

**Interview of Edith U. Fierst,
1994-96 Advisory Council on Social Security Member,
at her home,
March 16, 2006**

1994-96 Advisory Council on Social Security Member, Edith U. Fierst
Interviewed by Ed Gibson, Virginia Tech Doctoral Candidate, at her home
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Interviewer: The first thing that I go into is how you found out and how you felt when you found out that you had been proposed or selected for the Council?

Ms. Fierst: [REDACTED] David Lindeman called me and asked me if I would be interested. I said I would be thrilled. He said they hadn't decided yet, but he called back later and he asked me, and I was thrilled. I remained very happy about being on it. I thought it was a great opportunity.

Interviewer: Do you have any idea what went into the decision process? Or one day you found out that you were being considered, then another day you found out that you were chosen?

Ms. Fierst: I had been very active in trying to design earnings sharing, which would improve the situation for two-earner couples. That was in the 1990s. Women were going back to work in a big way and it seemed as though that was the wave of the future. ^{in fact} It is to a lesser extent [REDACTED] because [REDACTED] a lot of women who can afford it stay home to take care of their children. But a lot of women can't afford it, so they go to work, and a lot of families—[REDACTED] really need the money these days. It takes more than one earner in most families, so women have gone [REDACTED] to work.

Interviewer: Did you have an occasion to either talk with people who had been active with you on that issue or on other issues once it became known you were on the Council?

Ms. Fierst: I did. I called up several people and I said, "I'm going to be on this Council and what do you think I should be recommending?" Some of them had ideas, but

most of them didn't, because at that time people in general didn't know that there was going to be a problem with financing Social Security, which turned out to be the issue.

In fact, I remember telling this to a man I know who was and is a

prominent economist, and he said that was all solved in the '80s. I sent him

recent

report [redacted]. He was quite amazed. He's on the faculty of one of the best

a more

places here in town.

Interviewer: So that was fairly early on?

Ms. Fierst: Yes.

Interviewer: Did you get any perspectives in addition to that one that surprised you?

Ms. Fierst: [redacted] that one surprised me because I hadn't known that Social Security was going to be in trouble. I can't remember any*other*.

Interviewer: So let me turn the question, you said you were excited. Was there anything about the prospect of doing this that gave you misgivings at all?

Ms. Fierst: I wouldn't say so. No.

Interviewer: How did you come to feel about the people that were on the Council, your fellow members, and your interactions with them?

Ms. Fierst: Well, they were a mixed group. I mentioned already to you that Bob Ball, who was the leader of our group, is a great man. He had brilliant ideas. He was a very pleasant person. [redacted]

[redacted]

[redacted] He remains the outstanding person as far as I'm concerned. There were other people there that it was nice to meet. I can't say I got to know them very well. Tom Jones was one: an impressive man with a fantastic career.

Interviewer: You had mentioned his responsibility for TIAA-CREF.

Another excellent person was

Ms. Fierst: Yes. I have the list here. Ned *Granlich, who* turned out to be the head of the IA (Individual Accounts) section. He's a very nice fellow. And as you probably know, he went on the Federal Reserve Board thereafter.

Interviewer: I was a contractor at the Federal Reserve just by happenstance—he was my first interview and actually the only person that I had the presence of mind to ask, “Do you mind if I tell people that you’ve been interviewed?” Of course once the dissertation is all together then it will be obvious. So I was able to and he was very gracious: received me in his office.

Ms. Fierst: Good. He later came and talked to a group, a luncheon group that I run. He was good.

Let me see, Gerry Shea *was* another very important member of the group and very able. He *ran* then major things for the ALF-CIO, and you were just telling me that he *does now some* *different* *for them*. He didn't have the time to put into this that some people had. Bob Ball was certainly *the leader,*

There was only one other person in the IA group, who was Mark Twinney, Ford Motor Company. I remember him. [redacted]

[redacted]
[redacted]
[redacted]

Ms. Fierst: [REDACTED] Ned Gramlich, who was the chair, ^{of the P A group.} And the two of them put out a report together as you know.

Joan Bok is a lovely person. I couldn't have been more surprised when she voted with the privatization group. Ann Combs later [REDACTED] had a high position at the Labor Department. I'd forgotten that... [REDACTED] She was part of that group.

I don't forget Syl Schieber at all or Carolyn Weaver—she was the one who raised this. She said, "I raised it and raised it and nobody's paying any attention to me." So we did.

Interviewer: Did you feel that you were representing any particular group of issues or constituencies?

Ms. Fierst: Not because that was my charge when I was appointed. I represented the self-employed, which I was. I had my own law practice at the time. I had a partner. But I did feel a responsibility to women, yes.

I can give you one example. One of the proposals was to lengthen the computation period, which would have made life a lot harder for women. That would have had reduced benefits because a lot of women take time to stay home and then come back into labor force. ^{They stay home} [REDACTED] with children, but also if they have family responsibilities. If somebody is sick, they stay home. I felt it was my responsibility to look out for them.

Interviewer: Did you view that anyone else on the Council had essentially that same constituency?

Ms. Fierst: No. No one else did. I would say not at all. Although there were several women, but...

Interviewer: They didn't share those sensibilities?

Ms. Fierst: I don't think so.

Interviewer: How about more broadly? Were there people on the Council that you felt shared either a way of looking at the problem or similar concerns beyond women? Or beyond women's issues I should say.

Ms. Fierst: In general the group that I was part of, which was headed by Bob Ball, we did. But I was the only one who said I did not favor enlarging the computation period, and I wrote something, an appendix I guess it is, about improving survivor benefits. I think one of the other groups was interested in that too, but nowhere near as much as I was.

Interviewer: How did the shared perspective on a range of issues impact your interaction with that group of people? How did it cause you to interact together? How did it cause you to work together? How did it cause you to communicate with each other?

Ms. Fierst: You're talking about the MB group, the Maintain Benefits group?

Interviewer: Right.

Ms. Fierst: Well, in general I didn't have any trouble taking the lead from Bob Ball. It was only this one issue I guess. Well, there was another issue, too, which I'll tell you in a moment, but the computation period we disagreed about Early on I thought, and I guess I've come back to this view, that they'll have to raise the retirement age. Bob is very much against that. He felt it's already going to be high enough

and it's a big blow to people now reaching 65 and they discover they can't retire yet, but the fact is, that's what the public wants, what they'll accept I think. And I do worry some about people who do physical labor. It will be hard for them, but it may happen.

One idea that I had, which nobody took seriously, was ^{employer} that contributions to health plans should be treated as income for Social Security purposes. People who don't work for employers that provide such contributions, they have to pay taxes on their earnings and then buy their own health insurance. From an equity point of view, ^{+am employer contributions} [redacted] was absolutely the right thing to do. But politically a lot of people felt it was just hopeless, so they didn't pay much attention to the idea.

Interviewer: How did these issues get worked out within the group? First, the extension—the calculation of earnings period?

Ms. Fierst: Well, it was proposed, I don't remember when exactly when or where, but I objected, and I do remember that I had a phone call from Henry Aaron, who was not on the Council, but a leading economist at Brookings and also a terrific person. He called up and tried to talk me out of my position, but I didn't budge on that.

Interviewer: Did anyone else, either inside the Council or outside the Council, prevail upon you in some way or other or engage you on the topic that you recall?

Ms. Fierst: Not that topic, but on the question of raising the retirement age. [redacted]
[redacted] One of the amazing things that happened after we finished with Advisory Council report ~~x~~ was that suddenly the idea that we should raise the ^{maximum earnings} [redacted] subject to tax took hold. Nobody had, as far as I know, ever

considered the possibility that you could raise it a little bit. The issue had been discussed in terms of raising it without any limit. I remember having a phone call from a labor lawyer, in which he suggested that to me, and I thought, "You know, he's right."

So I called Bob, and by that time either he or somebody else had planted the seed, and Bob was for it.

Interviewer: So this was afterward or during the writing period?

Ms. Fierst: No, it's not in the report. So it was afterwards.

In general I suppose—I don't exactly remember, but I assume that Bob ^{the staff or} wrote the report and we were given the chance to comment. I think that's probably how it worked. Maybe Gerry participated with him.

Interviewer: So outside of the discussion within the Council, were there other venues, you know, either at breaks or at suppers or whatever?

Ms. Fierst: Well, we did talk at breaks. I don't think we—we didn't have supper together generally. The then commissioner of Social Security invited us to dinner, so I went—not everybody did—but it was an occasion for conviviality.

Interviewer: Okay. Not talking shop?

Ms. Fierst: Not serious discussion. No.

Interviewer: So the record of the Council meetings pretty much contains the exchange or characterizes the exchange between the members?

Ms. Fierst: Well, there were—we had lunch with each other also. So we did discuss it then, but—

Interviewer: How would you characterize those discussions?

Ms. Fierst: Well, I mentioned that I was amazed when Joan Bok came out for personal accounts. We had a very, as I recall, affable lunch together, and I don't remember having any disagreements, but maybe we didn't talk about them. I don't know when she reached this position.

Interviewer: Well let me then turn it around. You were characterizing affable discussions. With the people that supported other plans, how did you come to feel about what they represented?

Ms. Fierst: Well, I thought they were wrong, and some of them were a little contemptuous of me.

Interviewer: How did that manifest?

Ms. Fierst: Well, you know, you pick it up in nuances.

Interviewer: But that was in informal occasions?

Ms. Fierst: Well, I don't know. I don't remember whether it was formal or informal, but I knew that at least one of them had a low opinion of me.

Interviewer: And you think that's because you disagreed with them?

Ms. Fierst: [REDACTED] don't know. I mean maybe he didn't think I had any sense, which if I had come around he might have been a little more respectful. I don't know, maybe not.

Interviewer: So in that way did the positions did carry over somewhat into the interpersonal?

Ms. Fierst: Yes, they did. I see ^{on the list} [REDACTED] one person who was on the Council I had forgotten about. He was there ^{as an} [REDACTED] Hispanics, Fidel Vargas.

Interviewer: Right.

Ms. Fierst: He never took an active role. He came occasionally.

Interviewer: Well, it varied quite a bit in terms of the levels of engagement.

Ms. Fierst: Right. You mean by him or by members?

Interviewer: Generally, yes.

Ms. Fierst: By members, yes. Some were very much ^{engaged,} others were not. Several had major jobs in addition to this. For example, ^{one member was} the president of the International Association of Machinists and Aerospace Workers. That's a big job! He would come in occasionally, but it's no wonder to me that he didn't spend a lot of time discussing these things or working on them.

Interviewer: But you were quite involved.

Ms. Fierst: I was very involved. I always went. I took it very seriously. I had my own practice and I was able to schedule myself.

Interviewer: Did you find the homework, readings, et cetera, to be a stretch?

Ms. Fierst: I don't remember that I did. I may have. My main problem was how to file ^{the} ^{material} [LAUGHTER]—because stuff came pouring in.

Interviewer: Yes, there's a lot of material. In terms of the way to approach the problem, did you feel that there were particular situations or trends or potential outcomes or constituencies or other factors, and I'll break that down a little bit, but that ought to be taken into consideration especially? What things do you think were especially important to consider in your deliberations?

Ms. Fierst: Well, we had reports on all kinds of fascinating issues. For example, on demographics, on how long people were living. This is very important for Social Security because it's an indexed annuity, which nothing else is. ^{And} people really need ^{Social Security} But the information was very interesting about who's living longer and

who isn't living longer, that sort of thing. Some of it was just interesting, not necessarily ^{advisable}. I concluded early on that you had to have an indexed annuity for everybody, but the factors...

Interviewer: What made you think that was the way to go particularly?

Ms. Fierst: Well, I knew that people needed the money. And women in particular live longer than their husbands—six years I think on average. ~~_____~~ they have a longer life expectancy ^{than husbands and ^{other} men} ~~_____~~

Interviewer: I don't know if it's husbands or men. I don't know if it's spouses or men—I don't know which it is.

Ms. Fierst: ~~_____~~ ^{I think husbands on average are 3 years older than their wives}
But obviously ^{women} ~~_____~~ needed the money. ~~_____~~ they had to have ^{income} ~~_____~~. What were they going to do? I had spent quite an amount of time studying this, meeting women's groups.

Interviewer: You mentioned earlier the issue of the various statuses or the various situations, divorce versus widowhood.

Ms. Fierst: You mean what do I think about that?

Interviewer: Or how did that play into your...?

Ms. Fierst: Well, one of the things that we learned when we ^{worked on the} ~~_____~~ technical committee on earnings sharing that I told you about earlier was that if women ^{are} ~~_____~~ married ten years, ^{they} ~~_____~~ get the same portion of ^{their} ~~_____~~ husband's benefit as if ^{they} ~~_____~~ had been married for a lifetime. Well, in some ways that seems unreasonable, but you can't change the rules in the middle. Somebody who's been married ten years and divorced, ~~_____~~ counting on Social Security. The alimony arrangement is set in

Social Security

such a way that she's got to have [REDACTED] when she reaches eligibility. When she's a widow she certainly has to have it. So you can't deprive her of this. I don't think anybody thought you could, but the whole question of what happens to women who don't work—this is part of the complex of situations that were important.

Interviewer: So that's very clearly a constituency or a group that you didn't want to see ignored.

Ms. Fierst: Right.

Interviewer: Were there others?

Ms. Fierst: The problem with race was very interesting because the marriage rate among black people is much lower than white people. It certainly was then. I don't

know if it's changed now. But another factor about African Americans is that the women—this is a growing trend from what I read—^{more} [REDACTED] women—[REDACTED] work, *They*

marry less often [REDACTED]. They've become educated. They're not spending a lot of their lives in prison and they in general make more money than their husbands do. So black women ^{don't} [REDACTED] need this protection ^{as much} [REDACTED] but I suppose their husbands ^{+ children} do.

Anyway, I wasn't about to do anything to deprive anybody of it, but that was a very interesting sociological thing as far as I was concerned.

And another thing that was very interesting to me is that Hispanics live longer than anybody. Did you know that?

Interviewer: No.

Ms. Fierst: That came out here. I remember thinking "Is this rice and beans? Or what is it?"

[LAUGHTER] and maybe it is. It may be. ^{They} [REDACTED] are good for you.

Hispanics really needed Social Security because they live longer. I remember somebody called me up and asked me if I would write a piece that could be published about Hispanics and why they needed Social Security more. So I said I would.

Interviewer: This was after the Council?

Ms. Fierst: Yes, and I got in my car and drove around. It must have been spring or summer. There are a lot of gardening crews in this area and they're mostly Hispanic. So I went and talked to one of the men and he gave me his life story, his wife hasn't worked.

Interviewer: That's very daring.

Ms. Fierst: Well, you mean for me?

Interviewer: Yes.

Ms. Fierst: Oh, no. I was nice, and why not? Anyway it was a fun article to do and I sent it in and it was published immediately by the *Miami Herald*. Most of my articles were not published immediately, if at all, but this—

Interviewer: Mine either.

Ms. Fierst: [LAUGHTER] So we do what we can.

Interviewer: You found that of interest. Did you have any chance to discuss that with other members? Were other people surprised or interested? Did those kinds of topics come up?

Ms. Fierst: They didn't really. I don't know why they didn't. You say, "Did I have the chance?" I might have had the chance, but I don't remember seizing it nor receiving any particular response.

Interviewer: Do you think that other members might not have found that as interesting or a matter of such import as you did? Obviously it struck you. This is 10 years later.

Ms. Fierst: Yes, some people may not have. I don't really know, but I tend to like ~~these~~ sociology [REDACTED] and a lot of other people aren't that interested in [REDACTED]

Interviewer: Well, that actually would be a bit of an issue. If someone is approaching the idea from a sociological perspective, might that come into conflict with, say, an economic perspective or a political perspective or these types of things? I'm just wondering about the dynamics on the Council.

Ms. Fierst: I don't remember anybody proposing that we do anything different as a result of this. [REDACTED] ^{It was} [REDACTED] part of the background.

Interviewer: Okay.

Ms. Fierst: And another question was whether people were living longer, and one issue was whether women who were working were living shorter as a result of the tensions of work, which a lot of people expected to be the case, but it wasn't.

Interviewer: That's lucky, right? I mean that's good. You worked all your life.

Ms. Fierst: I worked for 20 years. I was home with children for a lot of the time. No, I worked more than 20 years. I worked a lot more. That was 20 years in the government, but 18 years I worked in private practice, but it wasn't all full-time. And since I retired, I've been working harder than ever [LAUGHTER] partly because my husband isn't here now. I used to make dinner. We'd have dinner, a quiet evening. If I went up to the computer he would object. Now nobody objects, so I go. I work a lot.

Interviewer: It can be quite a drill can't it? You were talking about Googling this or that person. It's amazing the information that's available, and if you're a curious person, one thing leads to another.

Ms. Fierst: I don't begin to have the time to look these things up that I want to look up, but I'm into various projects all the time.

Interviewer: Were any of these projects in a way spawned by your service on the Council or your engagement in the issues?

Ms. Fierst: I think I mentioned to you that the Cosmos Club has a committee to look at employee benefits, and one of them of course is pensions, and I do work on that committee and it's very challenging to me I must say. I didn't realize how little I knew until I got there, but I'm trying to learn. That may have had something to do with my being there.

Interviewer: We talked about groups that you took an interest in and took an interest in the issues related to Social Security. You had mentioned in the first little bit of the interview that a professor that you corresponded with or that you called had been surprised at the fiscal situation.

Ms. Fierst: Yes.

Interviewer: How did that present itself?

Ms. Fierst: Well, we were at a swimming pool, a group of friends, and he was there. Somehow I told him I was on ^{The SS} [redacted] Advisory Council and the problem we had was how to finance Social Security. He said, "I can't believe that. The problem was solved in the '80s."

Interviewer: So how did that come to impact the work of the Council?

Ms. Fierst: It didn't really. I knew that there was a shortfall upcoming and we had to do something about it.

Interviewer: How did other people on the Council react to that, or how did they approach that?

Ms. Fierst: Nobody thought that we could ignore the shortfall.

Interviewer: Okay. So it became prominent.

Ms. Fierst: Right. That's what the whole Council was about actually.

Interviewer: Do you think in retrospect that that was the proper thing to spend that much time on?

Ms. Fierst: Oh, yes. ^{But} [REDACTED] we didn't solve the problem.

Interviewer: But that was the appropriate focus?

Ms. Fierst: Oh, yes. It entered the national scene. It's still there. I think the Democrats should do something now that they've won on privatization. I think they should take the responsibility for proposing changes in Social Security that will solve the problem.

Interviewer: Where will the ideas come from?

Ms. Fierst: Oh, they're all there. Bob Ball had a lot. Our group had some. I wrote an article, which the Post published.

Interviewer: So you think essentially that this deliberation provides a foundation for solving the problem?

Ms. Fierst: I do. I talked a ^{to} [REDACTED] congressman in this metropolitan area, and I said I thought the members of Congress should take a position on saving Social Security. It would basically be the Democrats because the Republicans don't want that. One of the things to do would be to raise the level of ^{earnings} [REDACTED] subject to the FICA tax,

Member
 and this [REDACTED] said, "In my jurisdiction, 90,000 dollars"—and we had this
 conversation a year ago—"it's really middle income, so I can't [REDACTED]" *emphatically that)*

Interviewer: Golly.

Ms. Fierst: Yes.

Interviewer: That would be a good district to live in.

Ms. Fierst: Yes. He said it's almost middle income.

Interviewer: Well, you said a second ago about some people being interested in saving Social Security and some people having no interest in saving Social Security. Did you feel like that manifested itself on this Council?

Ms. Fierst: When people wanted to privatize Social Security, I thought that was not saving it and I still think that. It's part of the Republican philosophy that people should be responsible for themselves and, if they fail on that responsibility, they'll be poor.

Interviewer: So you attributed or you took the position by the members that supported the Personal Security Accounts as a philosophical position? Am I interpreting what you're saying correctly?

Ms. Fierst: Yes, it stems from the philosophical position. I mean they have the same view on health insurance. They think there should be health savings accounts. If you haven't saved the money, then you wouldn't have the money to pay [REDACTED] your bills. I don't *believe* [REDACTED] that our society *should* [REDACTED] say to an 80 year-old woman, "Well, it's too bad you didn't save or work when you were young, so go get a job." A lot of people can't.

So my position is quite the opposite. I mean I think Social Security is the greatest program we've ever had. It's so wonderful how it saves people and I'm

very critical of the Democrats now because they're not rising to the need for saving it.

Interviewer: Did you feel that your fellow supporters of the Maintain Benefits plan, that group rose to the challenge?

Ms. Fierst: Yes, I do. I'll tell you one thing. There was one proposal, which I support strongly, and it's been given—what's the word I'm looking for—some kind of support, but not serious: and that is to bring state and local government employees who are newly hired under mandatory coverage. It would be far better for ~~the~~ state and local government employees, and especially their dependents, with few exceptions, if they were brought under mandatory coverage. But the unions don't want it and a lot of the people on our side just won't fight them. They accept that this is the reality; that ~~the unions can't be broken~~. *the unions can't be broken.*

Interviewer: Well, was there much fighting on your side?

Ms. Fierst: No.

Interviewer: Why is that? There are some different opinions held evidently.

Ms. Fierst: Bob was really such an overwhelming personality. He obviously knew so much more than the rest of us.

The labor people, well two of the labor people, weren't terribly active. They had other jobs, which they spent most of their time on. I don't know whether Gerry Shea disagreed with him at all. He may have in private. And the same with Tom Jones, who was another part of our group. I disagreed to some extent, but I can't say—you read the transcript—did I say anything there to challenge it?

Interviewer: I'd say you put forward your issues in a very straightforward manner.

Ms. Fierst: Oh, good. That's the way I would do it.

