Warfare State to Welfare State

Conflict Causes Government to Expand at Home

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Conservatives should be more leery of jumping into wars, not only because wars kill and the American superpower might become overextended—especially in a time of fiscal crisis—but also because war makes the government expand rapidly at home, even in areas unrelated to national security. This essay shows how domestic government programs and tax regimes seemingly unrelated to war originated during such periods of conflict. The assessment confirms what Randolph Bourne famously stated: "War is the health of the state" (1918).

Although social scientists tend to neglect war as a major cause of changes in social policy (Skocpol 1992, 39–40), some noted historians have concluded that war making is the true driver of state making, dwarfing other causes. For example, as early as 1906, German historian Otto Hintze wrote that war was the principal cause of state development: "[T]he form and spirit of the state's organization will not be determined solely by economic and social relations and clashes of interests, but primarily by the necessities of defense and offense, that is, by the organization of the army and of warfare" (1975, 183).

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And American history has certainly confirmed James Madison's axiom that warfare is the mother of other sources of government oppression:

> Of all the enemies of public liberty war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other.
>
> War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instrument for bringing the many under the domination of the few. (1865, 491)

Although these thoughts come from an American founder whom many conservatives revere, conservatives often push back and argue that even if evils stem from warfare, war is nevertheless sometimes necessary.

Two problems arise with this standard rejoinder. First, in American history wars were usually less necessary than the excuses given for them, especially U.S. involvement in brushfire conflicts since World War II.[1] Second, Madison, if anything, understated war's evil consequences to the republic.

Wars Cause Government to Grow, Even Domestically

The Madison quote might lead one to conclude erroneously that war's expenses, which lead to debt and taxes, are the only causes of the erosion of liberty when conflict arises. At minimum, however, Madison was also uneasy with standing armies because they threaten people's liberties. This paper goes even further and details domestic government programs (that is, the welfare state) that are seemingly unrelated to war efforts at first blush, but originated or expanded in times of conflict and by means of the new taxes initiated or increased during war to pay for them.

For example, although conservatives routinely criticize Franklin Delano Roosevelt's Depression-era New Deal for ushering in the era of big government, the origins of permanent big government in the United States are really rooted in World War I. Marc Allen Eisner argues that "[t]he New Deal is best understood as part of a larger history, one that dates back at least to U.S. entry into World War I. The models of state–economy relations and administration developed during the war, new patterns of state–group relations, and the experiences of those who were involved in the mobilization process constituted the core elements out of which the New Deal regime was constructed. In essence, this places the war and the 1920s in a more important place than many contemporary histories would allow when seeking to identify the origins of the modern state and to determine what, in reality, was 'new' about the New Deal" (2000, 299–300).

1. For a detailed explanation of the thesis that most American wars could have and should have been avoided, see Eland 2012.

Eisner concludes that "[o]ne may still assert that [Herbert] Hoover and Roosevelt viewed the calamity of the Great Depression from the perspective of active participants in the war mobilization effort, and each in his own way sought to apply the lessons of war to the events of the depression." He adds that many of Roosevelt's advisers during the Depression were veterans of the wartime agencies and added their prestige to the use of the wartime model to fight the economic downturn (2000, 301, 304).

By what mechanism does war establish an opening for creating or expanding government programs or taxes? War—usually regarded as a significant societal or in some cases existential crisis—creates an opening for the state to take autonomous action that conflicts with dominant interests in the society, which normally have policy locked down during peacetime (Skocpol 1979, 31). In the legal realm, the government can use the war emergency to implement policies that would normally get pushback from people and groups concerned about the usurpation of private-property rights, the expanding role of government in society, and the tipping of the constitutional balance of power in the executive's favor at the expense of other governing branches. During wars—especially big conflicts that require mobilization of the entire society, such as World Wars I and II—interest groups see the government doing things it didn't do or wasn't previously allowed to do and realize the possibilities for this trend to continue when the war is over.

After the conflict is done, the newly empowered state bureaucrats and the constituency groups benefiting from wartime expansion lobby to keep at least some of the measures in place—a process termed the "ratchet effect" (Higgs 1987). For example, during World War I the creation of the Food Administration led to the expectation in the farm sector that government regulation could be used to prop up farm incomes. More generally, President Herbert Hoover said in 1931, "We used such emergency powers to win the war; we can use them to fight the depression, the misery and suffering from which are equally great" (qtd. in Eisner 2000, 261). Finally, the president typically has to "pay off" members of Congress, especially those of the opposition party, to back the war with the commitment that he will support their domestic projects and spending.

Because the potential for tax revenues determines how big the government can get and the number and size of programs that can be supported, let us first examine how major changes in the tax system have accompanied war.

Important Tax Changes Accompany War

In *Federal Taxation in America: A Short History*, tax historian W. Elliot Brownlee concludes: "What would be without precedent . . . is a decisive shift to a new tax regime in the absence of a national crisis or emergency. The moments of sweeping change in tax regimes have come invariably during the nation's great emergencies—the constitutional crisis of the 1780s, the three major wars [the Civil War, World War I, and World War II], and the Great Depression" (2004, 2).

Greater revenues are always needed to fight a war. When conflict arises, tax systems are often changed or expanded to augment the state's coffers for use in buying added weapons, ammunition, personnel, fuel, and other war materiel. Yet the changes in tax systems usually linger long after the war is over. War overcomes the naturally fragmented nature of American government, giving central authorities more power, which they in turn use to tout the importance of public patriotism and "sacrifice" to justify altering the tax system, further increasing that enduring power. Also, if the tax changes were part of a winning war effort—as they were in all three of the aforementioned major wars—they acquire a legitimacy that endures after the war is over. Thus, after the war ended, with these augmented tax revenues, increased domestic spending could replace war spending.

The Income Tax

The income tax is one of the most intrusive and economically irrational taxes the government can impose. It usurps liberty by necessitating government snooping into the private details of people's lives to ensure tax collection. Commissioner of Internal Revenue Alfred Pleasonton noted in 1871 that the income tax was the tax "most obnoxious to the genius of our people, being inquisitorial in its nature, and dragging into public view an exposition of the most private pecuniary affairs of the citizen" (1871, 41).

Unlike sales and excise taxes, which focus on inhibiting consumption, the income tax directly penalizes economically productive work and the just rewards for it—thereby dragging down prosperity. The income tax is unfortunately now the dominant form of federal taxation.

The federal income tax originated during the emergency of the Civil War, although many at that time regarded it as unconstitutional. The Civil War, the nation's first modern war, required huge amounts of additional government revenue to prosecute. Spending by the federal government increased from less than 2 percent of gross national product (GNP) to an average of 15 percent of GNP. The Republican leadership admired how the British Liberals had used income taxes to finance the Crimean War instead of imposing higher taxes on property (Brownlee 2004, 31, 33).

The income tax was abolished seven years after the Civil War ended, in 1872. But as with many other government programs and taxes in American history, the income tax began during war, was discontinued, and then was resurrected later. Excise taxes on particular goods and tariffs on imports—that is, two consumption taxes—were the primary means of financing the federal government before, during, and after the Civil War. The income tax was subsequently resurrected after imports—and thus tariff revenues—fell during the depression of the 1890s.

