The Retirement of the Baby Boomers

Will They Get Their Ham and Eggs?

Daniel J.B. Mitchell

Current debates over "saving social security" may fuel future disruptive social movements of elderly baby boomers. Such elderly movements appeared in the 1930s and 1940s in California. Political entrepreneurs of that era turned these movements into profitable schemes with major repercussions.

EVERYONE knows that a population bulge, the post–World War II baby boom generation, will be reaching retirement age beginning around 2010. Already, this aging of the population is being reflected in the debate over "saving social security." Various proposals for fixing social security have been offered, ranging from modest payroll tax increases and benefit cuts to investments in the stock market and outright privatization. An implicit assumption is that after academics and policy wonks flesh out the options for social security (including Medicare), Congress will discard those that are politically infea-

***DANIEL J.B. MITCHELL** is Ho-Su Wu Professor at the Anderson School at UCLA and the School of Public Policy and Social Research. This article is based on the author's book,* Pensions, Politics, and the Elderly: Historic Social Movements and Their Lessons for Our Aging Society *(Armonk, NY: M.E. Sharpe, 2000). Sources include the Franklin Roosevelt, Richard Nixon, and Earl Warren archives, FBI files, and numerous conventional references that can be found in the book.*

WorkingUSA, vol. 4, no. 2, Fall 2000, pp. 112–132.

ISSN 1089–7011 / 2000 $9.50 + 0.00.

sible and resolve the problem. Thereafter, the boomers will live out their elderly years, content with what has been apportioned to them, until the last of their cohort shuffles off in the 2060s.

If you think that will happen, you are wrong. How do I know? Because history tells me something different about the politics of an aging population. What history? Surprisingly, it is the history of California—a state now viewed as a center of youth culture. Until the early 1950s, however, California was not a youthful state. It was instead a place to retire in the sunshine in cheap housing; it was what Florida is today.

Arguably, one inadvertent outcome of the Ham and Eggers' activities was to put Earl Warren on the U.S. Supreme Court as chief justice!

California in those days was the home of various pension movements based on its elderly demographics. The most flamboyant of these was the "Ham and Eggs" campaign of the late 1930s. Ham and Eggs proponents placed an initiative on the state ballot in 1938 promising every California citizen over fifty "Thirty Dollars Every Thursday," a large weekly income at that time. This state pension was to be financed by the issuance of a new California currency. Were it not for the outrageous behavior of its promoters, the Thirty-Thursday proposition would probably have passed. As it was, the Ham and Eggers and those promoting similar causes kept state politics in turmoil. Arguably, one inadvertent outcome of their activities was to put Earl Warren on the U.S. Supreme Court as chief justice! Thus, pension agitation in California had important—if sometimes unanticipated—consequences both for the state and the nation.

This article describes the history of California's elderly pension movements. I will not argue that history will mechanically repeat and that the boomers of, say, 2030 will rally around some harebrained pension scheme. But I will propose that the very nature of the current debate over social security is laying the groundwork for future boomer suspicions that they have been cheated out of deserved benefits. Political entrepreneurs in the years after 2010 will be able to harness those suspicions and roil national politics, much as the Ham and Eggers once roiled politics in California.

The Eagles Have Landed

California's elderly tilt was already apparent in both the private and public sectors by the 1920s. With an elderly population, California was a center of quack remedies for the ailing. Many visitors to Los Angeles today travel down Wilshire Boulevard, unaware that it is named after Gaylord Wilshire, a colorful "socialist" land speculator. Wilshire promoted his I-ON-A-CO electric belt guaranteeing it would provide a "shortcut to health." For those Californians whose ailments generated concerns about the approaching hereafter, an assortment of novel religions was available. And once the unavoidable had occurred, Forest Lawn—one of the first firms to invest in cemeteries as profit-making enterprises—stood by to provide burial in a picturesque setting.