[LAUGHTER]

Interviewer: If you don't mind me... that's just based on my reading.

Ms. Fierst: That's fine.

Interviewer: For what it's worth.

Ms. Fierst: Yes, good. As you say, it's 10 years ago. So I don't remember too well.

Interviewer: But you seem to remember. You were describing a situation essentially of opposition, one group to the other.

Ms. Fierst: Yes.

Interviewer: And you're describing myriad ways.

Ms. Fierst: Yes. I could not believe, when I heard how much money the transition would cost, that the group that wanted the personal savings accounts nevertheless wanted it. I thought that would be the end of it, because after Carolyn Weaver suggested the idea and it was taken seriously, my vague recollection is that the Social Security actuaries were asked to tell us what it would cost to make the transition. When the amount of money came in—and I don't remember how much it was—but a huge amount of money, which had to be paid for by what Syl Schieber called, "the liberty tax," I was astounded. I thought that would be the end of it, it's ~~just~~ so impractical.

Interviewer: But it didn't deter them?

Ms. Fierst: No, I think it was an ideological position.

Interviewer: Did you think that yours was an opposing ideological position?

Ms. Fierst: Yes, I guess so. I feel strongly that Social Security protects people and I feel that we shouldn't abandon it.

Interviewer: So are there any other attributes of that position? Protection is one.

Ms. Fierst: Well, it's a reality thing. If people don't have Social Security, there is no inflation protection, [REDACTED] There are no annuities if you use individual accounts. People are going to have spend money to buy annuities, which would be expensive, for the cost to have individual accounts administered. The administrative costs would very high. Social Security costs only 1% of its income to be administered. That's not much.

Interviewer: How about the IA—you've talked about the people that supported the IA, but you haven't mentioned...

Ms. Fierst: It wasn't [REDACTED] the IA so much. It was PSA that...

Interviewer: But you haven't described the same type of opposition with respect to those people. Why is that?

Ms. Fierst: What, the PSA? That was the main opposition.

Interviewer: Right. How about the other two?

Ms. Fierst: The IA?

Interviewer: Yes.

Ms. Fierst: Well, I thought they were wrong.

Interviewer: In the same way?

Ms. Fierst: Well, not as extreme. But yes, in the same way. I was amazed later on. I was somewhere when Ned Gramlich said they had wanted to retain Social Security and make a minor change. I thought it was a pretty substantial change.

Interviewer: So [REDACTED] individual anything was ^{not} fundamental in your view?

Ms. Fierst: What do you mean individual?

Interviewer: Personal or individual...

Ms. Fierst: Accounts?

Interviewer: Yes, the idea...

Ms. Fierst: ^{That} People had to be responsible for themselves.

Interviewer: Right.

Ms. Fierst: [REDACTED] I think ^{that is} [REDACTED] impractical. There are a lot of people who can't be. Think about the diversity of population that we have, the millions of people, the roles they play in society. You know some people are married happily, some people aren't. Some people are married unhappily, and it used to be real problem about whether women could work when they wanted to. I remember my mother saying to me once that she would have liked to be a social worker but she felt it would embarrassing for my father if she went ^{out} to earn money. That's a very old-fashioned view now, but it existed and there are still people alive who are affected by it.

Interviewer: Evidently from the memorial that I saw, she didn't let the lack of a position stop her.

Ms. Fierst: She was very active, but she didn't earn any money.

Interviewer: Well, that's good. It looks like your family has a tradition of service.

Ms. Fierst: Yes.

Interviewer: I thank you.

Ms. Fierst: Well, I thank you. You're not leaving?

Interviewer: I'm sorry?

Ms. Fierst: I thought you were saying goodbye.

Interviewer: No, I'm just saying that I appreciate this service as I do all the Council members'.

Ms. Fierst: Well, you know part of the problem with service is ^{that} different people have different ideas about what constitutes service. Some people in the ^{name} [redacted] of service do things that aren't helpful. Look at what's happening now with the religions all over the world. Let's take the Muslims, but they're not the only ones. Lots of religious people do things that I think are not beneficial to society, and lots of other people who have ideologies or ideas or whatever.

Interviewer: So what kind of yardstick do you bring out?

Ms. Fierst: There is none. It's just my own personal one. I don't know of one that can be generalized.

Interviewer: But it was shared, at least by the six of you.

Ms. Fierst: Oh, yes.

Interviewer: But you didn't have to talk about it...I'm just kind of summarizing from the fact that you said that you didn't have a lot of offline discussions about what you thought was important. Maybe I'm recalling it wrong.

Ms. Fierst: No, I may be recalling wrong. That's my recollection. I think it was because I knew I was in the presence of my betters that I didn't take them up on many things. I did on a few, as you know.

Interviewer: Right. So you took your cue from their policy positions?

Ms. Fierst: Especially Bob Ball.

Interviewer: Had you known him before?

Ms. Fierst: No, not at all.

Interviewer: And you had already said that you really didn't see anybody else engage him at least—you didn't know if Gerry Shea engaged him or Tom Jones.

Ms. Fierst: I didn't see anybody else, no. I remember seeing him have lunch with Tom Jones one day at a table near where I was sitting during our lunch break, but it seems to me in recollection, from what I could tell, they were not discussing, they were not arguing about anything. They were having a nice chat, personal.

Interviewer: Well, it must have been all organized very fluently then if there was no need. Were you under the impression that the PSA group had more planning or organizing sessions?

Ms. Fierst: I think it may have been similar to ours. See in our group George Kourpias didn't have the time to think about the problems, and Gloria Johnson, I don't think she did either. ~~And they were~~ *challenge* not about to ~~Bob Ball,~~ *for Jerry Shea*

Gerry Shea, he had a big responsibility to the AIF-CIO, ~~_____~~

~~_____~~ Tom Jones, as the head of TIAA-CREF, he had an independent base with a lot of experience. So he may well have, but I didn't either—except in these couple of things ~~_____~~ *I mentioned and also a proposal to increase survivor benefits.*

Interviewer: Well, that's quite an impression that he made then.

Ms. Fierst: Yes, he did and continues to, to this day.

Interviewer: Well, that's a fine thing, a fine tribute.

Ms. Fierst: Yes, he's ⁹³92 and he still wows me.

Interviewer: So you've had occasion to see him. I guess you mentioned a birthday celebration.

Ms. Fierst: Oh, I've seen him twice at least; ^{including at a book party for} [REDACTED] Nancy Altman. ^{And} [REDACTED] I've spoken to him on the phone. He sent me a draft of his latest proposal and asked me for my views. I wrote him a letter and later we talked about it.

Interviewer: How recently was that?

Ms. Fierst: Three months.

Interviewer: Really?

Ms. Fierst: Yes.

Interviewer: That's remarkable.

Ms. Fierst: Yes.

Interviewer: So we've pretty much talked about the kind of situations and the constituencies and the trends—you mentioned about the demographic trends. Are there any other factors that you thought were relevant to the discussion that we didn't talk about?

Ms. Fierst: I don't recall any others.

Interviewer: In retrospect, looking back now, having had the ability to reflect, is there anything about the Council process or any other aspect of the Council that you would change if you could?

Ms. Fierst: No. I thought it was very good. I mean we had these meetings—I can't remember at what intervals.

Interviewer: About monthly. Not always, but especially during '95.

Ms. Fierst: The Social Security people would present speakers to us, who had positions and backgrounds, and they would give—the one I remembered is the one I told you about, the demographics. Other weeks or other months, I'm sure there were many

others. I mean there were all these papers we would be given and tremendous background on the need for Social Security, or what Social Security aimed to do or could do and might do.

Interviewer: Well, thinking back what was your impression of all of it? You indicated you were very positive on the program. What do you think is—what makes you positive about it?

Ms. Fierst: I think ^{the Social Security staff} [redacted] really understood in-depth the kinds of things that were relevant and ^{they} gave them to us.

Interviewer: And those relevant things were things like...

Ms. Fierst: Life expectancy, morbidity, the differences in the different groups, ^{the finances,} however you wanted to look at them.

Interviewer: So they have very good command of the facts and trends?

Ms. Fierst: You know Social Security has a fantastic staff. It really does. At least ^{it} [redacted] did then, and I don't know why it would have changed. I mean it's ^{just} [redacted] a very professional organization.

Interviewer: So you had a lot of confidence in the information that you were getting?

Ms. Fierst: Oh, absolutely.

Interviewer: Do you think that was shared by the Council, generally?

Ms. Fierst: I never heard anybody say otherwise.

Interviewer: Okay. So even if people disagreed with you on what ought to be done...

Ms. Fierst: I never heard anybody say the data that we got on life expectancy was wrong, no.

Interviewer: So you're starting essentially from at least a comparable position about the situation that is.

Ms. Fierst: Yes, smoking, for example: what difference does smoking make? And we talk much about obesity as ^{we} [redacted] would today, but those are all [redacted] important issues on life expectancy.

didn't

Interviewer: So you didn't feel any absence of information that you were handed in order to make your decisions.

Ms. Fierst: Oh [redacted]; no! It's overwhelming. If we did, people would ask and they would supply.

Interviewer: Let me ask you now not so much about the Council as a whole, but in terms of your group, is there anything that you think your group, the group that supported Maintain Benefits, should change or should have done differently?

Ms. Fierst: Well, I'm sorry we didn't think of raising the income level to be subject to FICA earlier than we did, and I wish that were a greater willingness to fight for something like bringing state and local government under the mandatory coverage. But I think people bowed to the realities and maybe properly so.

Interviewer: So that was a pragmatic consideration?

Ms. Fierst: I'm sure it was. Yes.

Interviewer: Do you recall it being discussed openly?

Ms. Fierst: I don't, but that doesn't mean it wasn't. I knew why it wasn't being [redacted] it's in there. It's in our reports [redacted]

*mandatory coverage of
mainly third State &
local
pushed Govt
employees*

Interviewer: Okay. Now lastly, your own involvement, is there anything you'd change about your own involvement if you could, looking back on it in retrospect?

Ms. Fierst: Not really, no.

Interviewer: So you're pretty satisfied with it?

Ms. Fierst: I made a mistake here, I may have mentioned that to you, but I did give the text out to be reviewed.

Interviewer: Was there any staff that was able to review it at that point?

Ms. Fierst: Yes, I think so. I'm trying to think who reviewed it. Whoever it was missed what I think was a very important bit of information.

Interviewer: The 20% and 40%.

Ms. Fierst: Yes, right.

Interviewer: Well, I didn't know how much staff remained for that. In fact I really know not very much at all about the period after the last meeting and then prior to the publication of the report and the various statements.

Ms. Fierst: I don't either.

Interviewer: But, essentially, you were working on your statement yourself?

Ms. Fierst: Yes, and then I did send it out for review... I think it was somebody at Social Security.

Interviewer: But there weren't formal sessions, or even informal sessions? Essentially it was papers being drafted and passed back and forth?

Ms. Fierst: Yes. I don't know if other people—did other people write papers in our group?

Interviewer: No.

Ms. Fierst: I didn't think so. I'm the only one. I assume, as I say, that Bob wrote what the MB people thought.

Interviewer: Right. So you've described the situation where people came from essentially their point of view or their perspective, and you haven't alluded to or described any other way for this deliberation to have come out.

saying that 40% of widows and widowers over 65 were poor, and it was only 20%

Ms. Fierst: I don't see... we could not reach an agreement. Afterwards there were various forums all over the country, I guess, and I remember going up to one at the Wharton School and Olivia...

Interviewer: Mitchell?

Ms. Fierst: —Mitchell. She was there and she organized it, and I'm always surprised when I meet somebody intelligent and thoughtful as I took her to be, who was in favor of personal accounts, but there are Republicans everywhere and they were, for the reasons that I gave you, I think. They believe that individuals should take their  responsibility *for themselves*.

Interviewer: And coming from that position, this is where they're going to come out?

Ms. Fierst: Yes, I think so. That's where they did.

Interviewer: And coming from your position, and the people that shared your position, that's where you're going to come out?

Ms. Fierst: Where we did, yes. There could have been different ways of saving money that we would have come up with. For example, the question of delaying retirement age was not part of our proposal and perhaps rightly so. But I think when, as, and if something is done to save Social Security, it's going to have be.

Interviewer: Well, that's a very cogent statement of how things came out. I appreciate it. Is there anything you think is relevant that you'd like to add that I haven't asked you about?

Ms. Fierst: I don't think so, but if I think of it I'll know how to reach you.

**Interview of The Honorable Edward M. Gramlich,
1994-96 Advisory Council on Social Security Chairman,
Federal Reserve Board, Eccles Building, Washington, DC,
August 8, 2005**

INTERVIEWER: What was in your mind or what did they convey about what the Council should establish?

GOV. GRAMLICH: Well, it was a little vague. They either said or I found out on talking to others that previous Councils had all been fairly unified. Lots of times the Council would agree on a 9 to 3 vote to do X, Y, or Z, so it wasn't totally unanimous. But I think there was a high degree of unity. It took me one meeting to figure out that we would be unlikely to have that high degree of unanimity.

There's another issue: I think our Council was the first one that met in open session. [REDACTED] This was under the old law; you probably know about all this. Under the old Social Security law, there was an Advisory Council mandated every four years. But there actually hadn't been one to look at the retirement system since 1983. The previous one had been entirely on health. They may or may not have met in open session—I can't remember—but I know that we were the first one on [REDACTED] Social Security proper to meet in open session.

I later discovered that that was a big problem; you probably know the reason. Essentially, people would go public with their position, and then it would be hard to change once you'd gone public without looking weak or like you didn't really know what you were talking about. [REDACTED] So I think in these open commissions, it's probably harder to reach agreement than in a closed commission.

INTERVIEWER: Other than Larry Thompson and Dave Lindeman, were there people outside the Council—you said that you hadn't had much contact with Social Security—with whom your relationship changed by virtue of being involved with Social Security? I don't mean your personal relationship, I mean essentially who gained an interest in you or whatever.

GOV. GRAMLICH: We had two technical panels and there were a lot of people who were involved in the Social Security issue and most of them ended up on technical panels. I got to know a number of people that way; some I knew already. But a lot of them went on technical panels.

There are people in town whom I've known and who I've known have dealt a lot with Social Security that could satisfy your question: people like Henry Aaron, Bob Reischauer, Gene Steuerle. Gene may have been on one of the technical panels, I've forgotten. He's at Urban Institute. But I did talk a lot with people like that about the issues.

INTERVIEWER: In general how would you characterize your interactions with members of the Council?

The interactions were fine. It
GOV. GRAMLICH: [REDACTED] was a little frustrating when we would have disagreements, but [REDACTED] never got antagonistic.

→ they →
INTERVIEWER: Did you view that you were representing some particular group of issues or constituencies?

GOV. GRAMLICH: No. ^{Council members} [redacted] may not all answer that with a "no," but I definitely would. I was just thinking about this *de novo*.

INTERVIEWER: That answer notwithstanding, were there any issues or perspectives that you opposed or came to oppose?

GOV. GRAMLICH: Yes. As you know, we ^{world} split in three directions. I felt that investing the central fund in [redacted] equities was a bad idea. I thought it would change the interaction between business and government. I thought it would be hard to insulate the so-called investment board. But I think the main thing I thought was that it ^{world} prevented serious thinking about the problem. I felt that the Maintain Benefits group used this to paper over the problem. And if you read our report carefully, it says that their plan was that they would study investing the central fund in equities, not actually do it. Which meant that in the end they actually didn't have a plan at all because they weren't willing to make benefit cuts or tax increases other than maybe way, way down the road.

On the other side, I did not then and still don't think that large-scale privatization is a good idea. I hit on that view very early in our deliberations and I held to it. If anything, I've gotten stronger in that view since the Council because of the collapse of the private defined benefit pension system. [redacted] The private defined benefit system is just falling apart, and that means that average individuals—low-income individuals or people who don't have [redacted] investment savvy or whatever—would have no real guarantee. If you convert the whole world to defined contribution, [redacted] take all the investment risk. [redacted] Increasingly as we went on I felt that ^{privatization} was just a bad idea: that you need a defined benefit backstop. It's fine to have individual accounts and let people invest, but you need a defined benefit backstop [redacted] to avoid people taking all the risk and a certain percentage of them ending up with very little retirement savings.

INTERVIEWER: On the first disagreement, if you don't mind me characterizing it that way, you disagreed on a conceptual basis, but—there's a question coming—you also characterized essentially that group, the Maintain Benefits group, as not having had a plan, or having papered over the problem...

GOV. GRAMLICH: I thought they did that, yes.

INTERVIEWER: Did that cause you to change your view of them as Council participants?

GOV. GRAMLICH: Oh, no. First, there were three union members that were in that group and if that's what they had to do, that's what they had to do.

Bob Ball is kind of the "old lion" of Social Security. I had great respect for Bob. We got along fine. I don't agree with his Social Security approach; still don't. But I don't have a problem with him. He's given his life to Social Security and the country owes him big time. And I respect him ^{for that.} [redacted] I just didn't agree with him. But [redacted] didn't change my view of Council members.

INTERVIEWER: How about the Personal Savings Account group? Same question.

GOV. GRAMLICH: Nor ^{them,} [redacted] They all believe what they believe, and that's fine.

INTERVIEWER: You said that you thought that the outcomes of this or the implications of these other plans may have consequences that you don't agree with—again if I'm mischaracterizing you, straighten me out—but the question is: Are there any of the ideas behind these or any of the ideas driving these that you take issue with?

GOV. GRAMLICH: On central fund stock market investment, that's one very big issue that the Council stumbled with. I decided pretty early in the game I was opposed to that: I have good reasons for it and there we are. I really didn't change that view as the Council was meeting; I still haven't.

INTERVIEWER: Would you say that your views were on workability issues? On principle? You said the relation between government and the private sector...

GOV. GRAMLICH: I think that if you look forward and correct for risk the stock return really doesn't exceed the bond return. So the whole thing is—I won't call it a "shell game"—but it's just going to cover that up. So that's one thing I think.

I ^{also} think for political reasons ^{it} [redacted] would very dangerous [redacted] for the government to be a huge holder of common stock, which it would be if Social Security got in the game. I suppose those would be the two basic arguments.

INTERVIEWER: In coming to the solution that you came to, what do you think were the key existing trends, conditions, factors that made that the best way to go?

GOV. GRAMLICH: I thought then and still think that there are essentially two problems: one problem is that we've got to bring the present system into balance. Given the rising life expectancies, it seems to me that the best single way to do that is to have the retirement age gradually creep up in a way that I suggested. That's a case where my policy approach matched my view of the problem. There are some "cats and dogs" in there, but the essential way I tuned up the present system was by having the retirement age go up with life expectancy.

Now, on the other side I also have long thought and still think that a set of people—a pretty big set, maybe half the people—don't save enough for retirement. So my add-on individual account was an attempt to address that issue. It has the desirable property that if somebody, say you, are already saving a lot for retirement and I impose the requirement that you have a small add-on, it would be inframarginal, and you wouldn't have to change your behavior at all—you're already saving. But if you're not saving at all, you would have to change your behavior. So [redacted] ^{it is} naturally targeted to the low savers.

I still think this way. I view Social Security as two separate problems. The system's out of balance; we have to put it back in balance: that's one problem. The second problem [redacted] ^{is that} [redacted] people aren't saving enough. We have to do something to get them to save more.

INTERVIEWER: I'm going to come back to that in just a second, but are there particular constituencies that should be especially attended to, or thought about, or considered—constituencies as groups of people?

GOV. GRAMLICH: That may be the way that a political scientist would think about the issue. I don't and I didn't think about it that way. My view was not what it will do for labor or business or whatever. I think I was guided by what was the best general-purpose retirement system that we ought to have for the country.

INTERVIEWER: What if I use different terminology? Were there any particular groups of the population that you think ought to be particularly kept in mind or considered?

GOV. GRAMLICH: Well, in anything like this you do have to consider low-income people, obviously. There is redistribution in Social Security, so the low-income people are basically taken care of now, and my plan didn't affect ~~them~~. *Indeed, in some ways I strengthened the protections.*

In Social Security, there is a risk of outliving your assets. It's very important that the benefits be annuitized and indexed for inflation, so I didn't change that. Indeed I made my individual accounts annuitized for the same reason.

~~There~~ There was one small aspect of my plan: we had a series of briefings and aged widow poverty rates are very high in America, and you could cut into them by going to the "three-quarters rule" as opposed to the way Social Security works now. When one member of an aged couple dies, their benefits are three-quarters of what both of them had together. That was a small thing in terms of money, but I think it's very important.

INTERVIEWER: You devoted a portion of your book to it.

GOV. GRAMLICH: Yes, ~~there~~ there are things of that nature.

INTERVIEWER: You mentioned solvency and national savings rate—I'll use those as bumper stickers—were the key outcomes that you thought had to be addressed. In addressing those outcomes, were there other outcomes those had to be traded-off against because they're paramount?

GOV. GRAMLICH: Those two, I think, didn't have to be traded-off against each other.

INTERVIEWER: How about others?

GOV. GRAMLICH: There might be others, but solvency you could fix on its own. Most solvency fixes involved some combination of retirement changes, tax changes, benefit changes: unlikely to have a huge affect on savings. ~~So~~ So fixing up the solvency really didn't make us any worse off with respect to my other goal. That was, in effect, separate: the individual accounts.

In general there are tradeoffs all over the place. But with respect to those two issues, the tradeoffs weren't huge. You'd address one issue with one policy and the other issue with another policy, and you didn't have to worry about Policy B compromising the impact or the objective of Policy A. [REDACTED]

INTERVIEWER: What about other things? For example, in your charter or explicitly addressed in your report: adequacy, equity—things of that nature?