Grover Cleveland, an otherwise very conservative president, unwisely accepted the income tax in exchange for lower tariff rates in 1894. But then in 1895 the Supreme Court ruled that the new tax was unconstitutional because the U.S. Constitution clearly required any direct tax to be allocated across the states according to population, and taxing people according to their incomes did not meet that requirement (Brownlee 2004, 46–47).

In both the Civil War and the 1890s, however, the income tax was a levy only on the well-to-do, not the mass tax it would later become. For example, by end of the Civil War only about 10 percent of all Union households were paying this tax, and it accounted for only about 21 percent of federal tax revenues—as opposed to excise taxes, comprising 50 percent of federal revenues, and tariffs, accounting for 29 percent (Brownlee 2004, 35).

In 1913, the problem of constitutionality was surmounted by the ratification of the Sixteenth Amendment, which specifically allowed the imposition of an income tax. The ratification of this constitutional amendment showed that the federal government could hand out money to get a powerful new mechanism for obtaining even more money. From 1895 to 1909, to get the income tax amendment approved, the federal government bribed—using disproportionate defense and veterans spending—states whose congressional delegations were opposed to it (Baack and Ray 1985; Twight 1995). The tax appears to have had roots in the populist and progressive movements. The broad public perception was that tariffs and excise taxes, which then dominated federal taxation, disproportionately taxed the nonwealthy (Buenker 1981).

However, although the income tax had been resurrected before U.S. entry into World War I in 1917, the war clearly led to its replacing tariffs and excise taxes as the predominant form of federal taxation in America. Before the war, the income tax was anticipated to provide only supplemental revenues. According to Brownlee, "The income tax was a highly tentative experiment until 1916, when America prepared to enter World War I and settled on it as the primary means of raising taxes for the war" (2004, 2). The Allied victory in the war increased the income tax's public legitimacy so that it could begin its subsequent domination of federal taxation.

World War I was transformational in bringing about permanent "big government" in the United States, and the war's enhancement of the income tax's role in taxation made that possible. During wars, trade and thus tariff revenues are disrupted, requiring greater internal taxes. The income tax showed once again during this world war and during the ensuing peace that it had great capacity for generating the huge revenues needed for government expansion. After the war, the ballooning of revenues allowed the vast expansion of federal domestic programs during the Republican Hoover administration, Franklin Roosevelt's Democratic New Deal in the 1930s, and beyond.

But it took another war, World War II, to turn the income tax from a burden on only the well-to-do into a mass tax on almost all earners of income. Experts built on their experiences with the income tax in World War I to insert the tentacles of this intrusive and pernicious levy into all economic classes. The government used war propaganda to stanch public resistance to converting the income tax from a “class tax” to a “mass tax” (Jones 1989). From 1939 to 1945, the number of people paying the income tax rose from 3.9 million to 42.6 million (roughly 60 percent of the labor force), and income tax revenues ballooned from $2.2 billion to $35.1 billion. The federal government could now take in massive revenues from taxing middle-class salaries and wages. Roosevelt and the New Dealers believed that a mass-based income tax was the best way to guarantee a permanent stream of revenues to fund federal programs of “social justice” (Brownlee 2004, 112).

They were right. In 1940, before America’s entry into World War II, the federal income tax accounted for only 16 percent of government tax revenues. By 1950, it had spectacularly grown to 51 percent of government tax revenues. The war had made a mass federal income tax possible, and the glorious victory over the Axis powers gave this tax the legitimacy to continue to the present day. The World War II tax regime was advertised as temporary, but it unfortunately became permanent (Powell 2003).

As Brownlee explains the situation, “In the realm of tax policy, the World War II emergency institutionalized a new tax regime. It had three elements: (1) a progressive but mass-based personal income tax for general revenues; (2) a flat-rate tax on corporate income, also for general revenues; and (3) a regressive payroll tax for social insurance [Social Security]” (2004, 121).

During the postwar period until the late 1970s, the broad base of the mass income tax, combined with economic growth and inflation that pushed people into ever higher tax brackets, allowed the federal government to swim in swollen revenues, which were used to enlarge domestic and foreign programs while cutting excise and corporate levies. The augmented domestic programs funded by this means included health care (for example, Medicare), education, welfare, urban development, and federal aid to state and local governments (Brownlee 2004, 107, 128).

In 2001, George W. Bush was able to secure reductions in the income tax. He then wanted to accelerate these cuts, but Democratic Senate majority leader Tom Daschle wanted to roll back the 2001 cuts. To secure the support of Democrats for the new war on terrorism and the invasion of Afghanistan after the attacks on September 11, 2001, Bush had to compromise and agree to a package of Keynesian demand-side measures (read: new federal spending) and neoconservative supply-side features that did not include an acceleration of the 2001 cuts (Brownlee 2004, 231).

Progressive Taxation

During wartime, “sacrifice” needs to be perceived as “fair.” In political terms, that merely means allocating the tax burden so that a majority of the population refrains from opposing the war. That goal usually means introducing progressive taxation, which draws most of the revenues from the smaller wealthier classes rather than from the larger middle and lower classes (Eisner 2000). Progressive income taxation was first introduced not out of concern with equity or fairness, but because it enhanced revenues (Huntington 2005). In other words, greater taxes could be milked from those best able to pay them.

In 1798, the Federalists, always searching for ways to enhance the power of the federal government, used the Quasi-War with France as an excuse to exercise the power of direct taxation on people (before this point, federal taxes had usually fallen on goods, such as tariffs on imports and excise taxes on the consumption of certain items). To aid in funding naval expansion during the conflict, the Federalists imposed a direct tax on property, including land, houses, and slaves; but to increase political support for the levy, they taxed more expensive houses at a higher rate. In 1802, President Thomas Jefferson and Congress abolished these direct taxes, but they were brought back during and after the War of 1812.

During the Civil War, the federal government experimented with a new income tax that was progressive—that is, it targeted only upper-income groups. Progressive income taxation, however, was introduced in a big way only during the two world wars. For example, during World War I, the wealthiest one percent of families had to pay 80 percent of the personal income tax, and only 15 percent of families had to pay the tax at all. During World War II, when the income tax went from being a class tax to a mass tax, tax rates rose most dramatically for the wealthy minority so that the less well-off majority would support the war.

In 1942, President Franklin Roosevelt issued a shocking executive order that nobody in the country could have a net salary—that is, after taxes—of more than \$25,000 per year (Powell 2003, 245–46).[2] That salary cap (\$350,000 in 2011 dollars), implemented in an executive order under the wartime Amendment to the Emergency Price Control Act of 1942, was later overturned by Congress. FDR lost that battle but eventually won the war (on the rich). During World War II, the income tax for the wealthiest hit an astronomical marginal rate of 94 percent (National Taxpayers Union 2013).

With such confiscatory taxes, people tried to reduce their tax obligations. During the 1950s, after the emergency was over and broad public support was no longer needed, income tax rates for minority wealthy interests were lowered from those stratospheric wartime levels but remained higher than they were before the war (Brownlee 2004). This phenomenon is common when war occurs and demonstrates the ratchet effect that conflict has on taxes (and federal spending).

2. Jim Powell cites President Franklin D. Roosevelt's Executive Order Providing for the Stabilizing of the National Economy, October 3, 1942, available at http://www.ibiblio.org/pha/policy/1942/421003a.html.