What was missing in California, as in most states at that time, was adequate support of indigent elderly persons. Federal social security did not exist, and locally provided safety nets were extremely limited. Into this vacuum came the Fraternal Order of Eagles. One explanation for the Eagles' interest in elderly welfare is that the organization hoped to counter the unflattering portrait of fraternal organizations presented in Sinclair Lewis's popular 1922 novel, *Babbitt*. Doing good works for the deserving elderly was a means to image improvement for the Eagles, according to this view. In any event, they lobbied on behalf of the indigent elderly in California and elsewhere.

By 1929, the Eagles succeeded in California. The state adopted a means-tested pension system for indigents over age seventy. Under the new law, California's counties were mandated to participate in the pension program, but the state provided a subsidy of 50 percent of the cost. California thus became the first state to mandate "outdoor relief"—payments to the elderly at home rather than in a poorhouse. The law was further liberalized in 1931. But with the loss of tax revenue as the Great Depression took hold, cutbacks in state funding inevitably occurred.

Townsend vs. Roosevelt

In 1936, Congress launched an investigation into "Old Age Pension Plans and Organizations." Despite the plural title, only one group was targeted, Old-Age Revolving Pensions Ltd., an organization headed by an elderly physician from southern California named Francis Townsend. Strange as it may seem, and unbeknownst to Dr. Townsend and his millions of followers, the investigation was orchestrated by the Roosevelt administration. A year earlier, the Roosevelt administration's own social security pension plan had been enacted. Roosevelt no longer had to fear that the Townsendites would attempt to block social security—as they indeed had tried to do—when it was being considered by Congress. So why did Roosevelt still fear Townsend?

The answer is political. Although we know in hindsight that Roosevelt handily won reelection in November 1936, this electoral outcome was not seen as inevitable earlier that year. The New Deal was in trouble in Congress, and key pieces of its program had been invalidated by the Supreme Court. Roosevelt feared that Townsend would combine forces with other populist movements of the era and run a third-party candidate for president. Such a candidate might siphon enough votes from the Democrats to throw the election to the Republicans. One prominent potential third-party candidate was the soon-to-be-assassinated Senator Huey Long of Louisiana, whose “Share-Our-Wealth” movement had attracted many devotees.

The Townsend Plan promised everyone over age sixty $200 per month, an immense sum, so long as recipients promised (1)

The Townsend Plan promised everyone over age sixty $200 per month, an immense sum, so long as recipients promised not to work and to spend every penny of the money each month.

not to work and (2) to spend every penny of the money each month. Pulling the elderly out of the workforce, it was argued, would create job opportunities for the young. “Age for leisure; youth for work” became the official slogan of the elderly Townsendites. The total-spending requirement was intended to stimulate the depressed economy and restore prosperity.

To pay for his plan, which would have transferred roughly a third of the national income to the 10 percent of the population that was eligible for the pension, Townsend proposed a 2 percent “transactions tax.” Although the name sounds like a modest sales tax, Townsend’s scheme was in fact a pyramid tax, imposing a 2 percent levy each time money changed hands. Thus, coal sold to the steel mill would be taxed 2 percent, as would steel sold to the automobile manufacturer. Automobiles sold to dealers would be taxed, as would cars sold to the final consumer. Apart from the question of how much money such a tax might raise, it would clearly have created a strong artificial incentive for vertical industrial integration as a means of tax avoidance.

Dr. Townsend, who had been laid off from a public health job by the City of Long Beach, California (without a pension), began putting forth his proposal in a series of letters to a local newspaper. With its elderly demographics, Long Beach provided a natural base for the Townsend movement, which initially developed in response to the letters. Townsend hooked up with a former real estate salesman, Robert Earl Clements, who showed him how to turn the movement into a paying business. Soon there were Townsend clubs all over California and then around the nation, all sending revenue to the Long Beach headquarters.

