WHILE AMERICA AGED

How Pension Debts Ruined General Motors, Stopped the NYC Subways, Bankrupted San Diego, and Loom as the Next Financial Crisis

ROGER LOWENSTEIN

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THE PENGUIN PRESS
Published by the Penguin Group
Penguin Group (USA) Inc., 375 Hudson Street, New York, New York 10014, U.S.A. Penguin Group (Canada), 90 Eglinton Avenue East, Suite 700, Toronto, Ontario, Canada M4P 2Y3 (a division of Pearson Penguin Canada Inc.) • Penguin Books Ltd, 80 Strand, London WC2R 0RL, England • Penguin Ireland, 25 St. Stephen's Green, Dublin 2, Ireland (a division of Penguin Books Ltd) • Penguin Books Australia Ltd, 250 Camberwell Road, Camberwell, Victoria 3124, Australia (a division of Pearson Australia Group Pty Ltd) • Penguin Books India Pvt Ltd, 11 Community Centre, Panchsheel Park, New Delhi - 110 017, India • Penguin Group (NZ), 67 Apollo Drive, Rosedale, North Shore 0632, New Zealand (a division of Pearson New Zealand Ltd) • Penguin Books (South Africa) (Pty) Ltd, 24 Sturdee Avenue, Rosebank, Johannesburg 2196, South Africa
Penguin Books Ltd, Registered Offices:
80 Strand, London WC2R 0RL, England
First published in 2008 by The Penguin Press,
a member of Penguin Group (USA) Inc.

the Society of Actuaries, Schaumburg, Illinois. Reprinted with permission.

Library of Congress Cataloging-in-Publication Data
Lowenstein, Roger.
While America Aged : how pension debts ruined General Motors, stopped the NYC subways, bankrupted San Diego, and loom as the next financial crisis / Roger Lowenstein.
p. cm.
Includes bibliographical references and index.
eISBN : 978-1-436-21416-2

http://us.penguingroup.com

To my father

INTRODUCTION

In the late 1960s, six of every ten Americans were covered by a pension plan, and it was possible to envision that soon the entire workforce would have its retirement security guaranteed. That dream has gone terribly sour. Pension sponsors from airlines to textile manufacturers to steel mills have gone belly up, and hundreds of others are now deeply in the red. More alarmingly, government employers such as cities and states have fallen behind—far behind—on funding the promises they made to their retired workers.

America now faces a crisis of epidemic proportions. The fabric of the nation's pension system is collapsing—at the very moment when the population is rapidly aging. Today, America has approximately 38 million senior citizens; in a generation, the number will virtually double, to 72 million. Indeed, by 2030 one in five Americans will be over sixty-five.[1]

Who will be there to provide for them? More than 60 million Americans either are receiving or have been promised pensions; however, their numbers are shrinking rapidly. In the private sector, the proportion of jobs with pensions has plummeted to just under 20 percent.[2] Perhaps even scarier, a third of the workforce does not have any retirement savings— pension, 401(k), or private account—at all.[3]

For workers still with pensions, plan assets are grossly inadequate. In the private sector, employers' pension funds are, cumulatively, an astounding $350 billion in deficit.[4] Many employers—from Sears to IBM to Verizon—are freezing their plans to keep their obligations from growing further. Others did not act quickly enough and were forced to file for bankruptcy. The auto industry, burdened with legions of retired factory workers, is teetering on the brink. So many pension plans have gone bust already that the federal agency that *insures* pensions is itself in trouble. This agency, the Pension Benefit Guaranty Corporation, is responsible for the pensions of 1.3 million people whose plans have failed. Thanks to a spate of recent costly failures (ninety-four sponsors collapsed in 2006 alone), the PBGC is now $19 billion in the red, and could eventually require a taxpayer bailout.[5]

Even worse, the states and localities, which have promised pensions to millions of present and future retired policemen, teachers, clerical workers and others, are *hundreds of billions* of dollars behind on their payments to state pension funds.[6] This is money owed by the taxpayers—and under the state constitutions, the debts *must* be paid; pensions can never be defaulted upon. Thus, the deficits will require a combination of layoffs, service cuts, and higher taxes in a majority of the states for decades to come. In the case of some of the worst offenders, such as New Jersey, West Virginia, and Illinois, the cuts will likely be draconian. Thanks to their grossly underfunded pensions, these states are essentially insolvent.

THIS BOOK examines how the pension system went so badly off course. All financial debacles have a human element—greed or self-delusion or perhaps sheer dishonesty. In this one, retirement systems fell prey to a basic part of our nature—the urge to delay that which we find unpleasant now. Such behavior comes naturally to any child with a homework assignment ("after dinner" . . . "when the game is over"), and so it did to pension sponsors who deferred the required contributions.

Pensions are a perfect vehicle for procrastination; in the financial world, they are the most long-enduring promises that exist. The only rival is the federal Social Security system—but there, surprisingly, the commitment is not so airtight. Congress, if it chose, could reduce or cancel Social Security benefits tomorrow. Pensions are forever.

The young men who went to work for General Motors after World War II, when GM ruled the roost of American business, were promised pension and health care benefits that remained in force for half a century. One GM retiree, who died at 111 in 2006, had been collecting pension and retiree health benefits for forty-eight years. When he first went to work, in 1926, GM's managers could not have had the faintest conception of what the company could or would be paying in benefits eighty years later.

The very remoteness of the pension guarantee seduced many employers into overpromising (after all, when the benefits came due, they would be somebody else's problem). This tendency to overpromise was especially acute in the public sector, where employee unions had the power to vote politicians who weren't sufficiently generous out of a job.

The story of pensions is, in fact, largely the story of the slow accretion of power by the labor unions. The first third of this book concerns the United Automobile Workers, who in a decade went from a ragtag bunch whose members were being beaten by paid union-busters to a formidable trade union that wrested pension and health care benefits from Detroit. (Retiree health care entails the same sort of long-term commitments, the same crushing obligations, and may be thought of as a companion to the pension problem.) Ultimately, the UAW drained out the value from once colossal companies, General Motors in particular. For impoverished GM shareholders, the sad irony is that Walter Reuther, the UAW's inspirational early leader, pointed the way toward a solution in the very beginning—and GM's encrusted management did not want to hear it. In 2007, with the UAW and GM fighting a pitched battle over benefits, the union struck and shut the company down. Reuther's vision, which was carried to a dubious extreme, fueled the present crisis, but it also pointed to a way out.

The second part shifts the scene to the remarkable story of the then communist-run Transport Workers Union—which in the midst of the Great Depression organized the New York City subways. The TWU and its fiery leader, Mike Quill, played much the same role in the public sector as Reuther and the UAW did in private. Previous to the TWU, subway employees had to work until age seventy to qualify for a pension (and a meager one at that). Through a combination of strikes, threats, and not-so-subtle politicking, unions such as the TWU became a power in the legislature. Thanks to their efforts, New York's public servants now stand a fair chance of collecting a pension for longer than they worked, and in many cases they earn *more* in retirement (including Social Security) than they did on the job.[7] Thus "retirement" has expanded from a modest sinecure at the sunset of life to a long and lucrative second career.

This is a topsy-turvy state of affairs, contrary to economic logic as well as common sense. Subway riders are paying higher fares so that the system's middle-class employees can retire at fifty-five and spend, like as not, three decades in a comfortable retirement. The Metropolitan Transportation Authority finally demanded reforms, and over Christmas 2005 New Yorkers got a frightening glimpse of the future—when a pension strike shut down their fabled transit system.

The drama in the subways pitted the people who operated the trains against the people who rode them: the public servants against the public. This is suggestive of the crisis in public pensions everywhere. In New York, at least, the battle was waged openly and on the issues. But many other pension sponsors have not been so forthright. For institutions under stress, pensions have been a tool for escaping the tough decisions. A sort of devil's bargain is struck, whereby the unions (which know that pensions are constitutionally guaranteed) push for benefits that are beyond the ability of governments to properly fund. The unions get their promises; the politicians get to satisfy a powerful constituency. And by shortchanging their pension funds, they can run their budgets on borrowed time and put off the necessity to tax until a later generation.

