The Veterans’ Bonus of 1936 and the Abortive Recovery from the Great Depression

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Abstract: The Veterans’ Bonus, enacted January 1936, disbursed 9 year nonmarketable U.S bonds with a 3 percent annual interest rate to 3 million World War I veterans when bank savings accounts paid a 2.5 percent annual interest rate. The average bonus per person exceeded 30 percent of the mean household income for the veterans’ age bracket. The June 1936 Federal deficit was a peacetime record. In two weeks that June veterans cashed in 46 percent of their total bonus, an amount nearly one percent of annual GNP. The economic recovery in 1936 was more than 2.5 times bigger than in the preceding two years probably because of the effects of this Bonus on consumption outlays. The redemptions of the veterans’ bonus bonds in June 1937 were 45 percent of the amount the year before, but did not stimulate the economy as much because the Federal deficit in June 1936 was 4 times larger than in June 1937. JEL E65 Studies of Particular Policy Episodes.

The Veterans’ Bonus of 1936 furnishes a valuable opportunity to see how a large increase in the Federal deficit can stimulate economic activity. To set the stage for a detailed analysis of this event, that relies heavily on monthly figures on the Federal deficit published by Firestone (1960), it is useful at the outset to consider how monetary and fiscal policy instruments affect annual consumption from 1929 to 1941. The focus at this stage of the analysis on annual figures is due to the lack of detailed and reliable figures on consumption for shorter periods. The surrogate for monetary policy in Table 1 is high powered money, the sum of currency and member bank reserves, because it is, in principle, under the control of the monetary authorities, the Fed. Some caution is advisable since the Fed may choose to accommodate the needs of trade as it was instructed by the original Federal Reserve Act. To the extent it does so, it obeys the Real Bills Doctrine and thereby surrenders some control over this instrument of monetary policy. Other measures of the stock of money, M1, M2 and the like are even more open to question as monetary instruments because these are more tainted by endogeneity. It suffices to recall that banks usually extend lines of credit to their customers so that this component of the money stock, which stems from bank credit, places discretion over the amount used in the hands of the borrowers. Any correlation between money and measures of economic activity, therefore, cannot be claimed legitimately as showing that money causes economic activity. Endogeneity of the money stock is especially notable owing to the excess reserves held by member banks during the 1930’s (Telser, 2001).

The Federal deficit as a fiscal policy instrument is in principle under the control of the executive and legislative branches of the Federal government. The deficit tends to stabilize consumption because government outlays tend to be constant while government receipts tend to vary directly with economic activity. (See Figures 1 and 2.)
Before presenting some regressions based on Table 1 that has figures of interest in themselves, let us suppose that fiscal and monetary instruments can stabilize consumption in the sense of minimizing its variance. This hypothesis helps interpret the regression results and explains why regressions are only partly useful and why a more detailed analysis is needed to understand the effects of the Veterans’ Bonus.

A parable can explain the reasoning behind the following algebra. Suppose you wanted to estimate the effect of fertilizer on the yield of corn and that you had data for a random sample of farms but no data on soil fertility. All you could observe is corn yield and the fertilizer dosage. Farmers would dose their acres with more fertilizer, the poorer the soil. This would create a negative correlation between the dosage of fertilizer and soil quality. Hence the regression coefficient of fertilizer on yield would be near zero, but surely you would not conclude from this that fertilizer did not raise the yield. Indeed to test correctly the effect of fertilizer on yield you would need to choose the fertilizer dosage by a random method so that the dosage would not be correlated with soil quality. In the following algebra consumption corresponds to yield in the parable and fertilizer to the instruments.

