberalization and maintenance of Civil War pensions Glasson argued
perpetuated and unjust system of social welfare, based on service during a tragic period in American history. He noted in particular President Cleveland’s veto of a pension bill in 1888, “This courageous veto brought upon the President a storm of criticism and protest from those interested in the passage of the Dependent Pension bill.”

The documents show that rather than excess, the pension system had a daunting task attempting to provide care and support for a vast group of dependents. Glasson’s negativity towards pensions has been endemic and most scholarship still adheres to Glasson’s work as a foundational work in the development of Civil War Pensions and the development of the welfare state. Glasson’s examination relied solely upon legal and legislative reports which are non-partisan, but which he shades in with negativity Civil War pensions as the particular interest of the Grand Army of the Republic and nefarious pension attorney’s namely George E. Lemon. Glasson’s overall argument was based upon a distinction he made regarding the validity of invalid pensions. To him pensions had to given to the deserving soldier who was impoverished due to disabilities incurred during their military service. Pensions should be designed to prevent pauperism for the honest soldier not to aid the soldier who could through his own wealth provide care for himself. Glasson combined his argument with an argument against the system of taxation. For Glasson and many other scholars in the post-1914 period, tariffs which had provided nearly half of all federal revenue, provided unjust benefits to these individuals. Glasson attacked the tariff since it was a tax that funneled money to old pensioners, since it taxed

187 Glasson 212
188 Glasson 228
agricultural exporters, since other nations taxed agricultural goods in retaliation and the poor who had to pay more for imports, particularly for items like sugar.  

There is fairly little historical evidence that there was widespread fraud and corruption regarding pensions as Glasson at point argued. That lack of corruption also explains why the Grand Army of the Republic was capable of pushing for additional legislation and why did it successfully pass. Though Glasson pointed out that he attributed the success of liberalization not to the political popularity of pensions but by special interest lobbyists:

self-seeking spirit in the organizations of former soldiers was not a spontaneous growth. It was systematically cultivated and promoted by so-called “friends of the soldier” – claim agents and politicians who had fees or political advancement in view. The influence of George E. Lemon and his National Tribune did much to introduce and perpetuate this spirit in the Grand Army of the Republic.

The committee testimony during the 1880s will shed some light on the advocacy role of the Grand Army of the Republic and pension attorney’s and agents. This provides critical revisionist evidence about the need for intermediaries in the pensioning process, something that Glasson and others have overlooked. Laws revising pensions weren’t merely aimed at liberalizing pension benefits, but also in the adjudication process. The United States government is for the first time developing a fairly comprehensive social program that required procedural knowledge that the average veteran may not have been familiar with, requiring the use of intermediaries. Fine tuning the pension system required

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189 Glasson 219
190 Glasson 265
the passage of new laws and policies. The General Law was originally passed in 1862 as the Civil War was about to enter into the bloodiest phase of the War.

**Major Pension Laws Passed in Congress 1860-1914**

<table>
<thead>
<tr>
<th>Law</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Law</td>
<td>July 14, 1862</td>
</tr>
<tr>
<td>Pension Act</td>
<td>July 27, 1868</td>
</tr>
<tr>
<td>Arrears Act</td>
<td>January 25, 1879</td>
</tr>
<tr>
<td>Disability Pension Act</td>
<td>June 27, 1890</td>
</tr>
<tr>
<td>Service Age Pension Law</td>
<td>April 13, 1904</td>
</tr>
<tr>
<td>McCumber Bill</td>
<td>February 6, 1907</td>
</tr>
<tr>
<td>McCumber Bill</td>
<td>May 11, 1912</td>
</tr>
</tbody>
</table>

Table 3.1

The early battles at Bull Run and Shiloh had been fought resulting in high numbers of casualties on both sides. Republicans in the north gearing up for a protracted bloody war realized the need for new pension legislation that sought to revise the military pension system. The high number of casualties during the war necessitated a national commitment to soldiers and to their families. Before the enactment of the General Law in 1862 military pensions were not given as lifetime fixed defined benefits to dependent widows and or orphans.191

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191 Glasson 98
Instead widows and orphans were given five years of half pay of the soldiers. In 1858 half pay was granted for the life of the widow and an orphan to till the age of sixteen for death due to injuries from service. By 1862 this form of relief proved inadequate to the bloody fighting in the midst of the Civil War. Known as the General Law System pensions and pensioners would be governed under this set of strict rule until 1890. The rules and policies were designed towards only protecting invalid (i.e. disabled or dead) soldiers whose material harm and injury could be directly traced to injuries sustained during the war. Congress quickly passed the general law system which developed the invalid classification system. Disabled or injured soldiers were graded according to rank and disability. For officers who held the rank of lieutenant colonel or higher $30 a month would be accorded to completely disabled soldier or the survivors. Other officers were graded on a sliding scale towards the enlisted men. Enlisted men were to receive a pension of $8 a month for complete disability.

<table>
<thead>
<tr>
<th>Table 3.2 General Law Provisions Monthly Basis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Grade</td>
<td>$30</td>
</tr>
<tr>
<td>Third Grade</td>
<td>$24</td>
</tr>
<tr>
<td>Single Hernia</td>
<td>$6-10</td>
</tr>
<tr>
<td>Deafness</td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>$30</td>
</tr>
<tr>
<td>Nearly Total:</td>
<td>$27</td>
</tr>
<tr>
<td>Total One severe other:</td>
<td>$25</td>
</tr>
<tr>
<td>Severe both:</td>
<td>$22</td>
</tr>
<tr>
<td>Loss of one eye</td>
<td>$17</td>
</tr>
<tr>
<td>Loss of sight of one eye</td>
<td>$12</td>
</tr>
<tr>
<td>Anchylosis of Elbow</td>
<td>$10</td>
</tr>
<tr>
<td>Anchylosis of knee</td>
<td>$10</td>
</tr>
<tr>
<td>Anchylosis of shoulder</td>
<td>$12</td>
</tr>
<tr>
<td>Loss or portion of appendage</td>
<td>$10-17</td>
</tr>
</tbody>
</table>

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192 Linares, Claudia, The Civil War Pension Law, working paper 2001-6, Center for Population Economics, Chicago, IL, 2001: 14
Each disability and injury was graded according to four categories, the first
category being the complete disability of the soldier that required constant care. The
second grade was defined as the incapacity to perform manual labor. The third was the
disability due to the loss of a hand or foot. The last category was the intermediate grade
in which the soldier required only periodical aid from someone, not the constant aid of
another. Once a pension application was filed with the Bureau of Pensions, an agent
would be assigned the case. He would then write for a request from the War Department
requesting the service record of the individual pensioner. The record would then be
reviewed to make sure that the pensioner was honorably discharged. The agent would
comb through the file looking for possible causes of the disability. Additionally when
applying for a pension the applicant would be required to send an affidavit signed by two
doctor or medical professional attesting to the applicant’s disability as to initially process
the application.193

The Bureau of pensions in 1862 did away with this guideline favoring Pension
Bureau appointed examining surgeons for the biennial medical examinations that were
required of all applicants to verify the continued disability of an individual.194 The bureau
had found that civil physicians and surgeons varied in particular skill and did not provide
the Pension bureau adequate information to determine the point in time which disability

Report of the Commissioner of Pensions: 581

Report of the Commissioner of Pensions: 578
had occurred. Using contracted surgeons would help alleviate the problem and standardize the examination process. On the pension application form the soldier had to state the company and regiment with whom they served, the manner and time in which they incurred their disability, and proof by presenting two witnesses attesting to the identity of the applicant.

War Department records, while providing the best proof, since they contained commanding officer’s reports, and surgeon’s reports, were not the only records that could be used to secure a pension. If they could track down a commissioned officer or two non-commissioned officer who could attest to applicant’s disability and that it was incurred during military service, that affidavit would be sufficient to secure a pension.195 The Pension Bureau noted that this information would not be very difficult to obtain, if it were honest information. Considering that most Civil War regiments were mustered into service at a local level, it was very likely that a disabled soldier could easily secure a pension since they likely knew their officers and were part of their home community.

Widows and orphans could receive these benefits as well; widows could not remarry and orphans would be phased out of the pension rolls at the age of 16.196 Widows would have to provide the same information testifying to the service of their husbands, while providing proof of their marriage by “intimate knowledge” or presentation of some sort of marriage certificate. Usually some combination of sworn affidavits from the community or an elected official would suffice to secure a pension for

195 Ibid 587
196 Glasson 127
the widow or orphan. But furnishing this documentation was particularly problematic for widows of African American soldiers.

Though the bureau was well aware of the different family arrangements amongst slaves, they often had myopic views of African American women and testimony in adjudicating pension claims for African American widows. Complicating the matter were slave marriages in which the husband had multiple wives, not because he was polygamist but because he was sold to another plantation. A dead soldier could have left behind multiple widows. Michele Krowl writes:

Pension applications reveal that African American women often did hold view on what constituted acceptable domestic arrangements that differed greatly from those advocated by the Pension Bureau. The constraints of bondage had forced slave families to engage in domestic models that diverged from the monogamous, nuclear families prized by white society, and some black women chose to maintain nonbinding familial relationships when free. Even pension investigators recognized that post war African American coupled continued to enter informal relationships that the spirit of the law treated quite formally.197

Originally widows could only receive pensions for five years after the death of the soldier, under the assumption that the widow at some point would remarry or have sons sufficient of age to take care of her. The deaths wrought by the Civil War may have changed this policy. So many women lost both sons and husbands in the war and were left with only the option of remarrying. So in 1868 the pension law was revised to state:

The widow of a private soldier who died from causes of service origin was entitled to a pension of eight dollars a month. Her pension was granted until remarriage or death. The widow was entitled to an additional

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payment of two dollars a month for each child of the deceased soldier under the age of sixteen years. Where there was no widow living and entitled to a pension, a single child under sixteen years of age was entitled to a pension of eight dollars a month. If there were more than one child under the age of sixteen years, the children were entitled to a pension equal in amount to that which, under the circumstances, would have been allowed to a widow. ¹⁹⁸

The act also further established the order of pension dependency. If the soldier was deceased the dependent heirs would be allowed to claim a pension in this order: widows, orphan children, mothers, fathers, and orphan brothers and sisters under the age of sixteen. This legally codified claim to an estate is also particularly revealing about the social hierarchy of the time.

Two women, are at the top of this hierarchy of dependents, and had by legal definition, the best claim to the estate of the deceased soldier, if there were no immediate children. In 1880 the Pension Bureau recommended the adoption of statutes that would allow wives or orphans to be entitled to a pension if their husband or father were deemed to be insane. This also reinforced the dependency status of women and the legal structure of dependent aid. The bureau noted that:

In many of these cases the expenses of guardianship are a heavy charge upon the dependent family, and in most, an entirely useless one. It is therefore recommended that the law be amended so as to provide that in cases of insane invalid pensioners having no guardian, but having a wife or children dependent upon him (the wife being a person of good character, and not having abandoned the pensioner nor his children) the Commissioner of Pensions be authorized, in his discretion, to cause the

¹⁹⁸ Glasson 139
pension to be paid to the wife, upon her properly executed voucher, or, in case there is no wife, upon the voucher of the guardian of the children.\footnote{Serial Set Vol. No. 1960 Session Vol. No. 10, 46th Congress, 3rd Session, H.Exec.Doc. 1 pt. 5, v.2, Report of the Secretary of the Interior; being part of the message and documents communicated to the two Houses of Congress at the beginning of the third session of the Forty-sixth Congress. :402}

What emerged as a result of legal precedents that developed in the nineteenth century, which reinforced the coverture, was something Theda Skocpol calls a “maternalist welfare state.” This preference for protecting widows, orphans, and disabled soldiers over a service based preference was a distinction that differentiated the development of social insurance programs in the United States. Skocpol argues that:

\begin{quote}
U.S. Civil War pensions (and other forms of public help for veterans and dependents) were not conceptualized in socioeconomic terms at all. Instead there were understood in political and moral terms. Legitimate Civil War Pensions were idealized as that which was justly due to the righteous core of a generation of men (and survivors of dead men) a group that ought to be generously and constantly repaid by the nation for their sacrifice.\footnote{Skocpol 149}
\end{quote}

For many Americans it was not the role of the federal government to provide economic aid to its citizens who were in need, particularly able bodied men. Women, orphans, and men disabled in the service of their country could however, lay a just claim to public support. Public support and aid for the indigent and poor was often limited to local charities and relief efforts. However, the dislocation and destruction of the Civil War necessitated a national effort to alleviate injuries incurred in during the war. The problem that begins to develop in the 1870s is that there is clash between the developing modern
bureaucracy of the Pension Bureau and its need for modern administrative policies, with Victorian cultural values.

