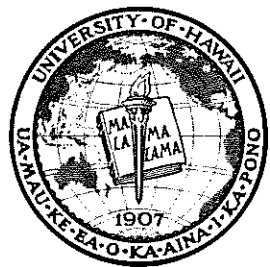


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BONUSES FOR VETERANS OF WORLD WAR II



REPORT NO. 2 -- 1951

**LEGISLATIVE REFERENCE BUREAU
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BONUSES FOR VETERANS
OF WORLD WAR II

by

Hideto Kono
Junior Researcher

and

Robert M. Kamins
Assistant Director

-- Report No. 2, 1951 --
(Request No. 1479)

Norman Meller, Director
Legislative Reference Bureau
University of Hawaii

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BONUSES FOR VETERANS OF WORLD WAR II

SUMMARY

Twenty-one states and the Territory of Alaska have granted bonuses to their veterans of World War II. Estimated costs of these bonus programs range from \$3,250,000, in Alaska, to \$500,000,000, in Pennsylvania. To meet these costs most bonus acts provide for the issuance of bonds, adding new taxes or increasing existing taxes to provide revenues for bond interest and retirement.

Provisions of bonus legislation prescribing terms of eligibility for ex-servicemen who are to receive payment and the amount of payment vary from state to state. To estimate the cost of a comprehensive bonus payment for Hawaii, an act embodying these representative features of state acts are assumed:

- (i) residence in Hawaii of at least six months prior to entry into the armed forces (but five years for those not residents when applying for a bonus);
- (ii) payments of \$10 per month of domestic duty and \$15 per month of foreign service;
- (iii) a maximum bonus of \$500, which amount is also awarded in the case of deceased veterans, regardless of their term of service.

Following the terms of Hawaii's previously enacted \$300 bonus for disabled servicemen, the period between September 16, 1940 and September 2, 1945 is assumed to be the period of service recognized by a comprehensive bonus law. It is also supposed, for the purpose of ascertaining the scope of a bonus program, that the amount of bonus would be the same for disabled veterans and other ex-servicemen, since the former group has already received a special bonus.

On the above assumptions, it is estimated that some 30,000 to 32,000 persons would be eligible for a territorial bonus to veterans of World War II. The total cost of a program of this magnitude, paying up to \$500 to each veteran, would approximate \$11,000,000 to \$12,000,000, plus interest charges on the bonds issued to provide the necessary funds.

These estimates would, in approximate terms, apply to two bills now pending before the Twenty-sixth Legislature of the Territory of Hawaii. The major provisions of these measures--Senate Bill 131 and House Bill 840--generally follow those set forth above.

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BONUSES FOR VETERANS OF WORLD WAR II

I. Bonus Programs Throughout the United States.

Almost half of the states and territories of the United States have enacted bonus legislation for World War II veterans. This type of legislation is predicated on the ground that veterans constitute a group which has been called upon for special sacrifices during the war and is therefor entitled to special recognition in the form of monetary grants. Statements to this effect appear in several legislative acts which authorize the payment of bonuses to veterans of World War II. Among these statements of legislative findings the most elaborate is that which prefaces the bonus act of Connecticut, which reads in part:

Every citizen is bound to render military service when necessary in the defense of his county and state, yet the demands and requirements of warfare are such as to impose greater hardship and sacrifice inherent in such service upon individuals of certain ages possessing certain mental and physical qualifications. The selection of the class of persons upon whom active military duty has been imposed involuntarily or who had embraced it willingly, for the purpose of prosecuting successfully World War II, although wise, was arbitrary, not based upon any peculiar or special obligation resting upon the individuals or the class selected ... but on the necessities of the government and the supposed fitness of the class to serve the purpose of the government with more efficiency than others Public interest and welfare will be wisely served by due and prompt recognition of an obligation of the state of Connecticut to those persons who served with credit in the armed forces during the period of World War II, in the form of money payments¹

At the time of this writing, 21 states and the territories of Hawaii and Alaska have made provision for veterans' bonuses.² Vermont was the first state

¹Section 2961, Connecticut Statutes, 1949 Revision.

²See Appendix I.

to authorize such payment,³ having enacted legislation for this purpose on April 7, 1941--eight months before the Japanese attack on Pearl Harbor. Most recently, the voters of West Virginia, Oregon, and Montana approved payment of veterans' bonuses at the general election of 1950.

Various methods of adopting bonus legislation have been employed in the several states, enactment by referendum being most frequently used. The bonus act of West Virginia was in the form of a constitutional amendment; that of Montana was adopted through the initiative. Indiana employed an advisory referendum. Its 1947 legislature submitted to the electorate at the general election of 1948 the question of enacting a World War II veterans' bonus law. At the same time, the voters were asked to select from a designated list the type of taxes with which to finance the payment of such bonus. The voters having recorded their desire for a bonus law and having indicated their choice as to the method of financing the program, the succeeding 1949 legislature enacted a comprehensive veterans' bonus law stipulating in detail who is eligible, how much each veteran is to be paid, and how the program is to be financed and administered.

Not all proposals to provide veterans' bonus have been successful. In 1948, interested groups in Arizona and Idaho attempted to put the veterans' bonus question on the ballot as referenda, but these measures failed for lack of sufficient petition signatures. Since 1947, 21 states have had bonus proposals defeated by their legislatures, and in Maine in 1946, and in Missouri, Nebraska, and Wisconsin in 1948, bonus proposals submitted in referenda were defeated by the voters of the respective states.⁴

³The Tax Foundation, Cash Bonuses for World War II Veterans, October, 1949, p. 8.

⁴Ibid.

The balance of this study will:

(i) inquire into the legislation of the various states which have established bonus payment programs for veterans of World War II, and report upon the nature of the eligibility requirements imposed, the amount of payment, the methods of financing, and the types of agencies organized by those states to administer their bonus programs; and

(ii) estimate the cost of a bonus grant in Hawaii and treat possible means of financing this outlay.