GOV. GRAMLICH: Those are important issues in Social Security in general. The adequacy issue is: whether Social Security benefits are ^{adequate} [REDACTED] with respect to the poverty line. With the exception of aged widows I thought they were. So I didn't think that was [REDACTED] an important issue for Social Security [REDACTED] in the mid-1990s [REDACTED]

INTERVIEWER: Equity?

GOV. GRAMLICH: The system is fair horizontally between like-situated individuals, I think, so I didn't think that was a particular problem. And what economists call vertical equity—does it treat high- and low-income people the same—as you know, I did change that tilt in a fairly minor way by...

INTERVIEWER: Bend points?

GOV. GRAMLICH: By changing ^{the conversion rates between} [REDACTED] the bend points. So that was a slight bowing to low-income people, but not a huge change.

INTERVIEWER: How about intergenerational equity?

GOV. GRAMLICH: The main thing there, and my thinking has been refined since the whole project, is that as long as we don't index the retirement age, Social Security could be said to have an intergenerational equity problem.

I don't know if you saw the interview that David Wessel did of me in the Wall Street Journal?

INTERVIEWER: No.

GOV. GRAMLICH: [REDACTED]

I made the point ^{those} there that if you take two individuals separated by four generations: my grandparents and my grandchildren. [REDACTED] people arriving at age 65 in my grandparents' generation would get benefits for 10 years on average. [REDACTED] People in my grandchildren's generation arriving at age 65 would get benefits for over 20 years. So, if you want to talk intergenerational equity, I think that is tilting it to younger people because

they're going to pay in at the same schedule, but they will get benefits longer.

So indexing the retirement age for demographics not only solved the trust fund problem, the financing, but it also worked toward intergenerational equity. Indeed, most of the things I did to solve the trust fund problem, the financing problem, were things that also made us better off on some other dimension, such as intergenerational equity. And I've kept at that: there are a lot of ways we could fix Social Security, but let's do it in a way that's fair across generations. And I think that some of the current plans do not meet that test.

INTERVIEWER: Going a little further a field, issues not specifically or directly tied to Social Security: community, individualism. Do you see your deliberations having addressed those?

GOV. GRAMLICH: This is a retirement program. I don't think it has a big impact for or against community involvement: the question of why people are "bowling alone"? [REDACTED] This is a retirement program. There are transfers in the system. It is a way to assure people [REDACTED] a level of retirement support.

I think, as compared to a privatized world, there is more community involvement here because society is enacting a program that deals decently with everybody's retirement. If you went to privatization or large-scale investment accounts or something like that, that might be true probabilistically on average, but it's not going to be true for everybody. I suppose the present structure of Social Security could be defended on community grounds, but in my thinking it was mainly because I wanted to put in place a decent standard of living for everybody. Then let them invest on top of that. That's the logic for add-on individual accounts.

INTERVIEWER: Do you have any feel about the issue or the value of transparency?

GOV. GRAMLICH: We certainly worry about that a lot at the Fed—transparency. As far as I can tell, the present system is pretty transparent. Not only can you find out the formulas, so you can put it together, but Social Security mails out your earnings statement so you can know what your earnings level is. So there may be some way Social Security could get even more transparent, but I think it's pretty transparent already.

INTERVIEWER: Do you think that's an issue the Council faced, because that was 12 years ago almost?

GOV. GRAMLICH: Transparency was not something we talked about a lot. At the time, the [REDACTED] Social Security *immediately* [REDACTED] was initiating a regime where they would mail the PEBES statements to everybody over 50. That's already happened. But that was already in the works at that time. So we never talked very much about transparency. Maybe should have, but we didn't.

INTERVIEWER: I'm not trying to put something there that's not there.

GOV. GRAMLICH: I think everybody agreed with the goal of transparency and everybody viewed the mailing out of the periodic PEBES statements as a good thing.

INTERVIEWER: You said that the Maintain Benefits plan papered over the problem.

GOV. GRAMLICH: In a sense, it only solved the financing problem if the stock market had done well, but it didn't statistically on average.

INTERVIEWER: Okay, but you don't find a transparency issue there?

GOV. GRAMLICH: *(is your savings record; here are)* Not infense, because the way I would interpret transparency in the case of Social Security is: *Here [REDACTED] what your benefits are going to be.* And I think for the most part, that would be true. Now, if the equity investment really worked out badly and you couldn't meet the benefits, then you've got a transparency problem. But I didn't consider that to be highly likely.

INTERVIEWER: On reflection, how do you feel about the results of the council deliberations?

GOV. GRAMLICH: I think it moved the ball a little. There's a good book—it's edited by Jeff Frankel and Peter Orszag—you've been through that?

INTERVIEWER: You referred me to it. Thank you very much.

GOV. GRAMLICH: We debated the pros and cons of large-scale individual accounts, and a lot of the cons came out. We debated the pros and cons of central fund equity investment; a lot of the cons came out there. I think that at least among the non-special-interest group in the debate, a very wide share of the people actually would like to see some type of compromise in the middle. And I think we helped that process.

INTERVIEWER: And you would characterize the special-interest groups as? You said: except for the "special-interest group."

GOV. GRAMLICH: I don't want to blame it on the special interests: except for the people that have more extreme notions of what Social Security ought to do.

INTERVIEWER: If you could have changed anything about the ultimate result, what would that be?

GOV. GRAMLICH: It's going to sound anti-democratic, but I really think we would have done better if we'd met in closed session. To the extent we come out with a unified view, it's going to have to be managed. People may not be able to go for their first best option—they may not want to say that publicly. So I think you're better off in something like this to do it in closed session. Let people go public if they want afterwards or maybe under some rules while we're meeting, but not to have the press actually there at the meetings. If there were one thing I would change, it would be that.

INTERVIEWER: If you weren't limited to one thing, are there any other things you would change?

GOV. GRAMLICH: Not about the process; I think the process was fine. I'd like to, maybe, if you could remake people so they would agree with me more...

[laughter] but I'm saying ^{that's clear} limitations.

INTERVIEWER: Same question about your participation: if there's any aspect of your participation or your role or what you did on the Council you could change that you would have changed on reflection?

GOV. GRAMLICH: I actually can't think of anything. I suppose I could have urged people not to take public positions and get locked in. I'm not sure that would have done any good. But I do think if I had known at the start how difficult it would be to come up with a compromise plan, I would have maybe given a few speeches about: "Let's not dig in; let's remain open and so forth." I didn't do that, and maybe it would have helped.

INTERVIEWER: This is maybe not too different from the other questions, but how do you feel in retrospect when you look back on your service on the Council?

GOV. GRAMLICH: I think the Council was actually an important way station in the public debate about Social Security, that up until then we could manage a consensus.

Well, opinions are pretty diverse, and we couldn't do that. So ^{we did} the next best thing: ^{we} put out ~~three~~ three options. ~~I~~ I think the Council—even though I would have preferred that we had a unified grouping around my plan—in a realistic sense was an important event, and we're just going to have to debate these things a little harder before we come up with anything.

In terms of my personal performance, I actually think I did pretty well. I don't think it would have been possible to get more votes for my middle-of-the-road plan for whatever reason, and that plan has pretty well passed the test of time. It's still something that people talk about, maybe with some variation.

INTERVIEWER: When you talk about managing consensus, what do you see as the key aspects of that? One aspect you talked about was essentially a less public...

GOV. GRAMLICH: I think you need presidential leadership; you need a committee that will meet behind closed doors; you need an ethic of shared compromise ~~choice~~. Nobody's going to get their first best. Let's just do the best we can. ~~choice~~

INTERVIEWER: So it's not necessary to have them all? They're not all necessary conditions?

GOV. GRAMLICH: You could probably do it without presidential leadership, if you had a really strong shared compromise view. But it helps ~~choice~~ to have presidential leadership.

INTERVIEWER: Do you think that there are particular qualities or characteristics of that shared compromise view that are identifiable? That is, someone could say why it was here and not there?

GOV. GRAMLICH: In 1983 they had it. The system was really very soon to go broke.

INTERVIEWER: So immediacy?

GOV. GRAMLICH: There was immediacy of the problem and people were prepared to bend a little bit. Those who were against a tax increase were prepared to accept a small one; those who were against benefit cuts were prepared to accept small ones.

And you can work out a compromise. It is not so hard in logic to work out a compromise on Social Security. There are lots of dimensions and you can vary it in various ways. So that's not such a hard problem in logic. It is a hard problem in politics.

INTERVIEWER: So immediacy is an aspect of the situation?

GOV. GRAMLICH: Immediacy helps, ^{yes.} [REDACTED]

INTERVIEWER: Are there other aspects that occur to you?

GOV. GRAMLICH: I can't say much beyond what I've already said, but let me contrast it with the present situation.

I think that in the present debate that we're having in 2005, there's been too much attempt to use Social Security to promote the values or the fortunes of particular political points of view. The reason it's failed this time is that people have tried to use Social Security rather than to sit down in quiet compromising atmosphere and see how Social Security could be fixed.

INTERVIEWER: So it's partisan?

GOV. GRAMLICH: You've got to get that other attitude. There are so many dimensions to Social Security, if you want to use it politically to demagogue the other guy, it's easy.

INTERVIEWER: Do you see a difference between partisan and ideological?

GOV. GRAMLICH: Well, on what I just said partisan and ideological would be the same. There is, of course, a difference. The difference would be that the partisans might use individual accounts to promote the fortunes of a certain political movement. The ideologues are people who think fervently in their being that individual accounts are the right way to [REDACTED] So there's a difference. ^{go}

INTERVIEWER: Is that the situation just now or was that the situation?

GOV. GRAMLICH: No, That's always been the situation and always will be. There'll be ideologues in Social Security until the cows come home and it'll be possible to use Social Security as a partisan weapon until the cows come home.

INTERVIEWER: So, the things you've been talking about—essentially immediacy and, I don't know if you called it, "willingness to compromise"—those things are countervailing the partisan and the ideological aspects. Anything else you can think of that's in the mix?

GOV. GRAMLICH: Nothing occurs to me.

INTERVIEWER: Is there anything else about the Council, the issues involved in the Council that you can think of that we should talk about that we haven't?

GOV. GRAMLICH: No. I could summarize it. I think we were a well-meaning Council: that people weren't playing games. They were serious about this and they came, if you will, reverent *to their* duties. *and were* It was non-confrontational. Our meetings often had laughs, *and were* not unpleasant.

INTERVIEWER: They recorded those in the transcripts occasionally.

GOV. GRAMLICH: Right, yes. They do that at the Fed, too: "laughter." You see a certain amount of laughter, so you weren't on edge in these meetings. It was a reasonable atmosphere.

This Council could have come up with a joint plan. I think the thing that hurt it was the open meetings and the fact that there really is a big ideological schism. And I think even with the big ideological schism, *it* it would be possible to sit down and negotiate. They did that in 1983 and *we* we could have done it, too.

**Interview of Sylvester J. Schieber, Ph.D.,
1994-96 Advisory Council on Social Security Member,
Watson Wyatt & Company, Arlington, Virginia,
March 27, 2006**

1994-96 Advisory Council on Social Security Member Sylvester J. Schieber, Ph.D.
Interviewed by Ed Gibson, Virginia Tech Doctoral Candidate
at Watson Wyatt & Company – Arlington, Virginia
March 27, 2006

Interviewer: The first thing I want to know is how you found out you'd been chosen or proposed?

Dr. Schieber: Well, I had been talking with David Lindeman, who was the executive director, about various folks. He was clearly trying to put together the Council.

Interviewer: So, you knew him?

Dr. Schieber: Yes, I had known David going back to probably the mid to late '70s. When I first met him, he was working ^{for} the assistant secretary for Planning and Evaluation in the Department of—it was Health Education, ^{and at the time,} Welfare, ^{later} and then morphed into Health and Human Services. I was actually working in the Social Security Administration ^{when we met,} David and I ^{had} known each other for quite a long time ^{by the early 1990s.} We knew the various ^{both} ^{candidates for the Council,} there ^{were} a number of characteristics that they were trying to cover in terms of people they were ^{appointing to} the Council. They needed a certain number of people from labor. They needed people from business. They needed Democrats and Republicans. They needed men and women. They were looking for ^{people of various backgrounds;} they were looking for a representative group of folks.

^{people.} I had talked to him about various ^{people.} I talked to him about the technical panel membership as well. So, we had been chatting back and forth and—I guess at some juncture—the question came up, what kind of role I was interested in. I think he was initially thinking more of me in the context of the

technical panel, but I told him, "If I'm going to spend time on this, I would rather be involved in the real thing than the behind-the-scenes thing." So, as it worked out, I ended up being nominated or chosen.

Interviewer: Were you excited about that? I mean, did you have feelings of anticipation or excitement?

Dr. Schieber: Well, I don't know that anticipation is the right—I certainly appreciated the fact that I was chosen. [REDACTED] I had written a book in the early 1980s about Social Security. I had certainly followed the issues. I had been working on and writing about demographic issues and retirement security issues for most of my career. I was into my ^{late 40s} [REDACTED] at that juncture. It looked like an issue that, in some regards, I had really prepared for, and having a seat at the table, I think, was important. So, yes, I certainly appreciated the fact that I had been chosen.

Interviewer: Let me turn it around, did anything about your appointment or prospective appointment give you pause or misgivings or anything along those lines?

Dr. Schieber: No, I don't think I had misgivings. I don't think at that juncture I appreciated the amount of work that was going to be involved.

Interviewer: It turned out to be more work...

Dr. Schieber: Oh, it turned out to be a great deal more work on ^{three} [REDACTED] counts. One, the Council ended up running much longer than anybody had anticipated and much longer, I think, than probably any of the other prior Councils had run. ^{Second} [REDACTED] as things evolved, we looked much further a field, I think, than most of the Councils. I wouldn't say than any of the Councils—if you go back to the '39 Council, they were considering a double-decker plan, which in some regards is what we ended

up proposing, the group that I was associated with. So, I don't know that we went further a field than any of the prior Councils, but we ended up with a broader perspective than most of the Councils had taken. ^{Finally,} [REDACTED], we ended up doing a lot of our own staff work, the Council members did. And I think that was relatively unique in terms of Councils.

Interviewer: I think you're right.

Dr. Schieber: I'm sure in some circles there may be dismay that it played out that way, because when we were doing our own staff work and going a field, we could go almost anywhere we were technically capable and wanted to go.

Interviewer: If there was dismay... kind of the question that you pose in your book—I'm not sure you answered, or you may not have an answer now—why was there that latitude or that lack of direction? I don't know if I'm phrasing it right.

Dr. Schieber: Well, there were a variety of things going on. One is: in 1994 Congress had adopted the social security independence legislation, so Social Security was ^{being converted into} [REDACTED] an independent agency, and this was going to be the last of the Advisory Councils. And I think, in some regards, they didn't pay as much attention to it as they had paid in the past, because, on a going-forward basis, this wasn't going to be the sort of advisory body that they utilized ^{for} [REDACTED] input and their direction. ^{Social Security has} [REDACTED] now ^{an} Advisory Board under the 1994 legislation, ^{In} which I'm a member ^{the Council, Social Security,} [REDACTED] staffing ^{director,} [REDACTED]—did not staff it with a career Social Security ^{director,} [REDACTED], although they had brought people in from HEW/HHS in the past to staff these Councils.

In this case, they had a fellow—David Lindeman—who was clearly ^{getting} [REDACTED] ^{positioned for} himself [REDACTED] retirement. He had been at HEW/HHS for a number of years, then he had gone over to the PBGC, and he was looking ^{for a} [REDACTED] position that, at the end of the tenure, [REDACTED] would be eliminated, so he could get an early retirement. So, he was, in some regards, looking for the slide into retirement. The combination of Social Security not quite paying attention, having this guy as staff director who maybe wasn't as energetic about controlling things as some prior people had been, the fact that the staff around him wasn't particularly technically oriented, I think for a variety of reasons allowed us to take it almost anywhere we wanted.

We had some ^{members who} [REDACTED] had been studying this program for a very long period of time and had ^{particular} [REDACTED] views about the appropriateness of the existing structure. And I think Ned Gramlich, who chaired the Council, had run ^{an} academic departments ^{at the University of Michigan} and was [REDACTED] an academic freedom sort of manager. So, there were a variety of forces here that allowed us to go further a field than prior Councils had gone.

Interviewer: What—and if some of this seems obvious, I need to ask you this anyway, because sometimes what's obvious or apparent...

Dr. Schieber: Obvious to me may not be quite so obvious to somebody else, or what I think is obvious may be my own narrow interpretation of things.

Interviewer: What group of issues or constituency, if any, did you feel you represented going in?

Dr. Schieber: I certainly always thought of myself as coming out of the business sector. I had been working in the business sector at that juncture for 15-20 years. I had spent a portion of my career in government. I felt that I represented the business sector, although I didn't feel that I was a representative of the Chamber of Commerce or, you know, the Association of Private Pension and Welfare Plans or anything like that. I did have a sense of kind of historical responsibility that someone needs to give voice to the various constituencies, and, in some regard, mine was to be a voice that was aware of what was going on in the private sector and what the implications of the program and program changes might be for employers in that sector. So, you know, I certainly felt that I was there to partly give voice. There were other representatives of business. I was not in any way, shape, or form carrying this burden by myself.

Interviewer: How would you characterize your interactions with folks that you felt were also representing those same constituencies?

Dr. Schieber: Well, the other two real business representatives were Joan Bok, who was an executive in the power industry in New England, and Marc Twinney, who had worked at Ford for years and years and had also been in the pension area for years.

Interviewer: Had you come across them before?

Dr. Schieber: I had come across Marc through the Pension Research Council at the University of Pennsylvania. At one juncture, we were both members of the Pension Research Council, and so I had known Marc for quite a number of years. The first time I met Joan Bok was at the ^{Advisory} Council. But I had very cordial relations with

both of them throughout and worked very directly with both of them throughout.

And at one juncture, Marc was very enamored of the plan we were putting together. He ultimately didn't sign on to it—for political reasons, I think.

Interviewer: Political reasons?

Dr. Schieber: ^{One} [redacted] of our operating rules at our Council—we established it ourselves—that the Council would not put forward a plan that was brought forward by a single individual that didn't have at least one other person...

Interviewer: So, you needed a second, essentially.

Dr. Schieber: And so, ^{Marc Twinney} [redacted] became Ned Gramlich's second. I think, being a good Michigan graduate, he was supporting the chairman. ^{He} [redacted] ^{ed} want the chairman to [redacted] be able to present his plan. And that's fine—I mean, we didn't have the final vote ^{on Social} ^{Security's} ^{structure} anyway, ^{this was} in some regards, an intellectual exercise.

Interviewer: You had mentioned kind of the ethos of academic freedom, and, you know, you just characterized as an intellectual exercise... how do you feel about that?

Dr. Schieber: Well, I think our institutions from time to time certainly deserve some scrutiny and maybe some unfettered scrutiny. I think many of the Councils in the past had been tightly controlled, and so from my perspective, some of what we did was probably a breath of fresh air, and it certainly has changed the nature of the discussion about the program. Now some people look at the Council as being a failure. I look at the Council as being a success because it has stimulated further discussion. I don't think that the further discussion has necessarily been as elevated or as successful as [redacted] the discussion was in terms of the Council itself.

Interviewer: What do you think are the elements that made the discussion elevated in the Council itself?

Dr. Schieber: [REDACTED] I think it was the people. Definitely the chairman has to be characterized as a thoughtful individual, a very responsible individual, and a serious thinker about these issues. [REDACTED], he wasn't as grounded in the mechanics of Social Security as some of the rest of us, but he was a very careful and thoughtful individual.

Carolyn Weaver had been studying and writing and talking about Social Security for 20-25 years when she got to the Council—an extremely thoughtful and careful individual. She had strong ideas about the operations of the current system and problems with it and things that should be addressed in terms of our deliberations, and was willing to stand up and push and push and come back and try and force the discussion to address these issues.

And there were clearly times when the executive director wanted to avoid some of these discussions and other people around the table didn't want them on the table. Bob Ball was a very serious discussant. He had strong ideas—he was one of the architects of the system. And whether you agreed with him or not, you couldn't begin to suggest that he wasn't thoughtful.

On the labor side, Gerry Shea was, I think, thoughtful and careful. The other members of labor were not so attentive: in at least one case, hardly ever attended meetings. Some of the other people were not as well grounded, but I think they took the discussions very seriously and they learned; and they figured out what the issues were and took their positions in accordance with what they thought was appropriate.

I would say the whole Council—other than the couple of members that didn't show up very often, there was only one member that really had trouble [REDACTED] grasping the theoretical issues with which we were dealing—really [REDACTED] locked a logical framework in which to address them. So I think it was just a very serious-minded group of people: capable people that took the assignment seriously and for the most part worked pretty hard at it.

Interviewer: You've given a lot of respect in what you've just said to the people that supported, maybe, opposing ideas to yours. So it didn't impact your interaction with those people?

Dr. Schieber: Oh, I don't think it impacted my interaction with those people. Some of [REDACTED] them [REDACTED] I've continued to... I served on the Social Security Advisory Board for four or five years with Gerry Shea. Because we disagree with how the mechanics of the public policy ought to work doesn't mean that we need to be disagreeable with each other. And so I think we were all cordial. You know, I have no reason to believe that they are not all fair-minded people trying to do what they believe is right. For me maybe it is more of an analytical issue; for some of the other people it is maybe more of a political issue.

Interviewer: Do you think that there is any difference? You mentioned people maybe not being as engaged. You didn't characterize the people that supported your plan in that fashion.

Dr. Schieber: Well, I think the people that were involved in our plan: there were three of us that probably worked harder on it than the total five. In the final analysis, Carolyn Weaver and I wrote most of what ended up in the final report relating to our plan.