Double Taxation

To get broad support for a war, sometimes it is necessary to tax a rich minority not once, but twice. During World War I, the Revenue Act of 1916 intentionally began taxing dividends issued by corporations and then taxing them again as income received by individual stockholders. The act consciously used both corporate and personal income taxes to tax the well-to-do. The law did this by eliminating the personal income tax exemption for dividends. Yet such layered taxation has endured to the present and continues to drag productivity gains in the American economy.

Tax Withholding

In 1943, during World War II, the government figured out how to dramatically increase the efficiency of its income tax enforcement effort and lower people's resistance to heavy taxation. The crisis afforded government officials the power to impose mandatory withholding from paychecks of income taxes eventually due, which triumphed over public opposition to such a policy from 1914 to 1942.

Instead of continuing to rely on taxpayers to send in their entire income tax payments after the close of the tax year, the government coercively began requiring employers to confiscate money out of employees' paychecks periodically during the tax year. The new withholding system foisted the cost of collection on businesses, emphasized the supposed convenience and ease of payment to taxpayers, and euphemistically called the process "collection at the source." As Charlotte Twight (1995) notes, the government learned what car salesman had known for a long time: people will be willing to pay more if they focus on smaller installment payments rather than on a larger lump sum owed. With the withholding system, not only would the government be more assured of getting the money and getting it earlier, people would be less likely to miss money they never saw in their paychecks. This trick allowed the government to conceal how much people really paid in taxes.

Limited withholding was first used for income taxes during the Civil War, which were withheld from the paychecks of government employees, and briefly during the lead up to World War I, when the income tax was first reestablished after the Sixteenth Amendment made it constitutionally kosher (Brownlee 2004, 112–13; Huntington 2005, 22–25). As with respect to other government taxes and programs, war set a precedent for withholding, then the policy disappeared and was reestablished permanently later—in this case, withholding payroll taxes from workers' wages beginning in 1937 to fund the new Social Security system.

Income tax withholding was resumed during World War II. To overcome longstanding public opposition to income tax withholding, the government used the propaganda of patriotic sacrifice for the war effort and the argument that what amounted to a tax increase would absorb citizens' spending power, thus helping to constrain usual wartime inflation (Twight 1995).

Tax Expenditures (a.k.a. Tax Loopholes)

The first federal income tax brought the first income tax loophole. The income tax is especially prone to such unfairness. And, unsurprisingly, the first tax loophole the government handed out benefited itself. During the Civil War, the government sold bonds to finance the war. In order to boost sales, the interest from such bonds was taxed only at a rate of 1.5 percent; regular income was taxed at 3 percent (Huntington 2005).

Accompanying the very progressive tax system created to win the support of the masses for World War I came the rising influence of the tax-writing committees in Congress (Brownlee 2004, 75–76). Handing out goodies in the form of arcane exemptions, deductions, and other loopholes in the income tax code gave the tax committees enhanced power. After the war was over, many well-to-do people chafed under the heavy tax burden imposed by the conflict. Both to relieve the pressure on the progressive tax system and to preserve it, these committees discovered during the 1920s that they could covertly subsidize certain privileged groups by creating tax loopholes for them. The complexity of the tax system increased even more dramatically during and after World War II, as measured by the number of pages in the tax code.

The Estate Tax

Taxing a person's estate after his or her death originated from the effort to garner more revenue for the Spanish-American War (1898). After funding the war against the Spanish, the counterinsurgency war against the Filipinos whom the United States had "liberated" from the Spanish, and the suppression of the Chinese Boxer Rebellion against the Western colonial powers carving up China, the tax was repealed in 1902. But it was resurrected during World War I to fight a much larger and more expensive war.

Gas Taxes and More

In October 1990, after Saddam Hussein invaded Kuwait, President George H. W. Bush and Congress raised the tax on gasoline and increased the progressiveness of the income tax by expanding the Earned Income Tax Credit for the poor and raising the marginal income tax rates on the wealthy. In the former case, Bush said that the gas tax increase "does have the virtue not only of contributing to deficit reduction, but also, over time, of decreasing America's dependence on foreign oil, an objective whose importance has been made increasingly evident in the face of the Iraqi invasion of Kuwait" (Bush 1990). As for the latter two, in the time-honored tradition of making the tax system more progressive during a conflict to broaden public support for the war effort, Bush was bribing opposition Democrats and the majority nonwealthy faction in America to support the likely upcoming war with Iraq.

The Internal Revenue Service

The roots of what would become the Internal Revenue Service (IRS) were planted during the Civil War. The massive added revenues required to fight the war meant having a large, dedicated organization to collect them. In 1862, the Republicans created the Office of the Commissioner of Internal Revenue, who headed Treasury's new Bureau of Internal Revenue. By the time the war ended in 1865, the bureaucracy had grown to four thousand employees. During World War I, the Bureau of Internal Revenue was greatly strengthened. The bureau's employees almost quadrupled, from four thousand in 1913 to almost sixteen thousand by 1920 (Huntington 2005). The advent of income tax withholding during World War II also had the unintended outcome of vastly expanding the successor Internal Revenue Service (IRS). The administration of withholding taxes from the wages of 30 million people required hiring about eleven thousand more IRS employees and drastically increasing the budget for the agency. Of course, costs also increased to private employers, who had to collect the taxes from workers' paychecks (Powell 2003, 247).

Government Programs Originating during War

Governments don't like to give back money to taxpayers. Taxes increased during wars are usually just used to expand government programs after the conflicts are over.

Relief for the Poor and Public Works

During World War I, the War Finance Corporation (WFC) acted as a forerunner for all later federal efforts at relief and public works. The New Deal's chief relief agencies, including the Federal Emergency Relief Administration and the Public Works Administration, were originally part of Herbert Hoover's Reconstruction Finance Corporation (RFC)—which was a resurrection of the WFC. Setting a precedent, Hoover's RFC lent money to states to give to the poor. During FDR's administration, the federal government, through the Relief Administration, the Public Works Administration, and other agencies, gave aid directly to the poor.

During the war and even after it, the WFC distributed welfare in the form of loans to bankers, industries, commodity producers, and exporters. During the

Depression, the government's list of welfare recipients merely expanded (Eisner 2000). The WFC was also the forerunner of the post–World War II Export–Import Bank, which provides loans to subsidize exports.

Social Security

First Precedent for Social Security: Revolutionary War Pensions

Today's Social Security retirement pensions, created by the Social Security Act of 1935, have their roots in pensions for fighters in the Revolutionary and Civil wars. Because bureaucracies and constituencies arise as advocates, pensions, like other entitlement programs, expand their benefits and beneficiaries over time.

In 1776, the Continental Congress passed "invalid pension" legislation providing half-pay during disability or for life to Continental army soldiers and sailors who lost a limb or otherwise were made unable to earn a living by the war. Later amendments broadened coverage to any disabled Continental veterans who applied within six months of the enactment date, June 11, 1788. An 1805 law further broadened coverage to those wounded in the revolution who had since the conflict become disabled so that they couldn't do manual labor. This change allowed the linking of later disabilities to war injuries. An 1817 law similarly expanded naval pensions to widows and orphans of those who died after the Revolutionary War from diseases or injuries received in the war. In 1824, Congress had to revoke the naval provision because costs went out of control. The 1805 and 1817 laws, however, set a precedent for later Civil War pensions, which were abused and came at an exorbitant cost to taxpayers (Jensen 1996).