Eligibility Requirements

In general, bonuses are granted to all residents who participated in the prosecution of World War II as active members of the armed forces. Although the states differ in the language used to define "armed forces," the term generally includes members of the army, air force, navy, marines, coast guard and their auxiliary units.⁵ To this blanket provision which makes eligible for bonus payment all World War II veterans, the various jurisdictions impose qualifications of some kind in terms of the character, period, and length of service, as well as the length of residence in the state. The various states invariably require that applicants must have been honorably discharged. (The language used by Delaware is "served honorably"; by Connecticut and Rhode Island, received a discharge "other than dishonorable"; and by Indiana, North Dakota, and Illinois, "discharged under honorable conditions or still in the armed forces.") Bonus acts of Massachusetts, Pennsylvania, and Washington specifically prohibit payment to any conscientious objector, and Connecticut's law specifies that:

⁵Rhode Island, by the same act which provides payment of bonus to the veterans of the armed forces, authorizes payment of bonus to the veterans of the merchant marine. (Rhode Island, Session Laws of 1946, Chapter 1721.)

No person, who, though in active service, did civilian work at civilian pay or who has received from another state compensation similar to that provided herein shall receive any compensation under this part.⁶

Except for Vermont which has a date limit of June 30, 1947, all other states require that the veteran, in order to qualify, must have served some specified period within the general range of the signing of the Selective Service Act--September 16, 1940--and the official termination of World War II--December 31, 1946. Alaska, Massachusetts, and Michigan have selected this interval, while most other states name somewhat narrower ranges, with a decided preference for the period from December 7, 1941--the Pearl Harbor attack--to September 2, 1946--the date of Japan's surrender.⁷

Most states further require that the veteran must have served a certain minimum length of time within the period prescribed. For Minnesota, this minimum is 30 days; for Illinois, Michigan, North Dakota, and Pennsylvania, it is 60 days; for Connecticut, Delaware, Indiana, New Hampshire, Ohio, South Dakota, and West Virginia, 90 days; for Iowa, 120 days; and for Alaska, one year. Most states, however, waive their minimum-length-of-service qualification for those who were discharged prior to serving that length of time as a result of service-connected injuries.

While a few states require merely that the veteran be a resident of the state at the time of his enlistment, at least 11 states require that he be a resident six months or more prior to his joining the armed forces. Connecticut,

⁶Connecticut Statutes, 1949 Revision, section 2967.

⁷See Appendix II.

Delaware, Ohio, Vermont, Washington, and Alaska more stringently require residence for at least 12 months prior to enlistment. Alaska attempts to limit its bonus benefits to bona fide residents of that Territory by lengthening the required period of residence prior to entry in the armed forces (from the aforementioned one year) to five years for veterans who did not return to Alaska after discharge, or who returned without intention of remaining in the Territory.

Pennsylvania, on the other extreme, is most liberal in its residence requirements. It provides for the payment of bonus to "any veteran a legal resident . . . ", and defines "legal resident" as

any individual who gave the State of Pennsylvania, or any specific place in this Commonwealth, as his or her place of residence at the time of entering the military or naval forces of the United States, or of any of her allies, for such period without regard to the place of enlistment, commission or induction. The proof of such residence shall be either the official records on file in the War Department of the United States, or of any of her allies, or such other evidence of bona fide residence as may be deemed sufficient by the Adjutant General of Pennsylvania.⁸

Amount of Payment

The bonus payment, since it is based upon the idea of reward for special sacrifice, usually varies in amount among those who have had only domestic service,⁹ those who have served overseas, and those who have been disabled or killed in action. For those who have had only domestic service, the rate of payment ranges from \$10 to \$15 per month.¹⁰ For such veterans there is also a ceiling imposed on the amount any one person may receive, which in many

⁸Laws of Pennsylvania, 1947, Volume I, p. 566, Act 248.h

⁹Usually defined as service within the continental United States.

¹⁰Those states, such as New York, which pay their bonus at rates other than those computed on a monthly or a daily basis are not considered here.

instances is less than that established for those who served overseas. For example, in Minnesota, while a veteran who served overseas may be entitled to receive a maximum of \$400, a veteran who has had only domestic service may receive no more than \$270 dollars.

For those who have had overseas duty, the monthly bonus ranges from \$10 to \$22.50. At least nine states pay at the rate of \$15 a month; North Dakota pays at the rate of \$17.50; Delaware \$20 per month; and South Dakota 75 cents a day or \$22.50 per month. A ceiling on the amount of bonus payable to any one individual is also imposed for this group of veterans, although in most states the maximum for domestic service is lower than that for foreign service. The highest stated in any bonus act is \$650 in South Dakota; the lowest, \$100, in New Hampshire. Sums in excess of these specified ceilings may be paid under other state bonus laws which set no explicit maxima. Thus, while the state of North Dakota does not specify the limitation on amount of bonus payable to any one person, an effective limitation of \$1,050 results by virtue of its limit on the period of service upon which the rates may be applied.¹¹

For those who have suffered a service disability of 60 per cent or more, Delaware provides a payment equal to the highest any individual in the state will receive under its bonus act. Indiana furnishes an additional bonus of \$100 to those who fall into the category of 10 to 99 per cent disability (by reason of service connected injury), which is in addition to what they are otherwise entitled. The legislature of Hawaii in 1947 provided for the payment of a \$300 bonus exclusively to those veterans who have suffered physical disability of 10 per cent or more.

¹¹ \$17.50 multiplied by 60 (number of months in the period covered by act--between September 16, 1940 and September 2, 1945).

Methods of Financing

Veterans' bonus payments have usually comprised an expenditure of too great a magnitude to be met merely by allocating funds available from existing revenue sources. Costs of bonus programs in most states adopting them have amounted to tens or hundreds of million dollars--e.g. an estimated \$20,000,000 for Rhode Island, \$60,000,000 for Louisiana, \$105,000,000 for Indiana, \$385,000,000 for Illinois and \$500,000,000 for Pennsylvania.¹² Consequently, at least 17 states have resorted to bond issues to finance their respective bonus programs. As shown in Appendix III, most of the states provide by statute that the agency which normally borrows for the state shall issue the bonds with which to finance the bonus program. Illinois and South Dakota, however, have created new boards specifically authorized to administer the necessary loans.