The other person that worked with us more intensely of the five was Ann Combs in the development of some of the ideas. I don't think Joan Bok or Fidel Vargas were as equipped, and in some regards, Ann Combs was not as equipped as Carolyn and I were to articulate the framework and the structure and the supporting rationales in terms of understanding them and supporting them.

Interviewer: Well, you are both economists.

Dr. Schieber: Right. I think that the whole group embraced very knowingly what we were doing. It was not a political consortium that we had formed. We formed around ideas. And if you look at the composition of our group we had the youngest member. I think Joan was the oldest member of the council.

Interviewer: Bob Ball?

Dr. Schieber: We had more women—I think she was a little older than Bob.

Interviewer: [Laughs] I'm sorry, I'm not going to say anything.

Dr. Schieber: Well, she was certainly the oldest woman. We had more women than any of the other groups. We had two Republicans, two Democrats, an Independent. You know, we were a pretty diverse group of folks, but it was the ideas that bonded us.

Interviewer: Could you take just a bit and describe the kernel of those ideas?

Dr. Schieber: Well, if you go back and you look at the history of Social Security, there has

always been ^a [redacted] competing set of forces between equity and adequacy of benefits. During the start-up phases these could be all muddled, and [redacted] ^{have written} about this at length. It was covered in the book I did with ^{John} Shoven afterwards, but I wrote that section. These forces had been muddled, and as the system was coming to maturity, the muddling of the forces was beginning to make it very

difficult to continue to support the program on an equity basis. And when you started to try and address the equity issues then you started to get into trouble on the adequacy side right away.

I think the idea was that we needed to, to an extent, bifurcate elements of the system and clarify exactly what these were about and find efficient mechanisms to make both of them work in a way that was compatible in a national policy context.

Interviewer: So clarity was of value?

Dr. Schieber: Clarity/transparency were extremely important.

I think as we ultimately came to work on the system there was a concern on the part of all of the parties that ended up working with us that in an economic context we had gotten a fairly large system that is not necessarily particularly efficient in terms of economic ^{the} ~~side~~ ^{of life operations.} ~~of~~. And if we were going to fix it, to the extent we were going to expand resources going to it, we wanted those resources used efficiently. And if we were not going to use them efficiently, we didn't want to expand the program.

So there were a variety of ideas, but I think they can all be linked back to this issue of trying to clarify and make more transparent some of the adequacy and equity issues and make them work better.

Interviewer: You studied the issue for a long time and had the wherewithal to identify inefficiencies. Where did you think these inefficiencies manifested?

Dr. Schieber: Well, the concern—and it had been in the literature for awhile to the point that in the '83 amendments, Bob Myers finally wrote a fairly lengthy memo about rates

of return on Social Security—and I think there is a widespread concern that Social Security is not worth the dollars that we're paying into it, or many people perceive that.

If you look at the actual calculations, we could do better: each birth cohort today coming into the system could do better if they participated in a funded pension plan where the funding was in government bonds than that birth cohort will do participating in Social Security. At some juncture you're going to have to kind of step back and say, "Is this system serving our best interest?" Then the other side will come forward and they'll say, "It is providing a trillion dollars of life insurance, and it is providing disability insurance." You can go ahead and you can value those as well.

But in the retirement context it certainly raises economic efficiency questions, and those were extremely important in the discussions and the deliberations. You know, fairly early on in the discourse I put on the table a proposal that would have retarded benefit growth and raised taxes and tried to explore the trade-offs that people were willing to make in the context of the current system.

And Gerry Shea and Bob Ball sat across the table from me—it was a U-shaped table and we were both down on the legs of the "U"—and Bob said, "Well, we couldn't possibly be talking about raising payroll taxes now. You know, people don't perceive that the system is running out of money now." ██████ My

position was that if we, in the mid-1990s, couldn't talk about practical solutions to the problem in

the context of the current construct, then it seemed to me that we needed to start talking about alternative constructs.

And that is where Carolyn Weaver started to raise her voice and said, “Well, it is about time we get to this. Let’s go look at individual accounts and do some of these explorations that we ought to be doing about how we might address this in some fashion outside of the narrow confines of what we’ve got.”

Ned Gramlich began to pick up on that, and then David Lindeman tried to assert control as executive director to keep us from going too far a field. So then we started to consider a double-decker type program, and in essence that is where we migrated toward with Ned for awhile.

Ultimately, we prevailed in terms of forcing the discussion about individual accounts, and that is when the group—some people would say it started to obliterate. I would say that that is when people within the Council began to coalesce around various ideas.

Interviewer: You described a political consortium outside of your group. Do you think there were ideas that they were wed to or was it political? Or is that a false choice?



Dr. Schieber: Tom Jones came out of the financial services sector and I think Tom, early on, was somewhat aghast at the low rates of return the assets in the trust fund were garnering. At one of the meetings, it happened to be a meeting—it was a two-day meeting, and the first day of the meeting I had a business complication. I couldn’t

get there until fairly late in the day and his presentation was supposed to start after I got there, but was finished by the time I got there.

But Tom had put on the table the possibility that if we invested more broadly than in just government bonds that the expectation was that there would be higher rates of return for the trust fund. Tom was not very well-grounded in the history of the program, and I don't know whether—I doubt that he was aware that there had been discussion of this back in the 1930s and into the 1940s between Altmeyer and Witte and Arthur Vandenberg, who was in the Senate. And there was a strong antithetical feeling about the government owning this large pool of assets. It had been a major source of deliberation about funding early on: what were we going to do with these funds if we accumulate them? And people didn't want the government owning a large segment of our economy.

And you can look elsewhere around the world and look at some of the problems they are having in France and elsewhere in Europe right now, and you can maybe trace them back to some of those concerns. I think there are people in our society who continue to have concerns about the government getting an expanded role in managing the economy.

But anyway, Tom had laid this on the table, and Bob Ball became enamored of it because it was a source of revenue. For those of us with economic backgrounds, this was kind of a false promise...

Interviewer: Magic bunny?

Dr. Schieber: Yes, and in fact, that became the characterization of it—it was a “magic bunny.”

I think Ned came up with that term, and it was a very aggravating term to some

members of the Council. But the idea that we didn't have to save any more in our economy, we simply could change the form of investment and make Social Security richer: for those of us who had studied economics, we said, "Wait a minute. If we're not going to save anymore, if we ^{are} not going to make the economy any larger, how is it that we as a society are richer?" This isn't enriching society; this isn't more formally grounding the program. It is simply playing arbitrage within the financial markets, and we think we ought to go about finding a more serious economic solution to what is a very real economic problem—and that is what really sent us off.

There was a group of people committed to the original structure in a way that they weren't willing to go have this larger discussion and debate. Ultimately this group fractured, and I don't think people perceive how badly fractured they were. You have to read the final report fairly carefully and have followed the deliberations to understand that, in the end, the group that wanted to stay with the traditional model were badly fractured in terms of what it was they were willing to put on the table.

Interviewer: So that is why you characterize it as a consortium?

Dr. Schieber: Yes. It was a consortium. You had Edith Fierst, and you can find in the transcripts that she says that she basically didn't like the Maintain Benefits proposal: it had a bunch of flukey stuff in it, including the investment. The labor guys, in the final analysis, were not willing to sign on to a proposal that the government actually invested in the private sector of the economy. They said,

“We will support it being studied further, but we’re not willing to support that as a proposal.”

So the only two people left standing at the end who really supported that option were Bob Ball and Tom Jones. Now, it came out as being supported by six of the members, but it really was ^{only two} supported by ^{of} [redacted] ^{them}.

Interviewer: Was there a construct there? What was the commonality there?

Dr. Schieber: Well, the commonality was that everything everybody else was talking about was going so far a field that they were horrified by the concept of looking more fundamentally at the program. [redacted] in the context of the organized labor members not being willing to even support trust fund investment in equities, I think it was fundamental labor policy that they were concerned about it. Carolyn Weaver, one day in the deliberations about how this money would be invested, started pursuing with Gerry Shea how organized labor would feel if this policy became part of the financing mechanism and the federal government became the largest investor in anti-union firms or firms that were off-shoring jobs. [redacted] Gerry observed something to the effect of ^{organized labor} [redacted] would support investment in indexed funds as long as “we got to approve or we’d have to build the index.” Basically, he was saying this is going to be a very political process, and in the final analysis they were not willing to embrace it. It was an interesting dilemma they found themselves in.

But organized labor in particular was not willing to have an individual element. It was this idea of collectivism and solidarity. We could go out around the world and see how it is articulated as part of the union movement.

Interviewer: Do you think that is principally the union folks?

Dr. Schieber: I think that is why they were not willing to consider joining on with the sorts of ideas that we had. Bob Ball, standing by this sort of traditional, collective model that had been organized and developed over the years—he was a major architect and he worked with organized labor in terms of getting there. They were willing to stand with him because he was closer to where they had been traditionally. But they certainly weren't together—if you read the report and read the dialogue with any discernment—at least that is my reading.

Interviewer: Well, you've gone through it more carefully than maybe anybody else.

Dr. Schieber: Yes.

Interviewer: I got the impression those transcripts weren't exactly flying out of the filing cabinets.

Dr. Schieber: My guess is that for most people the transcripts were not flying out of the filing cabinets. I attended the vast majority of the meetings. I missed parts of some of the meetings. I attended the vast majority of the meetings and I paid pretty close attention to what was going on. And I had viewed this whole discussion. I had had a historical interest in the program. As I said, I had originally written the book on Social Security back in the early 1980s and had begun to explore some of this. Now, ^{in the mid-1990s,} here I was sitting across the table with some of these major players and major forces that had articulated the philosophy of the system over the years and had helped in its evolution. And to pursue with them their thinking and where they were willing to go was an important part of the process. So those transcripts,

from my perspective, they are fascinating reading. My guess is that a lot of people would not find them quite so fascinating.

Interviewer: One thing is that there is a fair amount of pretty forbidding discussion that you have to go through to really get the nuggets that you are talking about. Of course, if you have the background it may all be quite fascinating.

Dr. Schieber: Well, you can't go through the number of meetings that we had where there is not some drudge, and there was definitely some drudge. We went through the processes of how you calculate benefits. For many of us, this was the 40th time through how you calculate Social Security benefits. Sitting there for a half-day and, you know, we had a range of folks: we had English majors, we had Ph.D. economists, we had folks out of the labor movement who are probably good tool and die makers, but may not quite understand the esoterics and the beauty of a tilted Social Security benefit formula. They like what it does, but to sit there and go through the grunge of how you calculate a benefit, ^{was painful;} [REDACTED] there were parts of it that you will never see in the movies.

[Laughter]

It was an interesting experience.

Interviewer: Coming into it, what situations or trends or potential outcomes or constituencies or other factors... And that is not one question, it is several, but did you think were the salient elements to keep in mind? What was paramount and what was secondary?

Dr. Schieber: We knew in the 1980s that the Baby Boomers were going to pose a real challenge to the system, and we knew as early as the early 1980s that we ought to be trying

to find a way to help them accumulate some wealth during their working career that might facilitate their retirement without purely being an added tax on their children's earnings.

Part of my background and part of the reason I ended up on the Council is, in parallel to Social Security, I had been working in the pension world. During the 1980s—and I've written extensively about this—we started to pursue a series of policies that deferred in the pension environment the funding of the Baby Boomers' retirement. We deferred it from the front end of their career to the backend of their career.

And by the early 1990s, I was writing and suggesting that this was going to be a major problem: as the Baby Boomers ^{aged} towards the end of their ^{CAREERS} ~~careers~~, we would be required to make much larger savings contributions than some employers might be able or willing to make. And I recall we presented a paper. John ^{Shoven} ~~Shoven~~ and I wrote a paper that we presented in 1992 or 1993 at the National Press Club downtown, and we ~~laid~~ ^{this scenario} ~~out~~ ^{to show how it would play out,} and developed some projection models. They showed the savings rate in the private sector employer defined benefit plan system would turn negative, and the system could run out of money if we didn't accelerate funding at some junction.

And John Turner, who was in the Department of Labor, got up and said, ^{in the future} "Well, it is clear that sometime your employers are simply going to have to put more money into these funds." I said, "Maybe that is clear to you, but what is clear to us is the alternative that they ^{may} start to curtail benefits." He said, "Maybe they will, but they've got these obligations." Well, lo and behold: all the stuff in

these days
the press about employers freezing their plans is exactly ~~that~~ *the* phenomena playing out *that we suggested in the early 1990s, namely the curtailing of benefits.*

But anyway, this ~~led~~ led me to believe that we understood in Social Security what was coming up. ~~_____~~ I had been working on trying to translate it to pensions, and we showed the demographics for the two systems were exactly the same. We're all working and living in the same society, in the same economy.

Interviewer: It is a double whammy.

Dr. Schieber: So there was a double whammy coming. Anything that we could do that would begin to accelerate funding would get the Baby Boomers actually contributing more and accumulating that wealth. So there were two parts: let's figure out how to coax people into putting more money into the system, and let's figure out how to get them to accumulate that wealth in real terms, ~~in~~ *in* real assets that can be used productively.

in the Council's deliberations

And so I was coming into it somewhat with that preconceived notion. I certainly had not formulated a detailed type of proposal that I ~~helped~~ *helped* formulated. In 1982 I had written a book on Social Security. Now, 1982 is when we were in the financing crisis. And we knew that once we got through this initial financing crisis that the trust funds were going to build up. And I argued in 1982 that if we did not find a way to actually accumulate those assets and sequester them, that Congress would spend those assets on other things.

earlier

And so I suggested at that juncture that we set up individual accounts, so I had advocated individual accounts as early as 1982. Now, I think David

Lindeman had completely forgotten that. Nobody had taken it very seriously at the time. But I had suggested, "Let's set up these individual accounts and then give people payroll tax rebates into their individual accounts." When they get to retirement you would offset the benefits ^{retirees from their accounts} received from the Social Security benefits. ^{The net result would be that} you could actually invest ^{this} in real assets. ^{the Social Security trust fund accumulations}

So I had been concerned ^{that} that Congress might have trouble managing this accumulating trust fund. Now there are a number of papers that I can point you to today that have been written in the last ^{few} years by economists that are convinced that the trust fund accumulation has simply been spent by policy makers by reducing other taxes or increasing ^{spending} over what we would have otherwise been willing to support.

Interviewer: So that need for wealth was paramount?

Dr. Schieber: It was in my thinking.

Interviewer: What else was important?

Dr. Schieber: ^{Having studied the program,} I'm supportive of ^{its} fundamental principles.

^I I heard Bob Ball characterize my thinking, and Bob was very dismayed that I played the significant role in the personal security account proposal. And I heard him characterize ^{as} what we were proposing ^{as} dangerous. But there is nothing in that proposal that dismantles the fundamental elements of our Social Security system. There is still a floor of protection that would disproportionately benefit low-wage workers. In fact, we would have actually raised the benefit provided to the lowest wage workers in our society. We were still fundamentally committed to mandatory contributions,

mandatory savings, mandatory preparation for retirement, so those things were extremely important as well.

I was willing to abandon some of the traditional financing structure, but not the fundamental principles of the program.

Interviewer: So those principles you've articulated already?

Dr. Schieber: Right.

Interviewer: In early going you talked about adequacy and equity.

Dr. Schieber: Right.

Interviewer: Well, you kind of just talked about this, but constituencies that you thought were important to consider? Or groups?

Dr. Schieber: [REDACTED] we certainly advocated that anyone who was close to retirement should not be affected, and that those who were affected ought to be affected on a gradual transition basis. In that regard we were trying to protect constituencies. We were trying to protect the low-income constituencies. Beyond that, I don't think... my own personal preference, then to an extent and more so today, is that I don't think we should completely exempt the current retiree population or those of us close to retirement. I don't think we should completely exempt them from helping bail us out of this situation.

My son and his generation did not formulate this program. That they should have to pay off the large debts that we accumulated over my lifetime and my father's lifetime may not be generationally fair in any way that you would look at the concept of equity. The primary difference between older people and younger people is age. There are many, many older people who are very well-off

in this society and they are doing very well under the Social Security system. They ^{are} [REDACTED] just as able to help resolve this issue as some low-income worker out here across the street working on one of these construction projects or cleaning the halls of this building or getting up and going to work everyday: trying to start a family, trying to have children, trying to raise and educate those children.

We have gotten ourselves into a bit of a pickle and we ought to get on with solving it, and we ought to get all hands on deck that are capable of pulling on an oar.

Interviewer: So is that something that characterized your perspective and your group's perspective more?

Dr. Schieber: We were, by and large, willing to exempt the current retired population from any effect and that was more a political consideration and the fact that we were operating in the narrow confines of Social Security policies and Social Security financing. I didn't feel we had a charter that would allow us to go out and say, "You ought to [REDACTED] raise income taxes on high income people," or anything of that sort.

Interviewer: And the charter, as you said, was pretty broad. So you looked at quite a spectrum of things.

Dr. Schieber: The charter was definitely broad within the context of Social Security policy.

Interviewer: Were there any arguments about your charter?

Dr. Schieber: Not per se.

Interviewer: The breadth? Because you've mentioned that...

Dr. Schieber: Well, Tom Jones was ^{particularly} [REDACTED] intolerant of consideration of individual accounts. It is somewhat ironic because he was an executive at TIAA-CREF at the time where virtually all the members of his organization were participants in maybe the largest private pension plan in the world—are all participating in individual accounts. But he was particularly intolerant of consideration of these sorts of things. Bob Ball—David Lindeman used to refer to him as the “Silver Fox,” [REDACTED]—being the crafty guy he was, he used labels and terms to paint us as radicals, although what we were proposing was no different, in many regards, than the double-decker proposal that was put together by the '39 Council .

[REDACTED]

[REDACTED]

Dr. Schieber: [REDACTED] he was clearly familiar with the double-decker plan, and he is also very familiar with the structure of benefits elsewhere around the world. [REDACTED] he would characterize what we were talking about as just absolutely crazy policy—not anything anyone would ever want to do. You can go to Canada and see that they've got a basic, flat benefit that everyone qualifies for. And then there is a proportional benefit on top of that. The basic benefit, to use their terms, is “clawed back” through their income tax system so that ^{for} people at higher income levels—essentially this benefit is lower. You can go to the U.K. where they ^{have} [REDACTED] a basic benefit of about 60 to 100 pounds a week that people qualify for by the fact they've been a citizen who worked in the system for an extended period of time. You can go to Australia where they ^{have} [REDACTED]

a basic benefit. The structure we were proposing in a world context is not at all radical.

Interviewer: So did this labeling get in the way of the quality of discourse that you...

Dr. Schieber: Well, the labeling, I attributed it at the time as a mechanism to be dismissive.

And it is a labeling that persists. If you look at the whole evolution of the Social Security debate, the debate is often around terms as opposed to substance. If

you look at the debate about what George Bush proposed, the opponents talk about privatization. They talk about massive debt creation. You know, in the Bush proposal ^{he would still have} mandatory required contributions, very limited ^{in individual accounts,} options in terms of what you can do with the money. When you reach retirement age you ^{would be} forced to annuitize ^{the accounts; the income from the accounts would} offset your existing

Social Security benefit. How anyone would characterize that as a privatized benefit! You know, it is not about substance, but it is about labels that convey ^{riskiness} to people who don't understand the substance of the debate; it conveys something that creates a hostile reaction. It was simply a verbal ploy, I guess.

Interviewer: So do you think that that was equivalent to the recent debate, or do you think that your dialogue was in any way different?

Dr. Schieber: No, I think our dialogue was far more elevated and serious and got into the technicalities of what we were considering. I think everybody around the table fully comprehended what the discussion was all about.

Interviewer: So it did or did not get in the way?

Dr. Schieber: It certainly did not prohibit us from doggedly pursuing what it was we wanted to pursue. I don't think it got in the way. The very last day, the very last meeting...

Interviewer: April? April '96?

This adds nothing to substance.

Dr. Schieber: But in the very last meeting after we were all done, people were sitting around—most everybody had collected their papers and I was just kind of sitting there almost in exhaustion and I was collecting my stuff—and Bob was around the side sitting at the table. And he looked over at me and said, “Well, Syl, you should be happy.” I said, “Why is that?” He said, “You got everything you wanted here.” I don’t know if that is true. In some regards it is a matter of perception, but I don’t think Tom Jones being harsh and curt and dismissive to Fidel Vargas in any way,

shape, or form inhibited us. I don't think Bob's characterization of us as a bunch of radicals in any way inhibited us.

We were going to pursue this to its logical end. Carolyn probably has much better, bona fide credentials as a conservative Republican than anybody that was close to that table, but there were no ideologues at that table. This was not a group of people that came in there with an ideological banner. We were looking at these things on a pretty hard-nosed basis, and we went about our business no matter what people were saying about it.

Interviewer: So in that sense, how would you characterize the Council? How would you characterize it in hindsight?

Dr. Schieber: I think in some regards it was extremely successful. We did not come up with a uniform package of recommendations that everybody endorsed or that the overwhelming majority of people endorsed. But we certainly investigated the range of options. We were being held to a standard as we explored alternatives beyond the current structure. Ned was sitting there arguing day in and day out, "We ought not be able to do this with magic bunnies." And so we felt compelled to rise to the standard that he was putting on the table.

Now, not everybody felt that way, but certainly we tried to come up with real economic solutions to this problem, and go about it in a way that at the end of the day when we got through the transition, there would be a perception that society would be better off—that we would be richer because of it.

Interviewer: Is there anything that you would change about the outcome of the Council if you could, looking back on it?

Dr. Schieber: Well, it would have been nice if we had gotten down to two proposals as opposed to three. I don't know to what extent Ned was working with the White House in terms of where he ended up going. As it turned out later on, the White House maybe would have been willing to consider some element of individual account reform had it not been for a blue dress. And so I don't know how closely he was working with the folks at the National Economic Council or the Council of Economic Advisors. *Afterwards, he was* appointed to the *Federal Reserve* Board of Governors.