\[ y_t = \beta_0 + \beta_1 x_{1t} + \beta_2 x_{2t} + u_t, \]

where \( y_t \) is consumption during year \( t \), \( x_{1t} \) is the monetary instrument and \( x_{2t} \) is the fiscal instrument. Suppose the monetary and fiscal policy makers would choose \( \beta_i, i = 1,2, \) to minimize the variance of \( y \). Consequently, \( \partial \text{Var}(y)/\partial \beta_i = 0 \) implies that

\[ \beta_1 \text{Var}(x_1) + \beta_2 \text{Cov}(x_1,x_2) + \text{Cov}(x_1,u) = \text{Cov}(x_1,y) = 0, \]
\[ \beta_1 \text{Cov}(x_1,x_2) + \beta_2 \text{Var}(x_2) + \text{Cov}(x_2,u) = \text{Cov}(x_2,y) = 0. \]

It must not escape attention that a covariance of zero between consumption and the instruments of monetary and fiscal policy is a necessary but not a sufficient condition for stabilization of consumption.

Least squares estimates of regression (1) treat the two explanatory variables as if they were uncorrelated with \( u \). Let \( b_i \) denote the least squares estimates of the regression coefficients so the \( b \)'s satisfy the following two equations:

\[ b_1 \text{Var}(x_1) + b_2 \text{Cov}(x_1,x_2) = \text{Cov}(x_1,y) \]
\[ b_1 \text{Cov}(x_1,x_2) + b_2 \text{Var}(x_2) = \text{Cov}(x_2,y). \]

It follows from equations (2) and (3) that the right-hand sides of equations (4) and (5) would be zero. Hence either the least squares estimates of the \( b \)'s would be zero or impossible if the \( x \)'s were perfectly correlated. Therefore, the better the least squares fit of regression (1), the more destabilizing are the policy instruments. This revealing result must be kept in mind as we turn to least squares estimates of regression (1).
Table 1: U.S. Consumption Expenditures, Annual Changes in Consumption Expenditures, Federal Deficit and High Powered Money in Millions of Current Dollars, Annually, 1929-1941

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Annual Change Consumption</th>
<th>Federal Deficit&lt;sup&gt;b&lt;/sup&gt;</th>
<th>High Powered Money&lt;sup&gt;c&lt;/sup&gt;</th>
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</tr>
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<tr>
<td>1941</td>
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</table>

<sup>a</sup> Historical Statistics (1976, Table G416). Similar consumption figures prior to 1929 are not available.
<sup>b</sup> Firestone (1960, Table A-3, not seasonally adjusted).
<sup>c</sup> Friedman and Schwartz (1963, Table B-3). Monthly average.

Note that 1930 is the only year in which the stock of high powered money actually fell.

While the biggest increase in consumption in 1936 coincides with the biggest deficit, the biggest decrease in consumption does not coincide with the biggest surplus. That there were surpluses in 1929 and 1930 at the start of the Great Depression does not warrant the conclusion that these surpluses were its cause although it is likely that these surpluses depressed the economy. Moreover, the Federal government had a surplus in most of the 1920's, a prosperous period.

At the outset there is the complication that most of the Veteran's Bonus Bonds were redeemed in June, 1936 and in June, 1937 but only annual consumption data are available. For this reason the regressions give a slightly better fit relating consumption in one year to the deficit in the preceding year. Regressions (6)-(8) summarize the relation between consumption and the two policy instruments for 12 years, 1930-1941.

\[
(6) \quad C_t = 3308 - 1.072 \text{Deficit}_{t-1} + 0.754 C_{t-1} + 0.763 HPM_t \\
t\text{-ratio} = 0.224 \quad 0.596 \quad 2.907 \quad 1.522 \\
\text{Adj } R^2 = 0.822 \quad F\text{-ratio} = 17.88 \quad SE = 4283
\]

Regression (6) introduces lagged consumption and regression (7) takes the first difference of consumption as the dependent variable. The regression coefficients in (6) of both the monetary and the fiscal instruments are closer to the values under the stabilization hypothesis than is the case in regression (7).