To service the bonds for the payment of veterans' bonus, most states have imposed new taxes or have increased existing levies. As Appendix IV indicates, common types of taxes so employed are those on cigarettes, alcoholic beverages, property, and income. At least five states impose a cigarette tax; five states partly or wholly rely upon property taxes; four states on liquor taxes; and three states on income taxes.

A few states specify but one source of tax to pay for the interest and principle of the bonds issued. In Washington a tax amounting to 2 cents per pack of cigarettes is earmarked for a special War Veterans' Compensation Bond Retirement Fund. No other tax is imposed to supplement this source, and it is made clear by statute that the general credit of the state is not pledged to the retirement of the bonus bonds. However, the legislature retains the power

¹²See Appendix III.n

to provide additional means of raising money for the retirement of the bonds at a later date. Connecticut and Indiana rely upon sales or gross income taxes to service their bonus bonds, North Dakota relies chiefly upon its state property tax, while dedicated revenues from the state tax on beer is used to finance Louisiana's debt incurred for bonus payments.

A larger number of states tap more than one tax source for the purpose of retiring their veterans' bonus bonds. Illinois imposes taxes on cigarettes and pari-mutuel betting and provides that in the event funds from these sources are insufficient the state property tax rate shall be adjusted to make up the deficiency. South Dakota earmarks a portion of its levies on property, sales, cigarettes, cigarette paper, liquor, and motor vehicles, as well as its severance and private railroad lines taxes. In addition, it dedicates \$7.5 million of general revenues to pay for the interest and principle of the bonds floated for the payment of its veterans' bonus program.

Methods of Administration

Administration of veterans' bonus programs consists of: (i) receiving applications for payment; (ii) passing on the individual applicant's qualifications; (iii) certifying eligibility; and (iv) making payment in the proper amount. To administer these programs, some states have created special boards, some have utilized existing agencies, and others have established special bureaus or divisions within existing operating departments. Iowa, for example, established a World War II Service Compensation Board comprised of the state auditor, treasurer, and adjutant general, plus two World War II veterans appointed by the governor. Vermont, North Dakota, and New Hampshire assigned the administration of bonus payments to their adjutant generals, while Minnesota entrusted the task to the pre-existing Commissioner of Veterans' Affairs.

Indiana, Massachusetts, and New York are a few of the jurisdictions which created special divisions within existing agencies: Indiana placed its division under the Department of Veterans' Affairs; Massachusetts, under its Treasury Department; and New York, under the Department of Taxation and Finance.¹³

To adjudicate differences of opinion between administrative officials and claimants, several states have established bonus claims appeal commissions. Minnesota, for example, has provided a board of review comprised of three veterans to hear appeals from the decision of the Commissioner of Veterans' Affairs. Connecticut created a three-man board comprised of the adjutant general, attorney general, and one person appointed by the governor to review appeals arising from actions of the state treasurer, who was assigned to administer the bonus program. In Iowa, claimants dissatisfied with the decision of the Iowa World War II Service Compensation Board are given the recourse of appealing to a state district court.¹⁴

Administrative Experience

As of this writing, only six states have completed, or substantially completed, their bonus programs for veterans of World War II. Answers to questionnaires obtained from five of these six jurisdictions--Delaware, Minnesota, Ohio, Pennsylvania, and South Dakota (no response to inquiries having been received from Iowa)--yield information which is fragmentary, but nevertheless of interest for the points they raise the administration of bonus acts.

¹³See Appendix V.

¹⁴See Appendix V.

The experience of each of these five states indicates that the number of veterans who are eligible for and will claim bonuses may be estimated closely. As shown in the following table, in each case the number of applicants estimated in advance was within 10 per cent of the actual number applying. Staffing requirements could thus be anticipated with a high degree of accuracy.

Table 1

ESTIMATED AND ACTUAL
NUMBER OF WORLD WAR II VETERANS
APPLYING FOR STATE BONUSES

	Number Estimated by State Agency	Number Actually Applying	Percentage of Estimate to Actual Number
Delaware	32,500	32,000	98.5%
Minnesota	300,000	292,610	97.5
Pennsylvania	1,215,000	1,194,000	98.3
Ohio	827,000	755,000	91.3
South Dakota	60,000	60,146	100.2

Records of these five states reveal, however, that it is more difficult to estimate closely the cost of the programs. As noted above, most bonus acts provide differing amounts for domestic and overseas military service, adding to the complexity of approximating bonus expenditures. Lack of comprehensive data concerning periods of active service further complicates the determination of the size of the appropriation needed to finance a given bonus program. Table 2 indicates that while three of the states for which information is available closely estimated their requirements in the appropriating act, Ohio and Pennsylvania allocated amounts appreciably in excess of actual expenditures. (On the other hand, a letter from the Minnesota Department of Veterans Affairs, dated March 14, 1951, stated that an additional appropriation of \$3 million would be sought from the legislature to cover potential claims not yet filed as well as administrative costs.)

Table 2

AMOUNTS APPROPRIATED AND
ACTUALLY SPENT FOR WORLD
WAR II BONUS PROGRAMS

	<u>Amount Appropriated</u>	<u>Amount Expended</u>	<u>Percentage of Expenditure to Appropriation</u>
Delaware	\$ 8,500,000	\$ 8,000,000	94.1%
Minnesota	84,000,000	82,660,000 ^p	98.4
Pennsylvania	500,000,000	430,000,000	86.0
Ohio	300,000,000	250,000,000	83.3
South Dakota	20,000,000	27,500,000	98.2

p Preliminary.