Somebody must have thought he had done a good job.

copying the Administration's banner.

Interviewer: What about your group—particularly your group. In retrospect do you think that your group could have done anything different that hindsight informs?

Dr. Schieber: No. I am not at all disturbed or feel that we didn't do an adequate job.

Interviewer: I wouldn't presume so... it was a very open-ended question.

Dr. Schieber: I was proud of the people that we were associated with. You know, I supposed that if we didn't have jobs we could have worked a little harder at it, but we worked pretty hard at it as...

Interviewer: Well, you said you did all your own staff work.

Dr. Schieber: We did virtually all of our own staff work.

Interviewer: Which is unprecedented.

Dr. Schieber: Right. The members of the group can hold their heads high. They were as good a citizens as you can find as far as I'm concerned.

Interviewer: I appreciate your service—as a citizen, I thank you.

Dr. Schieber: Well, thank you. It is all right, but you know, we have interests as well. We all have families.

Interviewer: Sure. And then lastly, for your own part, for your own participation would you change anything or would you do anything differently based on...?

Dr. Schieber: No, I don't think so. I might have tried to work a little harder with Ned to have gotten us to some common ground.

Interviewer: Were there a lot of those kinds of discussions?

Dr. Schieber: There weren't. What happened—it was kind of odd—we had been looking at this double-decker proposal when Carolyn was not there. David Lindeman had resisted time and time again exploring the individual account option. My presumption is that that was coming from folks in Social Security, folks in the administration.

We finally forced it onto the table, and he had three people come—two of them from the World Bank...

Interviewer: Dimitri [Vittas] and...

Dr. Schieber: [Louise] Fox. And then he had the guy come from Cato.

Interviewer: Tanner.

Dr. Schieber: Michael Tanner, right. I don't think Carolyn was there during their presentations. Now, Carolyn was the one who had repeatedly agitated and agitated that we needed to consider individual accounts. And Tanner was almost blasé in terms of his presentation and I think Dimitri—I don't think the World Bank folks... in some regards, their presentations weren't all that relevant—there was a very high level of presentation of what was going on elsewhere around the world to my

recollection. I'd need to go back—I haven't looked at this stuff for quite a while.

I think I talked about it in the book.

And at the end of the day this just didn't look very fulfilling. I believe—

and you can go find this in the transcript—at the end of their presentation I said,

“Okay, let's do something here just as an exercise,” and David got very upset with

me. I said, “Let's take this double-decker program that we've been pursuing here

with Ned, and let's assume that we kind of split the program 50/50

Roughly half would be a

[redacted] flat benefit, and then [redacted] proportional benefit. The

the other half a

in rough terms.

proportional benefit [redacted] invest outside... And I don't know

would be

invest

if I got more prescriptive than that.

I don't know whether Carolyn was there. Carolyn may have been there by

that time... I think she was [yes, she appears in the transcript]. And we may have

said, “Let's put 5 or 6% in the individual accounts,” but it ought to be in the

transcripts (maybe you know... maybe you've looked at it). My characterization

may be completely wrong, but my recollection is that that is kind of the way it

played out.

Interviewer: And then you went off, the five of you, as a group to formulate. How was—what was that meeting?

Dr. Schieber: Well, that was lunch. And, you know, David was [redacted] his hands. We weren't

wringing

supposed to be holding private meetings and so forth. Now, Marc Twinney was

with us at that juncture. And so we specked this out in very general terms. And

maybe Carolyn came and joined us at lunch time. We specked it out in very

general terms and then we kind of came back and laid it out on the table, and

David was very upset with us. My guess is that that should come through in the transcripts as well because I know he talked to me off-line. He called me one time and said, "You are losing your soul."

Interviewer: That's pretty strong.

Dr. Schieber: Well, there were some pretty strong feelings about what we were doing. They called Joan Bok and they just badgered her mercilessly. You know, she was a Kennedy Democrat and they just worked her over one side...

Interviewer: They?

Dr. Schieber: Well, Bob Ball and, I think, the labor folks were calling her. My guess is that there were other people calling her. I never did pursue with her—she told me that she had really gotten *raked over the coals because of our proposal.* ~~_____~~ People felt strongly about what we were doing. This was not a trivial matter.

Interviewer: So everybody in your plan may not feel as positive about it, looking back, as you are characterizing it?

Dr. Schieber: Well, I don't know. I think Joan always appeared to me as being extremely comfortable in her skin. She had not checked her intellect at the door because she was viewed as a Kennedy Democrat.

Interviewer: I'm not talking about regrets. I was meaning more the experience of it.

Dr. Schieber: You know, you'd have to talk to them. I know at the end Carolyn felt that the burden we had to take on in terms of the work was unfair. And there were some tensions developed—not between Carolyn and me—about how some of this work was getting allocated.

Interviewer: You said most of it fell on you and her?

Dr. Schieber: Certainly that is where it ended up, right. You know Joan may have feelings about it. I don't know about some of the pressures that were brought to bear on her. I don't think Fidel—you know, they may have leaned on him as well. If you can talk to ^{them} [redacted], it would probably be worth ^{your time.} [redacted]

Interviewer: I'd love to.

Dr. Schieber: Because I know people were calling folks. David called me and he told me once I was losing my soul. I said, "I don't think my soul is involved with this."

[Laughter]

Dr. Schieber: I said, "I'm not going to do anything that I can't go to bed at night and still go to sleep, but we're going to pursue this matter. And you can either help us or not, but we're going to pursue it." And beyond that he really didn't bother me. Ned and I chatted a time or two. We explored a little bit whether or not we could get together. At that juncture I wasn't willing to take on the extra baggage of going back and seeing whether I ^{could} [redacted] get Carolyn to move. It just seemed to be that we were exploring a range of options here. It was pretty clear that we were not going to get a consensus in any event, and that we were probably better off having the range of options on the table than trying to get consensus. So, I wouldn't go back and do things all that much differently one way or the other.

Interviewer: Is there anything else that you think is relevant? I know there are a million and one policy things that you've written about, talked about, testified on, etc. But along the lines we've been talking, is there anything else that you think is relevant that we haven't talked about that you'd like to add?

Dr. Schieber: Well, in the context of current policy deliberations or in the context of the Council?

Interviewer: The context of the Council.

Dr. Schieber: Not that I am aware of offhand. I mean, again, the transcripts are a pretty decent documentation of what went on.

Interviewer: It is gold. And the reason being is from what I'm able to gather, most of the business of the Council was conducted on the record.

Dr. Schieber: It was almost all open business. As we got into drafting the report, Ned was trying to manage that. And so there were a number of phone calls—and I don't think we ever had conference calls at all. You know, there may have been a couple of us on a call a time or two with Ned, but Ned was managing the overall report. He would talk to me at times. I think Ned and I probably had a closer relationship than he maybe had with Carolyn. And maybe that is an unfair characterization—Ned could tell you. I think I was probably more of a point person in terms of working with Ned than Carolyn was. I think Ned did talk to other members of our group about trying to get them to join his work. And I don't know, I may have given him a little bit of a hard time at one juncture or another—that kind of thing wouldn't have been on the record.

You know, I think it is a pretty public and relatively complete. It would be very nice if you could get ^{EVERY} body to tell you the story. It would be nice to know what happened behind the scenes with the Maintain Benefits group because they clearly had a difficult time in the final hours working out ^{whether} they were going to be together.

Interviewer: I think I have some insight. I wouldn't—first off, if you read the paper that I sent—I don't believe in a bird's eye view of history. I think everything that you do is piecing things together. If you are fairly recent after the fact, and you have decent sources, then you can get closer. But it is amazing the things that you could find that a person will say, "Well, I recall this," and you actually go back and look, and it is more complicated than that.

Dr. Schieber: And often times it is.

Interviewer: But I'm satisfied that having talked to you that at least the major elements of how the process unfolded I've got access to. Whether I can capture it, that's on me.

Dr. Schieber: The only thing that is not public record that I'm aware of is whatever the deliberations were from the final meeting to the filing of the final report within the context of the Maintain Benefits group. In our group, as I said, there were some tensions that were developed, but it was tensions over workloads and allocations of workloads and had nothing ever to do with the substance of the matter at all.

In fact, if anything, the longer time went, I think the stronger everybody got in their resolve that where we were was the right place. I mean Joan was hell-bent, and Fidel was hell-bent that this is where they wanted to be. And in some regard there was comfort in that because it was a pretty diverse group of folks. We had the full range of folks with us. It was somewhat reassuring.

Interviewer: Well, do you want to leave it there?

Dr. Schieber: I'll leave it there. It was an interesting exercise, and I don't regret having been involved in it. It was a very significant time commitment, but important issues.

Interview of Gerald M. Shea
1994-96 Advisory Council on Social Security Member,
Headquarters of the American Federation of Labor – Congress of
Industrial Organizations, Washington, DC,
March 20, 2006

1994-96 Advisory Council on Social Security Member, Gerald M. Shea
Interviewed by Ed Gibson, Virginia Tech Doctoral Candidate, at the Headquarters of the
American Federation of Labor – Congress of Industrial Organizations, Washington, DC
March 20, 2006

Interviewer: How were you selected for the Council?

Mr. Shea: In the tradition of the Advisory Councils, there were always a number of worker representatives, and I was approached by Lane Kirkland, then President of the AFL-CIO, who had been approached by, I guess, the commissioner first and then staff for the commissioner, about appointing the worker representatives because the AFL-CIO had always done that. He talked with me, then we went through a number of options. In the end we chose three representatives, one of whom was myself—three worker representatives.

Interviewer: Was that unusual? You had the health policy portfolio at that time. What does it say about the criticality or importance of this Council that you represented the AFL-CIO yourself? Or was that unusual? Was that matter of course?

Mr. Shea: No, it wasn't unusual. The department that I ran at that point was called the Social Security Department, which included both healthcare and retirement security, and traditionally the AFL-CIO department heads of major departments have represented labor in various situations.

The other two members were both members of the AFL-CIO's executive Council: one, the president of the machinists; the other, vice-president...

Interviewer: of CWA?

Mr. Shea: Well, then the International Union of Electrical Workers, which later merged with CWA, yes. (That vice-president, Gloria Johnson, was also President of the

Coalition of Labor Union Women, so she brought the perspective of a woman union leader to the Council.)

Interviewer: Just to make sure I get this right in terms of listing your affiliation, Assistant to the President for Government Affairs, is that correct?

Mr. Shea: The current title is Assistant to the President for External Affairs. Then, I was director of the Social Security Department.

Interviewer: But for the interview, I've been using current—like I've listed Ned Gramlich as Fed Governor because that's what he was when I talked to him.

So viewing your prospective involvement in this Council, did you feel interested or intrigued or excited? Were there any positive feelings that you had in coming to this?

Mr. Shea: Oh, sure. I was very pleased to do it and pleased to be working with two people whom I knew well and respected, George Kourpias, President of the Machinists Union and Gloria Johnson, Vice-President of IUE and President of the Coalition of Labor Union Women. And I was interested in meeting some of the other people who were involved in this, people whom I hadn't, to that point, dealt with very extensively.

Interviewer: Turn it around. Did you have feelings of misgivings or trepidation or anything along that line?

Mr. Shea: A number of the people who were involved, it was obvious from the first meetings, were long-time retirement security professionals. My own perspective was: I used to bargain contracts originally when I was with a local unit back in Massachusetts. That included pension work and retirement security, plus

healthcare, and then I got into policy work when I came to Washington in 1981. But my perspective on it, my experience was always the worker perspective in bargaining, and then the policy work. This is not like being in Ned's position, a professor, whatever he was or is at Michigan; Bob Ball, you know, who's like the living history of Social Security. I was very pleased to be getting to know these people and be working with them, but it was a little bit intimidating.

Interviewer: Now, obviously you represented, you said, workers. Were there particular issues that you took on along with that representation? Did you come feeling that you represented a certain set of issues? Or maybe you felt you represented more than workers. What was the constituency and what was the group of issues, if any, that you felt you came to that Council representing?

Mr. Shea: I felt like my responsibility was to represent the views and experiences of average-wage workers because that's basically... I mean we represent everybody from low-wage nursing home workers to pilots... but the bulk of our membership is average wage and I thought that was the constituency, sort of like: "What's happening with working families around retirement security?"

Interviewer: Working families or union working families?

Mr. Shea: Working families generally. Our membership is not different particularly from workers or working families overall. It's just they happen to be in unions. That gives them a certain experience and a certain kind of perspective, but generally the experience is the same and the perspectives are very close. So it was broader than just union members, and it's a responsibility that I've held in various other policy discussions over the years and take very seriously. I think part of our

responsibility is to be the public voice for working families, as best we can, shaped by our experience. So that was the perspective.

Then, more concretely in terms of Social Security, there were plenty of signs by then of the problem with retirement security overall: whether it be the way health costs went up in the '80s and the fact that the tradition of providing healthcare and retirement was then stagnant; or it was the amount of money that was being put into private pensions over the years basically hadn't increased at that point in 15 or 18 years.

So our view was very much that Social Security was the foundation of retirement security, and we looked with alarm, for instance, at the growing dependency on Social Security. Where if you look at the numbers from the early '80s to the mid '90s, the number of people who relied on Social Security for a majority of their retirement income was going up, alarmingly, in my view. And the number of people who relied on it for three-quarters of their income was really pretty shocking.

So I found myself in a discussion where lots of people's view of this macroeconomic: "What's happening in Social Security trust funds? What about the Baby Boom retirement? What's going to be the burden on the public debt?"—you know, all very legitimate kinds of concerns—"How does this interact with the economy? What's going on with Social Security trends in other countries?" And I kept on saying, "Well, these are all legitimate questions, but the other thing you have to keep very strongly in mind is that this is the foundation for retirement security for America's workers and their families." I kept on saying

to people, “My view of this is: first, do no harm. So if you want to talk about (and then we got into the whole individual accounts thing) individual accounts, we’re up for that discussion as long as we understand it’s kind of experimental, and they ought of be done sort of on top of the basic Social Security.” And that became a lot of the substance of the debate.

Interviewer: Who on the Council or group of people, assuming that it’s more than just yourself, supported the Social Security as foundation view? How did your interactions with that group turn out? How did you work with that group that shared your focus or your priority?

Mr. Shea: Well, what happened was that the Council went through a long --very long -- series of meetings talking about options to address concerns that Council members raised—most of which, I just mentioned—and we went through various phases of that discussion. Everybody agreed that there needed to be something done to address the long-term solvency of Social Security.

There was a strong group from the very beginning talking about some form of privatization. Initially it was discussed in terms of equity investments of the trust fund, which we said we were open to and so forth and so on. Then later the people who had first put that out—I think, it was Carolyn Weaver—said: no, they weren’t comfortable: this couldn’t be done without undue government interference, for instance, in private markets, and so then it became sort of a discussion of individual private accounts. But there was no consensus ever reached, to state the obvious. And Ned kept on trying to work out something of

his own, and then a number of us coalesced around a way to address solvency without radically restructuring Social Security or cutting benefits.

Interviewer: And what were some of the elements of that coalescing or that coalition? What were some of the keys to that?

Mr. Shea: Well, I think partly it was there was an affinity between those of us on the worker side and a couple of the other members of the Council.

Mr. Shea: Edith Fierst, for instance was a very forceful and effective advocate for improving the benefits for women in Social Security and certainly not diminishing them. I think we felt an affinity along with Bob Ball to sort of a traditional approach, and, if you would, kind of a conservative approach to the question at the same time as we recognized there needed to be changes made. So we talked through, you know, all sorts of different options. I can't remember what the final list was, but we came up with a solvency plan by mixing and matching in the traditional way that had happened.

Interviewer: Okay. So you mentioned conservatism. You mentioned care or concern for groups as kind of essential elements. Anything else? I'm also interested in how you identified people that shared those things. Was it in the statements that they made as part of the deliberations?

Mr. Shea: Yes, it came out of the discussions. I knew the other two labor people obviously, and I knew of Bob Ball—and I guess I had met him—but I didn't know him well. I didn't know Edith at all. I can't remember who else was in our grouping.

Interviewer: Tom Jones.

Mr. Shea: Oh, sure. That's right. I never dealt with Tom before. So it just came out in the discussions what people's views were.

I guess the other factor that was kind of a defining factor was I think there was a difference between the sort of traditional, significant role of government and a much cut-down version, which some people advocated.

Interviewer: Big and small.

Mr. Shea: Yes. So that was probably about it.

Interviewer: Let me turn it around. Were there cues in terms of the issues—you spoke a little bit already, but I asked the question just because it formally states it—cues that you responded to in people or groups that supported issues that were antithetical, or were not what you supported, that identified those folks? How would you characterize your interaction with those folks as compared to the people that more shared your views?

Mr. Shea: I think in general the interactions were always of good quality. I think of Syl Schieber, for instance, whom I knew then and have known subsequently in my work on the Advisory Board, because he and I both went onto the sort of follow-up advisory group.

Carolyn Weaver, a person of a very conservative view in my point of view, but of real integrity, and who listened. You could talk with her, even if you didn't get to "yes."

Interviewer: You could joke with her.

Mr. Shea: Yes, that's right. Although she tried to use some of the jokes I made for political advantage,

[Laughter]

But I always thought the interactions were of a high quality. I also think there was just a difference of opinion over whether or not—I sensed that in a number of positions that people put forth -- a disbelief that Social Security as it had been structured was viable, long term. And this is a policy issue, but I think we differed from a lot of people on it over time. The AFL-CIO had a traditional position, which was a rare position in any time in the last couple of decades, of partially funding Social Security from general revenues, but that was our position since the start of the program.

So the AFL-CIO was kind of on the Left economic view of this whole thing, but you didn't need to go that far. We weren't talking about that. In fact, we had a very controversial and conflictual internal discussion over the idea of supporting equities investments, which I thought, as did some other members of this group, made sense to consider seriously to boost the return in the fund, from just simply treasury bonds. It was a very controversial view both on the right and the left, and eventually—I don't know whether we ever put it in this proposal. I guess maybe it was in there in some way—but eventually we backed off the position because it was just so much opposition internally.

Interviewer: Internally within this organization?

Mr. Shea: Yes, even though our pension funds --you could analogize how we invest big pension funds to Social Security, except that we don't do equities investments in Social Security. We do plenty of pension fund equities investments, and, at least in the '80s and the '90s, it was a phenomenal success. Interviewer: How did you

work that out with respect to the actual position that went into the Maintain Benefits plan, because the final resolution was to study the idea of equity investments? How did that get worked out, because it happened late in the process?

Mr. Shea: Well, the whole thing kind of was a crash finish, because we didn't see the proposal by Carolyn and Syl's group until days before the final meeting. It arrived in my house by Federal Express the Saturday before the last meeting. So the entire discussion of this idea of radically restructured Social Security was in one three-hour meeting. I kept on saying, "This is ludicrous: to even consider this so late in the process. If you want to do this maybe we can get a year's extension and go through all the technical panels we need to do," which we had then done at exhaustive length.

So we were making adjustments, and I think in the end there was enough reservation on our side on the whole idea of equities investment, within the union movement, and enough criticism, hot criticism from the Right about this at that point,. Carolyn and people were just piling on this idea and talking about government taking over the stock markets and all this kind of stuff. I think we just decided to sort of like step back a little bit to just lessen the heat.

Interviewer: I'm just wondering if there were conversations, or just how it all...

Mr. Shea: There were endless conversations on our end. And Bob was the lead drafter of the thing and he would—I mean he just spent his life doing this stuff at that point, as he has at various other points in his career-- would modify things and then send

it around and talk to people and say, "Well, I talked with this one. I've talked with that one. What do you think about this... what do you think about that?"

Interviewer: So that essentially happened between the last meeting and the publication of the report?

Mr. Shea: I don't know how much of it preceded the last meeting, but a lot of it didn't take place until after the last meeting.

Interviewer: So the issue was out there, but the resolution kind of kept on going?

Mr. Shea: I mean our position it changed in detail, but it didn't change in principle. I don't know when we first put positions on the table. I have to think it was in the spring or the summer before, but it didn't really change in principle --- from then. Our goal had always been to preserve the basic defined benefit nature of this program, and see if we couldn't address the solvency by a variety of methods, including the option at least of looking at fund investment to get some higher returns.

Interviewer: You kind of went down this road a bit and then we went a different way, but in terms of the major situations or potential outcomes or constituencies involved or trends that were then going on or other factors, what did you identify as the crucial ones and how did those suggest themselves to you to be concerned about? In other words to make the right decision, what things did you think it was important to consider and how did you come to select those things? You had said that the other folks were kind of looking at some macroeconomic issues. You were not looking at those. So kind of describe your thought process of all the things that were out there, how you selected these ones to focus on?

Mr. Shea: It was apparent to me that, even though I think the 1983 Greenspan Commission had done a good job strengthening Social Security at that point and designing the partial pre-funding to address future needs, that it was timely at that point to come up with a new strengthening plan that would put the Social Security on firm footing for 75 years.

As I said before, our concern was to make sure that the fund was going to be there to pay benefits for people, and we were acutely aware of the pressures on private pensions at that point. We were very nervous about a number of dimensions of the idea of going to individual accounts. Now I should say that since the early '80s our unions have negotiated defined contribution plans in conjunction with defined benefit plans, and it was always a formula where you had this sort of basic defined benefit, and then you added on a defined contribution benefit. So we were comfortable with that, because, as Bob Ball kept on saying, the amount of risk that's appropriate for individual accounts in addition to a defined benefit foundation is entirely different from the amount of risk that's appropriate for the foundation, which I thought was just sort of a smart, simple way of looking at it.