The final section of this book concerns the City of San Diego, where just such a devil's pact led to a sensational scandal that toppled the mayor, cost the local government its credit rating, and brought the city to the edge of bankruptcy. The scandal had its origins in the fertile soil of San Diego's laissez-faire political culture. The pressure on politicians to keep taxes low was unrelenting, and public servants brazenly conspired with union officials to raise benefits in the future in return for permission to underfund the pension now. This relaxed the immediate pressure on the budget, though it weakened the city's future finances for years and possibly decades. Many officials behaved less like councilmen and pension trustees than like the artful dodgers at Enron. But the essential abuse—appealing to the electorate by shifting liabilities into the future—is altogether common. And the investigations and indictments that have riddled this still beleaguered city could happen anywhere. San Diego is a wake-up call to every community.

MANY COMMENTATORS have taken comfort in the notion that pensions are not the U.S.'s only retirement vehicle; they are part of a triad of options along with private savings and Social Security. But the fact is, outside of the rich, very few people have adequate savings. If pensions cannot be put right, preserving (and strengthening) the third leg—Social Security—will be the only option left. Social Security itself is under fierce attack by the right wing of the Republican Party. Many younger Americans do not believe that it will be there when they retire. What, then, is to be done?

It is too late to resurrect the companies already destroyed by runaway pensions and health care benefits. Nor can the huge obligations run up by the states be unraveled, except painfully and over the very long term. But for those not yet burned, those with the hope of digging out, and for the country at large, the sagas of General Motors, the New York City subways, and San Diego need not be a portent. Disaster can be averted if only their essential lesson is heeded: those who mortgage the future come to rue the day.

PART I

WHO OWNS GENERAL MOTORS?

ONE

WALTER REUTHER AND THE TREATY OF DETROIT

The weight of history on our results has been significant.

—RICK WAGONER, chairman and chief executive officer, General Motors

Once upon a time, General Motors was a symbol of success. After World War II, the automaker routinely captured more than 40 percent of the American automobile market, and in 1955, when an entry-level Chevrolet cost $1,450, GM's market share climbed to 51 percent. The company's brass was moved to complain (or so went the joke) "We're still losing five out of every ten sales."[1] In an age when GM was criticized for pursuing its own selfish aims rather than those of the country, Charlie Wilson, its outgoing president, testified, rather memorably, before the Senate Armed Services Committee, "What was good for the country *was* good for General Motors, and vice versa."[2] Wilson's remark didn't fool anybody; GM, of course, was in business for its stockholders. To ensure that its profit targets were met, it methodically raised the prices of its cars, and year after year it had the highest sales, the highest profits of any company in America. The shareholders made out like bandits. From the end of the war until 1965, a span of two decades, the stock registered a stupendous, eightfold gain.

But as an institution, General Motors was already beginning to age. Shareholders did not at first notice the great transformation that was occurring in their status—their great *disenfranchisement*. But in a manner of speaking, they lost their claim; General Motors was sold out from under them. Oh, it wasn't literally sold. But the gushing stream that was GM's cash flow, which previously and properly had flowed to the stockholders, was quietly but most assuredly diverted. Over the next four decades, GM's stock lost 60 percent of its value. The company continued to pay dividends, but the owners of America's biggest industrial enterprise would have done better holding T-bills. Even though, over those many years, GM sold as many cars or more as in Wilson's day, the putative owners—the stockholders—for all practical purposes had lost their title.

So who owned General Motors? Gradually, a revolution had taken place. A vanguard force—GM's retired workers and its future retirees—had attached an opposing title; they had become *en*titled. Modestly at first, but in time overwhelmingly, Wilson's car company became beholden to the huge pension benefits, as well as the lavish standard of health care, that it had pledged to its retired workers and their dependents. "What is good for General Motors is good for its *retirees*" was the new mantra.

By the dawn of the twenty-first century, Wilson would not have recognized his former employer. Over a fifteen-year stretch ending in 2006, GM poured $55 *billion* into its workers' pension plan, compared to only $13 billion that it paid out in dividends. In other words, the company paid its pensioners four times as much—not including the money it spent on their generous health care benefits—as it did to its ostensible owners!

Walter Reuther was both the person most responsible for this crisis and one of the first to propose a solution. A passionate and scrupulous labor leader, Reuther came of age during the Great Depression, and the experience of seeing thousands of autoworkers (and millions of Americans) lose their jobs instilled in him a lifelong desire for basic security—what he was to call "social insurance." Because Reuther was born in the first decade of the twentieth century, and because he grew up just as workers were organizing and demanding security, his life story would chart the evolution of social insurance in the United States—everything from pensions and health care to unemployment compensation. These benefits already existed in Europe, and much of Reuther's philosophy was imported via his German-born father and grandfather, both of whom were ardent Social Democrats.

But in the United States, until very late in the nineteenth century, pensions were almost unheard of. Union Army veterans got pensions, but they had begun as compensation for war injuries, and only later had been extended to older veterans generally. Private employers simply did not offer pensions. "Retirement" as we know it—that is, a distinct phase of life devoted to family and to leisure after one's working years—did not exist. Nor did the concept of unemployment.

Most people worked on farms or in small shops or mills. As they got older they didn't stop working, they simply worked a little less. If old age did catch up with them, they turned to their families for food and shelter. The "problem" of old age was in any case not widespread. In 1900, only 4 percent of the population was over sixty-five. Retirement was less one of life's standard passages, like adolescence or middle age, than it was an infrequent and brief preamble to the grave.

However, by the early twentieth century, notions of retirement were beginning to evolve. If you want to fix a date, 1907, the year Reuther was born, is as good as any. One reason was that people were living longer. Some of this was because of medical advances, and a good deal was due to the installation of sanitary plumbing and the eradication of unhygienic dwellings (and slums) where people were more likely to spread contagions.

A second factor was industrialization. The man who tended a farm could gracefully age on the job; the factory worker couldn't. Shop stewards and department managers wanted their graybeards out, to make room for younger blood. The desire to manage its labor force motivated a newly formed rail freight business, American Express, to institute the first corporate pension, in 1875.[3] The railroads gradually followed suit. Railroad pensions were similar in spirit to army pensions; the work was exceedingly dangerous, and benefits were largely a reward for risking injury and death.

As the "workplace" shifted to the city, companies figured that employees, white-collar workers in particular, would be easier to recruit if they were promised a pension. Also, since employees generally had to serve thirty years to be eligible, they would be more likely to *stay* on the job. As an executive of the Pennsylvania Railroad reckoned, "We feel sure that the pension system tends to keep our best men."[4] The rails were followed by banks, insurers, utilities—the sorts of companies interested in nurturing a stable and skilled workforce. Also, the tax code was amended so that money put into pension plans was deductible. For all these reasons, by the end of the 1920s a sizable minority of businesses offered plans.

This progress, however, accomplished very little for most blue-collar workers. Pensions were created by companies that reckoned it to be in the *corporate* interest. They were a tool for managing labor, not an entitlement due to labor. Even if some executives chose to award benefits for humanitarian reasons, the decision was theirs. The workers did not have a *right* to a pension, much less to a broader social security program. But this was Reuther's ideal.

The young Reuther had been schooled on the rights of the workingman, including, especially, the right to a dignified retirement, the way other American boys were schooled in baseball. His father, Valentine, had emigrated to the United States in 1892.[5] By then, Germany had already established a state insurance program. Valentine strongly believed in benefits for the masses in America as well. He settled in West Virginia, got a job driving a brewery wagon, and became a labor leader and devotee of the socialist Eugene Debs. Walter and his four siblings grew up in a strict home in which two religions held sway: Lutheranism and trade unionism.

Walter quit school, as was the custom, at fifteen to apprentice in a tool shop. When a mammoth die slipped, he lost a big toe. There is no record that his employer paid the bill, and for the young apprentice to have demanded "insurance" for the accident would have been laughable. In any case, hearing that a craftsman in Detroit could earn a dollar an hour, then a reasonable starting wage, in 1927 he left for the Motor City.