With so many pensioners being listed on the rolls, along with ever liberalizing policies, many were worried that pensions were no longer given to the deserving but, tempted people to commit fraud to receive a pension. Attempting to differentiate those who were morally worthy and those who were frauds and cheats was extremely difficult for the bureau. The 1870s marks a period in which the Commissioners of the Pension Bureau were particularly concerned with attempts to defraud the government. Despite how difficult it was to received pensions, a point which attorney’s stressed, pensions were not insignificant amounts of money. This prompted many legitimate and illegitimate claims applications to be filled with the Pension Bureau. Pensioners were paid in cash semi-annually though by 1871 pensions were to be drawn quarterly. They were to present their pension certificate to an agent to be able to draw their sum. But the paperwork required to draw the sum often would require, as the bureau noted, “the intervention of an attorney.” The particular problem the bureau focused on was pensioner drawing money in the field offices. Often individual pensioners who were awarded a certificate had to leave their certificates with less than reputable agents of individuals who could complete the necessary paper work to draw their cash from the

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field office. This continued to be a problem throughout most of the 1870s and 1880s.

Pensioners had begun to exchange their pensions by selling them for mortgages or securities, or to secure various forms of credit to less than credible individuals. They did this through a loophole in the pension statute that allowed persons designated by the pensioner to collect the pension in cash for them in person. Pensioners would then apply for another pension certificate claiming that they had lost the previous certificate. It would have confused agents as to which pension certificate had the legitimate claim. These occurrences were frequent enough to concern the Pension Bureau. The Report of the Commissioner in 1882 noted:

The abuse of this section has grown to such proportions that the above action is deemed necessary for the protection of the pensioners. Exorbitant rates of interest are charged by speculators who evade the exact terms of the section forbidding any “mortgage”, sale, or assignment by becoming the custodian of the pension certificate for the use of the pensioner. The pensioner must necessarily apply to them to execute his voucher, as the same cannot be executed without the exhibition of the pension certificate to the officer before whom the voucher is executed. The broker then accompanies the pensioner to the agency and stays with him until his check is cashed, when, as soon as conversion into money takes place, he mulcts the victim in heavy damages and retains the pension certificate to repeat the operation at the next quarterly payment. This leads the pensioner, ill order to avoid the usurious interest charged, to allege the loss of the original certificate for the purpose of procuring a duplicate; which being done, he evades the broker, often hypothecates with another broker the duplicate and repeats the same transaction at the next quarterly payment.

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203 Ibid

In 1881 legislation was introduced to curb the abuses that allowed the pension bureau to confiscate pension certificates that had been illegally transferred or assigned. It made the illegal possession of a pension certificate a misdemeanor crime subject to a fine of $100 and the costs of the prosecution.\textsuperscript{205} In 1882 the Pension Bureau compiled, by Congressional order, a list of pensioners on the pension roll. This, five volume four thousand page list, contained information on the location and disability of the pension roll. It was hoped that the dissemination of this list would curtail the fraud and abuse brought on by transferred pension certificates. It would also allow agents to more rigorously check the identity of the pensioner when they showed up for their cash.\textsuperscript{206} The effect of these reforms was uncertain, as it did not address the legal loophole that allowed pensioners to designate an individual to be their representative for collecting the pension. It did however give much more power to the Pension Bureau in determining the validity of pension claims, especially before dispensing cash. Agents in the field represented the most direct contact most pensioners had with the Pension Bureau. All claims that required adjudications or appeals would be handled in Washington, DC.

Claim agents or attorneys often prepared the necessary paperwork and affidavits that were necessary for filing pension claims. This was particularly useful to the pensioner if he were not able to actually go into a pension office and offer direct testimony or ask for witnesses to testify on his behalf. Often claim agents would enter into fee filling contracts with the Bureau of Pensions and pension agents for their

\textsuperscript{205} Ibid

services. The standard charge was $25 per successful claim. Use of these attorney’s had served two purposes. It had alleviated the pension offices of much of the clerical paperwork necessary in process a pension application and aided applicants. In 1878 Congress reduced the charge for their services from $25 to $10, and eliminated their fee contracts with the Bureau of Pensions office. The act repealed the ability of these attorneys to seek their fees from pension agents, and required them to directly charge claimants for their service. The intention of this law was to stop spurious claims from being filed with the Bureau of Pensions office. Commissioner of Pensions J.A. Bentley wrote in 1878 that:

The present situation of affairs is a standing invitation to claim-agents to seek out persons to prefer claims for pension, themselves made sure of receiving their legal fee in an cases successfully prosecuted, and by the same law the claimants exempted from paying for services unless they have first been allowed a pension. The country is being constantly advertised and drummed from one end to the other by claim-agents in pursuit of persons who have honest claims, or those who are willing, in consideration of the fact that it will cost them nothing unless they win their pension, to file claims which have no merit, leaving it to the ingenuity and cupidity of their agent to "work" the case through.

If all these provisions are repealed, and a maximum fee established by Congress, the result will be that the claim-agent will have no security for his compensation except that furnished by his client. The client, unwilling to pay money unless he sees a reasonable prospect of the allowance of a pension, will not, as a rule, file a claim unless he himself believes, not only that he is entitled to a pension, but also that he can establish his light thereto. It will be seen, therefore, that by making this change in relation to attorneys' fees, the interests of the claimant as well as those of the agent will, as a rule, conspire to prevent the presenting of fraudulent and unmeritorious claims, instead of uniting as now in favor of their presentation. 207

Bentley and many others were particularly concerned with the potential abuse of the system by individuals who would defraud the pension system. In a recurring theme throughout the late nineteenth century Bentley attacked not the valid and worthy dependents and pensioners but the agents and intermediaries who profited from providing services to applicants. Bentley and Glasson both viewed the claims agents as nefarious individuals promoting the filing of pensions by those who were unworthy of pensions. The abuse of claim agents drew harsh criticism particularly from the National Tribune and the Grand Army of the Republic. By limiting the Claim Agent fees and imposing the fee on applicants, Bentley hope applicants would think twice about using Claim Agents in pursuing their pension claims. He noted that these Claim Agents were troublesome and added to the complexity and inefficiency of the Bureau of Pensions.

Attorney’s countered with their claims that by lowering the fee to $10 and charging the fees to applicants would erode the quality of representation they could give their clients. They argued that less reputable individuals would take the $10 fee, the $25 fee would ensure that reputable attorneys would take on the cases. The reduction in fees the pension attorneys argued, would deny the access disabled soldiers from their rights for adequate representation and just rights in the pension process. They provided key services for applicants and felt that just compensation would encourage better attorneys to aid pension applicants. By lowering compensation or eliminating it, attorney’s felt that less scrupulous or nefarious attorneys might take advantage of applicants.

Complicating the matter was the compensation of the Bureau of Pension agents who were entitled by law to a fixed fee determined regularly by Congress for aiding the
preparation of pension forms needed to draw a pension in cash. In 1865 the Bureau
limited these fees to fees associated only for administering oaths to pensioners or
attorneys. Pension agents in the field generally managed small offices with at least one
clerk, and oversaw the payment of pensions either semi-annually or quarterly. This had
been the preferred form of pension payments before the Civil War, and during
reconstruction. Up until 1877 there was a steady expansion of small pension agent offices
in the United States. Most were in major cities which served various surrounding
counties.

Table 3.3
List of Pension Offices and Location in 1875

<table>
<thead>
<tr>
<th>City, State</th>
<th>City, State</th>
<th>City, State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little Rock, Arkansas</td>
<td>Augusta, Maine</td>
<td>Omaha, Nebraska</td>
</tr>
<tr>
<td>Hartford, Connecticut</td>
<td>Portland, Maine</td>
<td>Santa Fe, New Mexico</td>
</tr>
<tr>
<td>San Francisco, California</td>
<td>Fitchburg, Massachusetts</td>
<td>Columbus, Ohio</td>
</tr>
<tr>
<td>Washington, District of Columbia</td>
<td>Boston, Massachusetts</td>
<td>Cleveland, Ohio</td>
</tr>
<tr>
<td>Wilmington, Delaware</td>
<td>Baltimore, Maryland</td>
<td>Cincinnati, Ohio</td>
</tr>
<tr>
<td>Fort Wayne, Indiana</td>
<td>Saint Joseph, Missouri</td>
<td>Portland, Oregon</td>
</tr>
<tr>
<td>Madison, Indiana</td>
<td>St. Louis, Missouri</td>
<td>Philadelphia, Pennsylvania</td>
</tr>
<tr>
<td>Indianapolis, Indiana</td>
<td>Grand Rapids, Michigan</td>
<td>Pittsburg, Pennsylvania</td>
</tr>
<tr>
<td>Chicago, Illinois</td>
<td>Detroit, Michigan</td>
<td>Providence, Rhode Island</td>
</tr>
<tr>
<td>Springfield, Illinois</td>
<td>St. Paul, Minnesota</td>
<td>Knoxville, Tennessee</td>
</tr>
<tr>
<td>Quincy, Illinois</td>
<td>Vicksburg, Mississippi</td>
<td>Nashville, Tennessee</td>
</tr>
<tr>
<td>Salem, Illinois</td>
<td>Portsmouth, New</td>
<td>Montpelier, Vermont</td>
</tr>
<tr>
<td>Des Moines, Iowa</td>
<td>Hampshire</td>
<td>Burlington, Vermont</td>
</tr>
<tr>
<td>Fairfield, Iowa</td>
<td>Concord, New</td>
<td>Norfolk, Virginia</td>
</tr>
<tr>
<td>Dubuque, Iowa</td>
<td>Hampshire</td>
<td>Wheeling, West</td>
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<tr>
<td>Lexington, Kentucky</td>
<td>Albany, New York</td>
<td>Virginia</td>
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<tr>
<td>Louisville, Kentucky</td>
<td>Brooklyn, New York</td>
<td>Madison, Wisconsin</td>
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<tr>
<td>Topeka, Kansas</td>
<td>New York, New York</td>
<td>Milwaukee, Wisconsin</td>
</tr>
<tr>
<td>New Orleans, Louisiana</td>
<td>Canadaiaan, New York</td>
<td></td>
</tr>
<tr>
<td>Bangor, Maine</td>
<td>Trenton, New Jersey</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Raleigh, North Carolina</td>
<td></td>
</tr>
</tbody>
</table>
Most of the pension offices were located in cities in the North with a few scattered throughout the South. The office in Virginia was located in Norfolk, near the United States Naval facility, for obvious reasons. The Civil War had produced particularly difficult memories for many Virginians, and politically it was better to place the pension office near a major military installation. Until 1877 the maintenance of these many offices and their clerical workforces to pay pensions due quarterly, and to process paperwork, required the massive expansion of the Bureau of Pensions work force. In 1877 it became clear that small remote field offices were quite inefficient. And executive order issued by President Hayes consolidated the pension offices from 58 to 18.

The consolidation of offices also had the effect of eliminating a significant proportion of pension agents in the field from employment by the Pension Bureau. The bureau by consolidating duties in centralized locations could more efficiently process pensions claims, particularly since most of pension payments were being drawn, by 1877, as vouchers or checks mailed to recipients, rather than cash payments. Of the 187,403 pensions paid in 1877, 158,361 were paid by vouchers given to the individual pensioners. Vouchers required the same forms that regular pensions had used to file in person, they now could be prepared and sent via mail, so long as there was an affidavit certifying to the authenticity of those documents, usually an officer of a court, included with the forms.

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Pension agents sent these forms on a quarterly basis advising pensioners as to the policies and requirements for continuing their pension. By centralizing the pension agent offices they could process paperwork more effectively, and the bureau could eliminate additional overhead in the form of office space needed with small field offices, though it did permanently eliminate a significant number of jobs from the agency workforce. This resulted in the remaining agents complaining bitterly of the increased costs to their offices and workload, without increased support for spiraling costs.\textsuperscript{210} The consolidation of the Pension Bureau field offices and the reduction of staff in the Bureau office in Washington, DC were made in light of the five year rule for pension applications, which limited claims to injuries that were directly related to the war.