Although George Washington originally resisted the creation of service pensions for Continental army officers—pensions given to poor soldiers merely for their service rather than only for a disability caused by the war—even when he was losing officers during the harsh winter at Valley Forge in 1777, he eventually began lobbying the Continental Congress to expand them once they had been enacted in 1778. Washington's initial resistance to the idea of service pensions stemmed from the reality that many Americans opposed a standing army and perceived a responsibility of a citizen to the state (republican virtue).

In 1778, as a tool to recruit and retain troops, Congress created a service pension of half-pay for seven years for officers staying in the Continental army for the duration of the war. In 1779, Washington began pressuring Congress to extend officers' half-pay for the rest of their lives and enact pensions for soldiers' widows and orphans. In 1780, Congress enacted both of Washington's requests. The former set a significant precedent for the government provision of open-ended selective pension benefits. The latter was a recruitment tool because many able-bodied breadwinners were reluctant to sign up for military service when their possible death could leave their families financially destitute. These measures helped keep the Continental army together until the end of the war but did not quell the threat of a coup in 1783 in Newburgh, New York, by that army against the government over back pay and pensions. Laura S. Jensen (1996) argues that the near coup at Newburgh, which Washington's prestige helped stamp out, demonstrated that pension legislation for Revolutionary War officers and their survivors was key to the nationalist leadership's empowering of the central government in the nascent nation. In March 1783, after the Newburgh incident, Congress rushed to pass even more generous pension legislation: instead of half-pay for life, Continental officers would receive five years of full pay or securities earning 6 percent per year.

The War of 1812 instilled a sense of nationalism in the country and overwhelmed thirty-five years of American resistance to selective, exclusionary government benefits and forty years of congressional balking at rewarding military service with lifetime pensions. In 1817, President James Monroe, a Continental Revolutionary War officer himself, proposed service pensions—half-pay for life—not only for all those officers who were poor, but for enlisted soldiers, too. Yet at the time there was much objection to the concept that the federal government would discriminate between "deserving" and "undeserving" citizens—that is, excluding some citizens to hand out selective entitlements. To some, exclusionary pensions seemed to violate the Constitution's need to "promote the general Welfare" and to give too much discretionary power to the national government.

Despite these objections, in 1818 Congress created pensions for those in the Continental army or navy who served to the end of the war or at least nine months during the war and were poor. The original pensions for disabled Continentals and these new pensions only for service were the first categorical, national entitlements in the nation's history. These entitlements set the precedent for subsequent veterans programs and for doling out preferential, exclusionary benefits to special groups to solve the nation's socioeconomic problems.

Although Monroe maintained in 1818 that few Revolutionary War veterans were still alive at this time, the government was overwhelmed with demands for pensions under the new law. The program was supposed to be short and cheap but, like most government efforts, turned out to be long and expensive. As this first entitlement—and all that followed—demonstrated, the nature of entitlements is that once given they can balloon out of control and become almost impossible to take away from recipients. The first entitlements also demonstrated a standard phenomenon: expanding benefits over time. One of the reasons for this vast expansion, in addition to the lobbying by the potent "entitled" pressure group of Revolutionary War veterans, was that veterans not covered under the 1818 law pushed for inclusion (Jensen 1996). Another reason for the widening of benefits was the creation of a central administrative bureaucracy under a system of government that was supposed to be decentralized. As has happened with many subsequent federal programs, the bureaucracy also pushed for program expansion to augment its own functions, power, and funding. Members of Congress, mirroring modern practice, used the program to get reelected by bringing home additional benefits as pork.

Jensen summarizes the historical legacy of Revolutionary War pensions:

> State actors of the 1780s understood that land grants and pension enactments could simultaneously secure the services of military leaders, direct their energies toward the nationalist purposes of the new American state, and strengthen the central government by justifying congressional revenue measures and rationalizing Federal administration. The implementation and extension of veterans' pensions and other selective entitlements during the first part of the nineteenth century led to increased fiscal and administrative capacity at the center as presidents and members of Congress acquired a powerful means of appealing directly to a growing electorate, creating a new nexus between the national government and individual citizens. . . .
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> . . . [T]he highly discretionary, early pension legislation stood as a policy precedent awaiting the nationalistic fervor and treasury surplus of the post–War 1812 years. The enactment of the categorical 1818 pension act that finally implemented a program of benefits for certain Revolutionary veterans "in need of assistance" was a defining moment in the development of the American welfare state. . . .
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> It was this policy legacy that helped pave the way for the national government's creation of the highly categorical, nonuniversal, "programmatic rights" of the post–New Deal era and the concomitant rise of an expanded, national policy-driven, administrative state. . . .
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> Where once a national community of regular, relatively equal citizens might have evolved, the American polity had begun to be divided into multiple, overlapping, legally circumscribed categories of "special" clients and claimants. (1996, 402–3)

Second Precedent for Social Security: Civil War Pensions

Ever since colonial times, to encourage enlistment of male breadwinners, all levels of government, including the federal government, had paid widows and orphans who had lost a soldier in war. And in 1862, as early Union defeats on the battlefield tempered patriotic enlistment in the North, the federal government for the same reason increased the level of compensation for such dependents and widened the range of family members covered by the payments, including widows, orphans, and elderly parents and siblings of those killed in battle.

During the postwar period, the vast pension system created by the war was later used to deal with the societal issues of the elderly and widows. This social program served a major fraction of the population. From 1776 to 1861, the federal government had paid 143,644 pension claims; from 1861 to 1890, it paid out more than five times that number in Civil War pensions. By 1889, U.S. pension spending alone was greater than the entire federal budget before the Civil War. By 1893, a whopping 40 percent of the federal budget was allocated for disabled troops, widows, orphans, and the elderly. The patronage-oriented politics of the Republican Party—the winning party of the Civil War, which maintained dominance of American politics in the last half of the 1800s and the early decades of the 1900s—had led to the huge expansion of pension benefits to win votes. High tariffs and their revenues paid for those benefits (M. McClintock 1996).

In 1879, the Arrears Act allowed veterans, who hadn't realized they were disabled until the government offered $1,000 or more for finding aches and disabilities, to flood the Bureau of Pensions with such claims. In 1890, twenty-five years after the Civil War ended, pensions expanded to include any soldier who had served ninety days or more during the war and was unable to do manual labor—whether he was injured during the conflict or not or even whether he had seen combat or not. Thus, the cause of the veteran's disability did not have to be the war and could just be old age. Similarly, widows of soldiers serving in the Civil War for ninety days or more received pensions regardless of whether their husbands had died in the war.

During and just after the war, mothers and fathers who had been dependent on dead veterans for their livelihood were added as pension recipients as long as the veteran had died of a war-related illness or injury, in whole or in part. So in 1873 and 1890, long after the war was over, Congress expanded federal responsibility for care of the elderly. In 1890, the requirement to prove dependency on the deceased veteran was removed, thus providing pensions to elderly mothers and fathers as long their son's death resulted from war service (M. McClintock 1996). Thus, Civil War pensions had evolved from payments for combat wounds and death to a munificent system of old-age and disability benefits (Skocpol 1993).