Reuther was hired at Ford's (such was it known, for the company was identified with its proprietor). It had a huge plant, River Rouge, that functioned as a small city—machine shops, steel and glass mills, metal stamping. An intense, hardworking redhead, Reuther did not go in for drinking or after-hours carousing. Even while holding down a job, he attended high school in his spare time and then enrolled in a local college. Joined by his brother Victor, he also began to frequent left-wing political meetings in Detroit, where the talk centered on unionizing the auto industry. Auto companies paid decent wages by prevailing standards, but job security was woefully lacking. When Ford discontinued the Model T (just as Reuther arrived in Detroit) 100,000 workers were sent packing until its plant could be retooled. The Great Depression saw layoffs on a far larger scale. Jobless men would arrive at the plants at dawn and build bonfires at the gate while desperately waiting for a call to work.[6]

Reuther was especially aroused by the lack of job security. He campaigned in 1932 for Norman Thomas, the Socialist candidate for president, took photographs of local shantytowns (dubbed "Hoovervilles" after the White House incumbent), and agitated for better working conditions. Then, according to Reuther's later account, Ford's fired him for being an activist. Nelson Lichtenstein, Reuther's best biographer, says he may have simply resigned. In any case, in 1932, he and Ford's parted.[7]

There was no future for an organizer (or for much of anyone) in Detroit just then. Most of the unemployed went on relief. A smaller number, emblematic of the era, hopped freight cars and lived as hobos. Reuther and his brother conceived a far more novel—indeed, remarkable—plan. They resolved to travel the world. This was to be no grand tour of museums and opera houses, but a proletarian journey, via bicycle, of factories and mills. The Reuthers aimed to sample working conditions around the globe, so that they might import the best ideas to America. Crossing the Atlantic by ship, they disembarked in Hamburg early in 1933, just as the Nazi revolution was engulfing their ancestral homeland. The brothers had an idea of linking up with the opposition, and they did make contact with left-wing students as well as with some of their relatives. However, as Hitler's control was becoming absolute, remaining in Germany seemed futile and they left for Austria and the Netherlands. There they waited until visas arrived for the Soviet Union. By late 1933, Walter and Vic were employed at the giant Gorky auto factory, a Stalinist imitation of the Ford plant at River Rouge.

Conditions were spartan, even though Walter and Vic were housed in the more favorable dorms reserved for foreigners. In terms of efficiency, the plant was light-years behind River Rouge. However, the brothers were infected with Gorky's pioneering spirit. Walter, who learned passable Russian, published a critique of the plant in a Moscow English-language paper, and judging from their letters home, both Reuthers were smitten with the Soviet experiment. The Russian workers, though poorly paid, had at least minimal job protection and health care. That Stalin was already employing forced labor on a mass scale seems to have escaped their notice. Victor wrote, "We are watching daily socialism being taken down from the books and shelves and put into actual application."[8]

After Gorky, they boarded a train for the Far East, where they saw appalling poverty in China and an ominous militarism on the rise in Japan. They returned home, in 1935, after thirty-two months. Irving Howe, the socialist writer who was the first to profile Reuther, said, "History had been thrust into their faces. "[9] But their effect on history was only beginning.

In Detroit, the newly formed United Automobile Workers was attempting to organize the auto industry. Reuther threw himself into union work, and quickly became president of the big UAW local on Detroit's West Side. It was rough going; the auto companies (especially Ford) were adamantly opposed to unions. They hired spies and thugs to intimidate members, and as the Depression still raged workers were naturally afraid to enlist and risk their jobs. Many of the union's shock troops were communists—who at the time, it should be said, were not quite the pariahs in American life they later became. Reuther was close to the communists and may have briefly been a member.[10] However, he resisted the party's attempt to enforce an ideological line, and as his power in the union rose, he distanced himself.

In 1937, the UAW shut down a critical GM plant in Flint. Alfred Sloan, the president of GM, viewed the action as illegal and refused to negotiate. Sloan was a managerial genius who had rescued GM from failure in the 1920s and propelled it into the number one spot, ahead of Ford. He was also very much opposed to organized labor activity. Like most corporate executives of that time, Sloan was ardently opposed to Franklin D. Roosevelt's New Deal, and especially to FDR's welfare programs. Unlike most, he had worked behind the scenes to finance the anti-Roosevelt American Liberty League, a racist and anti-Semitic fringe group.[11]

If Sloan did not want a government welfare state, he certainly did not want a private one imposed on GM by employees. During the Depression, General Motors had continued to pay dividends to its stockholders even while twice cutting its meager wages and laying off half its workforce.[12] Sloan saw no reason to apologize. He ran the company for the benefit of the stockholders; he assuredly did not run a welfare agency.

Sloan beseeched the federal government to send in troops to break up the strike. Frances Perkins, the secretary of labor, refused. A passionate New Dealer and a proponent of welfare, Perkins leaned on GM to compromise. Sloan read the tea leaves and agreed to start talking. Henry Ford did not. In the spring of 1937, during a demonstration at River Rouge, he unleashed his goons, who caught up with Reuther on an overpass above the plant and severely beat him. However, the union agitation continued. In 1941, the UAW managed to shut down River Rouge. With the plant surrounded by thousands of striking picketers, Ford capitulated and agreed to government-supervised elections. Thus, by the time of Pearl Harbor, the UAW had been duly elected as the bargaining agent for most American autoworkers.

By now, Reuther, a member of the UAW's executive board, was very much focused on pensions. The Depression had exposed the plight of the rising number of elderly poor, and America was visited by all manner of political extremists, who stepped up the pressure for various forms of welfare benefits. The oddest of these was an elderly, out-of-work physician and onetime mining speculator in Long Beach, California, a Dr. Francis Townsend. Dr. Townsend wrote to the local newspaper suggesting a fantastic retirement scheme: that the government distribute $200 a month to each American over sixty and pay for it with a sales tax. When recycled through the economy, he argued, these lavish pensions would "abolish unemployment" forever. His proposal was fiscally unworkable, but in rural America it had the lure of an elixir. Millions of Americans joined "Townsend Clubs" and dozens of congressmen lined up in support.[13]

Social Security was enacted, in 1935, partly as a response. Roosevelt told Perkins, his labor secretary, "The Congress can't stand the pressure of the Townsend Plan unless we have a real old-age insurance system, nor can I face the country without one." But the new program hardly defused the pressure for pensions and other benefits. For one thing, Social Security fell badly short of its planners' goals—which had been to provide universal, cradle-to-grave protection. New Dealers reluctantly omitted health insurance, which they feared was politically unsalable. Moreover, millions of workers were excluded from the retirement plan. Out of deference to the southern bloc in Congress, agricultural workers, many of whom were black, were deemed ineligible, as were local government workers. Even for those who did participate, benefits were too low to provide true "security."

Also, from the day that Social Security was passed, conservatives agitated to repeal it. Reuther's old boss, Henry Ford, fulminated that it would regiment society and diminish Americans' freedom. Alf Landon, the Republican candidate for president in 1936, labeled it "a cruel hoax."[14]

The opposition focused on whether the money would really be there to fund such a large entitlement, and the early experience with private pension plans was not exactly encouraging. Actuarial science was in its early days, and many corporate sponsors of pensions did not bother to fund their plans, or did so only on a halfhearted basis. (They simply paid benefits from general funds.) As business conditions worsened during the 1930s, sponsors came under stress, the railroads in particular. For instance, the Pennsylvania Railroad's pension expense, only $235,000 in 1900, had swelled to an enormous $8 million in 1931.[15] The burden of funding the railroads' pensions was aggravated by the industry's decline. Competition from trucking had sapped the railroads' growth and led to an aging of their labor force. And the rails discovered, to their horror, that unlike wages, pension expenses could not be trimmed with the business cycle. Ultimately, railroad pensions had to be bailed out by Congress.[16] This early pension fiasco was one that executives in other industries—autos, steel, and airlines, for example—should have committed to memory.