\[
(7) \quad \Delta C_t = -10500 - 2.527 \text{Deficit}_{t-1} + 0.376 HPM_t \\
t\text{-ratio} = -3.364 \quad -2.578 \quad 1.294 \\
\text{Adj } R^2 = 0.621 \quad F\text{-ratio} = 10.03 \quad SE = 4260
\]

\[
(8) \quad \Delta C_t = -7667 - 3.310 \text{Deficit}_{t-1} \\
t\text{-ratio} = -3.336 \quad -4.150 \\
\text{Adj } R^2 = 0.596 \quad F\text{-ratio} = 17.22 \quad SE = 4402
\]

Note that regression (7) gives the best fit judged by the standard error of the estimate (SE).
The peculiar efficacy of these federal deficits as stimulants of recovery becomes understandable by observing the level of interest rates. In January, 1935, the rate on U.S. Treasury Bills stood at 0.13 percent and a year later at 0.10 percent. The rate on long-term Treasury bonds was 2.9 percent in both January, 1935 and a year later (Banking and Monetary Statistics, 1943, Table 128). Some would claim and with good reason that the U.S. economy was in the grip of the Keynesian Liquidity Trap. Two forces create the Trap, first, interest rates much below the level bond holders have become accustomed to, and, second, falling prices. The first factor reduces willingness to buy or hold bonds because of the fear that interest rates will rise during the term of the bonds and return to their normal levels. If this happens, bond holders would incur capital losses. The excess of long-term over short-term interest rates supports the first part of the reason for the Keynesian Liquidity Trap. The second factor, falling prices, means that holders of nominal assets get a real return equal to the rate of deflation plus the nominal interest rate. Hence their real rate of return is positive even if the nominal interest rate is zero. At the same time, deflation raises the real interest rate that potential borrowers would pay. Unless they expect a return above this real cost of loans, they would not borrow. In January, 1937, the T-Bill rate was 0.36 percent. Between 1937 and 1940 there were months when this rate was zero and even negative (Cecchetti, 1988). Still greater recovery might have been the result of direct cash payments to the veterans instead of the open market operations made necessary by the administration's fiscal policy. Moreover, the superiority of the veterans' bonus compared to the other forms of the New Deal's fiscal stimulus is clear because the bonus took effect without the delay common for public works programs, payment went directly to the recipients without complicated investigations to determine who was eligible and the bonus did not result in a permanent expansion in the size of government.

Agitation for a bonus to be paid to World War I veterans began in 1919. These efforts met opposition from Presidents Coolidge, Hoover and Roosevelt. In 1924, Congress enacted over President Coolidge’s veto legislation establishing an endowment fund that would pay veterans $1,000 in 1945 (Lisio, 1994, pp. 7-8). With the onset of Depression, there were several attempts to make immediate payment to veterans. In February, 1931, Congress enacted over Hoover’s veto legislation that allowed World War I veterans to borrow up to the smaller of either the maximum 50 percent of their Adjusted Service Certificates or $500 at a 4.5 percent rate of interest (Lisio, 1994, pp. 38-40). This Act seems to have had little effect on the economy, judging from monthly Federal disbursements. The third veto in spring, 1932 by President Hoover led to the bonus riot (Lisio, 1994). The fourth veto by President Roosevelt in 1935 was sustained. Congress overrode the fifth Presidential veto, and enacted the veterans' bonus on January 27, 1936. This was the third Congressional victory after 5 presidential vetoes of a veterans’ bonus.