The expanded program was not merely a military pension program. As Megan McClintock concludes, "Civil War pensions were not simply a military benefits program, however, but also a social welfare system that contained assumptions about familial relationships. Only those pension claimants whose domestic arrangements met with approval received federal moneys. In the case of mothers and fathers, the ideal of filial devotion encouraged the federal government to become a provider of poor relief for the elderly in the late nineteenth century" (1996, 466).

McClintock provides a good summary of the Civil War mobilization's dramatic—but now neglected—effect on widening the federal government's social welfare role:

> Before the Civil War, the federal government had assumed only limited responsibility for military dependents and virtually none for the civilian poor and disabled. Pre–Civil War military benefits were piecemeal and

> limited to veterans, widows, and orphans; moreover, the federal government abstained from social welfare spending for the civilian poor, and local charity was stigmatized and parsimonious. The nation's first "modern" war transformed the landscape of relief, forging new ties between the federal government and families, and between public and private economies, as the government sought to increase the number of men willing to leave their families in the 1860s and to prepare future citizen soldiers for patriotic sacrifice. (1996, 479–80)

According to Theda Skocpol, the Civil War pension system degraded into what became America's first massive, federally funded old-age and disability welfare system:

> By the time the elected politicians—especially Republicans—had finished liberalizing eligibility for Civil War pensions, over a third of all the elderly men living in the North, along with quite a few elderly men in other parts of the country and many widows and dependents across the nation, were receiving quarterly payments from the United States Pension Bureau. In terms of the large share of the federal budget spent, the hefty proportion of citizens covered, and the relative generosity of the disability and old-age benefits offered, the United States had become a precocious social spending state. Its post–Civil War system of social provision in many respects exceeded what early programs of "workman's insurance" were giving old people or superannuated industrial wage earners in fledgling Western welfare states around the world. (1992, 1–2)

Skocpol (1996) argues that public revulsion in America toward the expansion, excesses, and corruption of the Civil War pension system from the 1870s to 1910 may have stalled the onset of the American welfare state—which was then taking hold in other Western countries—until the New Deal in the 1930s. Americans may have been repelled by Civil War pensions because—in a classic case of high taxes leading to surplus government revenues leading to excess spending—Republicans supported lavish pensions to groups in their political constituency (Union veterans) to justify continued high tariff walls to protect northern industries (which generated high tax revenues), which were among the most influential supporters in the Republicans' political coalition. The interests of such industrialists coincided with those of pension-recipient lobbies and the bureaucratic empire of the Bureau of Pensions to widen the pension program greatly over time. Moreover, the expansion of Civil War benefits came even as claims from direct battle casualties had gone down. So although the Grand Army of the Republic, a powerful lobbying organization of Civil War veterans, promoted the nation's hallowed obligation to protect Union veterans who had saved it, many people who derived pensions from the Civil War didn't suffer from war wounds or poverty. By 1910, forty-five years after the end of the war, about 28 percent of American men sixty-five years of age and older were receiving federal benefits (Skocpol 1993, 85). This fact likely led to the erosion of public confidence in the system.

In a pattern seen throughout U.S. history, government expansion during warfare is initially attenuated, and more rarely reversed, after the war is over, yet can come roaring back at a future date. So although permanent general old-age pensions and social insurance were delayed, pensions for widowed mothers at the state level—a direct descendant of war widows' pensions—were enacted during the period from 1900 to 1930, and Social Security and other welfare-state programs grew out of control after that.

In short, Civil War pensions were America's first system of federal social security for the disabled and elderly. And they were a precedent for other even broader and more expensive federal programs to come.

Beyond Taxes and Pensions

The ratchet effect of war on the growth of government has penetrated our lives much beyond new taxes levied for war and sustained after war and beyond the payment of pensions.

Federal Involvement in Regulating Marriage

Concomitant with the government's involvement in marriage to monitor the moral conduct of widows to enforce Civil War pension rights and demonstrating that war means growth in government even in areas that seem remotely connected to war, the government began to regulate marriage itself. During the nineteenth century, marital relations were fluid and laissez-faire. Moral "reformers," however, argued that the private practice of marriage caused instability in the family and society. So common-law marriage came under attack from those who saw a "public interest in matrimony." Government registration of marriages and formal ceremonies were thought to be the answer (M. McClintock 1996).

Expansion of Medicaid to Cover Preventive Care for Children

By September 30, 1963, things were not looking good in the Vietnam War. Communist guerillas had won several major military victories. John F. Kennedy sharply increased the number of U.S. "advisers" in Vietnam. This situation was the backdrop for Kennedy's establishing the Task Force on Manpower Conservation to investigate why in 1962 an incredible 50 percent of draftees were bounced from qualifying for induction into the armed forces because they failed their medical or mental aptitude exams. The task force issued its report on January 1, 1964, early in Lyndon Johnson's administration. The report, *One Third of a Nation: A Report on Young Men Found Unqualified for Military Service*, found that the majority of young men rejected for the draft had failed as a result of mental, physical, and developmental conditions, many of which could have been diagnosed and treated in childhood and adolescence. The young adults rejected normally came from poor families. The report supported Lyndon Johnson's notion that improving the health and wellness of the nation's impoverished required closing income, social, and health gaps. Most of the report's recommendations were directed toward programs to help poor potential recruits barred from military induction. Yet it also suggested improvements in screening, diagnosis, and treatment of medical maladies in younger children and adolescents, especially such programs in schools.

Thus, the report significantly affected the passage of comprehensive and precedent-setting legislation that expanded Medicaid for poor children in the general population to include early and periodic preventive screening and diagnosis. Sara Rosenbaum and her colleagues conclude that "[e]vidence of the poor health status of young military recruits played a powerful role in this set of policy reforms" and that "the national security study" laid "the foundation of [the] Medicaid child health policy" (Rosenbaum et al. 2005, 2, 11). In sum, the report had a big role in the expansion of Medicaid for children passed in 1967.

Public Housing

Up until World War I, the United States had no history of government-provided housing. The war created severe housing shortages because it sucked capital, workers, and raw materials from the housing industry and increased demand for housing near war-related facilities. Thus, rents exploded. In response, the Ordinance Department started building living space for workers in the armament industry. The government's Emergency Fleet Corporation began building dwellings for shipyard workers. The Labor Department created the U.S. Housing Corporation to build housing for workers supplying the war. After the war, these housing projects were sold to the private sector (Schaffer 1991). After this wartime experience, however, the government now had a precedent to interfere in and compete with the private housing market.

Federal Involvement in Daycare

During World War II, men went to the front, and women substituted for them in workplaces, so something had to be done with the kids while mom was riveting aircraft. In response, federal involvement in daycare became a "national security" item. The federal government subsidized a nationwide program of child-care centers (Stolzfus n.d.).

Grants-in-Aid to States

During World War I, the federal government first gave grants-in-aid to states to use for transportation, agricultural extension programs, and other purposes.

Measures to Combat Unemployment

World War I began the federal government's first foray into providing people with jobs, which the public had previously not thought was a major federal responsibility. Because the federal government had by this time deeply penetrated the nation's economy, federal responsibility for maintaining employment in the economy eventually became widely accepted, including by the Wilson administration. For example, during the war the United States Employment Service, a federal labor-exchange network, was created to help people find the right job. The office would set a precedent for the later entry of the federal government into helping people find jobs during peacetime. Its postwar funding was reduced, but labor unions and bureaucrats in the Department of Labor kept the office alive to fund state government employment services (Sautter 1990, 247–50).