But no graying was visible in automobiles then. It was a young industry, poised for growth. Reuther spent the war years building a power base in Detroit and struggling with the UAW's communist faction for control. He also forged ties to Washington. During the war, he made a splashy proposal to convert Detroit into a vast airplane factory; though his plan was impractical, it raised his public profile and established him as a political figure to be reckoned with. The union earned more points by pledging not to strike, and by putting up with wartime wage controls.

By the time Reuther gained unchallenged authority over the UAW, in 1947, the war was over and he had a pent-up list of demands. He also was envisioning a broader social role for the UAW, as an agent for achieving the welfare state that the New Deal had left unfinished. And he wanted it not just for autoworkers but for everyone. As early as 1949, the writer Irving Howe could see that the UAW could become a revolutionary catalyst: "a force molding American life."[17]

Pensions and job security were first on Reuther's agenda, with health care a close second. Sloan recorded his view of these demands in his memoir: "extravagant beyond reason."[18] However, the world was changing. By the war's end, more than 7 percent of Americans were over sixty-five, nearly double the ratio of 1900. And experts in the new field of demography were forecasting (correctly) that the ratio would virtually double again, to 12 percent, by 1980.[19] Retirees as a sociopolitical force were coming of age.

In a curious way, Americans' first decade of experience with Social Security heightened, rather than alleviated, their concern for the aged. The level of the government benefit was unchanged since the Depression, and its value had been decimated by inflation. The program's very inadequacy focused attention on the need for private pensions.

Government policy further stimulated the pension bandwagon. The United States levied an excess profits tax on corporations during the war, which sent companies scurrying for the tax shelter offered by retirement plans. Also, the government froze wages while still allowing firms to grant (or increase) noncash benefits. Thus pensions became a way to give *something* to strapped employees. The result was a pension stampede, tripling the number of Americans with coverage to six and a half million, or a sixth of the workforce.[20] However, many of these plans—including the one at General Motors—included only salaried (not hourly, or unionized) workers. This seemed patently unfair; what's more, the government's tax policy had changed the terms of the debate. If the United States was going to subsidize pensions, Washington was entitled to some say in how they were used. Pensions were now viewed as a benefit to labor; as the pension historian Steven Sass put it, Congress expected a “social return for its tax favors.”[21]

Congress had laid the groundwork during the New Deal with legislation establishing the right of workers to form unions and to bargain collectively. The key legislation was the National Labor Relations Act, or Wagner Act, in 1935. Though its effect was muted during the Depression, after the war union membership surged. Starved for wage hikes and squeezed by wartime inflation, the unions erupted after V-J Day with a series of crippling strikes against steel mills, packing plants, shippers, refineries—and General Motors. Unions might have derailed the entire economy, but President Truman intervened and seized the coal mines and the railroads.

The eruption turned out to be brief. As the cold war escalated, public sentiment turned rightward and less sympathetic to labor. Inflation ebbed, making wage hikes harder to justify. Big Business, as it was known, was dominated by a handful of cartels, and in the late 1940s it took a tough line. Some firms insisted on an outright pay freeze. However, pensions were seen as less inflationary. Reuther and other union leaders were nothing if not opportunistic, and increasingly demanded welfare-type benefits, or what they referred to as social insurance.

Ford Motor was at least mildly receptive. Now led by the founder’s grandson, Henry II, it was eager to soften the hard-edged image of the original Henry. In 1947 the company offered a small pension. But there was a large catch: workers would have to contribute to the plan, and it was packaged with a smaller wage hike (seven cents an hour instead of fifteen cents) than if the UAW opted for a contract with no pension. Reuther, uncharacteristically, was thrown off his game. He asked the members, most of whom did not have high school diplomas, to vote. Perhaps not surprisingly, they opted for the cash-only contract by a big margin—an embarrassment to their leader.[22]

Reuther suffered a different sort of wound the next year, when gunmen fired through the kitchen window of his Northwest Detroit bungalow, nearly killing him (one bullet struck his chest) and permanently damaging his right arm. The assassination attempt boosted his moral stature just as the pension issue was coming to a head.[1]

Ford’s new contract expired in 1949, and this time Reuther demanded a pension that was noncontributory for the workers. Warming the rhetorical flames, he insisted that the UAW would no longer tolerate a “double standard”—pensions for executives but not for men on the line.

Ford responded that if the employees didn’t fund their pension, the company would have to pay for it by raising car prices, which it was unwilling to do. John Bugas, a Ford vice president, sent Reuther a condescending rejection, which he also released to the press. “Old-age security is a highly desirable goal, but it must be paid for,” Bugas said dismissively. “There is no ‘kitty’ from which Ford can draw.” Reuther cheekily retorted that Ford could fund its workers’ pensions “from the same source that is used to finance security for high paid executives.”[23]

At the UAW convention in Milwaukee that summer, he demanded a $100 a month pension and a hospitalization plan equivalent to 5 percent of payroll. At a time when Social Security provided retirees with on average only $28 a month, this was bold in the extreme. But it was only the beginning of Reuther’s demands. What the union required, he declared to twenty-five hundred cheering delegates, was nothing short of “a full social welfare program”—health care, a pension, death benefits, disability: the works.[24] Noting that Ford, as well as Chrysler, had already said no, Reuther sarcastically observed, “Security in your old age . . . is reserved to only the blue bloods. They can have security, but if you live on the wrong side of the railroad tracks you are not entitled to it.” As for GM, its president, Charlie Wilson, stood to get a pension of $25,000 a year (the equivalent of about $250,000 today). Contrasting this with the rank and file, Reuther thundered, “If you make $1.65 an hour they say, ‘You don’t need it [a pension], you are not entitled to it, and we are not going to give it to you.’ We are going to change that in America, and we are going to start in the next couple of weeks.”[25]

And now Reuther had the political wind at his back. The recent labor laws had significantly enhanced the unions' power. John L. Lewis's coal miners successfully struck for pensions after the war. Moreover, government policy, which was looking for a way to reward workers without stoking inflation, increasingly tilted toward pensions. The National Labor Relations Board, a federal agency created during the Depression to, among other things, investigate unfair labor practices, was watching pension negotiations closely. In 1948, in a case involving Inland Steel, the board ruled that companies had to at least *bargain* on pensions. That was a critical breakthrough. The next year saw dozens of strikes against steelmakers. Trying to avert an economic collapse, President Truman formed a special panel that recommended pensions (but not inflationary wage hikes) for steelworkers. The steel industry rapidly capitulated.[26]

Perhaps more relevant to the UAW's impasse with Ford, the auto market was booming. Families migrating to the suburbs were buying their very first cars. Once chosen, their preferred brand could be hard to shake—or so argued Reuther, who had an instinct for the companies' most tender spot. If Ford was struck, GM would be handed a golden opportunity to win the loyalty of first-time consumers. Record sales had weakened Ford's appetite for a strike, and the Wagner Act weakened it further. Management now had to play by rules; the days when it could send in goons to crush a few skulls were over. *Fortune* predicted, "The industry probably cannot stand off for long the auto worker's drive for security in the form of a pension scheme."[27] Two months after Reuther's appearance in Milwaukee, Ford agreed to provide the workers with a monthly pension of $100, *less* whatever a worker stood to receive from Social Security.

Reuther actually liked this convoluted structure, theorizing that it would give Ford an incentive "to go down to Washington and fight with us."[28] (The higher the federal benefit, the less that Ford had to chip in.) The unions had been waiting, with growing impatience, for Congress to raise Social Security, and also to pass national health insurance, which Truman had proposed in 1947. For a brief interlude after the war, a federal pension was considered not just probable but "a political certainty." Even Senator Robert A. Taft, a conservative who had famously opposed New Deal welfare programs, argued that the government had a duty to redress the disadvantage suffered by nonunion labor. "If a steelworker and a miner are to receive [a pension]," the senator reasoned, "why not a molder or a waiter?"[29]

Though he bargained for private benefits, Reuther strongly preferred public ones. He had a European notion of labor and industry as economic partners (a notion wholly foreign to Sloan and Wilson at GM). Within the UAW, the benefits section was known as the "social security department," signaling Reuther's credo that, ultimately, welfare benefits were the responsibility of government. Corporate pensions were a stopgap.