Data on administrative costs were forthcoming from only two of the aforementioned states which have completed, or are now completing, their bonus programs. Pennsylvania reported an average cost of \$1.63 per application, while the South Dakota Veterans Bonus Board spent an average of \$2.59 for each claim it processed.¹⁵

Other Veterans' Benefits

It is to be noted that payment of cash bonuses is only one of many benefits extended by the various states and territories to veterans of World War II. Tax and license fee exemptions of many varieties are offered to veterans in most states. Employment preferences in governmental employment and educational benefits for veterans and their dependents are also common. Several jurisdictions have also sponsored home and farm loan programs for their war veterans. Qualified veterans of California, for example, have been permitted to receive advances up to \$7,500 on a home or \$13,500 on a farm, repayable at low interest over

¹⁵Report of the South Dakota Veterans Bonus Board, January 2, 1951, p. 5.

periods ranging up to 20 years. Texas, in 1949, provided a \$25,000,000 appropriation to create a Veterans' Land Fund. This fund is to be used for the purchase of land for resale to veterans of World War II, allowing them to repay the debt over a period of 40 years at 3 per cent interest.

Hawaii, too, has provided a variety of benefits to veterans of World War II. Besides the \$300 bonus to its veterans with 10 per cent or more disability, previously mentioned in this report, Hawaii has afforded her war veterans the following:

(1)o Information and counselling services from the Territorial Council on Veterans' Affairs. (Established by Act 150, Series E-211, Session Laws of Hawaii 1945).

(2)o Free tuition for veterans attending adult education classes.o (Act 108, Series A-33, Session Laws of Hawaii 1945).

(3)o Occupational tools required for vocational education for disabled veterans. (Authorized by Act 117, Series A-39, Session Laws of Hawaii 1945).

(4)o Payment of transportation cost from mainland to Hawaii of automobiles awarded certain disabled veterans by the federal government. (Act 16, Series F-221, Session Laws of Hawaii 1947).

(5)o Payment of expenses for burial of veterans up to \$125, including any amount paid by the federal government. (Act 198, Series E-210, Session Laws of Hawaii 1945).

(6)o Point preference in civil service examinations. (Act 119, Series A-3, Session Laws of Hawaii 1947).o

(7)o Free recording and photostating of discharge certificate and free copies of vital statistics records when needed in connection with a veteran's claim. (Section 12763, Revised Laws of Hawaii 1945; Act 44, Series D-250, Session Laws of Hawaii 1949).

(8)o Preference for tenancy in public housing projects. (J. R. 4, Session Laws of Hawaii 1947; Act 338, Series A-98, Session Laws of Hawaii 1949).

(9)o Payment of an amount equal to that provided by the federal government to furnish paraplegic veterans with specially-equipped homes. (Act 225, Series F-335, Session Laws of Hawaii 1949).

(10)o Removal of disability of minority of veterans and their minor spouses where necessary to obtain benefits under the Servicemen's Readjustment Act of 1944. (Act 9, Series D-174, Session Laws of Hawaii 1947).

(11) Authorization of full pardons to honorably discharged veterans who were on parole from territorial prisons at time of entering the service. (Act 2, Series A-103, Session Laws of Hawaii 1949).

(12) Exemption from taxation of homes of totally disabled veterans. (Act 189, Series A-152, Session Laws of Hawaii 1949).

II. A Bonus Program for Hawaii.¹⁶

It is the purpose of the second part of this report to consider the magnitude and cost, as well as the means of financing and administering, a comprehensive bonus program for Hawaii's veterans of World War II. An explicit assumption of the ensuing discussion is that such a bonus would give the same treatment, in the form of identically computed bonuses, to all ex-servicemen, whether or not disabled veterans. The latter group, as noted above, has already received a bonus of \$300 by an act of the 1947 territorial legislature.

Number of Eligible Veterans

The number of persons who would be eligible for bonus payments by the Territory, should Hawaii institute a bonus program for veterans of World War II, is difficult to estimate closely. The following estimates are based upon the best data available, obtained from a semi-official account, Hawaii's War Years,¹⁷ as well as correspondence of the territorial Selective Service and of the various branches of the armed services in Hawaii.¹⁸

Two factors would directly influence the number of veterans applying and eligible for bonuses: (i) the period of military service specified in the bonus act; (ii) the residence requirements incorporated in the act. By varying these two provisions of the law establishing the bonus, the number of recipients would be changed appreciably.

¹⁶Two bills providing for bonuses for veterans of World War II (SB 1311 and HB 840) were before the territorial legislature in April 1951, as this report was being printed. Their major provisions generally followed those assumed in the ensuing discussion.

¹⁷Gwenfread Allan, Hawaii's War Years. 1941-45, Honolulu, University of Hawaii Press, 1950.

¹⁸This correspondence is in the territorial Public Archives.

To arrive at an estimate of the size of such a program, it is therefore necessary to assume some given eligibility requirements. For this purpose it is assumed that the period of service employed in the disabled veterans' bonus act (Act 214, Series E-190, Session Laws of Hawaii 1947)--September 16, 1940 to September 2, 1945--may be used for the purpose of awarding bonuses to all Hawaii veterans of World War II. (These dates, respectively the day on which men were first drafted for military service in the period of World War II and the day on which the "shooting war" ceased, are employed to determine periods of service recognized for bonus purposes by four states. Five others have adopted the period from the attack on Pearl Harbor, December 7, 1941, to V-J day, September 2, 1945. See Appendix II.)

Approximately 36,000 persons were inducted into the armed services in Hawaii between 1940 and 1945, substantially all of whom had been drafted or had volunteered for duty during the dates specified above. Residence qualifications would somewhat reduce this number, for many persons entering the armed forces from Hawaii were legal residents of other jurisdictions, temporarily living or stationed in the Territory. (Conversely, residents of Hawaii were inducted on the mainland, but it is the opinion of persons conversant with veterans' affairs that this group is smaller than the non-residents of Hawaii who enlisted or were drafted here.)