During the postwar recession, a flurry of reconstruction bills, including federal spending on public works, were submitted in Congress. One public-works bill, put forth by the Department of Labor, foreshadowed the Emergency Relief and Construction Act of the Hoover administration during the first years of the Great Depression.

An unnerving war-induced but delayed depression from 1921 to 1922 caused the normally laissez-faire Harding administration to convene the landmark President's Conference on Unemployment in the fall of 1921. Udo Sautter (1990) concludes that in holding the conference, the federal government for the first time formally acknowledged, at least in principle, some responsibility for the lot of the unemployed. Sautter notes that this acknowledgment was natural in the wake of the federally run war. The conference was a critical event because it carried the idea of a federal role in combating unemployment into times of prosperity. Then–commerce secretary Herbert Hoover played a heavy role in the conference, and his later administration was the first to adopt significant policies establishing the federal government's responsibility for getting people jobs during peacetime.

In the wake of the conference, a highway bill contained a small sum of money for public works, but it was the first time that the federal government used public works to increase employment during a peacetime economic emergency (Sautter 1990, 250). It would not be the last.

Price Controls

World War I, unlike even the Civil War, created the precedent of deep government penetration of the economy and use of it to prosecute a war. During World War II, a similar but even more intrusive model applied to an even bigger economy. As part of those war efforts, the government controlled some prices more directly. During the first war, the government set some wages, thus establishing a precedent for the later federal minimum wage.

In the summer of 1917, Congress passed the Lever Food and Fuel Control Act, which was one of the most draconian grants of governmental authority in U.S. history. The war blocked normal international trade in food, and the U.S. government had to feed not only its own military, but also its overseas allies. Thus, food shortages arose at home. The Lever Act gave President Woodrow Wilson the power to control food output, distribution, and prices and to regulate any product used in food production, including fuel. In one of the most egregious examples of price controls, the government arbitrarily set the price of coal so high that even inefficient coal producers remained viable. All this regulation of food and fuel was designed to expand output while restricting domestic civilian consumption (Schaffer 1991). In other words, the government increased the price of food to already hungry people to facilitate the war effort.

Although the retail prices of scarce essentials, such as food and fuel, were directly controlled during World War I, most retail prices were indirectly controlled through "commodity controls." Those controls rationed—and many times denied—coal, raw materials, freight car rail transportation, capital, and credit to industries deemed "nonessential" to the war effort. During the war, most of the direct price controls were applied at the producer or wholesale level. Nonetheless, although all prices were not directly controlled during the war, a bad precedent was set for more ambitious attempts at price regulation in the future.

Thus, during World War II, inflation created by the expansion of the money supply and bank credit resulted in direct government control of many retail prices. Such drastic, comprehensive regulation of prices led to a deterioration in the quality of the goods sold and the rise of a significant subterranean black-market economy (Anderson 1949; Folsom and Folsom 2011).

And during the second global conflict, reflecting the precedent set in World War I, the U.S. government controlled much more than prices. Burton Folsom and Anita Folsom describe how FDR's influential War Production Board (WPB) operated during that conflict:

> And powerful it was: The War Production Board halted all construction projects that were not essential to the war effort, and it decreed what was essential. It directed the conversion of civilian industries to meet wartime needs, allocated scarce materials, and decided what services to the public would be curtailed. It rationed heating oil, gasoline, metals, rubber, paper, and plastic. The WPB's clothing section even regulated the amount of fabric that retailers could use per garment, avoiding wasteful styles such as long, full skirts for women. Clothing would be more formfitting, and skirts would be shorter. (2011, 119)

Price controls during the much smaller Vietnam War followed the precedent set by such controls in the two larger world wars. In 1971, to attempt to stanch inflation caused by the government's guns-and-butter policy (referring to spending on the Vietnam War and simultaneous heavy domestic spending) and excessive money-supply growth designed to artificially pump up the economy before the 1972 election, President Richard Nixon, who had previously been a rabid opponent of price controls, now imposed them (Wood 2009, 169–71; Lind 2012, 380–81). As usual, the controls did not deal with the principal underlying causes of the disease of inflation—excessive government spending and growth in the money supply—but instead focused on the symptom of rising prices. When the economywide controls were eventually removed, pent-up inflation surged.

Government Distortion of the Health Care Market

As result of government controls on wages and salaries during World War II, businesses started providing health insurance to their employees in a widespread manner as a recruiting incentive during the labor shortages caused by war production and those very controls. From this origin, although it is still an inefficient way to provide health insurance for society, people have come to expect their employer to pay at least part of the bill for such coverage (Buchmueller and Monheit 2009). In turn, the government gives businesses a tax break for doing so, but there isn't a free lunch: the government also takes the opportunity to regulate the practice. For example, it recently mandated that all organizations providing health insurance for their employees—including Catholic schools, hospitals, and universities—cover contraceptives free of charge. An uproar resulted, but it was over the First Amendment right to freely exercise religion (by not providing benefits that raised religious objections) rather than over whether government should tell private organizations and insurers what to cover in private insurance policies.

All of this government interference has the effect of distorting the markets for health insurance and thus health care, thus contributing to their soaring costs.

Nationalization of Industries

The standard textbook definition of socialism is government takeover of the means of production—hence, the term *war socialism*. During World War I, the government, desiring a seamless rail web throughout the country to transport raw materials, manufactured goods such as weapons and ammunition, and personnel for the war effort, nationalized nearly three thousand rail and related companies. President Woodrow Wilson created the Railroad Administration and named William G. McAdoo, the secretary of the Treasury, as its head. The administration could ignore competition, antitrust laws, money owed to creditors, and even shipping orders from other government agencies.

During the war, the private railroad companies lost profit opportunities and experienced severely depreciated capital. But as with most government regulation, even war socialism eventually provided at least some benefits to the industry. Private railroad managers dominated the war administration and steamrolled it into policies they had wanted before the war. The managers were now effectively exempt from antitrust law and from state regulatory commissions. The shipping and telegraph companies were also nationalized (Schaffer 1991). The latter had dire implications for free speech and communication during wartime.

Alternatively, during war the government sometimes threatens to take over industries unless they play ball with official policy. For example, during World War I the government threatened to take over steel companies if their owners balked at charging government-"recommended" prices. Following this precedent, during the Korean War President Harry Truman tried to take over the steel industry to end strikes but was thwarted by the U.S. Supreme Court.

In a time of economic crisis, Republican George W. Bush and Democrat Barack Obama have followed wartime precedent, effectively nationalizing the AIG insurance company and the Chrysler and General Motors auto companies, respectively.

"Associationalism" and Industry Self-Regulation

"Associationalism" gained great impetus during World War I. In order to increase war production, this concept involved the government creating cartels in industry and letting the industries self-regulate. A proponent of associationalism, Herbert Hoover probably never would have become commerce secretary or president had it not been for World War I. During the Great Depression, Herbert Hoover's associationalism in the late 1920s was patterned after this war experience, as was much of FDR's New Deal. Although the U.S. Supreme Court rejected the New Deal's National Industrial Recovery Act and the Agricultural Adjustment Act of 1933, the model survived in the form of regulations in the following industries: agriculture, trucking, commercial air travel, public utilities, communications, investment banking, and the stock market. Although such regulatory initiatives always had an excuse—either protecting consumers or lessening the uncertainty of economic fluctuations—the reality was that the regulations, enforced to the benefit of large corporations, blocked the entry of competitors, artificially inflated prices for consumers, and led to technological sluggishness in the industries. Government agencies essentially became cartel overseers (Eisner 2000).