By 1934, the Townsendites were seen as a threat to the social security plan then being formulated by a Roosevelt administration task force. The head of the task force tried repeatedly to have the FBI investigate Townsend and his finances. However, FBI director J. Edgar Hoover was not very interested and declined to participate. When social security was considered in Congress, the Townsend plan became its major competitor. Observers at the time noted the irony that Roosevelt's plan to assist the aged was being denounced by elderly voters as they flooded Congress with letters supporting the Townsend alternative. The elderly could see, after all, that $200 a month was much more than social security would provide them. Moreover, the original Social Security Act did not propose to pay pensions until 1942, too late and too little for many of the letter writers. The Townsend plan, in contrast, would start immediately.

In a preview of the later 1936 investigation, Townsend was grilled in congressional hearings on social security about his group's finances. But although his plan was seen as a threat to social security, the Townsendites inadvertently helped pass the Roosevelt administration's program. By itself, federal social security was a radical proposal for its era. However, it became the moderate alternative when compared with the Townsend plan. Congressmen and senators who might not have voted for social security did not want to vote against both plans for the elderly. It was better to vote for the less disagreeable alternative, the Roosevelt social security plan, rather than be seen as an enemy of the aged.

The 1936 investigation proved to be a most unpleasant experience for Dr. Townsend. He was accused of being a communist and an atheist. Indeed, the finances of his organization raised many questions. Particularly damaging was the testimony of Robert Earl Clements, who had a falling out with Townsend and turned against him. When Townsend himself was called to testify, he read a statement and then defiantly walked out of the hearing. As a result, he was cited for—and later convicted of—contempt of Congress.

Townsend did participate in a third-party candidacy for president in 1936, as Roosevelt had feared. Radio priest Charles Coughlin, whose broadcasts on economic issues attracted millions, and Gerald L. K. Smith, a follower of the now-assassinated Huey Long, teamed with Townsend to run an obscure congressman for president on the Union Party ticket in 1936. Coughlin had free-silver views and had turned against Roosevelt when the president returned the dollar to the gold standard in 1934. His broadcasts grew increasingly anti-Semitic, and he was eventually taken off the air by the Church. Smith was a much more extreme anti-Semite, denouncing Franklin D. "Jews-evelt" at the Union Party convention.[1] Without a celebrity such as Huey Long to run for the presidency, however, the Union Party gathered little support.

After the 1936 election, Roosevelt faced a dilemma. Townsendites were flooding the White House with letters asking the President to pardon Townsend after his conviction for contempt of Congress. But Townsend himself refused to ask for a pardon and planned to go to jail as a martyr. Eventually, Roosevelt sent him a pardon unsolicited. Thereafter, the

Townsendites became a diminished force in national politics, although they remained significant in California.

Ham and Eggs

Townsend had proved that California's elderly population base could provide an ideal home for pension movements. But the passage of social security—rather than the Townsend Plan—had also demonstrated that movements focused on federal action would not likely succeed. An eager political entrepreneur could, however, focus at the state level. The odds of success might be better in California, due to its demographics.

Such an entrepreneur came along in the person of Robert Noble, a radio broadcaster in the Los Angeles area with two interests: fighting municipal corruption and promoting pensions. Under Los Angeles mayor Frank Shaw, there was no shortage of city corruption to be attacked. And the pension market that Townsend had developed was ready for a new product.

Noble came up with a scheme to finance a state pension of "$25 Every Monday" for California citizens aged fifty and over, provided that they did not work. As with Townsend, Noble's plan would ostensibly create jobs for the young by pulling the elderly out of the labor force. The plan would be financed through stamp money or "retirement warrants" to be issued by the state. Famed Yale economist Irving Fisher had become interested in stamp money, and Noble cribbed the idea from a magazine article Fisher had written. During the Depression, some small municipalities experimented with various forms of local money creation. The version that appealed to Fisher (and thus to Noble) would have the town issue a scrip denominated in dollars and use it to pay for some public works. Noble simply substituted pension payments for the public works.