Again, it is necessary to posit a period of required residence, before the number of veterans eligible for a bonus can be estimated. The period specified in the territorial disabled veterans' bonus act is six months prior to entry into the armed services. Because of the fact that Hawaii was an important military base prior to the outbreak of war, many servicemen with "permanent" residences outside the Territory but stationed here re-enlisted from Hawaii, then returned to their home states after discharge. This group would be eligible for bonuses,

should the six-months requirement be incorporated in a general bonus program. Faced with a similar problem, the Territory of Alaska has limited payment of its bonus, with respect to persons who failed to return to that territory after the war, to those who had resided in Alaska for a period of five years prior to entry into the armed forces. (See page 5, supra.)

If the latter provision were inserted in a bonus law, and making allowance for the fact that about 1,000 of the men locally inducted into the armed forces were released for urgent civilian employment without seeing active duty,¹⁹ it is estimated that some 30,000 to 32,000 persons would be eligible for a Hawaii veterans' bonus.

Cost of Program

The level of expenditures required for a World War II veterans' program would of course also depend on the size of payments, whether flat-sum or varying with the period of military service. Thus, on the foregoing estimate of ex-servicemen eligible for bonus, the cost of a \$100 lump-sum bonus program would approximate \$3,100,000; a \$300 bonus would cost about \$9,300,000; and a \$500 bonus some \$15,500,000--all plus charges for administration and bond servicing.

Cost estimating is more difficult under a bonus program which varies the amount paid to each qualified veteran according to his period of military service. Typically, state bonus plans also distinguish between "domestic" and "foreign" duty, paying a larger amount for each month of active service outside the conti-

¹⁹Letter to Mrs. K. H. Stidham, Archivist of the Hawaii War Records Depository at the University of Hawaii, from Colonel E. P. Crandell, Adjutant-General's Department, U. S. Armed Forces, Middle Pacific Area, dated March 5, 1946.

mental limits of the United States than for service overseas. (See Appendix I.)²⁰

State bonuses, as previously noted, vary widely--from \$10 to \$15 per month for domestic service; from \$10 to \$22.50 for overseas duty. With these two-score precedents, Hawaii might adopt any one of a large number of possible rate combinations, the cost of the bonus program varying accordingly. For purposes of illustrating the cost of veterans' bonus, it may suffice to select a modal size of payment, one which is most closely representative of several state programs. Examination of Appendix I indicates that the pattern of payments most frequently employed (by nine states) grants \$10 per month of domestic military service and \$15 for each month of overseas duty.

Most state bonus acts also set a limit on the amount to be paid to each veteran, which maximum is less than the amount which would otherwise be paid to a veteran who had service over the entire period of active service recognized by the bill. (Again, see Appendix I.) There is no one maximum amount which has been adopted by a large number of states, but a limit of \$500 falls close to the mean average (\$496) of such maxima in World War II bonus laws. Frequently, the maximum amount is granted to survivors of veterans killed in service, or deceased as a result of service incurred injuries--regardless of their length of military duty.

Assuming a bonus act with the features discussed above--(i) one which recognizes military service performed during the period between September 16, 1940 and September 2, 1945; (ii) requires a residence of at least six months prior to

²⁰This distinction, presumably based on the greater hardship of being distant from home, as well as the greater risk of overseas duty, presents itself in a somewhat different light for Hawaii. Here, there would appear to be a stronger case for paying a larger monthly bonus for mainland duty than for service in the Territory! The above considerations, however, might well justify the classification of both mainland and Hawaii duty as "domestic", restricting "foreign" service to its literal means (plus, perhaps, service in such outposts as the Aleutian Islands).

entry into the armed forces (five years for veterans who are not residents of Hawaii at the time of application for a bonus); (iii) awards \$10 for each month of domestic service and \$15 for each month of foreign duty; and (iv) provides a maximum payment of \$500--it is estimated that bonus payments would approximate \$11,000,000. To this estimate must be added two concomitant expenses: (a) interest costs incurred, should a bond issue be required (discussed below); and (b) costs of administering a veterans' bonus.^r

Administrative costs incurred in distributing a bonus would vary with the size of the bonus program, the agency designated to discharge the program, the administrative complexities of the law establishing the program, the length of the period over which claims are to be accepted, etc. As the first portion of this report indicated, there has not accumulated sufficient experience under the various state bonus programs to predict with any assurance of accuracy the cost of administering such a program in Hawaii. For illustrative purposes, however, the administrative costs incurred by Pennsylvania and South Dakota may be applied to a projected bonus program for Hawaii. Pennsylvania, with 1,194,000 applicants, spent \$1.63 per application, while the cost of administering the 60,000 bonus claims received by South Dakota averaged \$2.59.²¹ Assuming that Hawaii would receive some 33,000 applications for bonuses (1,000 to 3,000 of which would be disallowed), the cost to the Territory of administering the program would approximate \$57,000 under Pennsylvania's cost average, \$91,000 under South Dakota's.

On these estimates, administrative costs of a bonus program would appear to be sufficiently small to be covered in the \$11,000,000 appropriated previously estimated as necessary for the bonus payments here considered. To guard against a deficit, should actual claims exceed those estimated, it may be preferable to

²¹See page 11, supra.^r

appropriate as much as \$12,000,000. Adequacy of funds would then seem assured. The following discussion therefore assumes the voting by legislature of funds of \$12,000,000 for a bonus program.

Means of Financing Program: Bond Issue

An outlay of \$12,000,000 would, in the absence of a large amount of unallocated general revenues of the Territory, require the issuance of bonds. This, in turn, would necessitate an increase of the \$50,000,000 limit on territorial debt.²²

Annual costs for repayment of principal of debt incurred for a veterans' bonuses would vary with the length of the bonds--the longer the period until they mature, the smaller the amount required annually for amortization. (Yearly interest payments would be larger for long-period bonds, but this difference would only in part offset lower retirement payments for such issues.)

The maximum term for which general obligation bonds may be issued by the Territory, under the terms of its Organic Act, is 30 years.²³ The shortest term likely to be employed for a major bond issue is 10 years. Table 3, below, estimates for these two periods, as well as for 15 and 20 year maturities, average annual costs of servicing a bond issue of \$12,000,000, the probable maximum amount of bonus payments which would be made under the program here assumed.

