Commentary

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COMMENTARY

COMMENTARY ON PRESENTATIONS OF
GOV. EDWARD M. GRAMLICH,
DR. LAWRENCE H. THOMPSON
& PROF. MARIA O’BRIEN HYLTON

*Morton Klevan†

DISCUSSION FOLLOWING GOV. EDWARD M. GRAMLICH AND DR. LAWRENCE H. THOMPSON PRESENTATIONS."¹

I should note that my comments are solely my own views and are not necessarily the views of the Department of Labor.

I think that some of our advantages are also going to be some of our disadvantages in coming to some conclusion. One of the things that hit me in terms of the way the Social Security debate is being played out is the compartmentalization. People are talking about how to change Social Security. Social Security is only one part of the problem. You have Medicare which fits in. If you wind up paying more on health costs and you cut back on Medicare, you cut back on real retirement income for people who retire. That is one item. The other item is having a fairly mature private pension system. Any changes made to the public system will affect the private system either directly or indirectly. I know that the

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¹ Dr. Lawrence H. Thompson spoke on the forces driving pension reform. At the request of the speaker, his presentation has not been published in this volume of the Brooklyn Law Review.
ERISA Industry Committee put out a rather extensive booklet called "The Vital Connection" to start raising awareness of this issue.

Quite by chance, I was talking the other day to the head of one of the major trade groups for private pension plans, and I asked him, "What are you doing vis-à-vis the Social Security debate?" He said, "Well, you can't say publicly, but we are really working very hard. We are very concerned, and if any of these things moves forward, depending on what it is, we will be weighing in very heavily."

So, what we have are these three things, all impacting, but at least in the public debate, they are not being raised together. The other thing is the absolute paucity of good, reliable data, analytical data, for creating models to determine what the effects would be. In 1997, the Research Council put out a 220-page book assessing policies for retirement income. It seems to me, if we are going to have a two, three, four or five year debate, one of the major things the Brookings Institution and everyone else should be doing is starting a database. Lobby the government, the Congress, to put money into developing the database. Contribute some of your own resources toward developing the database because, ultimately, it is going to be a political decision. If we do not obtain a substantive amount of quality data that everyone agrees upon, you can bet your bottom dollar the affected interest groups, and I include various government entities in this, will develop their own data, and you will have a conflict over what model is the correct model.

DISCUSSION FOLLOWING PROF. MARIA O'BRIÉN HYLTON PRESENTATION:

The dilemma herein is that we really cannot have any sort of concrete model because whether or not the public will like privatization has largely to do with returns. While returns over a long period may be greater in individual accounts invested in equities, it is possible to go for rather substantial periods of time with miserable returns. Everyone talks about the miserable returns from 1973 to 1982. In actuality, it was from
1966 to 1982, a sixteen-year period, where the stock market hit an inter-day high of 1,000 in 1966 and next saw that in 1982; everyone knows what happened to inflation in that period. So, if you are talking in terms of real rate of return, you are talking well into the ‘80s before one actually would have broken even. I often think of what would have happened to 401(k) plans if they were introduced in 1966 instead of being introduced right before the big market run-up.

I think that one problem with any sort of privatization scheme, that is, anything more than a marginal add-on, is the fact that sooner or later you are going to get into this long period of bad returns. I do not subscribe to the theory that we are going to constantly have better market returns. When that happens, there are going to be an awful lot of people who will be very unhappy.

You really have to think of what Social Security is meant for. It is not meant to substitute for private savings and for private pension plans to fund a full retirement. It is meant to protect the elderly from poverty, and I think one of the elements of the debate, inevitably, is going to have to be, what do we want from Social Security? Do we want to keep the original version, which was basically to keep people out of poverty and to provide a lower rate of return as you went up the economic ladder, or do you want to change it into something else? That inevitably has to be part of the debate. I think that, sub rosa, this is a part of the debate right now in terms of the various schemes.