Under the plan that had entranced Fisher, local merchants would agree to accept the town scrip at par. But on a designated day each week, a two-cent validation stamp had to be purchased from the town's authorities and affixed to keep the scrip in force. At the end of a year, $1.04 would have been collected in stamp revenue, allowing the town to redeem each scrip note for $1 with 4 cents left over to pay for printing, administration, and profit. Moreover, people receiving the scrip would spend it quickly to avoid being caught with liability for the weekly stamp, thus stimulating the local economy.

A pension plan financed by such scrip would appear to be costless, thus avoiding the unpleasant side of the Townsend Plan, his controversial 2 percent transaction tax. But there was a conceptual problem with stamp money. While merchants in a small town might all agree to accept the scrip at par value, it would be hard to get all businesses in a state the size of California to do so. After all, scrip was funny money, competing with genuine dollars. And it had a peculiar feature: Each unit of scrip would require payments of $1.04 over a year, after which the scrip would be redeemed for only $1. The market value of an asset that cost $1.04 to maintain and then returned $1 was, to say the least, likely to be less than $1.

Undaunted by such analytical issues, Noble began touting the new pension plan on his radio program. Soon mailbags of money and support were arriving from his excited elderly listeners. Noble was renting office space in Hollywood from two brothers, Willis and Lawrence Allen, who had previously been involved in a phony hair tonic scheme. They also had ambitions of setting up a radio station in Mexico, a high-powered border blaster that could reach into the United States without the inconvenience of FCC regulation. The flow of mailbags with money attracted the Allens to their tenant. They persuaded Noble to make them partners in his pension scheme. Just as Clements had done for Townsend, the Allens turned the pension proposal into an organized business.

Eventually, a whole retinue of colorful characters—too numerous to describe here—became part of what became known as the Ham and Eggs pension plan.[2] Unfortunately for Noble, he was soon excluded from that retinue. In connection with their Mexican radio scheme, the Allens had forged a letter, which fell into the hands of Los Angeles police captain Earle Kynette, who then made the Allens an offer they couldn't refuse. They would get Robert Noble, who was still denouncing Mayor Shaw in his broadcasts, off the air and out of Shaw's hair. They would also make Kynette a silent partner in their pension plan and give him a share of the profits. In exchange, Kynette would make the forged letter conveniently disappear. The Allens agreed and managed to eject Noble from his own organization. When he rounded up some supporters to protest his ouster, he was arrested by the Los Angeles police.[3]

Since Noble had rights to the "$25 Every Monday" slogan, the Allens simply upped it to "Thirty Dollars Every Thursday." With a petition containing more names than had ever endorsed any previous California initiative, they put the scheme on the ballot for November 1938. The large number of Ham and Eggs supporters attracted state politicians. On the Democratic side, Sheridan Downey won the nomination for U.S. senator, endorsing Ham and Eggs and Townsend. By doing so, Downey defeated a candidate in the Democratic primary backed by the Roosevelt administration.

The Democrats' candidate for governor, Culbert Olson, made noises that sounded like an endorsement of Ham and Eggs, although he never said explicitly that he supported it. A Ham and Eggs official made a deal to obtain organized labor's support for the pension proposition in exchange for Ham and Eggs assistance in defeating an anti-union initiative that was also on the ballot. The Allens, in short, were on a roll as the election approached.

As it turned out, however, the Allens were tripped up by their silent partner and by their own greed. Because of flagrant municipal corruption, a group of citizens had mounted a recall effort against Mayor Shaw and hired a private investigator to ferret out evidence of wrongdoing. One day the investigator started his automobile, triggering a car bomb that nearly killed him. It was soon determined that the bomb had been planted by none other than police captain Earle Kynette. Kynette was jailed and the Allens, figuring their partner was in no position to protest, stopped sending him his share of the profits. Unfortunately for the Allens, the angry captain Kynette began to sing about his connections with Ham and Eggs.