This policy disallowed many new applicants, particularly for minor chronic conditions that had by 1877 become serious medical conditions. Under the general law, pensions were started from the time of application, and not back dated from the time of injury. The notion behind this was somewhat misguided in the sense that they anticipated the disabled soldier to potentially get better, or for wives to remarry, and children to grow up. Certainly in many cases a lot of this did, happen, but for the vast majority, soldiers did not heal. In fact the Bureau of Pensioners in 1878 proposed the elimination of the biennial examinations for pensioners.\textsuperscript{211} Commissioner J.A. Bentley wrote:

> frequent an examination of these· pensioners is, in my judgment, no longer necessary. The necessity for these examinations rested upon the

\textsuperscript{210} Serial Set Vol. No. 1850 Session Vol. No. 9, 45th Congress, 3rd Session H.Exec.Doc. 1 pt. 5, v.1, Report of the Secretary of the Interior; being part of the message and documents communicated to the two Houses of Congress at the beginning of the third session of the Forty-fifth Congress. : 822

\textsuperscript{211} Ibid
presumption that the degree of disability for which the invalid pensions were allowed would, from year to year, become less.

The average age of the soldiers of the war of the rebellion, from whose ranks the invalid pensioners mainly come, at the time of their enlistment, was 25.8 years, and taking 1863 as the mean year their average age is 41 years; few of them all are less than 36 years, while a very great number are 40 years and upward.

The disabilities for which pensions are now paid, or will hereafter be allowed, are of 13 to 17 years' standing, and it needs no argument to prove that there will be very few cases in which the disability of so long standing, in men of such advanced years as have now been reached by the survivors of the late war, will become of less degree than it now is.\(^{212}\)

Bentley thought the pension agency could save a great deal of money by reducing the numbering of examining surgeons through the elimination of the exams. Disabilities incurred during the war were not likely to get better, and rather than subject soldiers to repeated exams to verify permanent disabilities, he suggested that a revision in the statutes be made to allow the Commissioner of the Bureau of Pensions, to determine how medical examinations would be carried out for those who already had pensions. The examinations would be limited to pensioners who would request a revision of their pension rate, though Bentley held out some hope as to be able to compel examinations to lower the rate of pensions if necessary.

Bentley with support from the Hayes administration seemed to have carried out a campaign aimed at reforming the pension system, attacking what he saw as excesses in the system. He had expressed moral outrage at the Claims Agents and the excessive bureaucracy of the Pension Bureau. He sought to reform the examination system requiring a Bureau of Pension appointed examining surgeon to verify the disability of the

\(^{212}\) Ibid
pension applicant, which failed to pass Congress in 1881.\textsuperscript{213} To a certain extent Bentley’s reforms have historically been seen as progressive and regarded favorably from historians. Glasson in 1917 was very sympathetic to his reform efforts, and Theda Skocpol viewed his reform efforts as the proper response to ensure equality and transparency in achieving an “ideal redistributive system.”\textsuperscript{214} Clearly reform was needed but the political climate became almost immediately hostile to any effort to reform the system.

The reforms that Bentley proposed had seemed like attacks on pensions. President Hayes’ controversial election and his appointment of Southern Democrats to key civil service appointments destroyed much of the credibility that the Hayes administration could use to back Bentley’s reforms, even though Bentley was a Grant appointee. Northern Republicans and particularly the Grand Army of the Republic used the anger on pension reform and successfully cast reformers as deniers of justice to those who had saved the Union. By making the pensions much more difficult to apply for Bentley and reformed had played right into the argument for liberalizing pensions to guarantee the benefits of pensions to all Civil War veterans who had served.

Almost as if it was a reaction to the apathetic attitude of the Hayes’ administration regarding the Civil War Pension, Congress in 1879 passed the Arrears Act and liberalized the provisions for the filing of pensions. Dependents and disabled soldiers no longer had to file their pension claim within the five years of discovering their injury caused by


\textsuperscript{214} Ibid
military service. The pension law revision in 1868 had extended briefly the period individuals could file for service based disability claims. In 1879 they didn’t need to have filed the pension application during the requisite five years after discharge or death, or the extended five year term under the 1868 law. They now only had to prove that disability was service based during the Civil War. And unlike the 1868 Act, which did not allow for arrearages, the 1879 act did allow for arrearages. They could receive a significant sum of money for the years that they weren’t included on the pension roll. This prompted a new surge in the number of applicants. As Chart 3.2 shows there is also an immediate spike in the number of pensioners on the rolls from approximately 200,000 pensioners to over 500,000 in 1890. Arrearages for certain soldiers could result in a one-time lump sum payment of several hundred dollars for disabled soldiers prompting them to apply in record numbers. The number of the applications would backlog the system resulting in applications languishing in the pension bureau for years potentially.

The Arrears act was passed in the house with Southern Democrats boycotting the vote and Northern Democrats joining Republicans in passing the measure in 1879. The House moved on the bill voting it immediately out of the Committee on Pensions, and passed it on a 44-4-28 vote.\textsuperscript{215} The bill was viscerally attacked in some corners as a “raid on the treasury.”\textsuperscript{216} The legislation was quite imperfect. It contained vague language which made it unclear as to which rates were to be set for arrearages. It merely mentioned that arrears should be granted according to the year the pension was initially filed, which

\textsuperscript{215} Glasson 163

\textsuperscript{216} Ibid
would have granted someone for the same disability who filed in 1879 significantly more than a person who had filed in 1877.

The act also provided a provision banned claim agents from charging their clients with a fee for filing a pension application, presumably attorney’s merely charged for something else. Glasson is quite hostile to the Arrears Act calling it a “loosely drawn act” and that “expensive pension measures slipped through Congress.”\(^{217}\) Interestingly enough, Glasson focused his critique of the pension system on George E. Lemon, the founder of the National Tribune, who was a pension claim agent whom he claimed had nearly 30,000 clients as pension applicants. Claim agents undoubtedly could make quite a deal of money between service fees, reapplication fees etc… but often they were contingent upon the prosecution of a successful claim.\(^{218}\) Pensions were, under the General Law, tied to income, wealth, and the ability to earn money. If a male head of household suffered a catastrophic injury in the service of his country it justified paying him a pension. If he died it justified paying family members a pension.

Arrearages and filing applications years after the initial injury may have occurred rankled many as outright fraud. But the Arrears Act attempted to broaden the definition of disability to ensure that many eligible veterans who hadn’t received a pension before, due to administrative difficulties, or hidden injuries could file for pensions. Many in the late nineteenth century viewed this as a justified use of the budget surplus.

\(^{217}\) Glasson 171

\(^{218}\) Glasson 166
Figure 3.2 Number of Pensioners
Many others did not view the individuals applying under the Arrears Act as justly deserving Civil War veterans, but shirkers willing to defraud the system under the guise of Union patriotism. This had to do a great deal with the confusion of medical examinations at the time. Though injuries that were incurred during the war may have relatively been minor, additional complications from newly contracted diseases may have made the conditions worse. The debate seems to have focused on how to handle disabilities that were deteriorating over time, or have had additional complications that in 1865 would have been so minor as to not warrant attention. And until the 1910s the side that dominated the debate, supported the broad based pensioning of the Civil War Veterans. They had better political support, particularly with the lobbying efforts of the Grand Army of the Republic, and an effective redistributive policy using high tariffs.

Commissioner J.A. Bentley’s reports in particular noted concerns over the potentially spurious and falsified application process that was used to qualify applicants for a pension, and particularly the young widows of these older Civil War veterans. Bentley noted several gaps in the application procedures, particularly the use of sworn affidavits submitted in writing by attorneys as potentially fraudulent documents. Bentley preferred, full hearings before commission boards assembled using agents and examining surgeons employed by the Bureau of Pensions. This push for stricter oversight of the pension system ran at odds with the Grand Army of Republic and many of the Civil War Pensioners. George E. Lemon publisher of the National Tribune ran various articles decrying the pension process, the delays in adjudication, and the ability of the
Commissioner of Pensions to remove a pension for an individual without reporting the cause.

Most contemporary scholars have admitted that there were abuses on the pension system, but that on the whole it appears that the system was fairly free of widespread corruption.\textsuperscript{219} There hasn’t been much discussion as to the number of cases that were deemed fraudulent of the adjudication process itself. There isn’t much scholarly literature on the role of claims agents, nor the actual filing process itself. Glasson was much more concerned about the fairness of a redistributive system that prized one category of the Americans above others.

Often overlooked are the remarkable resources located at the National Archives of the hearings conducted in the 1880s on three separate occasions 1880, 1884, and 1886, by three separate Congresses looking into the pension system. Most scholars have limited themselves to examining how Civil War pension contributed to the development of social insurance and the political economy in the United States and have ignored how people actually interacted with the Pension Bureau. The published hearings in 1884 and 1886 are published Congressional hearings of the Grand Army of the Republic before the Senate Committee on Pensions. The hearing of the Committee on Pensions in 1880 before the Senate Committee on Pensions was held with regards to Senate bill no. 496 in the forty-sixth Congress of the United States.\textsuperscript{220} This particular record is unpublished and is comprised of over 700 pages of handwritten testimony before the committee. This

\textsuperscript{219} Skocpol 151, Costa 165

\textsuperscript{220} All these hearings are available through the CIS Microfiche collection, although the Unpublished Committee Hearing in 1880 was put onto microfiche improperly rendering much of the fiche unreadable. The National Archives has the original testimony.
testimony also includes the testimony of pension agents working in the Bureau of Pensions, as well as pension attorneys representing applicants. The attorney testimonies have for years been ignored by almost every scholar. These documents in particular give us the view of pensioners and pension applicants which will help us examine to what extent fraud and abuse existed, and how efficiently did the Pension Bureau function as an agency. The attorney testimony will also help give us an insightful view of the actual pension process, which was far more complicated than the process laid out by the Bureau of Pensions.

Defeating Pension Reform in 1880

Commissioner Bentley and reformers saw the enactment of the Arrears Act of 1879 as an invitation for fraudulent applications. Bentley from 1876 to 1881 pushed for the enactment of a “Sixty Surgeons Pension’s Bill.”221 The aim of this bill was to remove ex parte affidavit testimony from the pension application process. In a particularly nineteenth century problem, identification of pension applicants was extremely difficult. With very little means for identification, one often had to rely on descriptions of individuals that were written down to verify the identity of a person. Under the General Law system, an officer or two enlisted officers would have to verify the identity of the said pensioner. Then a letter would be sent to the War Department for the service record of the individual, and the information on the application verified with the surgeon’s

221 Skocpol Social Policy in the United States : 59
records if there were any. The Bureau of Pensions did not initially prescribe the manner in which the identity had to be verified by the witnesses, only that it had to be in some official manner. By practice the Pension Bureau had accepted affidavits that were notarized or signed by a local public official.

Bentley on the other hand preferred actual testimony, alleging that there could be serious fraud and abuse of the system since witnesses and local civic officials could be paid off for their testimony supporting a pension claim. This became a larger concern since arrearages increased to potential amount of money that could be gained by all parties. Bentley wanted a massive overhaul of the pension application process and urged Congress to adopt the Sixty Surgeons Pension Bill. The bill would have created sixty federal districts staffed by 120 surgeons and additional clerks and special investigative pension agents to scrutinize pension applications throughout the country. It would also require the appearance of applicants before a pension commission board that consisted of a clerk, agent, and surgeon that would and would travel to a county seat to hear testimony. Bentley was frustrated at what he perceived as a massive fraud being perpetrated on the United States government. He testified:

There has been a general impression that a vast proportion of these claims which are coming in now are not meritorious, that they are fraudulent – a much greater proportion than during the years preceding.

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222 Testimony of Charles King, and George E. Lemon on the Bill et al. (S.496) providing for the examination and adjudication of pension claims (taken on February 6, 1880); Committee on Pensions, Testimony before the Committee, February 6-May 3, 1880 (46A-E16); 46th Congress; Records of the U.S. Senate Record Group 46; National Archives Building, Washington, DC.