So that was kind of the way we went at it and we were very concerned about it, whether it was the administrative cost or the complexity or the decision making or the fees involved. We're very critical of the way some mutual fund companies, for instance, approach their fee structure. Some do this in a very efficient way and a very sort of painless way for workers. Some don't do it that

way at all and they're just making a lot of money. So there was a lot of that kind of thing that we factored in.

So, we knew that we had to come up with a solvency plan, and we wanted to write a report that emphasized the success of Social Security, and that was pretty much what shaped my view.

Interviewer: So the situation you were coming off of was more positive on Social Security and potentially more, leery is too strong a word, but... with more, I guess, interest and nervousness about the rest of the pension world.

Mr. Shea: Right. You talked about a set of cues before. Part of what concerned us was the advocacy work and the language of some of the advocates for individual accounts: some of the groups that were coming up. There was a youth group called Third Millennium or something—a couple of groups about this. So I thought we were all interested in talking, we had them at some hearings. But their language just was so extreme and aggressive.

Interviewer: For instance?

Mr. Shea: The Third Millennium people had somebody do a poll—you know, you can get whatever results you want if you're asking questions the right way—and one report that said more young people believe in UFOs than believe in Social Security. It was a line they just kept on using. It was cute and it resonated for people who were nervous about the future of the system because they're nervous about the government running anything.

And I remember one Council session, maybe when it was one of the ones where we had some these groups in, and Senator Bob Kerrey was there. I had

known Kerrey in other contexts, and he was there because he had chaired the Entitlement Commission, I think it was called. I remember asking him—it wasn't my usual experience to ask sitting U.S. Senators questions from the bench, but that was our role-- "What do you make of this anger among people that I sense in the rhetoric and so forth?" And he gave me an answer which really alarmed me, and it's in the hearing transcript someplace, but it was basically that—and he had real emotion in his voice—he said, "I really understand why. Maybe I don't agree with all their positions, but I really understand people's anger about it." The suggestion was that something was being taken from these young people, and it really, it kind of came to sum up in my mind, looking back, this "sky is falling" kind of rhetoric that I thought: (1) was not warranted by the history of Social Security or the merits of the economic situation; and (2) I find frightening that you could really scare some people into some sort of a thing, and that's how I took it.

It might be helpful for me to say to you one other thing in this regard. One of the things that I came to think about years later was that Social Security might have been changed by now or even before now if the people who had advocated this change had been willing to act on sort of a step-by-step plan, and do an add-on account. Now who knows what the evaluation of that would be today, but at least in the late '90s when the stock market was booming, people could have, if they had started these accounts, maybe piloted however you want to do it, without touching the basic contributions to Social Security. People may have said, "Well, gee, we have solved the administrative problems. We've been able to prove that these are pretty successful. People seem to like them. Why

don't we expand them?" and then you could have a different debate, because as it was, a lot of what made people nervous about the individual accounts was: "Well, how administratively complex is it going to be? And is this going to be an enormous expansion of a government agency or is it going to be an enormous expansion of Wall Street?" You know it's like you just had a lot of unanswered questions, and the estimates ranged from 1% to 15% in terms of the administrative costs.

But I tie that in because I just think—I remember another meeting—this was not in the context of the commission, but one of these discussions, of which there were many in those days, about Social Security. I remember a very nice young person from one of these groups, who just was so frustrated. She said, "You know, I just think we need to get on with Social Security reform. We've been talking about this for years and we've got to do it!"

[Laughter]

I know that kind of frustration when I was that age.

In the end my view—which wasn't only after the fact, but was at the time—I felt like that the Council didn't serve the country very well. Because there was such polarization, the real kind of formulated positions didn't ever get adequately debated or explored or analyzed.

Interviewer: Why do you think that is?

Mr. Shea: I think people were searching around for something for a long time. I mean I asked Sylat the last meeting: "How do you think we're going to take this, like have a serious discussion on this, make a decision on something that arrived on

my doorstep Saturday morning?” This was in December. I joked and I said, “You know, I thought maybe you were just like sending big Christmas cards and you were late getting them out or something,”

[Laughter]

I said, “I didn’t open it until Sunday and then I see this whole....” So he said, “Well, it just took us a long time to do the technical work and then we had to get the actuaries to look at.” And so I said, “Yes, but, you know, the process is kind of over.”

So I think what happened was maybe it perfectly represented different political views: a traditional view, a let’s-restructure-with-private-accounts view, and a sort of strike a middle ground, sort of Ned’s proposal. I think that fairly reflected the political differences. But the Council would have been much better off to try to come up with something a little bit more “consensus-y” or at least like options. We all agree this is a problem, we have differences on this, here’s a way we could proceed. Some people would support this kind of option, some people would support another, as opposed to having three different plans.

I said to some of the people later, when I dealt with Syl and Carolyn in the first meetings of the new Social Security Advisory Board: “You know, I think it would have been much more honest and helpful to people if we had just said, ‘we can’t agree and that’s a problem, and here’s what we propose to do about it.’” But I think a frank public statement by that body saying, “There is real lack of consensus and polarization, and part of it’s about the problems, but certainly

about the solutions.” I think it would have been a much more constructive input for the public policy dialogue.

Interestingly, when we got to the Social Security Advisory Board I made a suggestion, which Carolyn immediately seconded, in one of the first meetings, which was that we should not repeat the Social Security Advisory Council and try to solve the mega issue or debate all the differences in opinion. We ought to think about what we can do as an advisory group to tackle small- to mid-range and even some long-term problems in Social Security that need some outside advice and help the agency get its job done. And that led us into doing a whole bunch of administrative stuff from the disability process and how long it takes... to a public information program that the agency should have to provide people with more information, helping people understand these individual statements that were just coming out then. And it was, a really harmonious process and I think it continued that way pretty much, at least as long as I was there, even though there were differences on the big issues.

Interviewer: So could that same model or that same template have worked or have come to be in the Advisory Council, or was it the direct experience of the Advisory Council that caused you to be able to do that in the Advisory Board?

Mr. Shea: I think more the latter. But as I said, having tried and failed to reach a consensus as other groups had in the past on certain recommendations, I think we would have been better off simply saying, “We’ve been unable to reach a consensus and that’s a big problem for this kind of a program.”

Interviewer: So in retrospect that’s the way you viewed it?

Mr. Shea: I felt like the Council failed and I felt partially responsible for that, but I wasn't the only one who didn't get to a "yes" conclusion.

Interviewer: How many other people did you get the sense felt that way, or how do you feel that you came to that conclusion and maybe other people didn't?

Mr. Shea: I can't tell you how many other people may have. I certainly know that my labor colleagues thought the Council was just a mess. I think they had a sort of a simple view of this. But I don't know many other people generally shared my view. And I came to it because I spent a lot of time after the Council report was issued in various public fora discussing and debating what had happened, dealing with the media a lot. I don't when it came to me, but it had been a growing sense since at least December of that year, that this might not be a very useful thing for the country—what we were about to do, what we did do.

Interviewer: You talked about it reflecting the political situation. I mean that's not exactly—it's not necessarily a shocking thing, when you have a group drawn from fairly diverse constituencies.

Mr. Shea: Right, although I think it was a sign of the times as much as anything else, because when you look back at the 1983 commission, now they were staring insolvency in the face and they had the super-heavyweights involved led by Greenspan. Tip O'Neil and Ronald Regan were at very different points of the political compass, needless to say, and yet they were able to work out something, which included the usual balance which I think our side, our group always viewed, you're going to have to do in the end if you've got to real negotiations, which was they were going maybe some way to increase income and to reduce

expenses.) Our goal was to minimize the hit on benefits, e.g., raising the retirement age and not to do any kind of radical restructure. But obviously there was going to have to be compromise to get this done. There always had been.

Interviewer: So you were primed or anticipating negotiations that didn't happen?

Mr. Shea: Sure. I think in the end Ned didn't seem to have much stomach for it I remember private conversations where he would call and go over his plan, but I said, "Ned, you know, who are really going to get to support this? I don't think, at least at first blush, that anybody is going to like this plan." But that was his approach. He wanted kind of the middle ground sort of thing. But it was more his own views as opposed to consensus building.

Interviewer: If you build it they'll come.

Mr. Shea: I guess so.

Interviewer: I shouldn't glib.

Mr. Shea: Or who cares if they do? I don't know.

Interviewer: So had you like, you know, within your caucus, if you don't mind me calling it that, or within your group, had you thought about negotiating positions where there might be some give or there might be. I mean had it proceeded that far to, you know, preparation for negotiation or you just were like expecting and kept expecting?

Mr. Shea: Well, I never had a big expectation. I'd always thought that we'd get there, but there were never any signs of that..

We certainly had a lot of internal discussions about how you could mix things, and one of the things that I said to my labor colleagues, is that there are

some of these things, which are really hot items among some of our unions, for instance, the addition of public employees who were not then included. The firefighters would go wild. The hit on the states would be very big, and that is what they were hearing from state officials in many places. I said, "That's an issues that if we're going to get to 'yes,' that's going to have to be on the table," because people from all sides raise that.

Interviewer: When you say, "Internal discussions," you mean the three union representatives?

Mr. Shea: Yes. Well, but none of these discussions were just among the labor people. I had these discussions with Bob Ball. He would say to me: what would your people be comfortable with...how important is this issue or that one...what do you think the right mix of policies would be?

Interviewer: What venue... breaks, you know, lunches?

Mr. Shea: Mostly phone conversations in between meetings. Some of this got played out in meetings. But when we're getting close in the general meetings to a discussion about sort of hot items, I tried not to paint myself into a corner on these things. So—but mostly it was phone conversations, just talking about the caucus, if you will.

Interviewer: Do you think that that's a strategy that might have worked for other folks, had they not—you said you didn't paint yourself into a corner. Now these were public meetings, so do you think that that's something that kept you more able to consider things than maybe other folks?

Mr. Shea: I mean it's just a style that I have in general, in these sessions. Sometimes it works; sometimes it gets me in trouble. It's just my approach.

Interviewer: Okay, all right. I'm just curious because it was unusual in the history of Councils to have public transcripts. I mean they were usually quieter sessions than this.

Mr. Shea: I had never been on one before.

Interviewer: Well, I mean that's my thing. So part of this study is looking at what had happened, and then part of this study is focusing on this Council to see what was different.

Mr. Shea: I was just trying to think about the Social Security Advisory Board, but there's nothing analogous there because, you know, occasionally somebody from the public would show at the Advisory Board meeting. They were always open, other than wanting to have certain conversations without all the staff in the room. Mostly we just sort of talked these things through. And yet it was a just a very different approach. We set our sights lower, if you will, than trying to solve the world's problems, but we tackled some big issues in some of the Advisory Board reports. They raised some of these tough issues, but did it in a way that was much more balanced and less polarized.

Interviewer: Looking back, does anything come to mind that you might have been able to do differently: a different position or anything in retrospect? And while you're thinking about that I'll broaden it a little bit just to say, you know, the Council as a whole, I mean do you think that there were things that maybe the Council as a whole might have done differently that might have yielded different results?

Mr. Shea: Yes, just on my own part, I think in the summer and fall of '96 I guess it was, the end of '95, whenever it was, the end of the Council.

Interviewer: '95.

Mr. Shea: Yes, it probably would have been a better contribution for me to raise aggressively the sense I had that this thing was going nowhere fast, and what are we going to do about that as opposed to this sort of endless discussions on small items. We just have these long, long discussions about various detailed issues. The Council became totally lost in the weeds of the debate.

But that's retrospect. At the time I was just kind of feeling my way. I didn't know what to expect exactly. I was just hoping it was going to get more positive.

Interviewer: And you said there were a lot of experts on the Council?

Mr. Shea: There were and there were a lot of experts around that you interact with in these settings., I remember the two people, Harry Ballantyne and then Steve Goss.

Interviewer: Goss.

Mr. Shea: They were fascinating people with enormous experience and knowledge. But the conversations were really long and detailed to get them to give a full exposition and then to try and understand it. But they were very constructive. I always enjoyed my interactions with them. I always felt like I was learning something new.

I didn't feel like that about the staff of the commission, some place between the staff and Ned—and I'm not critical of Ned --I don't know the guy very well, I liked him personally in the process as well as staff. But there wasn't much that any of them did to try to force the issue, to bring it to closure either by confronting people with options, which is one way to do this kind of thing or to work in between meetings to see where you could build bridges.

Interviewer: So there wasn't much of that?

Mr. Shea: As I said, no. Ned—I had probably had two or three conversations with him in between meetings, but they tended to be more about his ideas than about the differences between this one and that one, not that his ideas were unrelated, but—

Interviewer: I understand.

Mr. Shea: And I think the staff mostly did things around the sort of technical issues and prepared papers and that, which was helpful but never seemed to resolve things. The next expert panel report usually raised as many questions as answers.

Interviewer: [Laughter]

Mr. Shea: I remember there was a discussion about retirement age -- you know, the ability to work and so forth. I kept on saying, "Well, isn't this hugely different for people in different occupations?" and just the obvious, : "If you're driving heavy equipment it takes a certain toll on your back that other things don't necessarily do."

Interviewer: You talked about the people that you interacted with. How about people more broadly, policy folks that maybe didn't work for Social Security? Did people like that weigh in, you know, in that time you were involved with this.

Mr. Shea: Well no, I can't think of an instance where anybody contacted me directly. We participated with a lot of people in the expert panels, who were outside folks, and you had conversations with them in the meetings and offline at the meetings, whether it was a follow-up question or somebody getting to you at a break or something, saying, "Yes, I was interested in your comment," you know, something like that.

But as I said, I can't remember any instances where anybody contacted me outside.

Interviewer: So you were pretty much left alone?

Mr. Shea: Well, there was a lot of swirling going on about the issue just in the general discourse. There were congressional things, although most of that was a little bit later.

Interviewer: Right, but it wasn't brought to bear at least through your experience on the members or the body of the Council?

Mr. Shea: No. The one exception to that is that we would do meetings occasionally to brief it was union presidents or union staff about the Council, and not so much about the Council, but about the debate on the issues.

Interviewer: What kind of feedback did you get?

Mr. Shea: People tended to have a pretty conservative reaction. "Don't change a thing about Social Security." Because they were nervous about what that would mean, what it would lead to. I structured one meeting—I remember distinctly...

Interviewer: But this was while the Council was going on—during that time?

Mr. Shea: Yes, I think so, yes. I structured one meeting where I brought in a couple of outside people to talk about equities investment. I remember Peter Diamond from MIT was one. And president after president at the round table just lambasted the idea—"Don't fool around with our Social Security." And I got lots of lectures I could have given myself. So that was the sense in which there was some interaction with the world outside, but it was mostly just within our own crowd, it wasn't a public process.

It wasn't a situation of asking people to either approve or disapprove of some individual notion that was being considered in the Council because that would just tie our hands completely. I realized that we might come back in the end with something that would get a lot of hot debate internally, but we could handle that.

Interviewer: So you kept on being prepared to move to the middle?

Mr. Shea: Oh yes, no, but there were never any signs that such a conversation was being constructed.

Interviewer: Can you think of any—I mean you said it was a sign of the times, it was kind of a function of the, you know, some of the key leaders in there, whether the chairman or the staff or whatever—but I mean is there anything else that suggests itself that prevented, you know, more of an engagement or a dialogue?

Mr. Shea: Well, again, the only thing that came to me later was maybe I could have taken more initiative to try to do something. But I wasn't really a leader in this group. There were acknowledged people that had been doing this for a long time; it was Bob Ball and people took different views. I think people would have been surprised if I had popped up and said, "Why don't we have lunch some day and talk about—you know—and see if there is some common ground?"

Interviewer: So it was pretty much up to individuals and the individuals are in a position to do so didn't. Is that a fair—am I—is that what you are saying?

Mr. Shea: Yes, again I don't have any experience with the Councils in the past so I don't know whether that is realistic, maybe it is only a function of whether you get strong leadership at the top to construct a situation in which you can then have

these kind of negotiations. Whether it was possible for any group or set of people or individuals to sort of initiate these conversations other than the chair I am not sure.

Interviewer: Anything else that occurs to you that I haven't asked you about that you think is important to think about or to have said about the Council, your Council experience, or this Council experience?

Mr. Shea: No, it feels like ancient history.

Interviewer: Ten years.

Mr. Shea: Yes. The more recent history of course is one of extreme polarization over what to do with Social Security.

Interviewer: Why? What's driving that?

Mr. Shea: Well, in our experience that is the nature of this administration. They don't talk to us, for instance, about labor issues. They decide whatever they want to decide and they go up and do it. And in the early days when we tried to establish a relationship with them, say, inside the Department of Labor, we would talk with them but it just didn't lead anywhere and so the conversations have ceased years ago. There is a big exception to that in my experience over health policy at the moment—not over the stuff that gets dealt with in Congress because as we talked about there are big disagreements over that—but at least we talk with HHS about certain long-term structural change in healthcare. About that there is an enormous amount of very productive collegial work being done involving business, healthcare providers, government agencies at various levels, in which we are fully involved. But that is the exception rather than the rule. John Sweeney has never

been invited to the White House. No ranking official of the AFL-CIO has been invited to the White House. I've heard the justification from people that the White House thinks we are too close to the Democratic Party and therefore they don't need to deal with us. But to dismiss the Labor Federation of the United States because they happen to be too close to the Democratic Party is a dangerous thing in terms of our democratic system.

It is in part the style of the administration. I think though maybe it was the final chapter of the dynamics that were underway in the Advisory Council, where there was such polarization. And some people felt so strongly on a philosophical basis about wanting to change the structure, and those of us who felt so strongly on a philosophical basis not to change the structure in a radical way.

Interviewer: Take just a minute and talk about the elements of those two philosophical positions.

Mr. Shea: We've already talked about some of the dimensions: big government versus small government; individual responsibility versus group responsibility. People on the conservative side, many of them genuinely feel this is depriving individuals of individual choice and their initiative and so forth—a view which I can appreciate. But our experience, on the other hand, is very strong that defined benefit plans are more successful over time for average-wage workers than they are for, than are DC plans. Then again our experience with this is you learn very rough justice in collective bargaining.

Interviewer: Sure.

Mr. Shea: So you negotiate a contract with a group of workers, there are all of these differences of opinion. If there is roughly X dollars to spend where should it go? Should it go into healthcare? Should it go into wages? Should it go into pensions? And the lines are, predictably, pretty simple. Young workers want more money in wages. They don't want to put it in pensions because they are immortal. Older workers are really nervous about making it through retirement so they want to put more money in pensions. Everybody is worried about healthcare.

In the end people don't kill each other or go on strike over these kinds of things—you just kind of settle things out. There is some money here, there's some money there, you know, it is a consensus-building process where you learn some of these skills. But that is our perspective, which leads us to a philosophical position that it is fine if you want to do individual responsibility and you want to create these kind of structures and you want to increase savings, but the way to do it is not to simply substitute for what is again as I said the foundation, so...

Interviewer: Well, that is a great summary.

**Telephone Interview of Marc M. Twinney,
1994-96 Advisory Council on Social Security Member,
December 16, 2005**

1994-96 Advisory Council on Social Security Member, Marc M. Twinney
Interviewed by Ed Gibson, Virginia Tech Doctoral Candidate, by Telephone
December 16, 2005

Interviewer: The first thing I wanted to talk to you about is how you came to be selected for the Council; if you have any idea about how that happened?

Mr. Twinney: Traditionally, the Council had three business or management representatives and three union or labor representatives. In selecting those, they would usually go to certain business organizations. [REDACTED]

[REDACTED] the Chamber of Commerce, [REDACTED] was my sponsor as I recall.

[REDACTED] I had spent my whole career in benefits and pensions ^{as} an actuary and [REDACTED]

[REDACTED] for the last 30 of ^{my} ^{career} 45 years. I was in this position at Ford Motor Company, so I had ^{as deep} [REDACTED] background. I had worked on Social

Security issues from time to time. So I was probably selected on the basis of being one of the ^{more experienced} [REDACTED] candidates available on the business side at that time.

Ford Motor Company ^{usually} [REDACTED] encouraged participation in these kinds of activities: [REDACTED]

Interviewer: Do you remember what your reaction was or how you felt when you found out that you had been proposed?

Mr. Twinney: Well, I felt good about being proposed, but I didn't think I'd get selected. So when I ^{was} [REDACTED] selected, I was ^{surprised} [REDACTED] and pleased. I felt like it was a capstone to my career in a way. I had told my wife when I passed my fellowship

many years before
 exam: "One of the things I'd like to do in my career is somehow to get a voice on Social Security." And *now* that [redacted] was going to happen, so it was a nice capstone to everything.

Interviewer: What was the process between being proposed and selected, as far as you know? Did you have any idea what was happening there? Or was it behind the scenes?

Mr. Twinney: Let's see, my impression was that once I was accepted as a business representative—I've forgotten the name of the gentleman who had been selected to be the secretary of the Council...

Interviewer: David Lindeman?

formerly of the PB&C

Mr. Twinney: Yes, David Lindeman. He knew me from [redacted] work on ERISA and pension legislation. The issues would have been was I an objective, sound-thinking person, or *would I only represent* [redacted] the management point of view? *Yes?* One of the things that was [redacted] important in regard to the objectivity question was that the Ford pension plan *was* relatively well funded at that time. That was partly my accomplishment, but *mainly* because my company [redacted] leaders wanted to make sure that they were well funded. And our assumptions were very good—strong and sensible assumptions. [redacted]

[redacted]

So I think that was the clincher. If I had come from a company where the assumptions weren't sound and the practices weren't first-rate, they might have objected to me. [redacted]

Interviewer: How did they determine your objectivity? Did they talk to you?