The 1936 bonuses took the form of special nonmarketable U.S. bonds in $50 denominations that paid 3 percent interest annually to the holders until the maturity date June 15, 1945. A veteran had to hold the bond for at least one year to receive interest. Thereafter interest was paid annually. World War I veterans could cash in their bonds at any time after June 15, 1936. The interest rate on these bonds was generous relative to alternatives. The Federal Reserve System set the maximum interest rate on savings accounts at member
banks at 2.5 percent effective January 1, 1936. Because the veterans could have obtained a higher interest return on their bonus bonds than on savings deposits, it is very likely that the veterans spent most of their redemptions.\footnote{The Banking Act of June 16, 1933 gave the Federal Reserve temporary authority to set maximum interest rates on time and demand deposits. The maximum rate on demand deposits was set at 0. This authority over interest rates became permanent by the Banking Act of 1935.} The total bonus payment initially was $1.745 billion, increased by $141 million in the next fiscal year. The bonus was paid to 3.004 million World War I veterans on the basis of $50 for each month of service during the Great War. The average bonus was $581. (Based on the figures available to the Treasury by June 30, 1936, it was $547.50, U.S. Treasury Report, 1936, p. 253). Of this total, veterans took $800 million in cash in the two week period June 15 to June 30, 1936. They redeemed $696.5 millions of the bonds between July 1, 1936 and June 30, 1937. Of this amount, $233 millions were redeemed before June 30, 1936 but were not paid to the veterans until after July 1, the beginning of the 1937 fiscal year. From August 1, 1936 to June 30, 1937, $463 millions were redeemed. Most of these redemptions almost certainly occurred during two weeks from June 15 to June 30,1937. Therefore, from June 15, 1936 to July 31, 1936 the amount paid in cash to the veterans was $1.033 billions.

The evidence for these assertions while strong is perforce indirect. Firestone’s figures (1960, Table A-3) for Federal expenditures by months shows a surge to $2.3365 billion in June 1936 and a second smaller surge to $1.2995 billion in June 1937. It is highly likely, therefore, that those veterans who did not cash in their bonds at once held them for one year to collect the higher interest rate paid on these bonds relative to the interest rate on bank saving accounts. Consumption rose by $6.2 billion in 1936 so the redemptions are over 16 percent of this figure. By July 1, 1937, only $389 million of the bonds remained outstanding, 20.7 percent of the total. (U.S. Treasury Report, 1937, p. 16). In little more than a year the veterans redeemed nearly 80 percent of their bonus and most likely spent all of it. Here is a case in which most of the transitory income seems to have been consumed and little to have been saved.

The median family income with household head 35-44 years, the relevant age bracket for the veterans, was $1,449 in 1939 (Historical Statistics 1957, G153) and the mean family income in 1935-36 was $1,784 (Historical Statistics, 1957, G126). The mean personal income before taxes for families and unattached individuals was $1,631 before taxes and $1,608 after taxes for 1935-36 (Historical Statistics, 1957, G120, G122). Hence the payment to a veteran is a sizable fraction, at least 30 per cent, of these figures for income. Although we do not know the incomes of the veterans who took their bonuses in cash, it is safe to infer that they were probably not well-off. There were 38.4 million families and unattached individuals in this period (Historical Statistics, 1957, G118). Veterans who got bonuses constitute 7.6 percent of these units. The Treasury financed the cash disbursement to the veterans by borrowing from the public. In June 1936, the Federal deficit exceeded $1.8 billion. The 1936 GNP in current dollars was $82.7 billion so the cash payments in the 2 week period of June 1936 were nearly one percent of GNP for the whole year (Historical Statistics 1957, F-1). It was 1.25 percent of 1936 GNP including the payments in July 1936. Note that the open market
purchases by the Fed between February and August 1932, 1.9 billion, made possible by the Glass-Steagall Act of February 27, 1932 amounted to about 1.9 percent of national income. Hence the stimulus to the economy of the payments to the veterans was comparable in size but much larger in intensity than the Fed purchases. How did these payments to the veterans affect the economy?  