An irate public recalled Mayor Shaw. And the now-public links between Kynette—who was acting for the Shaw regime—and the Allens cost votes for Ham and Eggs. In the November 1938 election, Ham and Eggs received "only" 45 percent of the vote. Had the Allens been more judicious in handling their car-bombing partner, Ham and Eggs might well have passed. As it was, Downey was elected senator and Olson was elected governor, overturning decades of Republican domination of California.

The story did not end there, however. The Allens were not about to abandon their money machine. Ham and Eggs went back on the ballot in 1939. This time Governor Olson was forced to be explicit about his stand on the proposed pension plan. He waffled initially but eventually opposed it. In 1939, Ham and Eggs received one-third of the vote (about the proportion of those aged fifty and over in the electorate). An attempt by the Allens to recall Olson as a traitor to the pensionites failed. They would have to wait for revenge until the next gubernatorial election.

Earl Warren and Uncle George

There is a temptation to view the Ham and Eggs and Townsend schemes as an outcome of the Great Depression. But by the gubernatorial election of 1942, World War II military expenditures had pushed California into unprecedented prosperity. Still, the demographically driven politics of the elderly continued at full force. In the 1942 election, the candidates for California governor were incumbent Democrat Culbert Olson and Republican Earl Warren, who was then state attorney general.

An early poll for Warren revealed he was trailing Olson and would need to take strong action to win against the incumbent governor. Warren seized on two issues: internment of the Japanese-origin population and pensions. With regard to the first issue, Warren denounced Olson as weak on defense. Warren claimed that California's Japanese-origin population—many of whom were U.S. citizens—were potentially a fifth column for Japan.[4] According to Warren, the fact that no treachery had been discovered simply showed how clever they were in disguising their plans. Warren condemned Olson for not enthusiastically supporting the relocation and internment of California's Japanese-origin residents. When asked why German and Italian-origin individuals should not also be locked up, Warren responded that you could tell who was loyal among Caucasians but not among Japanese. This shameful racist campaign episode was forever a blot on Warren's later achievements on the U.S. Supreme Court in abolishing legal segregation.

Of course, Warren would never have gotten on the Supreme Court had he not first been elected as California's governor. And he was convinced he needed more than the Japanese issue to win. With rival Olson regarded by pensionites as a traitor to the elderly, Warren might be able to obtain their support. But the trick was to do so without offending conservative Republicans who disdained the Ham and Eggers. Ultimately, Warren promised the pensionites that, if elected, he would immediately form a temporary state pension commission to advise him on what changes were needed in California's existing Old Age Assistance program. And he would put representatives of Ham and Eggs, Townsend, and other such groups on the commission, thus giving them official state recognition. Finally, he pledged to see that the commission's recommendations would be enacted.

Warren's electoral strategy won him the 1942 gubernatorial election. And, as he had promised, he created a pension commission with pensionite representatives on it, along with those of other interest groups. The commission recommended a substantial boost in state old-age assistance and other liberalizations. True to his word, Warren pushed the recommendations through the legislature, making himself a hero to the pensionites.

Among the pensionites appointed to the commission was George McClain, a former Ham and Eggs official who had gone on to form his own group. McClain was more politically savvy than the Ham and Eggers and the Townsend folks. State old-age assistance was now a long-standing program that had become eligible for subsidy by the federal government under the Social Security Act. Pensionite agitation had already substantially boosted the state pension and had created a constituency of those on the pension and those who wanted to be eligible. McClain understood that there was no need to push for funny money and transactions taxes as part of a pension scheme; such features simply put off many voters. And with the Great Depression no longer an issue in wartime and postwar California, there was no need to combine the plan with the idea of economic stimulus. An elderly following could be obtained instead by just agitating for higher state old-age assistance without specifying the source of funds. With the recognition that membership on Warren's pension commission brought him, McClain was eventually able to establish himself as Mr. Pension in California, eclipsing the Ham and Eggers and Townsendites with their currency and tax proposals.