Government Involvement in Labor Relations

During peacetime, government and business often have a common interest in nipping labor unrest in the bud, sometimes using coercion or the threat thereof. During wartime, however, organized labor is in a better bargaining position due to the very urgency of the war. To thwart this potential, during both world wars, new government agencies were created to negotiate labor disputes, manage working conditions and wages, and reassign labor to war industries. During World War I, in exchange for formal government approval of the right to organize and collectively bargain—implemented by the National War Labor Board (NWLB)—labor leaders asked workers to curtail strikes. After the war, the government temporarily reduced its role in managing labor relations, but then the Great Depression reinvigorated the wartime precedent of heavy government involvement. New Deal legislation facilitated the organization of unions, required businesses to bargain collectively with them, and, based on the wartime National War Labor Board, deepened government involvement in the collective-bargaining process through the creation of the coercive National Labor Relations Board (Eisner 2000).

Rich Tradition of Inflationary Money Printing during Wartime

Governments are rarely honest about the high costs of armed conflict.[3] In order to avoid raising taxes too much, they resort to borrowing money—which pushes off the pain of additional taxes until later—or, even worse, to printing money. Printing money leads to too much money chasing too few consumer goods, the production of which have been cut back to allow the manufacture of war materiel. The result is inflation—a general increase in prices throughout the economy. High inflation distorts investment decisions in the economy, which can have dire effects on growth in economic output and thus prosperity. Yet even though printing money is the worst way to fund a war, it is also less politically costly for the government elite because it camouflages the high cost of war. As a result, in U.S. history starting with the American Revolution the government has printed money to pay for a significant portion of the expenses to fight most of its wars.

To finance the American Revolution against Britain, the Continental Congress increased the money supply almost nineteenfold, and the states issued their own debt (Rothbard 2002). By the termination of hostilities, citizens had lost trust in paper money, which resulted in the slogan "not worth a continental." All of this worthless money caused a period of severe inflation (Newman 1990). Many of the nation's founders wanted the states to default on their debt, but Secretary of the Treasury Alexander Hamilton, both believing that such defaults would discourage foreign investors from putting money into the U.S. economy and desiring to increase the power of the new federal government, proposed the creation of a national bank. The Bank of the United States, created in 1791 and modeled on the Bank of England, was, as an agent of the U.S. Treasury, to assume state debts.

3. Much of the information in this section came from research assistance provided by Justin Merrill.

Although the national bank charter was not renewed after twenty years of operation, the precedent for a national bank was later revisited and eventually became in the early years of the twentieth century the disaster known as the Federal Reserve. So war led to high inflation and set a precedent for unconstitutional central banking in the United States.

During the War of 1812, in the first bailout of banks in U.S. history the government allowed them to suspend their obligation to redeem their notes in specie (gold). This policy encouraged banks to expand issuance of notes, thus increasing the money supply and devaluing paper money. The ballooning bank-insolvency problem caused the government to resurrect a national bank in 1816 to buy up the devalued debt from banks. It didn't work; massive customer runs on the banks led to a collapse of the banking system in the Panic of 1817 (Wood 2009, 95–99). Again, inflation and a precedent for unconstitutional central banking came out of war, but this time a precedent was also set for the government's bailing out of banks.

Following the wartime precedent, during the peacetime panic of 1857, the government again allowed banks to suspend their obligation to redeem their notes in gold. Some banks also spurned this obligation in late 1860, when Abraham Lincoln's election led to an economic panic (R. McClintock 2008).

During the Civil War, both the Union and Confederacy issued paper money to pay for war expenses. So-called greenbacks, issued in the North, were not redeemable in gold. In December 1861, the first year of the conflict, Lincoln also suspended banks' obligation to redeem their notes in gold. By early 1862, the Northern public had lost so much faith in banks and paper money that Congress had to pass legal-tender laws. This unorthodox method of public finance said that both paper money and metal coins were legal tender and had the same face value for economic transactions. The unredeemable greenbacks and legal-tender laws allowed banks to expand the money supply, which was needed because the government was flummoxed in its attempts to finance the war via borrowing from the public—that is, its bond auctions had failed to raise enough funds.

During World War I, inflation averaged almost 20 percent per year. Contributing to this problem was the government's expansion of the money supply by buying the U.S. Treasury's debt, by lowering the requirement for private banks reserves and thus increasing their lending, and by creating the WFC. The WFC was a publicly owned bank that gave credit to corporations involved in the war effort. As noted earlier, the organization later became a model for the peacetime RFC under the Hoover administration and FDR's New Deal (Anderson 1919).

During World War II, even with government wage-and-price controls in effect, the Consumer Price Index went up 18 percent (Woods 2009, 171). Two-thirds of the money used to finance war spending was either borrowed from the public via war bonds or printed via the Federal Reserve's monetization of the debt (the money supply increased at an annualized rate of 25.5 percent during the war).

The Vietnam War (as usual) caused the inflation rate to rise and effectively destroyed the global monetary system created under Bretton Woods. Democrat Lyndon Johnson's and Republican Richard Nixon's guns-and-butter policies created doubts in countries holding U.S. dollars as reserves about whether the United States was printing more money than it could back with gold. The Federal Reserve purchased (monetized) about 23 percent of the U.S. government's added debt during the war years (from 1965 to 1973). These nervous countries began trading their dollars for gold at the then fixed rate. This run on U.S. gold necessitated Nixon's termination of convertibility of U.S. dollars into gold—on which the world's financial system (the Bretton Woods framework) was then based. Thus, from that time forward, the sound commodity-based money standard was destroyed and replaced with an international floating fiat dollar-exchange standard.

In the decade before the start of heavy U.S. involvement in the Vietnam War (1955–65), prices increased only 17 percent; in the decade after entry into the war (1965–75), prices increased 71 percent. This high inflation did not let up until the early 1980s, when Paul Volcker, chairman of the Federal Reserve, slammed on the monetary brakes, causing a steep recession but ultimately helping create low inflation and prosperity during the Reagan administration.

Bailouts of Banks

George W. Bush's bailout of banks during the Great Recession was nothing new. The first federal bank bailout had occurred during the War of 1812, when the financial stress induced by that war had caused the federal government to allow banks to suspend their obligation to redeem their notes in gold. This bad precedent led to government bailouts of financial institutions thereafter—even if they have behaved irresponsibly—because government financial authorities believe that banks are the vital circulatory system for the economy and that large banks are "too big too fail."

During that war, as in most conflicts, the government expanded the money supply—doubling it to help fund war expenses—and allowed banks to suspend payments of their notes in gold. After the war, the government collapsed the money bubble to try to thwart war-induced inflation—a common occurrence during wars because consumption is restricted in favor of war production, thus leading too much money to chase too few goods. This action caused the collapse of the banking system (Wood 2009, 88–90).

In 1913, just prior to World War I, the Federal Reserve System was created—a descendent of the Bank of the United States. The Fed's profligate expansion of the money supply during the war and again during the 1920s helped bring about an artificial economic bubble that fueled excessive speculation in the stock market, leading eventually to the stock market crash, the bursting of the economic bubble in 1929, and the onset of the Great Depression (Wood 2009, 96–102).