Proof of Reuther's socialistic attitude was his frequent demand for higher wages and benefits *without* any increase in car prices. The latter ran counter to his members' economic interests (since higher prices would mean more dollars available for autoworkers). But Reuther fancifully included the general public, and especially the workingman, in the UAW's constituency; he did not want the car-buying public to pay the price for union gains. He frequently argued that labor, management, and the public each had a worthy and defensible stake in corporate institutions— notably in GM—an argument that infuriated Wilson. For one thing, Reuther did not represent car buyers per se. For another, prices were none of the UAW's business.

GM had been forced to put up with government quotas, price controls, and meddling by the Labor Board during the war and its aftermath; now the company was anxious to return to normalcy, which the executives defined as operating its business with a free hand. Sloan, who had retired from day-to-day management but was still presiding as chairman, feared that expanding the federal welfare state would further, and perhaps irretrievably, entangle his company in the maws of government.

Looking across the Atlantic, welfare states were already emerging in Europe. Between the end of the war and 1948, the British government took over the country's coal mines, railroads, and gas and electric companies, all with rather little ado. The French leader General Charles de Gaulle nationalized Renault, France's leading automaker. In speeches and interviews, Wilson, an engineer like Sloan but fifteen years younger and less parochial in his worldview, argued that American industry and labor should work through their issues rather than submit to takeovers by the state—what Wilson termed "the philosophy of class conflict from Europe." The fear of creeping statism was very real. As *Business Week* warned, "British socialism seems a closer threat than Russian communism."[30]

Strangely, Big Business, which led the attack against expanded government benefits, seemed not to notice that *it* was the only alternative provider. As Harry Becker, who headed the UAW social security department, wrote, either Congress would deliver on social insurance or it would be "sought from employers across the collective bargaining table."[31] Business was determining who would carry the burden of benefits several generations hence—and it was choosing itself rather than Washington!

The UAW pressed the issue by dabbling with collective, union-run health plans and pensions. In an intriguing case, in the city of Toledo, Ohio, where auto-industry workers labored in hundreds of smaller shops, the UAW local proposed an area-wide "social security plan," including a pension for every worker. It would be jointly administered—that is, all of the local businesses' pension contributions would be pooled. At a stroke, this would resolve two major issues. Unlike in a single-company plan, workers could change jobs and keep their pension rights intact. And the risk of pension default was obviously much less when the assets were pooled.

Business liked it no better than it liked Social Security. Red-baiting was becoming a popular sport (Senator Joseph McCarthy was on the brink of celebrity) and any approach with a whiff of collectivism raised the fear of socialism. Toledo executives, led by the publisher of the *Toledo Blade*, mobilized to stop the pension pool with an all-out newspaper and radio campaign. As the historian Jennifer Klein has written, the attack became vitriolic, culminating in a front-page *Blade* editorial decrying the "blight" that the pension proposal "casts on this industrial community."[32] Not surprisingly, the plan withered.

However, to marginalize the Toledo plan, companies were forced to grant single-employer pensions, committing them to provide a "defined benefit" (that is, a stipulated monthly sum to retirees for the duration of their lives) regardless of the eventual obligation to the company. While Wilson was pondering this doleful precedent, Reuther played his final card.

Both GM and Chrysler had contracts expiring in 1950, but as it happened, Chrysler's expired first. Intuitively sensing the potential to divide and conquer, Reuther demanded from the company not just a pension but a contractual promise to *fund* the pension. Chrysler insisted that the union could rely on its overall corporate good health (an assurance that would seem laughable a generation later). Reuther wisely refused to take Chrysler's word for it, and the UAW struck. Chrysler still delegated labor relations to an outside law firm, as though negotiating with the UAW were just a detail.[33] Perhaps the company doubted that the UAW could enforce a strike over such a technical issue as actuarial soundness. "That was a new expression," Douglas Fraser, a unionist who had joined the industry as a metal finisher in 1936, admitted.[34] The UAW hired actuaries to explain it to the rank and file. The workers stayed out for a hundred days, after which Chrysler surrendered. The crushing loss of business dashed all hopes that Chrysler might overtake Ford as the number two producer.

GM met with the union while Chrysler was suffering through its agony. Further lessening GM's appetite for confrontation was the fact that it had earned record profits in 1949 and had just declared a stockholder dividend of $190 million—the largest payout ever by an American corporation. GM's main problem was a lack of enough cars to meet the insatiable appetite for its product, a deficit GM was promising to remedy with "plenty of new cars." It surely did not want a strike.

The UAW submitted a thirty-seven-page bargaining proposal, illustrated with a drawing of a well-groomed autoworker, in suspenders and necktie, who looked altogether respectable (not the sort who might walk off the job or seize your plant). The brief made a point of noting that its average worker had only seven years' experience, and only a fifth were over fifty— so few would be drawing pensions anytime soon. As regards health security, the union trenchantly remarked, "Although we in America are foremost in our efforts to analyze and cure disease, we have lagged far behind in organizing ourselves to meet the economic and social costs of medical care."[35]

Left unstated was the fact that those young GM workers *eventually* would age. GM knew that, of course. But they would not age overnight. And Reuther put an enticing carrot on the table—a willingness to sign a five-year deal, thus a respite from labor strife until 1955. To Charlie Wilson, the GM executive, that was too much to resist. Talks proceeded swiftly. Two weeks after the end of the Chrysler strike, GM agreed to a landmark deal: a pension of $125 a month (minus the Social Security benefit) funded by the company, a wage hike with a cost-of-living formula, and hospital and medical insurance at half the cost.

Fortune billed it "The Treaty of Detroit." The union had won the basic welfare protections (the pension was equivalent to $1,040 a month in today's money) that Reuther had craved. What is notable is that American business was so starved for labor peace that it also greeted the "treaty" with enthusiasm. *Fortune* crowed, "It has been so long since any big U.S. manufacturer could plan with complete confidence in its labor relations that industry has almost forgotten what it felt like." Sloan emphasized this aspect in his memoir, writing that the accord "represented an effort to introduce an element of reason, and of predictability" into GM's labor relations.[36]

But a few voices recognized the danger. Noting the long-term, nearly incalculable nature of pension obligations, the *Nation* checked its liberal instincts and wondered, "Who knows whether the steel, coal, or any other companies will be able for a long and uninterrupted period of years to continue to pay the agreed amounts into the funds now set up?"[37]

Peter Drucker, a young management consultant, struck a similarly foreboding note in an article titled "The Mirage of Pensions."[38] He doubted whether any company—even GM—could gauge the strength of its capital structure four decades hence. Drucker was more prescient about GM than were its own executives. The consultant also observed that *new* pension plans presented a particularly knotty financial problem. In theory, from the day an employee was vested, his employer would make annual contributions to finance his retirement. But a new plan typically endowed all the existing employees—for whom no money had been set aside—with full credit. Therefore, firms faced a catch-up obligation, particularly for employees who were nearing retirement. At Ford Motor, still a privately owned firm, the estimated liability was a staggering $200 million.

AFTER THE BREAKTHROUGH in automobiles, numerous other unions won pensions, many of which were similarly linked to Social Security. As Reuther had hoped, in the early 1950s Social Security was repeatedly raised. But with the federal benefit rising, the link became a chain that dragged the company pensions lower—something the unions hadn't really intended. Thus the UAW demanded an end to the link. Reuther now felt free to seek higher company benefits *in addition* to whatever was awarded in Washington.

Reuther found clever ways to extract more in every round, both higher levels and new types of benefits. Companies watched their cash wages closely; they found it easier to say yes on items such as pensions, disability, and health care. The UAW exploited this by negotiating wages first; then, as Fraser recalled, "we fit in the programs, pensions, health care." The seemingly routine process of "fitting in" higher benefits began to build daunting future obligations. But to the companies, pensions seemed painless. The near-term cash expense was small, the day of reckoning distant. The accounting was primitive; a pension sweetener didn't necessarily "cost" the company in terms of reported profits.

Also, there were sizable tax advantages to the employee as well as to the employer. A worker was taxed on each dollar of wages; he wasn't taxed on his pension until many years later, and if he instead received a dollar in the form of medical benefits, he wasn't taxed at all. The system thus conspired to push both management and unions into the margins of the contract; the battle increasingly was over fringe benefits.