First, consider how the bonus entered the economy. Since nearly half of the total veterans' bonus was cashed in only 2 weeks, the U.S. Treasury had to sell bonds to nonveterans to finance the bonus payments to the veterans. The immediate effect would tend to raise interest rates. Although interest rates on 90 day Treasury Bills did rise from 0.18 percent in May to 0.23 percent in June, they fell to 0.14 percent in July and remained close to that level until December 1936 when they rose to 0.23 percent. Say a buyer of these bonds pays by check. Funds go from the bank, lowering its reserves at the Fed, to the Treasury account at a Federal Reserve Bank. This would reduce high powered money. To the extent the veterans deposit the cash they get from the government into their bank accounts, bank reserves go up, offsetting the contractionary effect. To the extent the veterans spend the money on commodities, inventories fall and production may rise. The net revenue from the veterans' expenditures flows to the banks so that reserves return to their original level. Soon everything on the financial scene returns to the initial positions apart from a bigger Federal debt. In the meantime production may rise. Even payment in cash to the Treasury by buyers of the bonds would not affect the banks unless the buyers took cash from their own hoards for this purpose, which is highly unlikely. Even in this unlikely case, paying for Treasury bonds in cash would have no effect on the money supply. A stimulating effect on production caused by the deficit can occur in this case without a change of high powered money.

Theoretically, buyers of Treasury bonds might reduce their consumption and save more in response to the higher interest rates. If so, there would be no effect on consumption due to the veterans' bonus because the bigger outlays on commodities of the veterans would be offset by the smaller outlays on commodities by the buyers of the Federal bonds. However, as noted above, the effect on interest rates was so small, it is unlikely that buyers of Treasury bonds would reduce their consumption outlays, keeping mind that they could finance their purchases by the sale of other financial assets. Moreover, the rise in interest rates was so slight, it would probably not affect the demand for business loans.

Putting aside these theoretical musings, there is solid evidence on personal income. According to Barger and Klein's estimates of personal income, seasonally adjusted and available quarterly from the first quarter of 1921 to the last quarter of 1941, personal income rose by $1.34 billion ($17.16 billion - $15.82 billion)  

2 Although Friedman (1957, p. 215) discusses some tests of his permanent income hypothesis using the special life insurance payments to veterans in 1950, he does not mention the veterans' bonus of 1936 anywhere in his book. All that Friedman and Schwartz (1963, p. 538, n. 38) say about the veterans' bonus deserves to be quoted in full. "Under the terms of the Adjusted Compensation Act of Jan. 27, 1936, passed over Presidential veto, more than $1.5 billion in bonus nine-year interest-bearing bonds, convertible into cash at any time, was distributed on June 15 to World War I veterans." Carroll (2001) gives a laudatory account of the status of Friedman's Permanent Income Hypothesis beginning with Friedman's theoretical analysis (1963). It should be noted, however, that Carroll does not even mention Leviatan's critical empirical study of the PHI although it is in the chapter immediately after Friedman's, and Friedman himself commented on Leviatan's essay (1963). My concern herein is not with tests of the PHI but only with the fact that Friedman says next to nothing about the Veterans' Bonus.
from the first to the second quarter of 1936. This increase just about equals the payments to the veterans at the end of that quarter. Personal income remained at about the higher level for the rest of 1936. It reached nearly $19 billion in the second quarter of 1937 and then fell for the next 6 quarters to about $16.8 billion. (See Moore, 1961, Table 19.1, p. 140 and p. 48 for a discussion of Barger and Klein's estimates).

My point is simple. The relatively big direct payments to a sizable fraction of the population in needy or modest circumstances had a commensurate and immediate stimulating effect on the depressed U.S. economy that did not persist after the initial impact. However, we lack the data to trace in detail how the veterans spent their bonuses so we must perforce study the effects indirectly.

June is typically a surplus month for the Federal government. Figure 1 shows the June Federal deficits and surpluses annually from 1918 to 1940. The June 1936 deficit is a peacetime record up to that time. Figure 2 shows total Federal outlays for these Junes. Note the surge in 1936 and the aftermath in June 1937 marking the redemptions one year later.