In 1948, McClain was ready to put his own proposition on the

California ballot. It was a good time to do so. Governor Warren, who had his eye on still higher office, became the Republican vice presidential candidate running with Thomas Dewey. With a national campaign under way, Warren may not have been as focused as he should have been on California issues. He did not mount a major campaign against the McClain proposition.

McClain's proposition substantially boosted state old-age assistance and lowered the eligibility age to sixty. It took authority for administering the pension away from the counties and put it in the hands of the state Department of Social Welfare. Finally, it took the director of the department out of the governor's cabinet and instead made the directorship an elected office. Pending such an election, however, the director would be Myrtle Williams, described discreetly in the press as a woman associated with McClain in his pension movement. In November 1948, the Dewey-Warren ticket lost. And McClain's proposition narrowly passed. McClain thus became the first (and only) California pensionite ever to pass a ballot proposition. And Earl Warren, now back in state affairs, had to deal with it.

The McClain victory was relatively short-lived. California's demographics were moving against the elderly due to the influx of young military and defense workers during World War II and the subsequent cold war. By the early 1950s, California would cease to have a population more elderly than the rest of the country. This demographic shift soon became apparent. McClain's win in 1948 had galvanized various groups that sought to repeal his proposition.

County administrators were angry over their loss of control over state pensions. The legislature was angry because it was being forced to come up with the funds needed to pay for increased pensions. The business community was upset with the prospect of higher state taxes to pay the bill. And Governor Warren was unhappy to have lost a cabinet official. These forces united to put a repeal proposition on the ballot in 1949. To avoid elderly ire, the repeal proposition left McClain's higher pension in place, but it dismantled his administrative arrangements, returning control to the counties and dethroning Myrtle Williams. A massive campaign in favor of repeal succeeded in November 1949.

McClain went on trying to pass new ballot propositions and lobbying on behalf of the elderly. As late as 1962, he was still able to make waves in California politics, campaigning in opposition to Richard Nixon's (unsuccessful) run for the governorship.[5] Shortly thereafter, McClain died, enmeshed in a controversy involving the financing of a private housing project for the elderly. With his death, California had consumed the last of its ham and eggs.

Ham and Eggs in the Twenty-first Century?

California's history of elderly politics has implications for the aging of the baby boomers. As noted at the outset, this history should not be taken as a forecast of some mechanical repetition of Townsend, Ham and Eggs, and McClain. Indeed, the issue for elderly baby boomers may not be pensions at all. It could easily be resources for health care. Public concern about medical rationing under HMOs and managed care is already evident.

So what are the lessons for the future that can be learned from California's pensionite past? There are two primary lessons:

- Elderly voters can become a powerful electoral constituency, especially if they feel that they are not receiving their due.
- Political entrepreneurs will arise to capitalize on such elderly frustrations.

Of course, it is well understood that the elderly can be an important political interest group. They already are. The issue is, therefore, whether elderly baby boomers are likely to feel they are receiving their just reward. Again, two points can be made.

- The current debate about social security and Medicare is creating a historical record that could easily be construed by future political entrepreneurs as proof the elderly were willfully cheated. Armed with that "proof," they will be able to capture elderly voters with proposals that would ostensibly compensate them for the money that was "lost."

- The demographic bulge represented by the baby boomers virtually assures that the elderly boomers will receive fewer per capita resources than they would like and that younger workers will feel an added burden of supporting them. Such an outcome is the inevitable result of more retirees to be supported per active worker.