For Reuther, no form of security was truly a "fringe." In 1955, he began to agitate for protection against layoffs, the bane of autoworkers since the Depression. The auto industry was still quite cyclical, and in each downturn thousands of workers were sent home. What Reuther wanted was a "guaranteed" wage (regardless of whether the employee was actually working). Ford Motor released a statement loaded with self-serving truth:

The only security—the only guarantee—worth anything to Ford employees is that their company will be healthy, competitive and progressive enough to be able to employ them at a high rate of wages and benefits. When any proposed security scheme impairs this healthy condition—no matter how attractive may seem the arguments in its favor—such scheme will impair the real security of the worker.[39]

Reuther made it plain the union would strike, a point he was careful to repeat with regularity. During a negotiating session, Ford offered what it felt was a reasonable compromise. As Bugas, the Ford executive, read the details aloud, Reuther recognized it as similar to a GM proposal he had already rejected and blurted out, "How the hell do you get a Chevy on a Ford assembly line?" Then he led his team out of the room.[40]

The automakers' real problem, in the sense that it weakened their negotiating hand, was that they were rolling in money. In 1955, GM earned more than $1 billion—a first for an American corporation. Most of its profits were paid out in dividends; in the postwar era, companies felt a keener responsibility to provide stockholders with income. Dividend yields ranged in the high single digits, and increases in GM's dividend were big news. The *New York Times* would report that the directors had gathered around the oval table in the boardroom, following a meal of "roast turkey and cranberry sauce with fresh peas and mashed turnips," and hoisted the dividend like Santa delivering goodies to his children.[41] To refuse a union demand, no matter how much it might have been in the corporate interest, ran a risk in the short run of a strike that would turn off the golden spigot to shareholders.

Bargaining in such a balmy climate, the UAW did even better in 1955 than it had in 1950. Pensions were boosted 50 percent. Including Social Security, workers could expect to retire on $175 a month—a heady 75 percent increase in five years.

Disabled workers got a double pension.[42] Paid vacations were stretched to three weeks, plus seven holidays. And idled workers would now get a "supplemental" benefit in addition to state unemployment compensation. The "supplemental" stipend was small, but Reuther knew it was just an opener. After three subsequent contract rounds, laid-off workers would be guaranteed an astonishing 95 percent of regular pay for at least six months while they were on furlough.

Sloan was especially stung by the supplemental benefit. He wrote in his memoir that GM had disagreed with several aspects of the plan but, "Ultimately, the entire industry conceded the point," as if even he were unsure how it had happened.[43] However, the UAW was already planning for an even costlier benefit—health care for *retirees.* Once the employers' essential responsibility for social insurance was established, the Big Three found it impossible to resist—partly because there *were* only three manufacturers, or only three that counted. GM, Ford, and Chrysler routinely carved up 90 percent of the market, with GM alone claiming roughly half of that share. As oligopolists, they could build benefit costs into the price of cars and not suffer a competitive loss. GM knew when it announced a price hike that Ford and Chrysler would follow suit. For all their talk of open markets, Big Auto (like Big Steel) lived in a cloistered universe in which true competition was lacking. Therefore, almost any cost seemed tolerable. The automakers failed to grasp that pensions were different. Pensions created *long*-term obligations that could outlast even their prosperity.

By 1960, 40 percent of American workers (including most of those who belonged to unions) had won or been granted pensions.[44] Only a decade after the Treaty of Detroit, pensions had become an American institution, one that was radically reshaping people's lives. Fewer men were working after sixty-five, and as the UAW social security department, which kept close track of national trends, reported to Reuther with some astonishment, "an increasing number of older men in good health are choosing to retire rather than go on working." The trend was stark; in 1920 among U.S. males, six of ten senior citizens were in the labor force; in 1960, only three of ten.[45] Older Americans, their pensions safely in hand, were looking forward to a few years of fun, not just a rocking chair.

With its usual impeccable timing, the UAW set its sights on a new entitlement—*early* retirement with full pensions. This would liberate autoworkers from the factory while still in vigorous middle age, and serve the union's purpose of moving workers through the system faster, so that more younger members could be recruited.

However, a hint of the danger embedded in its pension strategy unexpectedly emerged right under the UAW's nose. The union had always had trouble getting the automakers to inject the cash to their pension plans. GM's plan was frequently 30 percent or more below full funding; Chrysler's occasionally dipped 50 percent under.Such proportions reflected the amount that employees stood to lose if a plan was terminated—in a bankruptcy, for instance. This was not a worry for the Big Three, but as the auto industry consolidated in the 1950s, the "independent" producers—Nash, Hudson, Studebaker, and Packard—increasingly struggled.

funding were merely expressions of intent that, if things went well, the workers would get paid. Put differently, they were an attempt to fob off on a future generation the burden accrued by the present one. (In pension plans, this is an ever-present danger.) In truth, unfunded pensions did not provide security; as Drucker warned, they were more a "mirage" than real. But in 1959 Studebaker agreed, as it were, to burnish the mirage—to increase the pension, its third such hike in six years.

, if modest, pension increase in 1961. Then the Lark fizzled, and in 1963 Studebaker went belly up. Reuther implored the company to do what it could for pensioners. Studebaker's reply signaled that there was nothing be done.Thousands of employees, including some who had worked forty years on the line, lost the bulk of their pensions. The failure was truly a watershed. The workers lost a devastating $15 million in benefits.

Nor did he let up on socialized insurance. As he reminded a business audience, "The drive for collective bargaining programs did not mean a relaxation of Labor's interest in governmental programs."He was ahead of his time on a range of issues, such as the need for pension portability for workers who changed jobs, the lack of health care for the uninsured, and the already alarming increase in medical costs.

At the corporate level, its sales and also its profits ranked first among all U.S. companies for ten years running—an awesome streak.

This was a wishful appraisal.

health insurance for employees and half the cost of hospital, medical, and surgical insurance for retirees. There were myriad small improvements in benefits, too.From the standpoint of the corporate books, such promises were "free" (they did not appear on GM's balance sheet). But in economic terms, they were practically suicidal.

It is no longer a matter for GM to negotiate; it is GM's.

What's more, it employed some 405,000 active workers, a solid base from which to support its pensioners, of whom there were just 31,000. Its contributions into the pension fund (plus the fund's income) totaled $95 million, compared with only $25 million that it paid in benefits, so the plan was operating at a tidy surplus.GM did not consider that it might repeat the experience of the railroads, which had become saddled with an aging workforce just as their growth waned. On reflection, it was the executives in Detroit who were truly presumptuous.

This posed a grave future risk, even if it barely dented the companies at the time.

At first glance, this was strange: Reuther's members had their health care paid for, no matter what the price or how frequent the service. But with costs rising so speedily, Reuther sensed that sooner or later the golden protections he had won might come under attack. A brief prepared by an aide, "Salient Facts Relative to Health Care in the U.S.," laid out the galloping rate of health care inflation (double that of the economy at large). What was worse, 60 percent of Americans had no insurance for prescription drugs; 34 percent had none for hospitalization.Someone in the UAW underlined in magic marker the subheading "Failure of Private

Health Insurance.” A full generation before Hillary Clinton, as First Lady, would attempt to pass a national health care bill, the UAW had glimpsed the essential inability of the private sector to deal with health care.

(Nader’s 1965 best seller,, specifically targeted the GM Corvair.) But GM’s troubles went deeper. In 1967, the Japanese Datsun made its debut in American showrooms; it was an instant hit. Late that year, an analysis in the of the problems facing James Roche, GM’s new chief executive, highlighted the efforts of a U.S. senator to break up the company as a would-be monopolist. Way down in the article, the mentioned a more ominous problem—“the rapid rise of foreign car sales in the home market.”The problem, which “could not be ignored much longer,” according to the article, did not dissuade GM’s new management team from adhering to the usual pattern with labor. One month later, they agreed to yet another lofty raise in the pension (about 24 percent), plus an escalator with built-in raises in subsequent contract years.