223 Ibid 242
He noted that though there was fraud the level of fraud did not rise to the proportion that had occurred in 1873. The Panic of 1873 had encouraged many out of sheer desperation to apply for pensions in relief of their economic circumstances. Oddly enough this action would be mirrored in the 1930s when the Bonus Army made up of World War I veterans marched on Washington to get differed bonuses promised to them for their service.

Ex parte affidavits and testimony were improper forms of identifying the individual and their respective disability to Bentley. Bentley preferred a system where an administrative hearing would determine the truthfulness of the applicant. At this hearing the applicant would bring his comrades who served with him to would be asked to testify for the applicant. The attending surgeon or medical examiner, pension agent, and clerk would then ask questions ascertaining the validity of the applicant’s claim to a pension. Bentley points out that his system would be cheaper than to allow fraud and abuse to continue in the system. Curiously Bentley presented very few specific cases of outright fraud our abuses, preferring to point out weaknesses in the system where fraud might occur. One of his more detailed accounts involves fraud within the Pension Bureau itself. He testifies about fraud committed by pension agents:

But you can see in the nature of things that you cannot get a perfect administration. I have no doubt that it has happened more than once since these instructions have been issued — in fact I have had information that it has happened in some cases especially where men went out knowing that they have failed, to carry out these instructions literally, went so far as the taking of the evidence concerned. I have known cases where they went so far after they had been detailed as to be caught in some political engineering, but I believe none of those men ever went out a second time. 224

224 Ibid 386
Some pension agents when in the field offices solicited bribes to guarantee favorable outcomes for pension applications or applications of increases in the pensions. The political appointment of the patronage system required Bentley to make political appointments of clerks, pension agents, and surgeons, hampering his ability to run an effective public agency. These allegations seem somewhat to have been misguided.

While there were allegations of graft and corruption at the agency, the Bureau Reports after 1881 when Bentley was replaced not every little corruption, in fact the work force for the Pension Bureau was one of the most professional in the civil service. This isn’t to say there wasn’t corruption, but considering that Civil War veterans were one of the most powerful lobby groups of their era if there were massive graft and corruption there would have been massive investigations in to the matter. Bentley appears to have been overly pessimistic of human motives during his tenure as the Commissioner of Pension. Bentley wanted to empower his agents with investigative and law enforcement authority by allowing a force of agents to question people associated with the pension application. He wanted to find individuals who might be willing to offer testimony against an applicant. To induce this behavior Bentley proposed that he be given the authority to use third party testimony to disqualify a pensioner or applicant without informing the pensioner or applicant as to the reason of their disqualification.

This particularly odd viewpoint was on full display when he confronted Senator Ingalls chairman of the Committee on Pensions in this exchange.225

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225 Ibid 390-391
Senator Ingalls: Then a witness will now give information because he is secure in having his name kept secret while he would not give it openly?

Mr. Bentley: Many an honest man will not tell a thing which he knows against his neighbor simply in the interest of the Government if he knows that by making that statement he is to get into a neighborhood quarrel.

Senator Ingalls: There is where I differ with you. I think every honest man would. It is only encouraging malice, letting a man give information against his neighbor, secretly while he is unwilling to face the music.

Mr. Bentley: That has not been my observation.

Senator Ingalls: It has been mine.

Senator Ingalls continued his thought noting that he “did not see the necessity of his fighting the battle of the government.” Ingalls continued, “but I do see the propriety of allowing every man whose pension is attacked to see what attack is made upon him.”

Bentley had made several policy shifts in 1876 that had made it much more difficult for veterans to file for pensions.

The revisions in 1876 governing the granting of applications had given a rise to increased disqualifications. Also the Arrears Act had by 1880 begun to swap the agents and clerks of the Pension Bureau, prompting delays of twelve to 18 months. 226 Most of the delays were due to the clerks awaiting information from the War Department verifying the enlistment of soldiers and sailors. It took on average six months for documents to be sent verifying the identity and service record of the pension applicant.

Compounding the wait and delays after the passage of the Arrears Act was a policy that disallowed the pensioner or pension applicant information as to the reason

226 Ibid 280
why they were denied a pension. This policy was one which Senator Ingalls in particular and most of the other Committee on Pensions members had objected to. This policy was justified by Bentley as being expedient to Bureau given the number of applications they received. But it also belied an uglier truth. Pension agents who reviewed applications for original pensions or increases in pensions had tremendous latitude in their ability to determine what was useful testimony and information submitted by the panel or not. These agents which scrutinized the pension applications often had very real biases either in favor or against a particular pension application. This often had a very negative effect on the pension application of African American soldiers and widows. Their testimony was frequently dismissed and undervalued by agents. They preferred the testimony of whites in these particular cases to authenticate the injury and identity of the African American soldier.227

Ideally Bentley’s reform measure in 1876 should have taken care of the inconsistencies of the bureau. Bentley though did admit that the enacted regulations and guidelines only went as far as his agency force would practice these new policies. Agents were given general instructions which were to be followed. He specifically emphasized rigorously pursuing testimony against pensioners and applicants. The first point emphasized in the instruction booklet was the “delicate nature” of the job, requiring the agent to have “a high degree of judgment and discretion.” This was designed to emphasize the impartiality of the agent so that they could not be criticized as a “mere

227 Krowl 67
political emissary.” The mission of the pension agent was to “ascertain for the use of the office, THE TRUTH in relation to cases in which fraud is suspected.”

They were encouraged to focus on their business and professionalism, and not let their political views “degenerate [their profession] into the mere performance of political services for your party, or some favorite member thereof.”228 Given the widespread adherence to the patronage system for political offices and appointments clerks in the Pension Office had to be acutely aware of their tenuous position as political appointees.

It appears in the history of Civil War pensions that political affiliation had very little to do with the patronage politics of the Pension Bureau. Civil War Pensioners by definition were almost Republican, but Northern Democrats also eagerly supported pensions as well. Republican and Democratic appointees seem to have very little difference in how they handled pension claims, though political connections definitely did speed up the pension process for some.

Bentley’s second point emphasized their responsibility to the government as federal agents. They should not be overzealous in their work, since the “The Government and the good faith of the people are both pledged to the allowance of all just claims for pensions.”229 But the officers are to enforce the laws enacted, and they also must protect the government from fraud and abuse of the laws enacted to benefit the pensioners and applicants. Agents had their reviews based on the “zeal and ability” to prevent the

228 Testimony of Charles King, and George E. Lemon on the Bill et al. (S.496) providing for the examination and adjudication of pension claims (taken on February 6, 1880) : 385
229 Ibid
fraudulent use of the money provided for pensioners. The third point oddly enough was redacted from the final committee hearing report if it was ever to be published. It states:

Each case sent you for investigation will be accompanied by a letter specifically point out the direct which your inquiries are to take. The testimony taken you will reduce to writing cause it to be signed by the affiant and attach your certificate of the administering of the oath.\textsuperscript{230}

It is unclear why this particular passage was redacted. The possibility exists that this was a highly controversial practice since it would have indicated preconceived bias in the initial application hearing and process. This is particularly evidenced in the hearings for pensioners, particularly African American ones that Krowl noted. It is more likely though that by 1880 since most of the applications sent to the pension office were with written affidavits and not testimony from pension agent hearings, it was unnecessary to include this to instructions to agents.

Point four emphasized the impartial role agents should take on the “ascertainment of the relations” between individuals. Again, this might have been a high minded notion; in practice this left much up to the determination of the agent as to what was proper testimony. It let them determine what kind of individual could give supportive testimony and who could not. The fifth point emphasized once more the impartiality of the agent. They were “cautioned against permitting prejudices to exist in your mind so as to affect, in any manner, an impartial and full gathering up by you of the exact facts, both pro and con.”\textsuperscript{231} The last point emphasized secrecy. In no way should the agent tell anyone of the

\textsuperscript{230} Ibid 387

\textsuperscript{231} Ibid
testimony and material either for or against their pension claim. The agent should only communicate this information to the Commissioner of Pension. They could however only confirm whether the pension was approved or rejected, but could not go into the details of the approval or rejection.

While Bentley approved of this policy, it preferred secrecy to transparency and clearly agitated those who had their pensions rejected with little or no information regarding their disqualifications. This made Bentley a highly unpopular figure amongst the Civil War veterans and prompted a hearing in 1880 into the adjudication of claims in the Pension Bureau. William H. Glasson called Bentley’s efforts “earnest and forthright” and felt that Bentley was unjustly attacked in 1880 by political enemies determined to remove him from the post of Commissioner. Glasson pointed out a similar investigation that took place in the House of Representatives later in 1880 sought to remove Bentley, though this appears to be a sensationalized argument. The House Select Committee on Pensions focused much of their time as did the Senate Committee on investigating the pension process. The Committees were focused on the Sixty Commission Pension Bill championed by Bentley and reformers. These reforms seem rather modest by contemporary standards, but in nineteenth century world they may have in fact put great imposition upon pensioners and pension applicants.

To determine to what extent adoption of the Sixty Commission Pension Bill both House and Senate Committees invited the most prominent Washington, DC based pension attorneys to attend the committee meetings Charles King and George E. Lemon.

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232Glasson 178
Their law practices specialized in adjudicating pension claims. While the House hearings in 1880 indicate a rather broad attack on the pension system and Bentley in particular, the Senate hearing in 1880 confined itself to questions regarding the processing of pensions. Bentley had in his Commission of Pensions reports to Congress, noted his distaste of Claims-Agents in 1878 with:

A comparatively small number of professional claim-agents and claim firms at Washington and some other points in the country, through the intervention of subagents, and by extensive advertising, employing for that purpose in some instances sheets issued in the form of periodical newspapers purporting to be published in the interest of the soldiers, the columns of which contained matter in which apparent anxiety for the soldiers' welfare and appeals to their love of gain were cunningly intermingled, always representing the advertisers as in the enjoyment of special and peculiar facilities for the successful prosecution of claims, and usually adding the suggestion that no charge would be made unless a pension should be obtained.233

Bently’s attitude towards claims agents and attorneys engendered outright hostility towards the Pension Bureau and Bentley in particular. Charles King testified:

By all these practices, as I believe, he has intentionally or otherwise stopped the regular and easy flow of business; postponed indefinitely the hopes of thousands, and accumulated this vast body of unsettled claims, which are becoming every day more and more disgraceful to the American name.234

Senator Ingalls had to on several occasions to stop Charles King and George Lemon from expressing outrage at the pension application process, preferring their testimony to remain on the effects of the Pension Bill.

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234 Testimony of Charles King, and George E. Lemon on the Bill et al. (S.496) providing for the examination and adjudication of pension claims (taken on February 6, 1880): 97
Ultimately the bill was never passed despite it being introduced to the House of Representatives with a Democratic majority. The purpose of the bill was to remove ex parte affidavit testimony from the pension application process. Bentley sought to replace affidavits in favor of reviews conducted solely under the purview of the Bureau of Pensions and federal officials. The testimony offered as evidence of the applicant’s service, and origin of disability would have to be given in person when the commission convened. Commissions would convene at the local county seat at a predetermined time and place.235

The county would be expected to inform deserving veterans through postings about the arrival and schedule of the visiting commission. The pension applicants would be expected to have their certifying witnesses present before the commission and all requisite paperwork and documents appropriately prepared.236 Bentley had preferred a process with a formal hearing since this would allow pension agents to ask the proper questions to applicants and witnesses and would speed up the pension process. This formal hearing he felt would also prevent the admission of false testimony, which he perceived as being rampant in the written affidavits sent to the Pension Bureau.237 The formal hearing would allow for prosecution of falsified testimony. Bentley had wanted to reduce the number of individuals on the pension rolls, by subjecting applications and pensioners to a strict examination process. To the attorneys representing pension

235 Testimony of Charles King, and George E. Lemon on the Bill et al. (S.496) providing for the examination and adjudication of pension claims (taken on February 6, 1880): 7

236 Testimony of Charles King, and George E. Lemon on the Bill et al. (S.496) providing for the examination and adjudication of pension claims (taken on February 6, 1880): 9

237 Ibid
applicants, the bill introduced by Bentley would make the pension process “impracticable.”

In particular the attorneys stressed the difficulty in obtaining testimony from fellow soldiers, fifteen years removed from the Civil War. Charles King urged them to consider:

The men who were his companions when he contracted that disability are some of them in the far west, some in the south, and all of them away from him. In all probability you will find scarcely a case where a witness is living in the same county with the claimant. That is our experience in transacting this business.