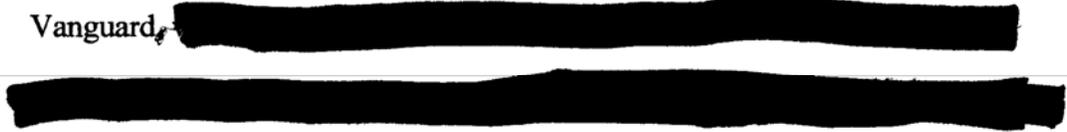
Mr. Twinney: Well, they knew me from the work we had done on the pension legislation and the public reports we ^{filed} [redacted] You ^{must} file ^{the} pension plan reports, ^{of} the biggest pension plans in America, in terms of benefit structure and cost, were steel and auto. [redacted]

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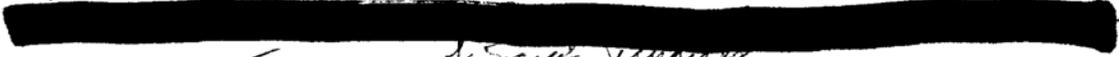


Interviewer: Let me turn the question then. You've indicated that it was a very positive reaction that you had. Were there any aspects of your coming service that gave you misgivings that you can recall?

Mr. Twinney: No, not really. The only thing I thought of was: should I be spending this time doing this public service or should I go to work for somebody like Fidelity or Vanguard,



And this was just at the time when retirement planning was starting to catch on as being a field. It was sort of a backwater until the "Baby Boomers" brought it to light. I decided *but Social Security was more important*



of Social Security the chief actuary told me when I said I had worked the full string of 65, "Oh you retired early." I said, "What do you mean?" He said, "Well if you take the *national life expectancy* and project the normal retirement *age* of 65 from 1939 until today, you *would* have had to work until you were 67 to

Consistent with... 65 was in the 50s."



Interviewer: Sure, you already had the mindset.

Mr. Twinney: So, I enjoyed going ^g to Washington.. [REDACTED]

[REDACTED] I had been hired at Ford to work on ERISA which took seven years; then we had this review and re-do on the PBGC in the 90s. So I was accustomed to thinking about those things on a national scale. I enjoyed that.

One of the most interesting things from a personal standpoint was that you had to be sworn in by an oath as a government employee. And it was word-for-word the same oath I was sworn into the Navy ^{with which} ⁴⁰ years before.

Interviewer: Well you have an advantage on me. As a government contractor one of the things that I point out to people sometimes half-jokingly is that I am under no oath.

Mr. Twinney: Well [REDACTED] ^g we were actually temporary employees, not contractors, so they swore us in.

Interviewer: I think that is a good thing.

Mr. Twinney: Yes. That was the only part where I had a second thought. I said, "What am I getting myself into?" That Navy duty [REDACTED] ^g on a fleet destroyer in the Pacific...

Interviewer: Oh my word.

Mr. Twinney: I said, "^{I am too old} [REDACTED] to do that again."

Interviewer: Well, thank you for your service in both venues. I am grateful. Did you interact with people outside of the Council because of your service on the Council that you hadn't interacted with before, once it became known that you were going to be on the Council?

Mr. Twinney: A little bit. I think I talked to some people in the Detroit area. I know I talked to some people at GM and Chrysler about their views on Social Security before I went. And there was a group of large companies that had a benefit association where they would discuss, [REDACTED] benefits issues, [REDACTED]

[REDACTED] But it wasn't a much larger circle than what I had already been exposed to.

Interviewer: Did you get a sense that there was a consistent opinion in that group?

Mr. Twinney: [REDACTED] I would say that the knowledge level wasn't as high as it should be—and there was a lot of upset about the ^{financial} [REDACTED] condition of Social Security: a lot of desire to make it stronger. There was a [REDACTED] ^{or} desire not to ^{simply} raise taxes to do that. And that will come to bear ^g then later on when we get ⁱⁿ into the Council. [REDACTED] I did not bargain benefits with the UAW, we had a team of people that did that—I did ^g the cost work and the financing and funding part of it. I was used in the bargaining when the union wanted to talk about how much ^{benefits} [REDACTED] would cost and that sort of thing. So my concern on the Council was to make sure that we followed out the mission [REDACTED] about making the system solid again, getting it ^{into} [REDACTED] actuarial balance. [REDACTED]

[REDACTED] I felt we had superb support from the Office of the Actuary, very good work, and we had two actuaries that were very [REDACTED] ^{help} [REDACTED] one who has since retired and the other one is now the chief actuary there. They were marvelous men, they had good resources and great depth and good objectivity. So I thought we did some good work on that in the

Council. And of course that was our mission; I think that was one of the two

Objectives

[REDACTED] the secretary of HHS had given us.

And in that regard I want to point you to the appendix where it summarizes the effects on actuarial balance of the recommendations of the Council. Start on page 181 I think it is. Yes. Do you have the report, Volume I, of the Council?

Interviewer: I have access to it; I haven't made a complete copy.

Mr. Twinney: I think it is indispensable to you to get your own copy of that because you will keep going back in there. I would think that—there should be—well maybe these things get out of print so you can't get your hands on a copy. [REDACTED]

Interviewer: There is a copy in the library where I work, so it is a relatively easy matter to make a copy from that. Or, as well, to request it from GPO.

Mr. Twinney: Yes, it is about 240 pages and it summarizes the key things you want: the findings and recommendations. The information in the other volumes is very interesting all this research but it is not the conclusion. And it is Volume I that I think is the meat that you want. And in there, starting on page 181, there are three pages of summaries of the long-range financial effects of the proposals. There are three pages because there are three different proposals.

Interviewer: Okay, thank you. What was your feeling or reaction to the other Council members when you came to meet them and to begin to interact with them?

Mr. Twinney: [REDACTED] I think it was [REDACTED] good. [REDACTED] All of us wanted to serve and we all had good reputations and some body of knowledge on the subject, so I think that was

all ^{to the} good. It was later on when we saw ^{the} particular proposals they made or supported that I started to make some judgments. I was very impressed with Ned Gramlich as ^{the} chairman; I think he did a superb job. And I was impressed with Sylvester Schieber, whom I'd known before the Council meeting. (I had not known ^{Dr} Mr. Gramlich.) Because ^{Mr. Gramlich} was ^{here} here in Ann Arbor I was able to visit with him two or three times separately from the Council meetings during the two years that we were working on this.

Interviewer: What was that like? What were those meetings like?

Mr. Twinney: Well they were very casual. ^I I just dropped by because I was in Ann Arbor and he was always in his office. He was a hardworking guy. He was not AWOL, he was there working. I would just drop by a couple of times because without being announced. I'd say, "Well why don't I walk over and see if Ned is in." And we would have a ^{friendly} chat. We didn't do any ^{work} work at the time. He did ^{all} all of his own work ^{after} after we had the proposals ^{sacrificed} sacrificed. I concluded that I would ^{vote} vote for his proposal as being the middle ground and the more sensible solution to the issue of making the system financially sound.

Interviewer: You talked about forming your conclusions when you saw what kind of plans that people had supported. What type of conclusions were those? You already talked about some of the positive feelings that developed.

Mr. Twinney: ^{As} as we ^{needed} the end we started to ^{put} put together ideas that could go into a proposal. We started out trying to think that we could all

support one proposal. Over time it became difficult to do that because Mr. Ball and the union people and Edith Fierst and [redacted]

Interviewer: Jones?

Mr. Twinney: Thomas Jones. They came up with a couple of ideas that I couldn't accept and I couldn't accept the general approach that Mr. Ball had. Mr. Ball [redacted]

[redacted] was the author of many of these provisions in the development of Social Security over time; ^{I believe} he had been on every Advisory Council ^{in the past} [redacted]

^{He was} very reluctant to change any of his ideas about formulas and benefits and so on.

And he was very skillful arguing his position, so they became very rigid. ^{When} you look ^{at his} at [redacted] proposals in order to ^{achieve} [redacted] actuarial balance despite the [redacted] overall ^{and} of not raising taxes, he managed to find enough

little changes that in effect raised revenue so that only 24 percent of his changes

[redacted] reduced benefits and 76 percent ^(see page 181) increased revenue. [redacted] And if you go to

Schedule Two the Gramlich proposal is just the opposite, it uses ²⁴ percent increase in revenue and a 76 percent decrease in benefits to get ^{to} to balance.

Both of the proposals end up with a long-term benefit undertaking in the same neighborhood, all the ratios and projections are very comparable.

Interviewer: Did that affect or cause a change in how you viewed the members that supported that revenue-intensive proposal?

Mr. Twinney: Well, I was disappointed that Mr. Ball wasn't more flexible and didn't see the virtue of some of the things [redacted] in the Gramlich proposal. He ^{implied} [redacted] that actuarial solvency, balance, was ^{so} important but he wasn't

going to cut any benefits. And of course he was straightforward about it; I mean that is the name of his alternative: "Maintain Benefits." And I could understand how the union people would be for that. Edith Fierst's idea about how to maintain benefits was to subject to Social Security taxes fringe benefits, [redacted]

[redacted] ^{if you employer} had a healthcare plan or a pension plan ^{it and employees} ought to have to pay Social Security taxes on those fringe costs. ^{This} [redacted] would have been impossible to ^{make in practice and discourage employer sponsored plans} [redacted] Jones' proposal was to ^{let} the government, [redacted] invest ^{Social Security funds} directly in stocks, which would be ^{produce} backdoor Socialism. [redacted] Fierst's idea didn't get into Ball's proposal, but Jones' idea did.

So as far as I was concerned the Maintain Benefits proposal really didn't solve the problem because there was no way Congress ^{would} [redacted] going to—and rightly so—vote for government to invest in stocks or own private enterprise. It would be a shame to ruin the free-enterprise system in the name of saving Social Security. [redacted]

Personal accounts!

[redacted] So I didn't think that the first proposal was entirely legitimate in solving the problem. I thought the Gramlich proposal was legitimate and I thought the third proposal was interesting, ^{creative}, and innovative, but it was just too drastic a change. ^{The third proposal reduced the defined} [redacted] benefit and then use ^{that} that money and borrowing to create the individual accounts.

Interviewer: And the people who supported that plan, did their plan change or impact your view of them as Council members at all?

Mr. Twinney: No, I don't think so. They were the group from which I came—the six people that were more from the business side, more the financially responsible side—they were disappointed with me because I voted for the Gramlich, the middle course. [redacted] ^{This} allowed Ball to say that the proposal ^{of the three} that had the most votes was his proposal. [redacted]
 [redacted] I have a ^g little story for you that I would like to cover and I don't know whether now is the right time to tell it or not.

Interviewer: Please proceed.

Mr. Twinney: I don't know how it ^{came} to be that these councils had 13 members, you know 12 members and a chairman. But if you look at the Constitutional Convention in 1781 or '82—or was it '91-92?

Interviewer: Eighty-seven I think.

Mr. Twinney: [redacted] ^{The} 13 colonies, ^{each had one vote, a total of} [redacted]
 [redacted] 13 votes. They had more than 13 people at the meetings but there were 13 votes. Well, we had 13 votes.

The second thing is that in the Constitutional Convention, the first proposal made was by Madison, which turned out to be the middle-of-the-road, ^{with modification & finally} and [redacted] was adopted. [redacted] the second proposal, ^{was} the small states, [redacted] was to [redacted] stand pat. ^{It} look a lot like the confederation that most people thought ^{wasn't} working. Then the final proposal was Hamilton's proposal which was [redacted] federalistic, central government, [redacted] elitist, and was considered to be too much like the way the British rule worked, [redacted]

l [redacted] But the outcome of all that was to make the Madison plan—the one in the middle—look reasonable. If you hadn't had Hamilton come in with his plan, Madison would have looked extreme to a lot of the small states. It might not have *been* voted in.

z Well, *a similar* [redacted] pattern happened here. We had the *middle* Gramlich proposal and then we had the "stand pat, don't do anything to change much at all" by Ball, and then at the very end we had the business and cost-conscious people come up with the [redacted] fairly extreme [redacted] [Personal Security] Accounts, *then* [redacted] was based on a carve-out [redacted] concept [redacted]

[redacted]
[redacted]
[redacted]

But we didn't achieve consensus on the middle proposal, so the parallel ends there.

Interviewer: Were there any other students of history on the Council that you were able to discuss this with?

Mr. Twinney: No, I don't think I knew all that much about the Constitution, *of course* until after the Council. [redacted]

[redacted]

[redacted] You know, there are a lot of similarities.

Interviewer: There sure are.

Mr. Twinney: I was *intrigued* [redacted] at that. You might be able to use that.

Interviewer: It is a very original thought. I'll give credit.

Mr. Twinney: Also since then, with all the talk and further debate on Social Security, we ^{have seen} the carve-out idea ^{developed further,} the add-on idea ^{has been around} in a sense off and on. The Carter ^{Administration,} I remember talking about having 3 percent individual accounts, ^{but not in Social Security.} And now if you listen to the experts on the Democratic Party side they are saying the thing to do is to keep the present plan of Social Security fairly much intact and add-on a little individual account. If you are going to have individual accounts do a little add-on; well that is ^{what Gramlich} ^{proposed.}

The other feature in Gramlich was that ^{to} get into actuarial balance, he reduced ^{long term} benefits/ ⁱⁿ ^(in the report) his page/ the biggest change in the actuarial balances is the third point which is to reduce the benefits ^{very} gradually ^{the} in second and third tier: the .32 and the .15 in the formula. That knocks out 1.32 [percent of payroll]. Well, that was done very progressively because it is only the upper bracket and the middle bracket that are adjusted and the upper bracket that takes the most adjustment. That idea has been picked up and refined ^{by} ^{current} one of the congressmen ^{it is called} "progressivity," ^{of} indexing wages progressively so that ^{the} the low-wage people ^{are} indexed by wage increase, the high-paid people ^{are} indexed by the CPI, and the middle get indexed by an average of the wage increases and the CPI. ^{The result is}

^{Over a} the gradual adjustment of benefits ^{lower} down to an affordable level ^{based on the} ^{contribution rate}

Interviewer: You mentioned when we talked initially about the importance of a long break-in period.

Mr. Twinney: Yes, that was one of the things that was important. We felt that was one of the reasons why this was an important Council because we had a period of time before the crisis of the Baby Boom^g benefits would empty out the trust funds and create a financial burden. I think it was 25 to 30 years out into the future. So you can start the adjustments and take most of the pain away.

The history though of the amendments to Social Security is that [REDACTED]

[REDACTED] Congress doesn't act ^g until there is a crisis. So we are seeing more proof of ^{since our Council,} that. Out of our Council, do you have any idea how much of what we recommended was actually adopted?

Interviewer: As far as I know the adoption is still in front of us.

Mr. Twinney: Exactly, except for one thing, they did go to the Bureau of Labor and get a more careful calculation of the CPI and so the indexing on CPI is less expensive. That was one of our proposals. It wasn't to arbitrarily change, it was to say, "Go study how you are doing CPI and do it in a more scientific way; and if you do that the rate of increasing CPI will ^{probably} go down and [REDACTED] that will help the system?" [REDACTED] that has happened. So there was one thing ^g that happened out of all of our work that has improved the financial solvency.

Interviewer: You had mentioned that you were representing or felt affiliated with the six or so members that were closer to—I don't want to put words in your mouth—but had one background in common. So how did that affiliation structure your feeling of representing a particular point of view?

Mr. Twinney: Well, we would have more discussion before and after meetings. We actually had a couple of sessions where, as I remember it, we had Schieber [REDACTED] and

and myself

Ann Combs and Carolyn Weaver, I think we sat around and worked on the third alternative, the PSA alternative, and helped develop that—designed it, so to speak.

Interviewer: So you were involved in that?

Mr. Twinney: Yes. I helped with that design because *of my technical* [redacted] background in benefit and actuarial costs to understand what the actuary was telling us and relate it to the benefit issues. Interesting thing—Carolyn Weaver was saying, “We’ve got to do something much bigger than just standing pat, we’ve got get individual accounts going, and the add-on that Gramlich has come up with is good, but it doesn’t go far enough; we’ve got to do something much bigger than that”—and so we sat there talking about it and I said: “Well if you are going to do something big you want to take half of the Social Security *tax* [redacted] that is 6.2 percent, and see what you can do with that.” [redacted] *T* that stunned everybody but then they said, “Yes, I guess if we are going to do something big you’ve got to think that big.” And I said, “But you can’t take the whole 6.2 because you have to leave some of that money behind to cover disability and survivor benefits. And the share of the other 6.2 can be used to provide minimum benefits that create adequacy for the low-paid.”

So that is how *I remember getting to rate* [redacted] the 5 percent. But then we had to test it to see if it would work and what it meant in terms of the transfer: the federal borrowing and the transfer. I thought it was *probably* [redacted] too big after we did the other work, but they liked it where it was and so they kept it at this *large* [redacted] effort.

Interviewer: How would you characterize those informal sessions as opposed to the formal sessions?

Mr. Twinney: Well, there were only two of them I think. It was done [redacted] quickly at the end.

They were very creative. We couldn't have done it without the chief actuary [redacted]

[redacted]

[redacted]

[redacted]

Mr. Goss was working with us and he was wonderful to work with. So because I had participated in [redacted] ^{the meetings} when it came time to vote they were very disappointed with me. They thought sure I'd be voting for their creation. But I thought it was too extreme. It was unrealistic to expect to transfer such vast sums from the Treasury; you don't have to put out [redacted] ^{that much} that debt and everything to get [redacted] ^{individual accounts started}

By the way, one of the ^{views} [redacted] I brought to [redacted] the whole project, was

[redacted] about using the lead time to solve Social Security gradually. [redacted]

One of the reasons we needed to do this is that we had a much bigger problem in healthcare. Medicare was going to be more difficult and with the ^{rate of} healthcare inflation [redacted] an even bigger problem than the pensions. Then when we got some numbers from the actuaries, I think they said the Social Security would grow ^{from 12% to} [redacted] 18 [redacted] percent of payroll but the healthcare would go to— from 3 percent to 10 percent, so it was [redacted] tripling whereas Social Security was barely doubling, going up by 60 percent. So that we really needed to solve the Social Security problem so that we would have a base to handle the healthcare.

Of course we haven't done either.

There is a consensus that the problem analysis and the array of solutions are better developed for pensions than for health care.

And I mentioned to you there was an interesting story in one of the newspapers this fall and I happen to have that in front of me. It was the November 15 *USA Today*; it is the headline story and it shows the projected Social Security for the next 45 years, the Medicare and then the deficit at the rate these things are going. The cover story was written by Richard Wolf, *USA Today*.

Interviewer: Thank you.

Mr. Twinney: It shows the kinds of things that I was very concerned with, that weren't ^{as} well known or understood when we were meeting in 1995 except by technical experts. But I think this information has gotten more and more into the general press, which is healthy. It doesn't seem to motivate Congress to do anything. But I think the ^President's effort to communicate on Social Security and develop solutions are laudable, although it didn't get anywhere because there is sort of a veto block of ^{labor} [redacted] and AARP and certain politicians. They don't want to change anything; they just want to let it go to a crisis. If you let it go to a crisis you ^{will face} the kind of things that are happening in Germany and that will happen in Japan with these ^{benefits} [redacted]. Democracies are ^{prone} to give away the money but they don't know, don't seem to have the discipline to keep it under control.

Interviewer: You'd indicated a bit ago that you thought that putting the funds into the stock market was a very different kind of idea.

Mr. Twinney: Yes, let's talk about that. The reason why individual accounts are interesting is because of two things: you can get the better returns that corporate bonds and common stocks can produce over what the government bond does; and the whole

Social Security system is less efficient than a government bond—only part of it is in government bonds—the other part is just a transfer system. So the internal rate of return is like 1 percent or 2 percent in that neighborhood. In fact in some years, it is a negative rate of return.

Whereas if you have individual accounts and we get the long-term return of corporate bonds and U.S. stocks, you can get a return that is like 5 or 6 percent and that difference in return is a source of revenue that would help pay for retirement. It about the only ^{source} [redacted] left that we haven't tapped. So that is why the individual accounts have become interesting. The Maintain Benefits proposal, they say: invest directly—for the government to invest directly. But that is really an ^{impractical} [redacted] proposal because of the potential for harm. [redacted] ^{if} the government is running an investment fund directly, they can't help themselves from getting into issues like trying to control the investments and make ^{just} sure they are socially good and so on: pretty soon they make a mess of it. They'd either make a mess of some of the companies or they would make a mess of the investment returns. Whereas if you do it like the 401 ^{ks} and these mutual funds, thinking about index funds, not where you are trying to beat the indexes or the averages, you can set up a hands-off ^{arrangement} [redacted] We have a model of that working right now. Are you familiar with the Civil Service employees' retirement system?

Interviewer: Right. I am a little familiar with it.

Mr. Twinney: Well, you ought to take a look at that. It is working; it has been in place for a number of years and it is working quite well. They have like six index funds and the individual gets to pick ^{his} [redacted] index fund and then all of the rest of it is run

professionally. The management costs are [redacted] a tenth of 1 percent or something tiny, so it is a very efficient vehicle. And the Congress and the government have kept their hands off because it is really the employees' money.

Interviewer: So your issues with the Maintain Benefits plan funding through the stock market were on workability?

Mr. Twinney: Yes, and the risk of the government getting [redacted] into it, [redacted] doing things so that they either ruin the investment return or they start to interfere with the free-enterprise system. And eventually you can see where it would be backdoor Socialism: they would own such a big part of American industry and companies, you would totally change the way our enterprise system works now.

Interviewer: Were there people on the Council that share that point of view or that you discussed that point of view with?

Mr. Twinney: ~~Oh, yes!~~ ^{Oh, yes!} Gramlich and I and the five people that voted for the PSA, they all felt that way. But that is expressed in Gramlich's comment about that proposal.

as far as I could tell

Interviewer: Right, but it doesn't say "backdoor Socialism."