²²Imposed by section 55 of the Hawaiian Organic Act, as amended.

²³Ibid.

Table 3

ESTIMATED ANNUAL INTEREST AND AMORTIZATION
COSTS FOR BOND ISSUE OF \$12,000,000

<u>Period of Loan</u>	<u>Annual Interest^d</u>	<u>Annual Amortization^d</u>	<u>Total Annual Costs^d</u>
10 years ^a	\$ 90,000	1,200,000	\$1,290,000
15 years ^b	108,000	800,000	908,000
20 years ^b	108,000	600,000	708,000
30 years ^c	120,000	400,000	520,000

a Assumes simple annual interest rate of 1.5%.

b Assumes simple annual interest rate of 1.8%. (Rate at which most recent territorial loan--a \$14,000,000 issue of December 1950--was floated.)

c Assumes simple annual interest rate of 2.0%.

d Average, rounded to nearest \$1,000.

The foregoing table indicates the greater annual financial burden of retiring a bond issue over a short period, say 10 years, than over the maximum period of 30 years. It should be noted, however, that there is a significant increase in total interest payments as the maturity dates of the bonds are advanced. Under a 10 year bond issue, it is estimated that total interest charges would be about \$900,000, while such charged under a 30 year issue would approximate \$3,600,000.²⁴

Means of Financing Program: Taxes

Table 3 indicates that the annual payments required to service a debt of \$12,000,000--the estimated cost of the bonus program--would range from about \$500,000 to some \$1,300,000, depending on the length of the period for which bonds were to be issued. In the absence of a budgetary surplus, it would be

²⁴These estimates, intended for illustrative purposes only, are based upon the interest rates shown in Table 3. Any large fluctuation in interest rates available to the Territory would of course alter costs of bond service appreciably.

necessary to either impose new taxes or increase present tax levies to raise these additional revenues.

Few major forms of taxes are not already imposed by the Territory of Hawaii. Among these few unused fiscal devices are two taxes formerly levied, but repealed in recent years. One is the personal property tax, repealed in 1947. This tax formerly yielded between \$3,000,000 to \$4,000,000 annually. Its reinstitution would therefore easily finance annual bond service charges. The other former tax, a \$5 poll tax, yielded some \$750,000 annually, sufficient to meet the yearly charge on a 20 or 30 year bond issue, but not those of an issue of more rapid maturity.

Repeal of the present home exemptions under the property tax would also provide the base for the required revenues. This would, however, require allocation to the Territory of additional revenues realized from this source. Alternatively, eight major taxes currently levied by the Territory might be increased-- singly, or in combination--to raise the funds required for the bonus program.

Table 4 lists the tax increases which, on the basis of 1950 tax collections, would yield the appropriate amount of money for a 10, 15, 20, or 30 year bond issue. The increase in each case assumes that all the required funds would be forthcoming from the indicated tax increment. Any number of smaller increases of two or more taxes which would jointly raise the necessary amount of money may be roughly estimated from the table. Thus, to service a 15-year bond issue, the \$908,000 required annually might be raised by increasing the gasoline tax by one cent per gallon; or by increasing the gasoline tax by one-half cent (to yield half the needed amount) and the corporate income tax by $1\frac{1}{2}$ per cent, (to yield the other half); or by increasing the gasoline tax by one-third cent, the corporate income tax by 1 per cent, and the tobacco tax by $4\frac{1}{3}$ per cent, each tax incre-

Table 4

TAX RATE INCREASES REQUIRED TO FINANCE
VETERANS' BONUS AGGREGATING \$12,000,000^a

<u>Tax</u>	<u>If 30 Year Bonds are Issued:</u>	<u>If 20 Year Bonds are Issued:</u>	<u>If 15 Year Bonds are Issued:^a</u>	<u>If 10 Year Bonds are Issued:</u>
	(\$520,000 to be raised annually)	(\$708,000 to be raised annually)	(\$908,000 to be raised annually)	(\$1,290,000 to be raised annually)
Gasoline (now 6¢/gallon, 5¢ for aviation fuel)	$\frac{1}{2}$ ¢ additional	$\frac{2}{3}$ ¢ addi- tional	1¢ additional	$\frac{1}{2}$ ¢ addi- tional ^a
Liquor (now 12% of wholesale value)	$3\frac{1}{2}$ % additional	5% additional	$6\frac{1}{2}$ % addi- tional	8 $\frac{3}{4}$ % addi- tional
Tobacco (now 15% of wholesale value)	$7\frac{1}{2}$ % additional	10% additional	13% additional	$18\frac{1}{2}$ % addi- tional
General excise (gross income)				
a. Retail sales (now $2\frac{1}{2}$ %)	1/10% addi- tional	1/7% addi- tional	1/5% addi- tional	1/4% addi- tional
b. Wholesale (now 1%)	1/4% addi- tional	1/3% addi- tional	2/5% addi- tional	1/2% addi- tional
Real property ^b (now averages 3 $\frac{1}{3}$ % of assessed value)	1/6% addi- tional	1/5% addi- tional	1/4% addi- tional	2/5% addi- tional
Corporate income (now 10%)	1 $\frac{3}{4}$ % addi- tional	2 $\frac{1}{3}$ % addi- tional	3% additional	4 $\frac{1}{3}$ % addi- tional
Personal net income (now graduated 3-6%) ^a	1/3% addi- tional for each bracket	1/2% addi- tional for each bracket	2/3% addi- tional for each bracket	9/10% addi- tional for each bracket
Compensation- dividends (now 2%)	1/10% addi- tional	1/6% addi- tional	1/5% addi- tional	1/3% addi- tional

a Estimated on basis of 1950 tax payments.

b Now allocated to counties. Assumes additional revenue will accrue to Territory.

ment to raise one-third of the \$908,000 required.