The difficulty in gathering testimony for the individual pensioner was quite serious. The general law required the testimony of an officer or two fellow enlisted men to corroborate the testimony of the pension applicant. Apparently the service records of the War Department and Surgeon’s office were insufficient in providing enough evidence to attest to injuries and disabilities signed in military service. Also, given the poor conditions of Civil War medical care and the lack of medical record keeping, it was very likely that there would be no records even for a valid disability.

The General Law was constructed to accounting for this lack of rigorous documentation, relying on the trust of fellow comrades to verify through written testimony to the disability of their comrade. The provisions in the Sixty Commission Pension Bill for mandatory hearings would also make friendly testimony much more difficult to secure. Additionally the travel required to get applicants and witnesses to

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238 Ibid 6
239 Ibid 9
county seats particularly in the West would not have been a small imposition. Bently had already reduced in 1877 the number of field office from 58 to 18, limiting the contact individuals had with the Pension Bureau. General Law provisions had made medical examinations biennial to verify disability. Bently wanted to eliminate this requirement for pensioners who were already on the pension rolls, but before he would eliminate this requirement we wanted all the pensioners, already on the pension rolls, to be subject to a medical examination conducted not by their local physician but by the examiners employed by the Pension Bureau. Bently’s backdoor method of conducting a review of all pensioners, which would have given him the ability to disenroll pensioners whom he believed were fraudulent.

Pensioners and attorneys were enraged at the proposed reforms which they thought were designed to disenfranchise pensioners and pension applicants. The introduction of the Commission Bill, and the internal policies enacted by Bentley were meant to frustrate pension attorneys and pensioners. Bentley had attacked the attorneys and claims agents for promoting the filing of false pensions. The Senate Committee on Pensions defended themselves against these charges, by citing the difficulties many applicants faced in obtaining a pension for disabilities and injuries incurred by military service during the Civil War. They also attest to the professionalism of their practice. This testimony is particularly revealing about the daunting challenges that pensioners

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240 Ibid 268
241 Ibid 275
faced in applying for a pension particularly in the years 1876-1882. Refuting Bentley’s assertion that applicants often submitted fraudulent affidavits, Charles King testified:

I will go further and say - although I dislike to take up much time – that we frequently ourselves have to resort to this method of cross-examination; we are frequently not satisfied with the statements and with the affidavits, and we ourselves initiate a system of cross-examination and we write affidavits over and over again in order to meet what we regard the requirements of the ordinary laws of evidence.242

The attorneys’ vehemently denied that they would in any way coerce or falsify testimony from witnesses or applicants. Senator McPhereson questioned the practices of the attorneys:

Senator McPhereson: I would suppose under a system of that kind, according to your own admission, you would very often stretch the conscience of a witness, to meet the requirements of the affidavit to an extent that perhaps he would not go unless he was led along.243

He continued to question the attorneys asking them to explain why the proposed reforms were not reasonable:

Would not the pensioners come in ninety-nine cases out of a hundred come prepared with their testimony to convince the board? It seems to me they would secure the testimony of the physician, they would secure the testimony of the comrade, and they would come prepared with all their testimony to present to the examining board.244

Bentley had also claimed that just claimants would be prepared with this testimony and could rightly account for all required materials needed to process a pension claim. Only

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242 Ibid 50
243 Ibid 53
244 Ibid 64
fraudulent claims would require the use of affidavits or third party testimony. The culture surrounding social service programs is very revealing of the tensions of the late-nineteenth century. High minded individuals such as Bentley or McPherson demanded accountability from those who were receiving money from public institutions. Rather than focusing on serving the community or a specific interest group, they were much more interested in demanding accountability and making sure the adjudication of claims was carried out in an integral manner. Rather than focusing on how to aid the pensioners, they were focused on the believed widespread abuse of the pension system.

Charles King and George Lemon representing tens of thousands of pension applicants responded to this point by pointing out the difficulties involved with the reforms that were proposed. They particularly noted the absurdity of being able to provide witnesses without difficulty to validate the pension claims. King testified:

My answer to that is this. If the applicant had all his witnesses in his immediate neighborhood he might be able to accomplish that by employing an attorney there to assist him....But the Senator will notice that under the provision of this bill affidavits are not admissible. He must come and give his testimony which must be taken down in writing, both the testimony of the applicant and of the witness.²⁴⁵

King noted that the adoption of this bill would place an even greater burden on the pension applicant to provide the validity of his pension. He noted that individuals could be inconvenienced by the cost of travel associated to provide testimony for a comrade. Under the most optimistic circumstances where friendly testimony could be secured that person would have to travel twenty miles incurring the expense of a railroad or coach fare

²⁴⁵ Ibid 54-57
at four cents per mile, as well as at least one day’s boarding, and a day of missed wages to help testify for his friend.\textsuperscript{246} This amount King asserted would be no less than a cost of $3.60 to the person willing to testify. This is in a best case scenario where someone was willing to testify before the committee. For someone who was indifferent the costs to the applicant would be more than just travel for their comrade’s testimony. They potentially would be “compelled to employ some agent or attorney in the vicinity” and have the agent arrange terms for their comrade’s testimony.\textsuperscript{247}

King pointed out that in order to this bill to work and a new system of adjudicating pensions to work it would require some form of monetary compensation for travel and expenses incurred for the people called to testify before one of the examining boards. He asked for the payment of per diem lodging, food, and mileage, as well as other ancillary expenses incurred in testifying before the board. These outlays he argued had to be sufficiently large as to prompt the vast majority of men, to testify for their comrade, not so low as to create a disincentive for them not spend a day to testify on behalf of their comrades.\textsuperscript{248}

Under the General Law system affidavit testimony was to be adjudicated in a clear and simple manner. The supporting affidavits merely had to be signed by comrades who witnessed their friend’s injury or sickness. These statements taken down by public officials and notarized were supposed to be offered as legitimate testimony for the application. However, the Pension Bureau was highly suspect of many accounts and in
particular Bentley, who regarded the statements without the ability to cross-examine as inadmissible and fraudulent. George Lemon complained that often they had to secure testimony of eight or more individuals, and that testimony that they secured was still subject to the arbitrary interpretation of the Commissioner of Pensions office. These pending pensions languished for years in the Pension Office, and without much correspondence from the office as to the reasoning why pensions were not granted. In practice the Pension Office had flagged many of these pensions because of affidavit testimony deemed insufficient to support a pension claim. The pension office would the initiate a general inquiry to the testimony, asking about that person’s respectability, from his neighbors or Postmaster. Attorneys felt this practice was unfair.

Bentley complicated the process on several occasions by requiring additional information to determine the origin of the applicant’s disability. In one particular case a pension was disallowed because the applicant did not provide a complete medical history pertaining to his overall health. Bentley did not ask for medical history relating to the origin of the disability, but required a complete medical history of every acute disease or ailment that the applicant had suffered over the previous sixteen years, and to list every physician that this applicant had seen. This additional information may have been particularly useful to the Bureau of Pensions in determining the origin of the disability, but the General Law’s requirements had been depending on the interpretation vague or

249 Ibid 379 Senator Ingalls had to remind Bentley that there should be a presumption of innocence rather than the assumption of guilt of testimony that he received from ex parte individuals.

250 Ibid 10

251 Ibid 194
simple. One merely had to demonstrate that the disability was a result of military service. But chronic disease was especially difficult to adjudicate since consumption or tuberculosis could take years to manifest itself, and since it was a communicable disease, it was difficult to determine its origination. Bentley wanted higher standards of proof that would have made it more difficult for applicants to achieve.

Claims agents and attorneys usually gathered up many affidavits for one particular applicant before having that individuals send in their application. Pension attorneys:

never permitted an affidavit to be filed that is signed by cross marks without a written certificate from the officer. We make him write a certificate that he has explained to the claimant or the witness all the statement in that affidavit, and that from the explanations he had made to him is satisfied.\(^{252}\)

This legal precaution taken by the attorneys should have satisfied the legal requirements of the General Law. The problem was that the General Law did and Bureau policy only vaguely spelled out what testimony was required to substantiated the claims of an applicant. This often resulted in the high number of affidavits filed, surgeon certificates filed, and application attempts. Confusion about the policies of the Pension Bureau and application process greatly added to the tension between attorney’s and Bureau officials. There were no standardized forms with detailed instructions as to how to file a pension. Charles King called the pension application form a “perfectly useless piece of paper” and that there was “nothing searching about it.”\(^{253}\) Instead the attorneys felt that it was much

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\(^{252}\) Ibid 194

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more useful to them to ask for information from applicants. The applicants would then provide a list of names and persons that could supply affidavits on behalf of the applicants for a pension. The attorneys would look over the affidavits to ensure that they contained the correct information for the Pension Bureau. The affidavits would then be turned over to the applicant who would then send the application to the Pension Bureau. Attorneys would follow up if there were complications in the pensioning process.

It would cost $10 to retain the services of an attorney for filling a pension application. The attorneys would prepare affidavits for the applicant who would then send out the instruction and affidavit forms to his comrades to send back to him. Total postage for each affidavit was approximately 65 cents. The average applicant would spend roughly twenty dollars to apply for a federal pension. This would be no small amount of money in the late nineteenth century, nor was the amount of the arrearages one could receive after 1879.

The failure of Pension reform in 1880 is an interesting lesson in the development of administrative institutions. Commissioner Bentley pushed for panels that could more accurately review claimants on the pension rolls. Clearly there were well documented weaknesses in the pension system, and pension attorneys undoubtedly took advantage of the system. The push for reform by Bentley is noble certainly, and well worth the time Glasson spent detailing his efforts. Yet it is striking some of the impositions that Bentley was willing to make upon pensioners and pension applicants. He wanted to impose formal, semi-judicial hearings to enforce compliance and honesty in pension system. This

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Ibid 190

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is something to be admired certainly. The problem was given the scope of what he needed to accomplish, enrolling several hundred thousand pensioners, a stringently accountable system impractical in 1880. With a diffuse population spread out across the country, with attorneys and medical examiners not readily available, the Pension Bureau had few options. With applications flooding into the office in 1880 as a result of the Arrears Act, speedy adjudication of cases was preferred over accuracy and accountability. Senators were not about to introduce legislation to impede or prolong the process of enrolling hundreds of thousands of pensioners.

Attorneys also successfully argued that the transparency that Bentley wanted to have required was not only inefficient given the diffusion of veterans across the United States, but that Bentley’s real goal was to create another one hundred and twenty political appointments as patronage to the political system. Bentley’s reforms would perhaps been seen today as a federal agency doing its job, demanding accountability from the citizens that is serves. But the distrust of federal and executive power of the Gilded Age in particular, completely undermined any authority Bentley tried to exert over adjudicating pension claims. Indeed, Congress was distressed at the fact Bentley was rejecting pension applications without instructions from Congress. And Congress balked at creating a massive executive federal workforce expansion that would have been necessary for full accountability for the pension system. Also Bentley’s claims of needing the additional examiners to review applications ran against his actions in 1877 when he

\[254\] Ibid 184
urged President Hayes to eliminate forty pension field offices which could have been used for the purposes he described, instead of centralizing their functions.

The failures of Bentley’s reform efforts were not due to the lack of graft and corruption in the pension system. There certainly was fraud and the loopholes Bentley had pointed out were real. Perhaps fraud was overstated, but Bentley’s rather draconian reform proposal which threatened not only the new applicants but pensioners on the rolls undermined any substantive reform efforts. Also King argued that “Congress has acted in the belief that the people, as a rule, will be governed by the truth, and that fraud, falsehood, and perjury are exceptional.”\(^{255}\) Congress and pension applicants in the 1880s may not have viewed fraud as prevalent as Bentley had thought. And they sensed that most who applied for pensions were doing so under just circumstances. The reform effort failed so miserably that no effort is ever taken again in Congress, at a serious level, to examine pension reform. Instead provisions were increasingly liberalized to incorporate provisions and conditions that were not originally in the pension system established under the General Law in 1862.

Attorneys had successfully charged that applicants had a just and rightful claim pensions as a deserving group of citizens. They had saved the Union, served it with honor, and deserved just compensation for this effort. This particular argument is very powerful particularly with armies raised in democracies.\(^{256}\) Enlistment in military service represented a contract with the soldier to care for his disability and for his dependents.