Mr. Twinney: ^{new term} [redacted] they were a little more guarded in what they said.

Interviewer:: Just in the report or privately?

Mr. Twinney: Well no, they say this in the academic fashion. If you look at the comments that Gramlich wrote about the three proposals, you will see it there. He wrote an analysis of why his proposal was good and it was the best idea. Then compares it with the Maintain Benefits proposal and there he brings out that issue. Then he also compares it with the ^{Personal} [redacted] Savings- [redacted] Account proposal. I

think that is pretty clear in the index where that shows up but I don't have the page reference right in front of me. But it ^{takes like} [redacted] three and a half pages in this report.

Interviewer: Right, it is in like the teens.

Mr. Twinney: Yes. So that issue of investing—the government investing in common stocks—is an old issue that has come up in all kinds of different places. It has come up with the federal Civil Service system. It came up with several other government programs. Every time it does come up, the conclusion is that you'd better not tangle with that, because that would be like declaring war on business.

Interviewer: And so this was a pretty well shared perspective?

Mr. Twinney: Well, by the seven of us, yes. This proposal was made by Thomas Jones. He didn't want to hear any of these kinds of comments; his attitude was ² [redacted] that [redacted] [redacted] If investing in common stock ^{were} ~~was~~ a good way to ^{increase} ~~get~~ revenue, then the government should do it directly and protect the individual from the vicissitudes of the market. He wasn't worried—^{he} [redacted] had these ideas you create some sort of "Chinese wall" between the government and the trustees who are investing the money and then it would all ^{just} work just fine. But you go over to the federal Civil Service system and you find out that they don't think that's the way it would have worked at all. ^{This} [redacted] is why they set up individual accounts over there.

Interviewer: Let me go to your thinking on what was important for people to think about. You've already talked about the financial balance as being a key thing for people to think about. Were there other trends or conditions or particular constituencies

or other types of factors that you thought were important for people to think about in order to come to a good conclusion?

Mr. Twinney: Well, I came with a [redacted] high priority for having a sound system. [redacted]

[redacted]—I come from the tradition of the actuaries, people like Bob Myers, and others who were worried about the funds—that is in our training. That was a role I had at Ford Motor and so that was my highest priority.

I was sensitive to the idea that it would be good to share the cost of the changes:

like having present beneficiaries pay a more appropriate income tax on their benefits, ^{not just future retirement benefits} I thought that was fine. And I was sensitive to the idea that the way to

[redacted] actuarial balance wasn't just to raise taxes because we already had a very high tax rate at 12.4, 6.2 percent on each: employee and employer. We were quite aware of the stories of people coming out of school, going to work, and finding out that right-off-the-bat they didn't get ^{even} 90 percent of their pay, they got ^{only} 88 percent of their pay! They were staggered by that. That particularly hits the lower-paid hard, ^{and most of us started lower guys}

I was also [redacted] aware of the fact that personal savings wasn't very good in the country and that these individual accounts ^{would} improved national savings in just about the right way. I was also convinced that once you had an individual account, you would learn how to invest it.

We had an interesting experience [redacted] at Ford Motor Company with the 401K. When 401K ^{was} ^{enacted} [redacted] we were ^{amongst} the first ones to put a plan in. We already had a thrift plan and we converted the thrift plan to 401K for our salaried employees. [redacted] ^{when} we talked to the union they said ^{something like}

where there was no thrift plan

“No we don’t want a 401K because it is contributory and so therefore our members who choose not to contribute won’t get the match and it won’t be fairly distributed.” They have a [redacted] high sensitivity to equality of treatment.

[redacted] three years later the next time ^{Ford} [redacted] bargained I was not present, but I understand that the leaders on both sides were discussing ~~one of the other~~ things that we ought to think about that hadn’t been brought up in the committees, [redacted]

[redacted] and the union said, “Well it turns out our members would like to have a 401K after all, but no matching. [redacted] that way it just ^{is} the employee ^{is} saving more because these men were [redacted] well paid and once their ^{children} [redacted] have grown up [redacted] it was very easy for them to save more for retirement.”

So we put in a 401K for the hourly. And within five years you could go into one of our dining rooms or lunchrooms where salaried and hourly union sat ^{together} [redacted], and you couldn’t tell ^{much} [redacted] difference between an hourly and a salaried table— [redacted]—you couldn’t tell the difference in their conversations about 401K investments. They were both equally knowledgeable. It led me to the conclusion that if you have an individual account, you learn how to invest it. You might make mistakes learning—getting through the learning curve—but sooner or later you pay attention because it is your money and you learn how to do it.

Interviewer: What about that emphasis on equality that you talked about from the unions? Did that come out in the Council at all?

Mr. Twinney: Well, it took a different form regarding Social Security, in which everybody agreed, that we had to take care of the lower paid people, we had to keep a very progressive Social Security benefit system. And everybody agreed to do that. Are you familiar with what the formula is?

Interviewer: Right, the bend points?

Mr. Twinney: If I remember correctly you take 90 percent of the first band of the average indexed wages and then 32 percent of the next band and 15 percent of the last band. [redacted] everybody has [redacted] the 90 percent band because that is a very low pay—I can't remember what it is, like \$2,000 a month *in 1995*, [redacted] Then the 32 percent applies to the next \$30,000, and the 15 percent applies above that, [redacted] only the people that are above the average wage get any of the 15 percent part of the formula. So you get very good adequacy on the low paid. For the people who work ^a short-time, though, and only ^{are} covered [redacted] 10 or 15 years, their average wages tend to be lower—they get more adequacy. So the system is very, very sound in that respect, [redacted] that [redacted] principle [redacted] was introduced from the very beginning and it has been preserved, [redacted] I don't think anybody opposed that. For example, in the [redacted] Gramlich proposed, in order to *achieve balance* [redacted] his proposal was to trim the 15 percent [redacted] to about 10 percent over 60 years and the 32 percent down to about 26 percent, about half as much as the 15 percent got cut proportionately over the 60 years. That was *sound planning* [redacted] because you didn't need to have solvency happen all in an instant, you could do these changes over a long period of time so you didn't have any notches—or sudden differences in benefits. [redacted] You do

these little tiny adjustments by [REDACTED] holding back the increases in benefits that are going to be generated automatically so you eventually get into actuarial balance. And today the idea that we'd do that—the idea of ^{adjusting wages} [REDACTED] ^{increases} progressively—it's called "progressivity." Have you heard that term?

Interviewer: No.

Mr. Twinney: Well you ought to look into that. There is a proposal like that by one of the congressmen. It ^{was} [REDACTED] discussed in the wake of the administration's proposal. And so we have all the tools, everything we need to know and how it works has been developed, how these things would work in practice—as is being done in the private ^{and government} sectors, individual accounts and administration—and you take the best practices. You wouldn't pick the worst practices. There is a lot of criticism of switching to individual accounts when it is based on assuming we would follow the worst practice, like letting [REDACTED] a mutual fund that charges 2.5 percent management fee into the game. You wouldn't let that happen, you would ^{use} [REDACTED] these index funds and so on. So the potential for the solution is there and now we've got to wait for the political process to work.

Interviewer: How about the political process in the Council? What was that like?

Mr. Twinney: Well I thought that it was healthy and good—because we weren't the folks who were going to vote—we were allowed to be objective and look at facts and debate things on their merits. It was nearly ideal. As I say in the end I was disappointed that Bob Ball, who understood these things so well, wouldn't budge on the benefits when it was clear that the benefits were just too rich for the Baby Boom coming along and the generations behind it to maintain on a pay-as-you-go basis.

He thought that the way to solve it was to pick up this idea from Tom Jones that just wasn't workable. I thought that was unrealistic. I thought Gramlich was ^{in proposal} [redacted] realistic. We took our medicine and solved the problem. And I thought that Scheiber and ^{Weaver} [redacted] ^{maybe} they were a little too idealistic in putting together the big PSA idea.

Interviewer: I thought you were trying to come up with another name.

Mr. Twinney: Carolyn Weaver. Carolyn Weaver the economist. [redacted]
[redacted]

Interviewer: I thought you were trying to come up with another name?

Mr. Twinney: No, I couldn't recall. Syl Schieber, the research ^{Syl} [redacted] from Wyatt, and Carolyn Weaver. They were the leaders in the third proposal.

Interviewer: Right. When you said a minute ago that there were principles involved, or that was a principle you followed, can you think of other principles that came up or that on reflection were important in the deliberations?

Mr. Twinney: Well there were a lot of smaller principles, I would say second-level ones, that they developed on the benefit changes on the spouses and the survivors and whether or not the disability benefits were too big or not. Those weren't the primary concerns that I had. My primary concern was to ^{lead} [redacted] ^{to actuarial balance} a solution that would start now, use the lead time to make gradual change gently over the future, and to make the system solvent. [redacted] If you made this system solvent then you had a much better chance of tackling the Medicare and the national health insurance problem. As it is, we sit here with none of the problems solved and the federal budget heading to [redacted] crisis ^{now}. Back then, in those years you remember that

was during Rubin's time in the Treasury [redacted] they were tackling the federal deficit problem.

Interviewer: Before we leave the factors that you thought were important, you mentioned the surviving spouse. Were there other constituencies that you thought or groups of people that you thought that we had to think about especially... keep in mind?

Mr. Twinney: Well, I remember being irked about the public employee, [redacted] My wife was a school teacher. *Her experience is instructive* She worked in four different school districts: the State of Georgia, the State of California, the State of Illinois, and the State of Nebraska. Three of those districts did not have Social Security and used contributory pensions, *state employee* [redacted] when she left after a year or two they refunded her money and *forfeited* [redacted] any [redacted] interest in the public employee pensions. Altogether she worked something like 44 quarters, 11 years. If she had been covered by Social Security in those *states* [redacted] she'd have had the Social Security benefit in her own right. But she doesn't have one in her own right. And I think there are a lot of women in those circumstances where they worked 10 to 20 years and it was just luck whether they were in employment long enough to pick up Social Security. So that was an issue. That was the main reason I wanted to see public employees covered by Social Security. The fact that it helped the actuarial balance was fine, but I saw it in terms of benefit fairness—to be able to say the whole country is protected by this system—you have to have those public employees covered by Social Security.

Interviewer: So the concept of the whole country was something that you thought would be good?

Mr. Twinney: Yes, well, over the different amendments, Social Security was really covering the whole country except for these public employee groups, as far as I can tell. They had been left out originally because ^{it was} [redacted] thought that ^{it was a} [redacted] state rights ^{they issue}. [redacted] They'd let them contract-in or contract-out and, of course, eventually that created all kinds of problems like the one I mentioned.

If you are going to really have a system that works and ^{purpose to} cover everybody and is transferable when you change jobs then you need to cover everybody. The ^{nothing} [redacted] thing that Congress complained endlessly about ^{private} private plans not vesting fast enough: the worst offenders weren't private plans, but were public employee plans. You never hear them complaining about the public employee plans,

Interviewer: Did any other groups come up in the deliberations?

Mr. Twinney: Oh, I think there were issues about children. There were issues about elderly widows. ^{the Commission was} I thought [redacted] coping with all of those in the different ways [redacted] making small changes. So I thought that was dealt with.

I think you come away feeling that the adequacy of the benefits was quite first rate. The issues weren't that we weren't adequate or weren't fair with the benefits, those kind of things. I think there was an issue of what do we do with groups whose mortality is higher than average. That would involve some minorities. But we did not see that there was any way to deal with that directly without creating a new issue of discrimination or difference. [redacted]

Interviewer: You've talked about fairness. You've talked about adequacy. What about, for example, transparency. Did that come into play?

Mr. Twinney: What do you mean by transparency?

Interviewer: Well, for example, you mentioned that now that maybe people were more aware of the issues involved than they were then, in terms of the general public. But was there any sense that there were some ways that might obscure the problem or some ways that might make it more easy for the general public to see what was happening with the program?

Mr. Twinney: Well, I don't think we talked it about quite that way. We did talk about actuarial balance and the fact that 75 years seems so long. But even it wasn't long enough because the mere passage of time was going to create further imbalance as we moved the "Baby Boom" out of the paying cohort into a beneficiary cohort. That got into our report.

But these issues are not easy to understand. There are so many voices talking about ^{them} that there is a lot of noise in the [REDACTED] public knowledge. I think that makes it difficult. At the same time [REDACTED] I think that the viewpoints that the office of the actuary had on these issues and the way they did their cost and understood the relationships ^{were} [REDACTED] first rate. I take my hat off to them. There was one issue that I think [REDACTED] was astonishing when we found out what the facts were on it. And that was how the government treats the surplus in the Social Security Trust Fund. Do you know how that works?

Interviewer: Well, maybe you ought to explain it to me a little and we'll see if I have the same understanding.

Mr. Twinney: Yes. Why don't I explain my understanding. The surplus is invested by the government in a general loan to the U.S. Treasury. This loan is paid and credited with an interest each year equal to the average interest on all the federal debt outstanding. So it ^{is credited with} interest. ^{and credited to the debt.} The actual cash, though, is used by the Treasury for ^a the general purposes of the government. ^{In} effect it allows the government to not tax or borrow money ^{in the same amount} for federal spending ^{the surplus}. ^{and it will,} It is subsidizing the general revenue. And when ^{it} runs out, ^{at that time} this loan has to be paid off, it is going to increase the demand on general revenue or on borrowing ^{at that time}. So it's going to create a problem then. In their accounting—because the government owes itself the money—and there is a matching asset with the liability—they leave this liability out of the federal debt and they leave the interest charge out of the interest cost of the federal debt when they report those numbers. Because they say: "It's a wash." ^{it's} a strange thing about the government. When it's paying itself, the numbers wash and so they say it disappears.

Interviewer: I think that's about \$160 billion transfer right now.

Mr. Twinney: Yeah, it's a lot of money. And of course, the fact that it helps revenue now for the non-Social Security part of the government means that when they have to start paying off that loan in 2018 or whenever it comes up, it's going to be a hardship because then they are going to have to increase government borrowing or general taxes to cover it. That's one of the reasons why it would be a good idea to start balancing our budget or coming near ^{to} balancing. I'm not interested in running a surplus because if you aren't careful when you do that you create a recession. So

you need to be nearly balanced to ^{be in} the comfortable zone there. [REDACTED]

Interviewer: Was deficit a big concern in the Council?

Mr. Twinney: It was under control at the time we met and so we assumed that that was healthy and a good way to stay and we didn't have to worry about that. The corollary of that was, though, that we couldn't raise taxes to solve a problem because we are already in a fully taxed mode.

Interviewer: You mentioned free enterprise, and in another part of your response you mentioned "back-door Socialism." Did those types of, I'll call it philosophical positions, get debated at all either in the public sessions or in the private conversations?

Mr. Twinney: Well, I don't think they were debated much with Tom Jones, who brought up this idea. I remember asking, I think it was David Lindeman, "Well, what's so terrible about that idea?" (I had some ideas why I thought so). And he was the one that said, "Well, that could be backdoor Socialism. Congress would never—if you wanted to have a blow up in Congress, that would be a perfect proposal to take to them." [REDACTED]

Interviewer: How about ideas that are kind of related to those, individualism—you know, people being responsible for themselves—or community: people being responsible for each other. Were there any discussions along those lines?

Mr. Twinney: No, not much. I think that we felt that the Social Security was the most developed form of community caring. All those things had been established and we were

going to carry that on. We weren't going to change that. My view was that our mission wasn't to change the benefit undertaking. It was to check to see if over time, the benefit undertaking has been a little less adequate in a few different spots, but mainly it was to create this solvency. If you had solvency, then the system would keep rolling along. If you didn't have solvency you are running the risk that there will be some changes that would become necessary that would really hurt the benefit undertaking. That was the thing I was very concerned with is: if you wait until there is a crisis, which is the history of the program, you don't get the best decisions. ^{People} [REDACTED] say that the commission that was headed by Greenspan that came up with the solutions to the solvency in the '80s, [REDACTED] did a great job. But then when you look at how it actually works in practice with the surplus funding other government projects, I think Bob Myers ^{could be} [REDACTED] right that ^{it} [REDACTED] was a mistake. We shouldn't have had much more than a pay-as-you-go system: because we didn't know how to handle that issue.

Interviewer: So you found Bob Myers impressive? His ideas impressive?

Mr. Twinney: Oh, yeah. He's one of the stalwarts. He and Ball were a pair of the originals.

Interviewer: Did you know Bob Myers prior to the council?

Mr. Twinney: Oh, yes. He was on the research council at Wharton and I had heard him talk many times as an actuary in the actuarial profession, the Society of Actuaries.

Interviewer: So did you find his views influential or persuasive to you?

Mr. Twinney: Yes, in many cases. He was very concerned about the solvency and the long-term financial effects.

Interviewer: And also an actuary...

Mr. Twinney: Yes. Well, there are actuaries who had talked about it [redacted] ^{where things} were ^{with} as well-developed as Mr. Myers'.

Interviewer: For instance? Can you think of an example of one?

Mr. Twinney: Well, let's see. I remember Dwight Bartlett was a Chief Actuary. Bob Myers was a Chief Actuary. There was another fellow, who I think was a Republican or conservative appointment, and I didn't agree with his thinking on some of the issues. He was the one that would go around [redacted] ^{comparing} the present value of all the future benefits and saying, "The unfounded is now up to three trillion or whatever the number was." [redacted] I thought that was an interesting exercise but it wasn't pertinent. The thing that was pertinent was the actuarial balance concept that Myers had developed.

Interviewer: What about the overall effect of the Council? Looking back in retrospect now, ten years later, is there anything about the Council's effect or result that you would have changed if you could?

Mr. Twinney: Well, we ended up in a stalemate in a sense, because there were three proposals and divided [redacted] the Council. I don't ^{know if} [redacted] ^{have had} that could [redacted] avoided [redacted]

[redacted]

[redacted] There was an impasse, you know. One side says, "We're not going to raise taxes." And the other side says, "Well then we're not going to cut benefits." And you get into kind of a stalemate.

The thing we didn't do, we didn't make a big enough issue about the fact that small, gradual changes could solve the problem in a painless way. And that was a much better way to go than the crisis management. Our statement there

about gradual change is just one of 25 recommendations when it should have been the biggest, dominant recommendation. Even then, I don't know that that would have made a big enough impact on the Congress. There's so much noise about Social Security and all the different media and the discussions: it's sort of hard to cut through that.

While I think we did a great job in a lot of respects—and I take my hat off to all the other members for working as hard and thinking as well as they did—I don't think we had as big an impact as we might have been able to have. We didn't solve the problem

Interviewer: Similar question, but directed at your service in particular. Is there anything that you would have changed about what you did on the Council in retrospect?

Mr. Twinney: Well, I had one insight after watching a research commission—I don't know if there were one or two after our Council—and then this administration effort to propose change, and reactions to that. I think the one thing that we might have done—*would be to add to* [REDACTED] the Gramlich individual account, which was originally proposed to be two percent of payroll. He cut it back to 1.6 because that was the breakeven point so that the proposal would replace the present benefit structure.

We could have said, "Why not take *a little* [REDACTED] of this present surplus and use it to match the first part of savings in the individual accounts?" Then you could have had maybe like a two percent account, which would have been a little bigger account. You could have related it to the first couple hundred dollars of contributions, so it was very progressive and it didn't *favor* [REDACTED] the

higher-paid. And it would have taken a little of the surplus out of the present system, but not a lot like the PSA. I think that would have been sexy. I think that the place where the different views come together is at a supplementary individual account. The so-called add-on idea is the middle ground where we might get a solution. I don't think we're going to do carve-out accounts. I think they're too complicated and have more risk; and they're not needed to get there.

I've always thought that the basic system: the job it's doing needs to be done in the country. And so I don't have any problem with trying to maintain 80 or 90 percent of the basic benefit structures that we've got. But I don't want to maintain it at any cost without regard to insolvencies and the damage it does to our financial future.

Interviewer: You talked at the beginning of the interview about realizing a personal goal of yours by being involved in Social Security policy. Once you'd had that goal realized and you'd been involved, did you think any differently about that goal of yours? Did it seem as valuable, did it seem as important, did it seem as much of a goal as it had before?

Mr. Twinney: Yes, I think I took as much satisfaction from it. I think it made me feel good about what I had specialized in and worked on for a lifetime. I obviously had disappointment that we didn't have a bigger impact on the solutions. And that there were so many other viewpoints that whatever progress we made seems to have gotten lost. There's just an enormous number of people that say they know how to solve the problems and know what to do. A lot of them haven't thought it through enough or have an axe to grind.

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[REDACTED]

Interviewer: Well, I've exhausted my hour and a half and then some. Is there anything else that you think is important for us to cover about your service on the Council that we haven't talked about?

Mr. Twinney: No, but there was one funny thing about it all.

Interviewer: I'd love to hear that.

Mr. Twinney: Well, we were paid as part-time workers. And I don't know how they did that, who arranged to do it. But they didn't get the Social Security tax right on our earnings.

Interviewer: [laughter] That is funny.

Mr. Twinney: So ^{I received} these scolding ^{notice} about the taxes due or something. I forgot just what the error was, but it was hilarious.

Interviewer: You got ^a scolding ^{notice}?

Mr. Twinney: Well, I got a ^{form} from the Social Security Administration complaining about the taxes on my earnings and didn't I know better, or something like that. And of course the employer was the government for this Advisory Council. I'm sure that it had to do with the fact that they didn't have very many employees like this in any other project, maybe none. So they ^{had forgotten} how to do ^{a manual one.} they set up a little operation somewhere and ^{we} didn't quite get it right. ^{We straightened it out eventually.}

*Maybe oversight
was on a
electronic pay
system.*

Interviewer: That's very rich.

Mr. Twinney: That was sort of the final comment about how much you really want to let the government do.