Revenues received from taxes imposed or increased to finance the bonus program might be placed into a special fund earmarked for repayment of the bonds issued to pay the bonus. This is not necessary, however, if the bonds are general obligations of the Territory, comprising a claim against all general revenues of the territorial government. Only if the credit position of the Territory is weak could it be expected that the device of establishing a special fund would appreciably add to the marketability of the bonus bond issue.

Administration of Bonus Program

Hawaii has a variety of examples to follow for the administration of a veterans' bonus program, should one be established by the legislature. As shown in Appendix V, and briefly discussed in the first section of this report, several states have established special boards to receive and act upon claims for compensation, while others have designated finance officers--the state treasurer or auditor--to serve as administrative agent.

A third group of states have assigned the task of bonus administration to pre-existing veterans' agencies. This was the course taken by Hawaii in 1947, when it placed the administration of the disabled veterans' bonus under the territorial Council on Veterans' Affairs, which had been created at the 1945 legislative session (Act 150, Series E-211).

This agency, now largely concerned with counselling and assisting veterans, would require a larger staff, should it be given the responsibility of handling bonus claims. The staff of the Council under the terms of its 1951-53 budget allocation, as approved by the House of Representatives, at the time of this writing (April 1951) comprises twelve persons. It is estimated by the director

of the Council that approximately ten additional persons would be required to process claims during the first six months of a bonus program, should one be instituted. After the bulk of applications had been examined and paid, or rejected, the extra staff could in all likelihood be reduced to two or three persons who would handle late applications and those which offered administrative complexities.

Appendix I

AMOUNT OF PAYMENT OF VETERANS' BONUSES (As of December 1950)

<u>State or Territory</u>	<u>Monthly Rate of Compensation</u>		<u>Individual Limit</u>	
	<u>Domestic Service</u>	<u>Overseas Service</u>	<u>Domestic Service</u>	<u>Overseas Service</u>
Alaska	\$10.00	\$10.00	\$ 760 ^a	\$ 760 ^a
Connecticut	10.00	10.00	300	300
Delaware	15.00	20.00	225	300
HAWAII	For disabled veterans only		(b)	(b)
Illinois	10.00	15.00	600 ^a	900 ^a
Indiana	10.00	15.00	600	600
Iowa	10.00	12.50	500	500
Louisiana	(c)	(c)	1,000 ^c	1,000 ^c
Massachusetts	(d)	(d)	200	300
Michigan	10.00	15.00	500	500
Minnesota	10.00	15.00	270	400
Montana	10.00	15.00	(e)	(e)
New Hampshire	10.00	10.00	100	100
New York	(f)	(f)	150	250
North Dakota	12.50	17.50	750 ^a	1,050 ^a
Ohio	10.00	15.00	400	400
Oregon	(e)	(e)	(e)	(e)
Pennsylvania	10.00	15.00	500	500
Rhode Island	(g)	(g)	200	200
South Dakota	.50/day	.75/day	500	650
Vermont	10.00	10.00	120	120
Washington	10.00	15.00	460 ^a	690 ^a
West Virginia	10.00	15.00	300	400

Source: State and territorial statutes.

a Limit not expressed in statute; obtained by applying monthly rate of compensation to maximum period of eligibility.

b \$300 payable only to persons with service-connected disability of 10% or more.

c \$50 to \$250, depending on length and place of service. To widow or dependent, \$1,000.

d \$100 for domestic service of less than six months, \$200 for domestic service of more than six months, \$300 for foreign service.

e Recently ratified by the electorate. Legislative action on subject not yet.

f \$50 to \$250, depending on length and place of service.

g \$200 flat rate.

Appendix II

ELIGIBILITY REQUIREMENTS FOR VETERANS' BONUS PAYMENTS (As of December 1950)

<u>State or Territory</u>	<u>Period of Service</u>	<u>Minimum Length of Service (days)</u>	<u>Minimum Prior Residence (months)</u>
Alaska	9/16/40 - 12/31/46	365	12
Connecticut	12/7/41 - 12/3/45	90	12
Delaware	9/16/40 - 6/30/46	90	12
HAWAII	9/16/40 - 9/2/45	--	6
Illinois	9/16/40 - 9/3/45	60	--
Indiana	12/7/41 - 9/2/45	90	6
Iowa	9/16/40 - 9/2/45	120	6
Louisiana	1/1/41 - 3/1/46	--	(a)
Massachusetts	9/16/40 - 12/31/46	--	6
Michigan	9/16/40 - 6/30/46	60	6
Minnesota	12/7/41 - 9/2/45	30	6
Montana ^b	-----	--	--
New Hampshire	12/7/41 - 12/31/46	90	--
New York	12/7/41 - 9/2/45	--	6
North Dakota	1/1/41 - 1/1/46	60	6
Ohio	12/7/41 - 9/2/45	90	12
Oregon ^b	-----	--	--
Pennsylvania	12/7/41 - 9/2/45	60	(c)
Rhode Island	9/16/40 - 9/2/45	--	6
South Dakota	12/7/41 - 9/2/45	90	6
Vermont	9/11/41 - 6/30/47	--	12
Washington	12/7/41 - 9/2/45	--	12
West Virginia	12/7/41 - 9/2/48	90	6

Source: State and territorial statutes.

a Citizen of state at time of enlistment.

b Recently ratified by the electorate. Legislative action on subject not yet taken.

c Veterans who named state as place of residence at enlistment declared eligible.