Consider, first, the idea that the future elderly are being willfully cheated. Those who favor major changes in social security—typically moves toward "privatization"—usually focus on the "pay-as-you-go" aspect of the system, that is, the idea that the programs are not fully funded. From this position they move to the idea that the trust funds are not real and that the money in them has already been spent. Some examples:

> One of Washington's dirty little secrets is that there really are no trust funds. The government spent that money long ago to finance general government spending, hiding the true size of the federal deficit. (Cato Institute researchers Peter J. Ferrara and Michael Tanner 1998, 7)

> Taxes paid by today's workers are used to pay today's retirees. If money is left over, it finances other government spending—though to maintain the insurance fiction, paper entries are created in a "trust fund" (Nobel laureate economist Milton Friedman 1999, A17)

> To save Social Security, we must first stop looting it for spending programs or tax cuts. (Democratic Senator Ernest F. Hollings 1999, A27)

On the other hand, those more friendly to Social Security contradict these views:

> The OASDI surplus is invested in government bonds, and the OASDI trust funds are properly credited with all interest on these bonds. This means that this surplus is clearly not stolen from Social Security, as one often hears in political campaigns. (Federal Reserve Board member Edward M. Gramlich 1998, 30)

So who is correct? The confusing answer is that, in a sense, both sides are correct. Social security is largely pay-as-you-go (although not completely so, or the trust fund surplus would not currently be increasing). And the assets in the funds are government IOUs. In effect, the government says, "I owe you one pension," and then backs that pledge with securities that say, "I owe the trust fund the money to pay you your pension." To that pledge it adds a promise to provide future tax support to pay liabilities beyond those that are covered by the IOUs in the fund. But there is nothing nefarious in this system; it is simply how pay-as-you-go works. It is merely a governmental version of extended family networks in traditional societies through which the young take care of their elderly parents and relatives.

Nonetheless, the design of social security lends itself to charges that the government is cheating future recipients. If the boomers receive less than they expect, the charge that their contributions to the trust funds were somehow purloined or diverted will seem plausible. Political entrepreneurs will be able to point to statements such as the quotes reproduced above as evidence of miscreant government behavior.

Similarly, the idea that workers would do better investing the funds they now pay in payroll taxes rather than "contributing" them to social security also is made plausible by the system's design. It is designed to look like a pension or insurance plan with an investment pool. Yet the issue is really independent of whether someone could earn more in the stock market than the trust funds earn on government bonds. It could also be said that taxpayers would do better investing the money they pay in general sales or income taxes rather than paying those taxes to the government. But that is inherent in taxation, and social security is a tax-supported program. It is a program whereby one generation supports the prior one. Unfortunately, some generations are large and others are small, causing the burden to vary.

Many of those who favor privatization have pushed for a diversion of some of the payroll tax "contributions" to social security into individual accounts that workers would invest on their own. Republican presidential candidate George W. Bush falls into this category. But at this writing, details of his views on social security reform are not entirely clear, and he has emphasized reaching "bipartisan" solutions. Democrats have talked about creating new worker accounts of some type but not necessarily as diversions of existing tax streams. Their proposals involve using the federal budget surplus to bolster social security—basically putting general revenue into the system. In effect—and not surprisingly—the Democrats favor plans that leave the institution of social security largely intact. In the past, Bill Clinton seemed favorably disposed to putting some of the trust funds directly into the stock market—something Republicans oppose as backdoor socialism. But stock market gyrations seem to have dimmed Democratic interest in that approach.

It appears, therefore, that the most radical plan under active consideration is that of partial tax diversion into individual accounts. There are two possible outcomes of this pressure for diversion. One is that the proposal will fail to be enacted. But if that occurs, the debate will have left on the historical record the notion that retirees were cheated out of higher returns they could have had as individual investors. Again, this historical residue will be bait for political entrepreneurs trolling for elderly votes.

The other possibility is that the diversion proposal will be adopted in some form. If that occurs, however, monies that would have gone into the trust funds will instead go into the stock market or other private investments. The government bonds that would have been sold to the trust funds will instead have to be sold to the private market. No new net wealth or income is created by such an asset shift. There is simply a portfolio shuffle. Some private investors who would have held stock will now be

There are three possibilities for national income enhancement: more technological progress, more capital, or more labor.

induced to hold government bonds. Workers who would have had bonds held for them through the trust funds will now be encouraged to purchase that stock. But the demographic reality of a baby boom population bulge will remain.