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3 Firestone (1960, Table A-3) has the figures for Federal expenditures, receipts and deficits monthly. He does not comment on the huge deficit in June 1936.
Figure 1 Federal Deficits in June 1919-1939
Figure 3 shows the log of seasonally adjusted high powered money by months from January 1929 to December 1940. There is a largely upward trend for most of the period starting in 1931. Hence any rise in 1936 economic activity begs the question of why the cause in the form of increased high powered money in the preceding months did not stimulate the economy. Moreover, because that part of the Veteran’s Bonus that the veterans cashed in was financed by Federal borrowing from the public, it did not raise the stock of high powered money. Nevertheless the pattern of log HPM from 1935 to 1939 in Figure 3 renders desirable a closer look in Figure 4.
Figure 3

Log HPM Monthly Jan 1929-Dec 1940

Figure 4

Log HPM Monthly, Jan 1935 - Dec 1939

Figure 4 shows that high powered money rose in both 1935 and 1936. It leveled off in 1937. It is safe to conclude that the monetary instrument was stimulating the economy from the beginning of 1935 to the first 10 months of 1936. However, in 1937, the path taken by HPM contributed to the relapse into severe Depression starting in August.

Next, consider the level of economic activity. Figure 5 shows the log of the seasonally adjusted FRB Index of Production monthly from January, 1929 to December, 1940. The Great Depression is clearly shown by the sharp drop of production from the January 1929 to the first three months of 1933. The drop in the first 3
months is followed by a sharp upturn until September when the nation relapses to depression. The somewhat steadier rise from January 1934 to December is only 10.3 percent (even smaller with the revised FRB Index, 6.9 percent). The next year, 1935, displays a somewhat bigger rise of 12.2 percent from 90 in January to 101 in December. The spectacular rise in 1936 coincides with the veterans' bonus and with a rise in the stock of high powered money. In January, the FRB Index stood at 97 and by December it had risen to 121, an increase of nearly 25 percent. Since the veterans knew the terms of their bonuses including how much each would receive as early as the end of January 1936, it is safe to conclude that this anticipated windfall helped the robust expansion of the economy in 1936. Production remained high until August 1937. Moreover, the veterans' redemptions in June 1937 were 45 percent of the level in the preceding June. However, the deficit was smaller in June 1937 relative to the preceding year. In June 1936, Federal expenditures were $2.3 billion and the deficit was $1.8 billion. Because some redemptions to the veterans were paid in July, note that the total Federal expenditures in June and July 1936 were $2.75 billions and the deficit for the two months summed to $1.925 billions. In June 1937, Federal outlays were $1.3 billion of which $463.5 millions went for the veterans' redemptions. However, the Federal deficit in June 1937 was $432 million, only 23.9 percent of the June 1936 deficit. The smaller deficit of June 1937 had a commensurably weaker effect. By September 1937, the economy was descending again into depression. Besides the weakening effect of the deficit there was the contractionary effect on the economy of the leveling off of high powered money plainly visible in Figure 4. The stock of high powered money did not resume its upward course until 1938. Recovery did not begin until May 1938.

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1 Romer (1992, p. 705) says "In 1936 a large bonus had been paid to veterans of World War I. In 1937, not only was there no payment of this kind, but social security taxes also were collected for the first time." This is inaccurate. Veterans did receive payments in 1937. The redemptions by the veterans in June 1937 were $463.5 millions, about 45 percent of the amount paid from June 15, 1936 to July 31, 1936.

2 In June 1936, demand deposits were $24.4 billion and time deposits were $13.7 billion. In June 1937, these were $25.1 billion and $14.6 billion, an increase of nearly $1.6 billion. A quantity theorist would derive scant support from the relation between production and M1 monthly for the period January 1936 to December 1939.
Some claim that the Social Security program was a drag on the economy (see note 4). This program began in January, 1937. From 1937 to 1949 the social security tax rate on taxable earnings was two percent, one percent paid by employees and one percent paid by employers. The collections and disbursements on behalf of social security are both included in Firestone's figures through 1939 (p. 82). The social security levy applied only to the first $3,000 of taxable earnings and only 60 percent of all workers were liable for the tax. The average earnings of those liable for the tax was not much over $2,000 so the amount paid per worker was about $20. For these reasons the negative impact of this tax on the economy should not be overblown.