\(^{255}\) Ibid 90

\(^{256}\) Skocpol 154
should the need arise. This was a particularly powerful paradigm that bound Civil War pensioners to the national consciousness. They had served their country and only required that their country return the aid to them. Charles King summed up the relationship between the nation and the soldiers pensions:

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\text{The pension was predicated on the sole condition of the soldier’s disability in the line of duty, and upon the happening of which condition the engagement of the government became a perfect vested right, and was the property of the soldier as much as any bond which he may have held on the government or other chooses in any action which he may have owned.}\tag{257}
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**Liberalizing Pensions and the Disability Pension Act of 1890**

The Grand Army of the Republic did not emerge as a particularly strong political force until the 1880s. Membership prior had been small and confined to the major cities of the United States. The attempted reforms of Commissioner Bentley which had seriously threatened the pensions of many veterans undoubtedly spurred many to join the organization. The vote of Civil War veterans was particularly crucial in several swing states during presidential election years, and ensures the votes for high tariffs and Republican political victories throughout the Gilded Age. The GAR was called to testify in front of the Senate Committee on two occasions, 1884 and 1886. The testimony in these hearings reveals that the GAR was a very active lobbying organization that sought to expand pension benefits to all soldiers beyond those who had merely been injured. The effort to further scrutinize disability under Bentley had failed and by 1882 another

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257 Testimony of Charles King, and George E. Lemon on the Bill et al. (S.496) providing for the examination and adjudication of pension claims (taken on February 6, 1880): 93
commissio"ner was appointed W.W. Dudley.\textsuperscript{258} With Bentley’s removal from office, both the Congress and the Bureau of Pensions took a different approach on the pensions. Rather than an antagonistic relationship that Bentley had fostered under his tenure at the Bureau of Pensions, Dudley took a far more conciliatory tone.

The prominence of the GAR allowed Dudley to work with them to compile an exhaustive list of Civil War Veterans that were members of the Grand Army of the Republic.\textsuperscript{259} The GAR had developed a committee solely dedicated to making recommendations regarding pension policies and benefits. Many of these policies and recommendations quite easily became law. Also the GAR were far more legally and politically astute than had the attorney’s in 1880 that stopped the Sixty Commissioner Pension Bill. Glasson cited Comrade Hamlin of Maine:

\begin{quote}
We have a presidential election coming, and I tell you that there is a power behind that. I am no prophet, but I would predict that a President who hill again veto a Disability Pension Bill can never be reelected President of the United States. You put to them a Service Bill, and I am not quite sure that a veto would have the same result. Let us be careful and wise in what we are doing. Keep within proper limits. We simply say now we will express no opinions. Don’t kill the Disability Pension Bill by asking for a great deal more.\textsuperscript{260}
\end{quote}

Hamlin noted that the viability of a service based pension bill was not particularly strong in 1887, and in 1886 a bill would pass the Senate providing for Universal Service

\textsuperscript{258} Glasson 200


\textsuperscript{260} Glasson
Pensions, but was rejected in favor of a more conservative bill in the House of Representatives.

In 1884 the GAR pushed for an extension for filing original pension claims under the Arrears Act from 1880 to 1885 as well as a revision of the pension rates for certain ailments. This bill to extend arrearages and filing deadlines to 1885 was one of many bills introduced in the 1880s. Among them was a bill known was the Robinson Bill which would have granted serviced based pension benefits of for soldiers who had been imprisoned at Confederate prison camps, most notably Andersonville. Paul Van Dervoort, a member of the GAR’s committee on pensions had proposed this amendment to the list of recommendations the GAR was to send before Congress. They argued that no soldier that they had come across who had been imprisoned in a Southern prisoner of war camp during the Civil War could be found completely healthy and free of disability. While Van Dervoort pushed for pensions regardless of disability, the rest of the GAR committee wanted the Committee on Pensions to simply mandate any current disability as having originated during their captivity as a POW.

Allegations of fraud stemming from the passage of the Arrears Act continued to affect the Civil War pension system. When questioned by the Senate to attest to if the claims of fraud were valid or invalid George S. Merrill responded, “I believe the claims that have been filed under the limit act are the best class of claims that have ever been

\[261\] Testimony taken before the Committee on Pensions (March 3, 1884); Committee on Pensions, Testimony before the Committee, March 3, 1884 (48A-E16); 48th Congress; Records of the U.S. Senate Record Group 46; National Archives Building, Washington, DC.: 2

\[262\] Ibid 6
filed in pension cases against the Government.” Merrill wanted to quickly dispense with the notion that spurious claims were now being filed since the arrearages offered them such a large lump sum of money. He explained that the new claims were filed because:

Many men came home from the service with a slight disability, or trace of disease contracted in the service; they felt that they were able to get on in life without a pension, and declined to ask the Government to give them a pension, but as increasing years came upon them the disability has increased, and the disease has grown upon them, and finally the have been compelled to do what they were determined they would not do as a matter of justice to their families and to ask for what belonged to them in the years gone by.

Mild and minor ailments during the course of serving the country had not been a problem at the time of discharge. Glasson has been rather unsympathetic to these views, claiming that those filing pensions were doing for arrearages. Indeed they probably were. If we consider the age category of pensioner, by the mid 1880s the average Civil War Veteran was approaching middle age. Degenerative conditions that occurred in heavy fighting had may have taken several decades before they became painful enough or progressed to the point of causing disability. The GAR argued that age had a profound effect on disability, usually magnifying the effects of it. But the GAR went one step further in 1884, in proposing the first age based entitlement pension in U.S. history. They argued that age alone would provide sufficient disability, such that an individual who

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263 Ibid 3
264 Ibid 3
served in the Civil War. This is the passage from the hearing that argued for an age based pension:

The Chairman: I understand you to make the limit of sixty five years for pension to all honorably discharged soldiers?
General Merrill: We make it that because we must put it somewhere, and while it may work hardship in some cases, yet if a man has been in the service and has lived to be sixty-five years old without any means of support except his daily labor, the presumption is that he would be in failing health and need support from some source.
Mr. Blair: Do you say provided he is disabled?
General Merrill: No, Sir; not in that case. Our proposition is that a man who is disabled today, having been honorable discharged, shall not be compelled to prove that his disability arose from the service; that is the cause of the accumulation today of more deserving cases the Pension office than all others.265

The implication of Merrill’s testimony is twofold. First Merrill is pushing for the first age based pension system in the United States. Senators in particularly wanted some substantial justification for this recommended legislation. Senator Blair in particular wanted to tie it to the disability that a veteran might have suffered during the Civil War. This notion was immediately rejected by Merrill who quipped, “I would leave out the dependent part in all bills. I do not like the idea of making paupers of our soldiers.”266 To which Senator Blair responded, “But you do make paupers of the mothers. I do not like the idea that poverty is dishonorable, whether it is on the pension list or elsewhere.”267

The interesting thing in viewing this exchange is the denial of pauperism with regard to

265 Ibid 3-4
266 Ibid
267 Ibid
Civil War pensioners. There is a tremendous dichotomy that is emerging with the expansion of the pension list.

First and foremost, public relief often was associated with pauperism or dependency. Pensions were an attempt to alleviate the economic conditions associated with dependency caused by the war. But if you received public relief you were by definition a pauper and dependent, which was not always looked upon kindly by society, since the economic support you earned was not justified, though one could sufficiently justifying public relief for a disability related to military service. It was much more questionable for women to receive lifelong aid or as obviously shown above pensions for reaching the age of 65 or for military service.

The other implication of the testimony is that for some cultural reason that bears much more investigation in the future, as early as the 1880s the age of 65 was denoted as an age where there was increased dependency. It appears to be a misnomer that the legally codified retirement of age of 65 was a pure invention of the Social Security Act in 1935. Rather it appears that the age of 65 has culturally been the age recognized as an age appropriate for some sort of public assistance and aid, and in this case as early as 1884 with the Grand Army of the Republic. The implication is huge when it comes to the social history of welfare and social insurance in America. It also has larger implications on the narratives regarding the development of social legislation in the United States.

The political environment for pensions had largely become toxic under the Cleveland Presidency. A bill that adopted recommendations as radical as the one in 1884 probably would have been vetoed by the administration. Merrill however did reintroduce
a recommendation to the Senate Committee on Pensions that there should be an old age pension for veterans at age 65. This time in 1886 he noted:

Now as to the limit of sixty-five years. The average man at seventy years becomes incapable of supporting himself by manual labor, which is the basis which the pension-laws contemplate…we think that the average soldier who reached the age of sixty-five is then incapable of support himself and family by manual labor. The pension laws contemplate manual labor, and the body generally fails before the brain.\(^{268}\)

Merrill was deeply concerned about the aging population of veterans who were not adequately prepared for old age. The introduction of a provision that allowed for old age pensions would alleviate some of the disability that had accrued over time. In the twenty years that had lapsed since the Civil War Merrill argued that the origin of the disability was increasingly difficult to prove. Merrill suggested that the Committee on Pensions provide a bill overhauling the entire pension system taking into account the evolution of pensions from the General Law enacted in 1862. Merrill had in both committee hearings wanted to remove the terms invalid, dependent, and disabled, terms that he felt were inappropriate for soldiers receiving benefits. The result was the passage of the Disability Pension Act in 1890. While it still contained the term disability it was in fact a service pension that was disguised as a disability pension. All an applicant had to prove was some form of disability that prevented manual labor and they could receive a pension. Quite often various old age infirmities could be cited as a condition for receiving a pension, though not old age itself. The bill had originally be brought up for a vote in 1886

\(^{268}\) Ibid 6
and passed, but President Cleveland vetoed the bill, and this along with his record of vetoing private pension bills, contributed to his electoral defeat in 1886.

Why Did Old Age Civil War Pensions Not Become Universal?

William Glasson is not at all kind in his analysis of the Dependent Pension Bill of 1890. He had noted that Cleveland war right to veto the bill in 1886 calling Cleveland’s actions “courageous.”269 The subsequent passage of the Dependent Pension Act also coincided with the passage of the McKinley Tariff of 1890 which was coupled with the Sherman Silver Purchase Act. The McKinley Tariff had raised tariffs on imported goods, and in exchange several Republicans voted for the Silver Purchase Act which drove up the price of silver. These actions had particularly bad impacts upon the economy. The rise in consumer imports and the increased priced of silver caused inflation which, farmers had desired, resulting in a speculative bubble. When the bubble broke in 1893 the Tariff and Silver Purchase Act were held as fiscally irresponsible policies. The association between high tariff rates and Civil War Pensions become highly unpopular, particularly since high-tariff rates were blamed by populist Democrats as precipitating the economic crisis. This association has been almost impossible to break to this day. Glasson observed in 1917 that:

The propriety of this use of the power of taxation to redistribute wealth depends upon the justification of the act of 1890 as a military pension law. If it was unsound in principle, extravagant in cost, poorly guarded in administration, a leading method of distributing surplus for political effect,

269 Glasson 212
then it was an imposition upon the taxpayers of the country. To a great extent the necessities and comforts of the poor were taxed, and the resulting funds paid out in gratuities to persons who were better off than a large proportion of the taxpayers.\textsuperscript{270}

Glasson explained quite astutely, that since tariffs financed pensions, the direct cost to the individual taxpayer was layered, and so the taxpayers did not feel the direct burden of paying for the pensions. The pension program particularly after 1890 was clearly a redistributive system. The debates around the tariff and monetary policy were probably not disconnected from the issue of pensions. The fact that pensions were so deeply identified with one particularly economic viewpoint made it impossible to have broader mass appeal.

Free trade Democrats vs. hard money high tariff Republicans polarized the electorate around these economic issues. The pensioners were so vilified that Republicans perhaps did not want to expand the pension program to all citizens are large, for fear of being accused of unfairly redistributing taxes. Democrats after 1890 so incensed at the economic policies that caused the financial panic in 1893 and then again in 1907 could never conceive of adopting broad based pensions. It is clear that the alignment of pensions with redistributive patronage based politics, which both the Republican Party and GAR engendered, caused by extension a backlash. That backlash cause pensions to be banished from the lexicon of social legislation forever.