An independent analysis of pensions in rubber, autos, and steel concluded that pensions had been rising at nearly triple the rate of wages.

Then it could bear no more. Acknowledging defeat, GM dropped its demand that workers pay a share of the future increase in medical costs—in fact, medical benefits were What’s more, GM raised the pension more than 40 percent above the previous contract, to five times as high as in the famous 1950 treaty.Reuther was dead, but the welfare state was alive and well. It would be the burden of American industry in the future—and of the auto industry in particular—to pay for it.

health care.) Even Starbucks would announce in 2005 that it was spending more on health care than it was on coffee beans, proof that social benefits were an issue restricted to old-line manufacturers such as GM.

men) who started at the factory out of high school could retire with full benefits before the age of fifty.

pension—very greatly enhanced—until their retirees reached age sixty-two. This way, younger retirees would have as much total income as if they receiving Social Security. Why wait for that condo in St. Pete until you were sixty-five and gray? Why not travel the world at? Why not indeed! GM would pay for it.

What was worse (from the employer's standpoint), suppose our worker lived to, say, seventy-five: under the old system he would have retired in his early sixties and lived off his pension for a decade or so. Now he might retire at fifty-five, and thus be a ward of the company for twice as long. Actually, since life spans were increasing, the change was even more pronounced. Pensioners would be retiring earlier and they, as well as their spouses, would be living longer, taxing the employer at each end of the spectrum. Once a tool for promoting loyalty, pensions had been contorted through collective bargaining into a scheme for encouraging early and expensive departures.

From the start, more workers retired early than either the union or the companies expected. And why not? Early retirement was a good deal. Looking forward, there was a risk of GM's becoming a dangerously bloated enterprise, one with more retirees than active workers.

funded. This reignited the issue of pension insurance.

the emerging legislation. Labor leaders, who were acutely sensitive to their own political interests, preferred to bargain for lavish benefits, even if unsound, over benefits that were more modest but secure.This explained a curious irony of the pension world. At nonunion sponsors, such as Kodak and IBM, pension funds were typically better funded than they were at unionized industries, such as steel, where organized labor was supposedly watching out for the workers' interests.

for adequate funding, though it had trouble achieving the latter. Reuther had argued that pensions should not be a "lottery" to be enjoyed only by those who were lucky enough to work for a fiscally healthy employer. Old-age security was simply too important.

By the 1970s, the goal of a full federal pension was more or less dead, and experts were coming to terms with the fact that America did not really have a retirement "system." What it had was a patchwork with plenty of rents in the quilt.

. The Arab oil embargo had sent shudders through manufacturing, and waves of layoffs began to ripple through the Rust Belt.

Pension insurance reemerged as a handy bone to throw to the workers. The most innovative proposal was advanced by Ralph Nader, who suggested that corporate pensions be transferred to personal (and portable) accounts that the government, rather than private employers, would supervise.That proved a shade too radical. In August, after the Watergate scandal toppled President Nixon, a Congress eager to demonstrate that the federal government could still do something positive enacted the Employee Retirement Income Security Act.

However, the rules were notoriously lax, and, in a sop to industry, premium levels were set too low. The PBGC was thus an insurer that minimized the risks and undercharged the customer—a dubious proposition.

"Bargainers held the line on wages for current workers to win significant gains for retirees," the observed. It did not comment on what such an arrangement would mean for GM's finances in the future.But with the number of retirees mushrooming, it was not hard to guess. To top it off, the barnburner 1979 pact doubled time off to fifteen paid holidays in addition to nine paid personal days, several weeks of vacation, competitive with the cushiest welfare states in Europe. Douglas Fraser, then the UAW president, admitted later that the 1979 accord was “a hell of a settlement.”

And it was only a matter of time before the Japanese expanded from small cars (a market they controlled) to mid-sized vehicles, Detroit’s bread and butter. Even the chief economist at Ford believed that labor contracts were putting the industry at serious risk. One sign that reality had not sunk in was that Ford dispensed bonuses of $630,000 each to its president and executive vice president.Fat bonuses at the top made it impossible to win sacrifices from the union.

The family driveway was essentially saturated, and growth in car sales was certain to taper off. Detroit faced a double whammy: a slower-growing pie, and more carmakers angling for a slice. For the first time in decades, the Big Three had to hold the line on prices or risk losing market share.

cost. Forced to choose, executives inevitably found more slack in future budgets (if they bothered to calculate them at all) than in present ones. Thus they repeatedly offered richer pensions later in exchange for modest increases in wages now. “Pensions got better every year,” noted Dan Luria, a UAW economist. “There was little resistance.”

His report was seen by almost no one outside his field (it was published by the Society of Actuaries), but it should have been required reading in Detroit. Kryvicky concluded that an “upward bias” in the bargaining dynamics had lifted benefits ever higher. And the effects of concessions such as early retirement, though underappreciated, were devastating. In autos (Kryvicky specifically examined Ford), while wages had risen five times since 1950, pensions had vaulted ten times. As a result, benefits had soared from an average of 14 percent of workers’ final salaries to 32 percent. Kryvicky found a similar pattern in rubber and steel. This spiraling of benefits had left many plans less than half-funded.

contributions, it had to make up for the shortfall in years as well. You can think of a pension as a deferred wage, which the employer was (hopefully) paying on the installment plan. Benefit hikes rendered all of the past installments deficient.

retirees as well as for their active members. At the UAW, such increases were especially large. (Not coincidentally, the UAW permitted retirees to vote in its elections.) An autoworker who had retired from GM in 1950 at a pension of $45 a month was, by 1980, collecting $435 a month. Even after adjusting for inflation, his pension had tripled. The point is not that auto retirees were rich (they were not), but that the burden on their employers was becoming intolerable.

What would happen if the decline, there or elsewhere, became severe? Kryvicky foresaw that an imbalanced retirees-to-actives ratio would spell “very considerable problems.”

Fraser, the UAW president, joined Chrysler’s board, and enthusiastically supported the deal. Even so, the UAW had a hard time persuading its members to vote in favor. Miller concluded that union members were simply unwilling to face reality.

Like blind men, they kept strolling toward the cliff.

Instead, Japanese exporters accelerated plans to build on GM’s turf. Honda retooled its new motorcycle plant in the tiny hamlet of Marysville, Ohio, and by 1982, American-made Accords were rolling off the conveyor.

for the time when the factory had sufficient work as well as materials on hand—maybe sixty hours, maybe forty—just so long as the company had labor when it needed it, as if Bieber’s dad were responsible for management’s well-being. With productivity improvements looming as a new job-killer, Bieber wanted to turn the tables, so that, as he put it, the company could not “throw people on the scrap heap.”But who would pay for such security?

Rather than recognize that old-style contractual protections might not work in a global economy, in which consumers would be free to buy elsewhere, the union sought more protections. Its conscious aim was to make labor a cost.Pensions were the ultimate fixed cost (by law, an accrued benefit could not be undone), but the union wanted more. Guaranteed health care, a job, retirement. That way, if sales deteriorated, GM would have scant incentive to curtail production, since it would be paying for the labor anyway. As much as GM loathed the union's strategy, the company's approach was not so different. The trade quotas GM advocated were simply another tactic for interfering with supply and demand. Neither party was willing to trust the market.

It could not raise prices, as that would lead to a further decline in sales. Thus, GM entered the 1984 labor round determined to win concessions.

free, at least in theory, to negotiate lower benefits going forward. However, as GM knew, the UAW viewed pensions as "sacrosanct."

The expense put GM at a severe disadvantage, since foreign carmakers had virtually no such costs. In Japan, as in Western Europe, workers got insurance from the government (what Reuther had advocated for America). Even in Marysville, since Honda had no older workers and, of course, no retirees, its expenses were trivial.

guarantee because, as Bieber reflected, "once you put something like that in a contract it is very hard to change." The jobs bank could have been the creation of an ultraliberal government planner—and in a sense it was. It was the ultimate embodiment of the welfare state inside General Motors.

of GM, rather than for its owners. A pair of auto-industry writers observed that GM was operating more like a "nation" than a business—responsible for the welfare of tens of thousands of workers as well as a vast archipelago of dealers and suppliers.But nations have the power to tax; companies (and their shareholders) need profits. By 1990, GM's stockholders had endured no less than a twenty-five-year run without a single dollar of increase in the stock price.