That demographic reality—and not the details of the social security system—is the key to the dilemma. If retired boomers are given more claims on the national income (through conventional social security saved by using the federal budget surplus, through diverted retirement accounts, or by any other means), there will be less of that income left over for the younger working generation. If the younger generation feels overburdened, it will seek to recoup some of that lost income through taxation of elderly incomes or reductions in what remains of social security benefits. And the elderly boomers will rally around political entrepreneurs who promise to fend off such attempts.

It would be nice if there were a simple solution to the baby boom retirement. Of course, if the future national income could be enlarged, leaving plenty of resources for elderly retirees and working consumers, the potential for political turmoil and intergenerational conflict could be reduced. There are three possibilities for national income enhancement: more technological progress, more capital, or more labor.

Some optimists believe that the "new economy" will be so bountiful that it will solve the baby boom dilemma. However, the evidence of a startlingly higher rate of productivity growth is weak, despite the current hoopla about technical change and the Internet. An increase in the capital stock through increased national saving would help boost output. But Americans have exhibited a distressingly low propensity to save during the past decade. And neither political party seems likely to endorse mandatory saving above and beyond the existing social security payroll tax burden.

More youthful labor could be added to the active workforce through immigration, thus enlarging the pool of workers that will support retired boomers. But there is little indication of public sentiment for relaxed immigration controls. And the number of immigrants needed to offset the rise in the retiree-to-worker ratio would be vast.

Finally, the boomers themselves could stay in the labor force and not retire. The normal retirement age under social security is being raised gradually to sixty-seven under existing legislation. But pressure on the elderly to work longer is effectively a social security benefit cut. And a "work-till-you-drop" approach is precisely the kind of remedy that will produce an elderly protest movement.

Confused rhetoric surrounding the social security debate could easily fuel conspiratorial suspicions in the future. The Townsendites, Ham and Eggers, and followers of McClain all viewed their opponents as part of a conspiracy to deprive the elderly of their due. Similarly, frustrated elderly baby boomers may become convinced that someone spent their social security money, or that they were fooled into thinking there was a trust fund, or that they were cheated out of higher yields on investments they could have made. They will look back at the contemporary debates and find numerous citations by politicians and others that seem to "prove" these points.

The demographic reality—that an elderly bulge is at the root of their discontent—is likely to be lost as political entrepreneurs tap those frustrations. These political entrepreneurs will be the Townsends, Allens, and McClains of the future, tailoring their plans—whatever they turn out to be—to the social and economic currents then prevailing. Aging America will be an interesting place.

Notes

1. "Gerald L. K. Smith Dead; Anti-Communist Crusader," *New York Times*, April 16, 1976, p. 30.
2. Various explanations have been given for the name "Ham and Eggs." It may simply have suggested a hearty breakfast, i.e., prosperity.
3. During World War II, Noble was imprisoned for sedition after making pro-Nazi and pro-Japan statements. At the state level, Noble's prosecution was handled by California attorney general Earl Warren, whose involvement with the pensionites is discussed below.
4. Under immigration laws of that period, only Japanese-origin persons who were born in the United States could be American citizens.
5. McClain had ironically sought the support of Nixon some years earlier to obtain federal funding for the housing scheme, mentioned below in the text, when Nixon was vice president.

References

Ferrara, Peter J., and Michael Tanner. 1998. *A New Deal for Social Security.* Washington, DC: Cato Institute.

Friedman, Milton. 1999. "Social Security Chimeras." *New York Times*, January 11, A17.

Gramlich, Edward M. 1998. *Is It Time to Reform Social Security?* Ann Arbor: University of Michigan Press.

Hollings, Ernest F. 1999. "Dipping into the Social Security Bank." *New York Times*, February 5, A27.

Mitchell, Daniel J.B. 2000. *Pensions, Politics, and the Elderly: Historic Social Movements and Their Lessons for Our Aging Society.* Armonk, NY: M.E. Sharpe.