Just after taking office in 1933, during the worst of the Great Depression, FDR followed the precedent set in the wartime-related emergency in 1817, closing the banks for a few days to halt a run on them by depositors wanting their cash. In effect, his closure suspended all required payments by banks to the public, thus acting as disguised welfare to bankers. Later presidents, including George W. Bush and Barak Obama, have enacted wider bank bailouts based on this precedent.

More General Bailouts of Wall Street

In 1914, after World War I erupted in Europe but before the United States was involved, William Gibbs McAdoo, Secretary of the Treasury, shut down the New York Stock Exchange for four months. This U.S. government action ostensibly prevented foreigners involved in the conflict from having access to U.S. securities, thus impairing their war-fighting ability. In reality, the action bailed out the American stock market. The likely rush of foreigners cashing in their stocks for money to use in the war would have made the U.S. market plunge.

Such government intervention set a bad precedent for future bailouts of Wall Street and stock market closures. For example, the government also closed the stock market in 1933 during the Great Depression and for almost a week after the September 11, 2001, attacks.

Intrusive Government Collection of Economic Data

As noted earlier, during World War I, for the first time in American history, the government deeply penetrated the economy and mobilized it for war. To succeed in this Herculean socialist task, federal authorities first began collecting nationwide and sectorwide economic data. Of course, such extensive data collection required businesses to turn over much information—and their privacy—to the government. After the war ended, officials wanted to keep the information from commercial interests flowing in. All the new government bureaucrats, empowered to do an expanded set of tasks, wanted augmented data collection to carry out these tasks. These more extensive data in turn led to a further expansion of government activities.

The Commerce Department researched the multitude of goods produced and decided that it should standardize them. Based on the data the department was now collecting, the Federal Reserve sought to manage the business cycle in the economy. Its intervention in the economy has been especially pernicious to the nation over the years. The Department of Agriculture began forecasting harvests and thus prices, which led to the bureaucracy's attempt to interfere with farmers' choice of crops (Eisner 2000). All of these dubious government activities would have been impossible in the prewar years, when much less data were collected.

Regulation of Food and Alcohol

The on-ramp to the ill-conceived Eighteenth Amendment—prohibiting the manufacture, sale, transportation, import, or export of alcoholic beverages—grew steeper during World War I. The Selective Service Act of 1917, which began drafting young men for military service, created dry areas around military bases and prohibited people from giving or selling drinks to military personnel in public or private places. In August 1917, a part of the aforementioned Lever Food and Fuel Control Act banned the use of food for distilling booze. In early December 1917, President Woodrow Wilson limited the brewing of beer to that containing 2.75 percent alcohol or less and curtailed dramatically the amount of grain brewers could use (Schaffer 1991, 98). All of this was done ostensibly to save food for the war effort but was mainly a moral pronouncement on the evils of drinking. On December 22, 1917, Congress passed the Eighteenth Amendment, which was ratified over the course of two years; prohibition began in January 1920.

As Ronald Schaffer notes, "The United States government responded favorably to the political strength of the prohibitionists because of the personal sympathy certain government officials had for their cause and also because prohibition was a way of managing the nation at war; it held promise for diverting food supplies to war production, increasing the output of war workers, and building a fighting force that could be sent into battle physically and morally strong and soberly efficient" (1991, 98).

The prohibition of alcohol was a widely violated policy disaster. Many people wanted to drink, no matter what the government ordered. The rise of organized crime in America—as it took over the dangerous production, sale, and transportation of a governmentally banned substance during this period—only helped fuel the expansion of federal law enforcement agencies.

Yet the ignominious results of failed prohibition nevertheless have strangely inspired the current massive, failed war on drugs—a war that similarly enhances organized crime elements that earn huge profits on products made much more expensive by their illegality.

War on Prostitution

During World War I, defenders of "morality" also attacked prostitution. And they concentrated their cleansing on the U.S. Army. The army had always had the philosophy that prostitution was an outlet for the troops and during the guerilla war in the Philippines ran the biggest licensed house of ill repute in the world. When the army greatly enlarged for World War I, however, the moralists could no longer put up with regulated prostitution. To keep the troops away from prostitutes, the army declared Seattle and Birmingham off limits and sent the marines to patrol the streets of Philadelphia.

As in the current campaign against cigarettes, the government used movies, pamphlets, and grotesque and scary photos of the medical effects of venereal disease. The amazing effect of this effort was that by the close of 1917 every red light district in every American city had been shut down.

But the government didn't stop its eradication campaign with prostitution; it began to guard against troops having sex with flappers and other "unsavory women" who would "destroy their fighting power." Thus, the War Department established the Committee on the Protection of Girls. The committee dispatched "purifiers" to military bases to follow soldiers and their women to secluded spots and to browbeat communities to close burlesque shows that would tempt young troops and their lady friends to have intercourse.

And the violations of rights just kept getting worse. Federal and local governments forced women in areas surrounding military bases to undergo mandatory physical exams and carried out vice raids that swept up working-class, unemployed, and unescorted women, who were denied bail while they were tested and treated for venereal disease. From 1918 to 1920, new federal prisons were set up to house eighteen thousand women busted on prostitution charges (Schaffer 1991, 99–103).

Thus, during World War I the federal government became heavily involved in defending morals and eliminating vice.

Daylight Savings Time

Does the government even have to control and manipulate the time? Apparently it does during wartime (and thereafter).

In the 1880s, the American railroads had standardized time based on four time zones (before that, each town or city was on its own time), and most large towns and cities had rapidly adopted the standard voluntarily. World War I, however, resulted in Congress making railroad time mandatory everywhere (Morris 2010).

Also, to save energy during World War I, the government invented daylight savings time for part of the year (Schaffer 1991, 35). During the war, the duration of daylight savings time was only six months. In 1973, 1986, and 2007, ostensibly to save even more energy, the government extended it further, so that it now lasts eight months. It still seems odd, though, that the government wants to save daylight during the period of the year when the days are longest.

Conclusion

War frequently leads to large increases in taxes, regulation, and government spending both for the military and for ostensibly unrelated domestic programs. Conservatives should not ignore that war is probably the most prominent cause of the massive welfare state that has been erected in the United States. Although other wars—such as the Civil War and even the American Revolution—played their part in ballooning government, World War I instituted permanent big government in the United States. The government's deep penetration of the economy in order prosecute the war set bad precedents for excessive public spending, taxes, and regulation that are roundly and wrongly believed to have originated during the Great Depression—first in the Hoover administration and then in Roosevelt's New Deal. The template for public programs and agencies during the Depression came from intrusive government management during World War I, and many of the people who managed such wartime efforts were brought back during the economic downturn. The model used for the even deeper penetration of the civilian economy during World War II came from that of World War I.

Many conservatives today might argue that despite the ballooning of government, war is sometimes necessary for U.S. security. However, most of the nation's big wars were unneeded, downright foolish, or counterproductive (see Eland 2012). Traditional conservatives recognized in the past that war is the primary cause of big government in human history, so they promoted peace. Since the rise of William F. Buckley and the neoconservatives in the mid-1950s, however, the Right has forgotten that the best way to limit government is to have peace. That important lesson needs to be relearned.

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