Lincoln’s martyrdom and the Union cause were not only powerful political tools used to carry out Reconstruction and force emancipation upon the South. They were also

\textsuperscript{270} Glasson 238-239
tools used to overhaul the economic framework of the United States. One of the key features of the post-civil war era was the solid political hegemony of the Republican Party which dominated politics in the United States between 1865 and 1914. Lincoln in his second inaugural had committed the nation not only toward bridging the divide between North and South, but to care for the soldiers who had fought during the Civil War. Lincoln wrote:

With malice toward none, with charity for all, with firmness in the right as God gives us to see the right, let us strive on to finish the work we are in, to bind up the nation's wounds, to care for him who shall have borne the battle and for his widow and his orphan, to do all which may achieve and cherish a just and lasting peace among ourselves and with all nations.  

Despite several serious challenges, particularly the Agrarian revolt and the emergence of Progressivism, the established political order lasted for nearly fifty years until the election of Woodrow Wilson as President. The political order was characterized by government protection of private business, protectionist policies favoring American industry, and political patronage to maintain a winning electoral coalition.

The regional political fragmentation that resulted in the Civil War was not merely limited to the Civil War. The particular issues that drove the nation to war were not merely limited to the issues revolving around slavery. Ransom and Sutch (2001) noted that much more than simple economic competition drove the North and the South to war, “Economic change in the free state brought with it a program of political economy that was basically incompatible with the Southern lifestyle.”

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271 Abraham Lincoln, Second Inaugural Address delivered on March 4th, 1865

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North and South resonated throughout nineteenth century American history. That fragmentation in politics runs well into the early decades of the early twentieth century. Northerners and Southerners had fought over land policies centering on the expansion of slavery. Banking and tariffs were also, widely unpopular items in the South. It was the coalition of Southern Democrats and Midwestern farmers that undid the charter on the second Bank of the United States. Southern senators acting as a buffer blunted the effects of attempts by Northerners to enact a protective tariff. The Civil War had allowed the Northern Republicans complete political autonomy. Republicans well aware of the possibility of fragmentation and opposition returning needed political policies that would form an effective political coalition to maintain their ubiquitous power over the Republic in the years after Reconstruction in 1877. With southern ex-confederates ready to rejoin the union as a solidly Democratic voting bloc, Republicans began to build a voting bloc capable of out-competing the Democratic Party nationally using economic policy.

Republicans had by 1877 recognized the failures of political reconstruction. The Republican Party in the South lacked broad based appeal to form competitive coalitions to aid the national Republican Party. While the Republican Party incorporated Blacks into its political party, this alignment as Richard Bensel writes:

tended to delegitimate black political participation in the eyes of poor whites. In fact, many poor whites acquiesced in the disfranchisement of a large part of their own ranks in the constitutional conventions of the late nineteenth century in order to push blacks out of the electorate.273

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273 Bensel, *Yankee Leviathan*: 430
Despite the Populist campaigns led by William Jennings Bryan and others, reformers had difficulty in breaking past the Republican ideological coalition.

Republicans had successfully formed a coalition out of several disparate areas. By promising tariff protections for industry and adherence to a Gold Standard to the Northeast Republicans, the national party had gained a stranglehold on the Northeastern United States. Additionally they were consistently universally obsessed with paying down the national debt that had accrued during the Civil War. They attempted to pay down the national debt, and adhered to hard money orthodoxy which they felt would provide secure money supplies and prevent rapid inflation. These policies were so successful that deflation occurred, particularly as the United States paid back and retired greenbacks from circulation. While the Midwest had in the antebellum era tended to side with the South on economic issues, Republicans enticed Midwesterners with internal improvements, westward expansion, and most importantly Civil War pensions.

The generous pensions given to these veterans were justified as a product of their service to the nation. It also happened to justify the high tariff rates enacted by Congress. From the Morrill Tariff Act in 1861 until the Underwood Simmons tariff of 1913, the general prevailing tariff rates of the United States consistently increased. The notable exception was the Cleveland Administration’s Wilson-Gorman tariff in 1894 which drastically curtailed the tariff on sugar, and sent the federal government into

deficit. It was so reviled that a tariff bill introduced in 1896 was immediately implemented to restore fiscal balance.275

But Republicans had managed to reshape the economic landscape along highly partisan and ideological lines. Civil War pensions were intimately tied with Republican economic ideology and the tariff in particular. By definition the pensions were sectionalist interests, and promoted sectionalism. The poor, immigrants, and farmers were faced with an indirect tax that paid for the generous pensions of the Civil War Veterans. The people paying for the pensions would never receive one, themselves. Making it a horrible bargain, unless one thought that preservation of the Union justified this kind of expenditure. As further removed in time from the Civil War, Americans began to question this type of spending, though as pensioners began to die, the concerns waned over the program. Glasson was at least concerned about the justice of people paying for pensions of a select group of individuals.

He in particular is very sympathetic to the South. He noted that Southerners had tended to support generous benefits to Northern soldiers.276 But the system of taxation that Republicans had used was particularly unjust. He argued that federal pensions were an “unjust drain on the financial resources of the South,” when addressing Confederate pensions.277 Southern pensions were much smaller than their Northern counterparts and


277 Ibid 63
were decidedly more ad-hoc, since they were state funded not federally funded. Instead of tariffs Southerners bore the brunt of pensions directly either by a special assessment tax on property, or out of a state’s general revenue funds. But this was clearly direct taxation, as opposed to the more indirect taxation created by the tariff system.

Taxation, as Glasson is noticing, is can be a problem associated with the development of broad based pensions. Any broad based pension system often raises the question of who was going to pay for it. The justification driving the Civil War pension system was the Union victory during the Civil War. A more morbid justification was that these pensioners would eventually die off and ultimately be off the federal dole, though it is doubtful that they anticipated the last pension being paid to a widow in 1953, nearly a century after the war. But without direct taxation, or another form of broad taxation, of all Americans it seems that a broad based entitlement program would have been very difficult pass given the resistance to redistributive economic policies. In essence what many have proposed should have been done is for a partisan, sectionalist, redistributive program, be turned into a universal entitlement program. Also, without a new taxation system an old age pension system may have proved prohibitively costly to enact.\footnote{Costa 166}

While this could and probably should have been done without regard to political concerns, the polarization of pensions due to economic policies stalled further expansion of the program. There was one notable attempt to expand pensions to, which occurred rather easily, veterans of the Spanish American War. It is also important to note the institutional constraints of the Civil War pension system. In many the pension system
never outgrew the original invalid pension system it was based upon despite reforms that
opened up pensions to many, disability, and dependency were still core concepts in the
pension process. Every major pension revision had to justify the expansion of benefits
based upon new medical conditions, notably age. In developing from a historical
background that limited pensions to the justly deserving injured soldiers the pension
system became path dependent. To expand pensions there had to be some justification of
national service or benefit, as well as justifying dependency. This was much harder to do
with immigrants, factory workers, etc… It also does not mean that people were not
thinking about linking the military pension system to a universal old age pension system.
Isaac Rubinow, a member of the Social Insurance Committee of America, noted that “the
system of war pensions represents a very important entering wedge for a national system
of old age pensions.”279 Abraham Epstein in 1922 advocated for the development of a
national old age pension system, and argued that that use of old age pensions should be
modeled upon the pensions given to Civil War veterans.280

But as argued earlier, it seems that the development of a national old age pension
system requires old age to be linked with poverty, not just disability. The success of the
old age pensions actually redefines old age, not with poverty but rather with some form
of affluence. Pensioners had additionally, homestead preemptions, favoritism in civil
service employment, and secured old age income in the form of the pensions. This is not
the state of old age immigrant coal miners Abraham Epstein is documenting in

279 Isaac Rubinow, Social insurance: With Special Reference to American Conditions, New York,
Holt, 1916: 409

280 Abraham Epstein, Facing old age dependency in the United States and Old Age Pensions, New
York, New York, Knopf, 1922
Pennsylvania in the early 1920s. Arrearages represented massive one time lump sum payments, and the generosity of the pensions themselves really created a material lifestyle that was previously unthought-of. Ransom, Sutch, and Williamson (1994) noted the reduced labor force participation rates of both Confederate and Union veterans. They noted that veterans were more likely to have reduced rates of labor force participation as a result of generous pensions, and are more likely to retire.\textsuperscript{281} Joanna Short, while not asserting pensions as the sole cause of Confederate pensions as prompting retirement, does indicate that Confederate pensions were more likely to reduce their labor force participation using US Census data.\textsuperscript{282} Pensions also were fairly broad in their spectrum. Ransom, Sutch and Williamson suggest nearly 30\% of all men in their 60s received a pension and Short calculates that nearly the same number in the South.

Increasingly the pension system was seen not as a system caring for wounded and justly deserving soldiers, but a way to get rid of embarrassing budget surpluses. Such was this sentiment that by 1914 the United States Congress grandfathered out the military pension system for future veterans. In passing the War Risk and Insurance Act in 1914 and the War Risk Life Insurance Act in 1917 Congress limited the benefits of soldiers to only death benefits. They did not anticipate, or did not want, benefits to be extended for veterans after the First World War.\textsuperscript{283} These two acts were clearly a reaction to the


\textsuperscript{282} Joanna Short, \textit{Confederate Veterans Pensions, Occupation and Men’s Retirement in the New South}, Social Science History 30:1, Spring 20065, 75-101, Social Science History Association, pp75-101
perceived graft and corruption of the Civil War Pension system. The First World War also had a vastly unpopular, if not ambiguous relationship with the American consciousness. It was not a terribly popular war, and it was relatively brief. And while Americans won the war they quickly wanted to ignore the responsibilities as a world power.

These veterans had a particularly difficult time pushing for benefits for having served their country. Finally in 1924 they secured “universal just compensation” over the veto of President Calvin Coolidge who said, “We owe no bonus to able-bodied veterans of the World War.” The bill had given men a bonus of a dollar a day for service in the United States with .25 cents extra for every day overseas. Those who had accrued fifty dollars were given their bonus immediately while others received a certificate dated for maturity in 1945. While there were attempts to speed up the payments, they failed, and the crushing weight of the Great Depression made these veterans even more desperate. Jobless and homeless veterans rallied on a March on Washington in the summer of 1932. On June 17th, 1932 in the depths of the Depression Herbert Hoover ordered the removal of the protestors. Figures that would go on to be etched in the annals of national glory, Dwight D. Eisenhower, Douglas MacArthur, and George S. Patton, were ordered to remove the protestors. They did so violently. This event played so badly that in 1944 returning veterans were not forgotten. Instead, a generous social contract was enacted with the GI Bill of Rights, which formally replaced the pension, and insurance system. It


284 Quoted in *The Bonus Army 5*
probably did not hurt that this war, much like the Civil War, required the massive mobilization of troops and soldiers and a national commitment to soldiers.

The GI Bill also reflected the move away from piecemeal social legislation in favor of a sweeping new entitlement program which developed a comprehensive long term policy to the problems of soldier’s benefits, necessary for citizen soldiers in a democratic army. Also not to be forgotten is the passage of the Social Security Act. The Social Security Act of 1935 functions as a de facto old age pension, the word is never used in the language of the bill, particularly by the Democratic majority and President, FDR, which passed the act in 1935. In fact, mirroring some of the sentiments that plagued Civil War pensions, the act did not call the universal contributory program old age pension; the act called them Old Age Insurance, instead making it far more palatable to policy makers.
I request postal stamps for replies and for return of papers.

GEORGE E. LEMON,
Attorney and Counselor at Law, Solicitor of American and Foreign Patents.
Special attention to the Settlement of Accents and Returns of Officers of the Army and Navy, and to Pension and Bounty Claims.
Preserves Claims before Congress; Practices in the Supreme Court of the District of Columbia.
Appears before all the Departments.

OFFICES, No. 615 FIFTEEN STREET NORTHWEST,
Washington, D. C.

DEAR SIR: Your letter received and contents noted. To enable me to prepare your application for original invalid pension on liberty, and thoroughly to understand your case, please answer the questions appended hereto, and return to me, without delay, and your claim will receive immediate attention. This paper is solely for my information, and is not to be sworn to or otherwise executed. The laws are regulated by law.

If not yourself a plain writer, I would suggest that you get some friend to write your answers to these questions. Read each question carefully, and answer them as fully as possible, using extra sheets of paper if necessary.