Appendix III

METHODS OF PROVIDING INITIAL FUNDS FOR VETERANS' BONUSES (As of December 1950)

<u>State or Territory</u>	<u>Revenue Source</u>	<u>Bond-Issuing Agency</u>	<u>Expenditure Limit</u>
Alaska	Tax ^a	-----	\$ 3,250,000
Connecticut	Bonds	Treasurer ^b	51,750,000
Delaware	Bonds	Governor, Treasurer, Secretary of State	8,500,000
HAWAII	Taxes ^c	-----	673,200
Illinois	Bonds	Service Recognition Board	385,000,000
Indiana	Tax ^d	-----	105,000,000
Iowa	Bonds; general fund surplus	Treasurer	85,000,000
Louisiana	Bonds	Board of Liquidation of State Debt	60,000,000
Massachusetts	Bonds	Treasurer	---
Michigan	Bonds	State Administrative Board	270,000,000
Minnesota	Bonds	Auditor	84,000,000
Montana ^e	-----	-----	---
New Hampshire	Bonds	Treasurer ^f	6,000,000
New York	Bonds	Comptroller	400,000,000
North Dakota	Bonds	Industrial Commission	27,000,000
Ohio	Bonds	Commissioners of the Sinking Fund	300,000,000
Oregon ^e	-----	-----	---
Pennsylvania	Bonds	Governor, Auditor-General, Treasurer	500,000,000
Rhode Island	Bonds	Treasurer	20,000,000
South Dakota	Bonds	Veterans' Bonus Board	30,000,000
Vermont	Surplus funds	-----	3,700,000
Washington	Bonds	State Finance Committee	80,000,000
West Virginia	Bonds	(e)	90,000,000

Source: State and territorial statutes.

a On retail and wholesale sales.

b With approval of Veterans' Bonus Commission.

c Existing taxes.

d Additional tax on gross income.

e Recently ratified by the electorate. Legislative action on subject not yet taken.

f Under direction of governor and council.

Appendix IV

TAXES IMPOSED TO FINANCE VETERANS' BONUSES (As of December 1950)

<u>State or Territory</u>	<u>Cigarette Tax</u>	<u>Property Tax</u>	<u>Alcohol Tax</u>	<u>Income Tax</u>	<u>Other</u>
Alaska	---	---	---	----	1% retail sales, service taxes; ½% wholesale sales, export taxes.
Connecticut	---	---	---	----	Undetermined portion of a 2% sales tax.
Delaware	---	---	---	----	General revenues.
Illinois	1¢/pkg.	(a)	---	----	4% pari-mutuel tax; ½ of 10¢ pari-mutuel breakage.
Indiana	---	---	---	----	1/8 - 1/4% gross income.
Iowa	---	(b)	---	----	-----
Louisiana	---	---	\$10 bbl. of beer	----	-----
Massachusetts	2¢/pkg.	---	50¢/gal.	2.5% of corporation net income for 1946, 1.5% for 1947, and 3% for 1948-1950.	-----
Michigan	---	---	---	----	General revenues.
Minnesota	---	---	10%	5% surtax on corporations and individuals.	½ of 1% mining occupation and royalty tax; \$5 for each person and corporation filing income tax returns.
Montana ^c	---	---	---	----	-----
New Hampshire	---	---	---	----	\$3 poll tax (repealed); general revenues.
New York	1¢/pkg.	---	---	10% of computed personal net income tax; 1% of corporation net income tax.	-----

Appendix IV
(continued)

<u>State or Territory</u>	<u>Cigarette Tax</u>	<u>Property Tax</u>	<u>Alcohol Tax</u>	<u>Income Tax</u>	<u>Other</u>
North Dakota	---	(d)	---	----	-----
Ohio	---	(d)	---	----	General revenues.
Oregon ^c	---	---	---	----	-----
Pennsylvania	---	---	---	----	General revenues.
Rhode Island	---	---	---	----	General revenues.
South Dakota	3%	2 mills	3%	----	1% sales tax; cigarette papers; 1% tax on motor vehicle registrations; 1% severance tax; 3.75% tax on gross earnings on private car lines; \$7.5 million from general revenues.
Washington	2¢/pkg.	---	---	----	-----
West Virginia ^e	---	---	---	----	-----

Source: Adapted from The Tax Foundation Project No. 26, Cash Bonuses for World War II Veterans.

a Property tax to be imposed each year in which there are insufficient funds from other sources to pay for principal and interest of bonds.

b Additional tax rate (to be fixed each year by tax commissioner) on property sufficient to pay principal and interest of bonds yearly for 20 years.

c Recently ratified by electorate. Legislative action on subject not yet taken.

d Rate of tax to be determined by authorized agency.

e Awaiting legislative action on any two or more of following additional taxes: cigarettes, alcohol, sales, personal income.

Appendix V

AGENCIES ASSIGNED TO ADMINISTER VETERANS' BONUS PROGRAM (As of December 1950)

<u>State or Territory</u>	<u>Administrative Agent or Agency</u>	<u>Appeals Agent or Agency</u>
Alaska	Commissioner of Veterans' Affairs	-----
Connecticut	Treasurer	Board: Attorney General, Adjutant General, one Appointee of Governor
Delaware	Veterans' Military Pay Commission (Director)	Veterans' Military Pay Commission
HAWAII	Veterans' Affairs Council	-----
Illinois	Service Recognition Board	Board of Review
Indiana	Department of Veterans' Affairs (Bonus Division)	Veterans' Affairs Com- mission
Iowa	World War II Service Compensa- tion Board	District Court
Louisiana	Department of Veterans' Affairs (Bonus Division)	Bonus Appeal Board
Massachusetts	Treasurer	Bonus Appeal Board
Michigan	State Administration Board (Adjutant General)	Court of Claims
Minnesota	Commissioner of Veterans' Affairs	Board of Review
Montana	(a)	(a)
New Hampshire	Adjutant General	-----
New York	Department of Taxation and Finance (Veterans' Bonus Bureau)	Court
North Dakota	Adjutant General	Court ^b
Ohio	Sinking Fund Commissioners (ex- officio)	-----
Oregon	(a)	(a)
Pennsylvania	Adjutant General	-----
Rhode Island	Bonus Board	-----
South Dakota	Veterans' Bonus Board (ex-officio)	-----
Vermont	Adjutant General	State Auditor
Washington	Auditor	-----
West Virginia	(a)	(a)

Source: State and territorial statutes; replies to questionnaires addressed to state agencies.

a Recently ratified by electorate. Legislative action on subject not yet taken.

b Jurisdiction only on question of residence.

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