Figure 6 shows the severity of the Great Depression in terms of the huge deflation from 1929 to 1933. Indeed, Figures 5 and 6 show that the Wholesale Price Index (WPI) moved in tandem with production. During the 36 months from January 1936 to December 1938, the adjusted $R^2$ between the WPI and the production index is 0.475. The surge of prices continued until the middle of 1937 and then declined with the relapse into the 1937-1938 Depression. The downward trend in the price level in 1937 and 1938 together with the low level of the Treasury Bill rates put the economy into the Keynesian Liquidity Trap. That the longer term rate on Treasury bonds stood about 200 points above the T-Bill Rate shows expectations of rising interest rates that would discourage lending and would encourage holding nominal assets.
Monthly figures on consumer spending are not available. However, the Federal Reserve Board's Index of Department Store Sales is available monthly and can provide another measure of the effect on consumers of the veteran's bonus. These figures start in January 1923. The most prominent feature of department store sales is seasonality. Sales in December are usually 50 percent above November sales. A secondary peak occurs around Easter and a slump during the summer. Nevertheless it would be misleading to use seasonally adjusted figures owing to the tremendous drop of sales from 1932-1935. It is better to compare the figures for the same month across years and thereby avoid distortions from a mechanical adjustment for seasonality.

Consider the FRB Index of Department Store Sales deflated by the Wholesale Price Index. Begin with Figure 7 for January's. The peak occurs in January 1931 and the trough in January 1935. There is a steady rise for all the January's through 1939. Figure 8 shows deflated sales during June's. Like January, there is a big increase from 1935 to 1936. The 1937-38 depression is plainly visible in the June figures. The most dramatic picture is for December. The severity of the Great Depression can be judged by the singular fact that from 1932 to 1935, December sales were below November sales. Figure 9 shows the spectacular rise in deflated department store sales from 1935 to 1936. The 1937 slump appears only in the shape of a leveling off in December 1937 compared to the preceding year. Thereafter, December sales in 1938 and 1939 rose.
Figure 7  Deflated Dept Store Sales  Jan 1923-1939
Figure 8  Deflated Dept Store Sales  June 1923–1939
The conclusion is plain. The veterans' bonus brought a large measure of recovery to the economy although it was financed by Federal borrowing from the public that did not change the money supply. This episode was a harbinger of the recovery that began in 1942 resulting from the huge government outlays during World War II.

Historical Note

Perhaps one reason for the neglect by economists of the veterans' bonus arises from the Treasury's cryptic description. The following is the most direct available statement by the Treasury.

"Adjusted service bonds amounting to $141,000,000 on the basis of daily Treasury statement, unrevised, were issued during the year [fiscal 1937] making a total of $1,809,000,000 of such bonds issued since June 15, 1936. Redemptions during the year [fiscal 1937] amounted to $696,000,000 compared with redemptions of $724,000,000 during [fiscal] 1936, leaving $389,000,000 of adjusted service bonds outstanding as of June 30, 1937." (Treasury Report for Fiscal Year Ending June 30, 1937, p. 16). Assume the Treasury refers to years consistently so that a year means a fiscal year. The fiscal year 1936 begins on July 1, 1935 and ends on June 30, 1936. Likewise, fiscal 1937 begins July 1, 1936 and ends on June 30, 1937. The bonds were issued on June 15, 1936. According to the Treasury Report for fiscal year 1936, $1,745,184,345.96 was the total
payment by June 30, 1936 of which $76,635,845.98 was paid by check for amounts less than $50 (Treasury Report for Fiscal Year Ending June 30, 1936, p. 89). Adding $76.6 million to the announced redemptions of $724 million for fiscal 1935 gives $800.6 million redeemed in cash during the 2 week period June 15, to June 30, 1936. This extraordinary phenomenon goes without comment in the Treasury Reports. Evidence to support my interpretation is Firestone's figure for the Federal deficit during June 1936. It is $1,807.3 million. The deficit the month before is $301.7 million and the month after is $118.2 million.

References