Hoping to hear from you at an early date. I remain,
Very respectfully yours.

[Signature]

QUESTIONS.

1. What is your full name? Answer ____________________________

2. Did you enlist under an assumed name? Answer Yes or No. If so, give the assumed name __________________________

3. What is your age at present time? Answer ____________________________

4. Where do you reside? Answer ____________________________

5. What is the date of your enlistment or commission? Answer ____________________________

6. Where did you first enter the service? Answer ____________________________

7. What was your rank when you entered the service? Answer ____________________________

8. What was your rank when disabled? Answer ____________________________

9. In what company and regiment, or in what organization or branch of the Army, did you serve? Answer ____________________________

10. Who commanded your company? Answer ____________________________

11. Where were you last discharged? Answer ____________________________

12. What is the date of your last discharge? Answer ____________________________

Figure 3.3 Page one of Attorney Pension Application (NARA RG 46)
13. Have you rendered any military or naval service beside that heretofore referred to? Answer.

14. What is your personal description? Answer. Height ___. Weight ___ lbs. Color of hair ___ eyes ___.

15. At what place were you when disabled? Answer.

16. When were you disabled? Answer. Date of the beginning of sickness or injury ___.

17. What is the nature of your wound, injury, or disease, and where is the location thereof? Answer. Wound, injury, or disease ___.

18. If disabled in either leg or arm, state whether it be in the right or the left. Answer.


21. What were the names (or numbers, if they had any) of the hospitals in which you were treated for your alleged disability? Answer.

22. Where were the hospitals located? Answer.

23. For what were you treated in each hospital? Answer.

24. When did you enter each hospital? Answer.

25. How long were you in each hospital? Answer.

26. Were you under the care of the surgeon of your Regiment for your alleged disability? Answer.

27. Give the present Post Office address of your Regimental Surgeon? Answer.

28. Where have you resided since leaving the service? Answer.

29. What has been your occupation since your discharge from the service? Answer.

30. What was your occupation before you entered the service? Answer.
ANSTRS TO QESTIONS.

ORIGINAL INVALID PENSION.

As this may reach the hands of some person unacquainted with this House, we appeal here to, as specimens of the testimonial in our possession, copies of letters from several gentlemen, distinguished politically and militarily, and widely known throughout the United States:

REXTON, ILLINOIS, October 24, 1879.

I have just learned from commanding Captain George M. Lemon, Commanding District of Washington, D.C., to all persons who may have any interest in the pensioners of old age or other losses to present their claims for their benefit. I have been notified, on the Rückers and the law, and with the Department of the Interior, of the pensioners of the United States. I have had occasion to employ several of your officers, who, in the course of my capacity, have learned that your service is rendered in the best way for the benefit of the pensioners and your honorable and efficient officers. I commend this to all the members of your service.

S. A. HUBERT, M. G.,

House of Representatives, Washington, D.C.
March 3, 1879.

From several years' acquaintance with Captain George M. Lemon, of this city, I know that he is a man of integrity and worth, and well known in the Senate of the United States, and as a member of the House of Representatives.

W. F. STRAND, M. C.,
Fifteenth District of Ohio.

Capt. George M. Lemon, Adjutant and Agent for the pensioners of old age or other losses to present their claims for their benefit. I have had occasion to employ several of your officers, who, in the course of my capacity, have learned that your service is rendered in the best way for the benefit of the pensioners and your honorable and efficient officers. I commend this to all the members of your service.

M. HAYES,

Any person desiring information as to my stand and responsibilities will, on request, be furnished with a satisfactory reference in his capacity or Congressional District.
31. Give the name, rank, and Post-Office Address of a commissioned officer of your company, or regiment, or other organization, who can corroborate your statement as to your disability? Answer. 

(Commands and rank of commissioned officers.

32. Give the names and the Post Office Address or Addresses of two of your comrades who were present when you were disabled? Answer—

(name of one such comrade) 

(name of other such comrade) 

(Post-office address of one such comrade) 

(Post-office address of other such comrade) 

33. Give the names of all doctors under whose treatment you have been since discharge, for your alleged disability? Answer. 

34. Give the Post Office Addresses of each of the said doctors. Answer—

35. State when treatment by each began and when it ended. Answer—(give you, month, and day, how so treated.) 

36. State for what sick or treatment you? Answer. 

37. Who was your family physician at date of enlistment? Answer. 

38. Give the present Post Office Address of your family physician at date of enlistment? Answer. 

39. Have you ever before applied for a pension? Answer. 

40. When did you apply? Answer. 

41. If you have applied and were rejected, what reason was given for rejecting your claim? Answer. 

42. If you have an application pending, who is your attorney? Answer. 

43. How long since you heard from your attorney? Answer. 

44. Has he neglected, or abandoned the prosecution, of your claim? Answer. 

45. What is his Post Office number of your claim? Answer. 

46. Have you dishonorable discharge? Answer. 

47. What was the cause of your discharge? Answer. 

48. State whether you were a volunteer, a substitute, or a drafted man? Answer. 

49. Were you ever charged with desertion, or absence without leave? Answer. 

50. How much bounty have you received from the United States? Answer. 

51. When did you receive payments of bounty? Answer. 

Fig. 3.6 Pension Application Questionnaire (NARA RG 46)
Conclusion

*The first half of our lives is ruined by our parents, and the second half by our children.*

- Clarence Darrow

This dissertation has endeavored to provide an institutional history of both life insurance and Civil War Pensions. These institutions represent a great deal of aggregate savings and spending in the United States. In the case of life insurance companies, they were critical financial intermediaries that served to move capital and help power the economic growth of the United States while providing a savings mechanism for policyholders. Civil War pensions represented a vast redistributive tool that drove up aggregate spending by hundreds of thousands of Americans who received money derived from budget surpluses generated by high marginal tariff rates. While these two institutions represented widespread participation in the economy by a broad segment of individuals and society, these institutions did not protect all Americans or citizens. While this study points out ways and avenues that individuals could have participated for savings, ways that scholars have tended to ignore, this study in no way attempts to wholly invalidate their work. Rather it is an attempt to contribute to the discussion from a different angle and perspective.

The glaring question for most scholars interested in the development of social insurance in the United States is why the delay in adopting universal old age pensions (1935) and universal healthcare? The United States in many ways provides services in a uniquely privatized setting. Given the size and efficiency of the United States market for
most of its history, it is the largest single unified economic unit in the world. We could argue that economic mobility was such that it did not necessitate the formation of massive national programs that smaller European nation states required. This answer is insufficient at best, and full of hubris in its extension, since the indigent and poor rarely were able to take care of themselves in American society in the nineteenth and twentieth century.

The traditional explanation for a lack of a comprehensive universal welfare system in the United States until 1935 stressed the emergence hegemonic business interest groups that were completely opposed to the development of social insurance in the United States.\textsuperscript{285} The overwhelming crisis of the Great Depression forced Americans to reexamine the social order and cultural values to allow for programs that created universal old-age pensions. These studies have focused on US government institutions and programs, which have focused on political patronage, redistributive politics, and taxation. Other studies including Skocpol’s own, have emphasized that institutional developments are not confined to singular evolutionary paths, that they are reflective of the broader culture at large.

For the most part, studies of social insurance have either focused on the development and power of political interest groups or the capacity and capability of the state to achieve universal social insurance. These are inherently important scholarly questions. But very few scholars have attempted to analyze decision making on the

margins for individuals. The question here is, given the menu of option available to the average American in the late nineteenth century, what would they save in and what would they advocate for. Traditionalists would have urged them through labor unions or political alliances to urge the adoption of old age pensions, or social insurance or, alternatively, as in the case of Skocpol to break institutional barriers and take the existing program of Civil War pensions and expand it to all Americans. The point here is that much of the political and socio-economic theory relies on the notion that in order to achieve universal social insurance and by extension to build a modern welfare state, requires collective political action by citizens in a democracy. Yet such collective action in many ways runs against one strain of values in American society, particularly individualism and individual choice.

The reason why this study focused on the institutional history and formation of these institutions and their policies is to explore the commonalities that may have made these institutions acceptable to late nineteenth century American Society. First, both institutions were deemed acceptable by the Victorian moral code of the late nineteenth century United States. The cultural values associated with aging, as Cole had noted, tended to focus on values that prolonged productive work life well into advanced ages, but also one that emphasized independence rather than dependence. Under this rubric institutions that appealed to assisting the poor, disabled, or dependent were frowned upon by society since they violated the bootstrap ethos of self-help and independence well into old age. Civil War pensions were justified, as Skocpol noted, since this dependency of

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the men and widows upon the state was a result of their noble service during the Civil War. This service had to have resulted in the wounding or disabling of the soldier in the line of duty. When the pensions became service based, they came under intense scrutiny and fell out of popularity. Old age or service based universal pensions formed by the state certainly would have suffered the same stinging criticisms that the Civil War pensions would have suffered. These criticisms were not based in the facts of old age, but tied to the inherent role of government and the redistribution systems it would have to use to care for the elderly.

Nonetheless, the Civil War pension program also offers an lens into late Victorian society. More research needs to be done in the area regarding the perceptions of aging and what was deemed as old. The Grand Army of the Republic through its advocacy as a political interest group set up a framework of how to engage Congress and the political process in formulating policies for the elderly. Their interpretation of Old Age at 65, along with their model of political influence would be repeated with the Society for Social Security developed by Abraham Epstein in 1935. Epstein in the 1920s and 30s would adopt much from the GAR, forming grass roots networks, and offering up testimony and in depth studies, encouraging Congress to come up with effective old age policies for Americans. Life insurance existed under the umbrella of approved methods for savings. Respectable Anglo-American society demanded that a man’s affairs be in order in case he died, which legitimated the use of life insurance policies. Controversy

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tended to surround tontine policies, but it was not about the policyholders want to savings or returns, but much more about the abuses of the life insurance executives.

The unique feature about both these institutions is the fact that they both offered quite differentiated outcomes for those who participated in the system. Pensioners did in fact receive different rates, based upon the extent of their disability and time of service. Early pension applicants were screened for their social and wealth status to determine their rate of pensions. For life insurance policyholders, they chose the type of risk and benefits that they wanted associated with their policies as well as the time period and length of their policies. It appears that in offering differentiated outcomes and a choice to participants in life insurance and pensions, these institutions managed to overcome objections that unscrupulous or unfair practices gave undeserving individuals profits from their fraud. One of the major objections to the Dependent Pension Act of 1890 was the fact that it would not differentiate a just claim from one that would require only a small about of proof.

Critically this study has demonstrated that the elderly did in fact have institutional alternatives to attempt to save for retirement and old age. They had accrued various types of assets that did accumulate sufficient amounts to at least abate some of the dependency they would experience in old age. This does not mean that everyone was protected in retirement; it does not mean that minorities were fully enfranchised in this system. However, it does mean that there was remarkable innovation and that individuals were dealing with significant aspects of their economic life when it pertains to their life-cycle. These innovations were successful enough, and broad enough to prevent the association
of old age with poverty and dependency. Without that association it would have been quite difficult to institute a national old age pension policy, since individuals could have theoretically taken care of themselves.

Lastly, path dependence plays a tremendous role in life-cycle savings and institutions. Individuals accustomed to a particular way of life and method of savings will tend to maintain that mode of savings unless sufficient forces are arrayed to overcome path dependency. The success of Civil War pensions and life insurance at alleviating old age dependency, combined with other forms of precautionary and life cycle savings, effectively forestalled the need for a comprehensive overhaul of society’s method of providing savings and services for the aged. The generation immediately proceeding the Civil War generation would not reach their forties right at the turn of the century. In their forties, they began confronting the very real possibility of having minimal savings for old age. Pensions were not available to them and tontine insurance, which had been proven as a reliable potential source for savings accumulations, were not available to this particular cohort. While many could and did save using private market institutions the reliability of those institutions were being called into question.

The rise in interest rates and inflation began to erode the values of savings, while more and more Americans based their livelihood upon wage labor in the cities. The economic conditions that this particular cohort faced increasingly necessitated an overhaul to the social insurance structure of the United States. However, the political will and impetus for this change would not occur until the Great Depression. The Depression effective demonstrated that private market alternatives could and did fail, and that the
only response in such a severe economic crisis was a broad based government program, which was not limited to a select few but was granted as an entitlement program for all Americans.
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