GM unloaded its surplus (on the cheap) on rental agencies, but that soon glutted the used-car market, with devastating effects on resale value. As consumers discovered that Chevys did not retain their value like Camrys or Accords, the GM brand suffered irreparable harm. Not all of this was due to the pension and benefit structure, but the legacy overhang greatly limited GM's flexibility. The executives felt roped in, like a man whose family had grown too large. The publicity-conscious Roger Smith obsessed over propping up his falling market share when a more nimble operator would have simply—and quickly—shrunk to profitable size.

The decentralized management structure created by Sloan had slowly ossified. The organization had come to resemble a field of silos, rigorously separated according to responsibility and overseen only at the very top by executives with a lateral view. It was not a place that nurtured rebels. However, the younger generation was less wedded to GM traditions. Executives recruited in the 1970s had never known the luxury of operating as a quasi-monopolist. When Wagoner was hired, as a financial manager, in 1977, GM's market share was 45 percent. By 1987, the end of his first decade, it had plummeted to 35 percent. Wagoner observed much of this dismal slippage from afar, in GM outposts in Brazil, Canada, and Europe, where he at least gained a broader perspective than that of the managers in Detroit.

responsible for its employees' retirement. Companies generally made a yearly contribution, but it was not a fixed cost in the sense of a pension (such plans could be amended or even terminated by the sponsor at will). And the sponsor's future liability was zero. Undeniably, 401(k)s also appealed to workers. Employees could manage their own retirement portfolios, and since, by happy accident, the stock market was rising in the 1980s and 1990s, novices concluded that investing was hardly more challenging than picking a college or planning a vacation.

For nonunionized workers, 401(k)s eased the pain, but they were less the for the decline of pensions than the excuse. Fewer companies had to submit to union demands for a pension, and therefore fewer companies offered one.

on idled workers, meaning, mostly, those in the jobs bank.Five months later, GM cut the dividend, from seventy-five cents to forty cents—vivid proof that employee entitlements were being paid from the pockets of shareholders. In the early ’90s, the company suffered huge losses. Even when business revived, since the old workers were remote from the plants with work, GM would be in the humbling position of paying existing workers to be idle while hiring new ones.Such trends could not continue, and, as the late economist Herbert Stein remarked, if something cannot go on then it will stop. But no one—including Stein— could predict it would stop.

to meet that expense? The answer is known as the of the future obligation. If money is compounding at a high rate, your nest egg will grow faster, thus the present obligation—what you need to save now—is smaller.

It was so much easier than selling cars.

Both of these assumptions lowered GM’s pension obligation, which thanks to FAS 87 had become a matter of grave importance to management, though in the real world nothing changed. Retirees were not going to roll over and die just because Smith told his actuary he thought it was a good idea. Smith’s own pension, incidentally, was more than $1 million a year.

, quite similar rule—to become effective in 1993—requiring companies to recognize the future cost of their retirees’ health care. The new standard, FAS 106, did not, of course, mean that health care was now more expensive or that retirees would suddenly get sicker—only that companies who had promised to pay their bills would have to own up to it, thus erasing billions of dollars of their equity. This sent financial officers into a tizzy. Paying for retirees was one thing; admitting to your shareholders you were doing it was something else. In short order, scores of companies cut back on health care, their workers never quite realizing what hit them. “It was a consequence FASB never thought of,” according to Rob Moroni, a health care consultant. “They thought they would help investors. What they did, they killed retirees.”

go to Congress and say, “We have a problem, we need government health care in the United States or we won’t be able to compete with Toyota.” Nor did other companies. And when Mrs. Clinton’s plan hit a roadblock, business let the proposal die.

Though its future obligation for health care now was starkly disclosed in black and white, the company was not required to set aside funds for the purpose, and so for the most part GM simply let the obligation build.

In effect, a huge chunk of its wealth was transferred from the corporation to the pension fund, where it would be walled off from shareholders forever. Funding the pension also drained immense resources from what GM could invest in product design, which set back its efforts to build better cars. “They were absolutely related,” one executive confirmed. “Quality is expensive.”Pouring its funds into pensions, GM was late to invest in hybrid vehicles—one of its many forgone opportunities. In fact, GM invested so much in its pension fund in the mid-1990s that, with the same money, it could have acquired half of Toyota Motor Corp.

Perhaps that was a measure of Wagoner’s success. In 1998, he suffered a very costly strike in Flint. Then both sides moderated. Wagoner, while still seeking concessions, concluded he needed the UAW as a partner. The union accepted the need for enhanced productivity—that is, building cars with fewer workers. But it did not give ground on legacy issues, as pensions, health care, and such were coming to be known. Indeed, legacy became more costly as the ratio of retirees to active workers grew.

But Shoemaker was also a realist who recognized that the union’s power was declining. Therefore, he didn’t try to block the spin-off; he merely made it conditional on certain protections. GM would have to agree to pay Delphi’s pension and health care expenses if Delphi ever became unable to do so. GM also promised that it would hire back surplus workers that Delphi didn’t need. And GM would have to keep buying Delphi parts.

So, thanks to these conditions, GM wouldn't really be off the hook. The Delphi legacy would not be so easy to shake.

As Lapidus's report began to circulate, Wall Street began to think about GM in a different light. It was a pension firm on wheels, so went the joke—an HMO with a showroom.

their future commitments. For instance, Wal-Mart kept merchandise on the shelves for far less time than a traditional retailer (and Amazon did not have shelves at all). Nowhere was this quality more evident than in employee benefits. These companies did not—and would not—offer pensions. Microsoft would never have to worry about its aging software designers—they would be someone else's problem.

simplistic, on pensions he was right. Bethlehem's pension fund was $3.7 billion in the hole. Nobody was going to invest in Bethlehem again—ever—if it meant having to restore the workers' pensions.

-Reuther. He told a group of newspaper reporters, "No company should be making open-ended promises to its workers for events 50 years down the road."

also crashed. By 2003, long-term bond rates had fallen to forty-year lows and pension plans everywhere were underwater.

in pension benefits for 23,000 ground workers. Then it filed for bankruptcy and dropped its pension fund—whose liabilities surpassed its assets by $10 billion—into the lap of the PBGC.

Claims from failed pension sponsors ran into the billions of dollars a year; in fact, in the first five years of the new century the PBGC's losses were four times as high as the total in the previous twenty-five years.

running an HMO. GM had previously downplayed the issue, but now it made sure that the reporters writing about the auto industry were well aware that in every GM car, $1,525 of cost represented health care. Not coincidentally, Toyota's profit margin per vehicle was greater than GM's by roughly the same amount.The UAW did not quite get that such a gap was unsustainable. In the view of union leaders, GM's management, by demanding cuts, was merely kowtowing to Wall Street.But Wall Street represented the rightful owners.

A worker who retired in his early fifties was thus assured of $36,000 a year—a reasonable middle-class stipend. However, the union agreed to give back a little on health care. Previously, members had paid five dollars per prescription, whether generic or otherwise; now they would pay ten dollars for branded drugs (still only a tiny fraction of the cost). In total, UAW workers would still pay only 7 percent of their health care expenses—compared with a national average of 32 percent. Wagoner made it clear he would be back for more concessions.

Delphi was a strange creation—a newborn conceived with the hardened arteries of an old man. As a UAW shop, its costs were in the stratosphere. Wages for Delphi production workers were roughly $26 an hour—double those of comparable workers elsewhere. This doomed the company's ability to price competitively. For instance, it cost Delphi $2.05 to make a spark plug that could be purchased in China for $1.05. Due to its agreement with its former parent, Delphi sold the plugs to GM for $1.70, so each party suffered a loss.But wherever the contract permitted, GM was diversifying away from Delphi to lower-cost suppliers.

Aside from hospital care and prescription drugs, Delphi workers got dental, vision, a pension, life insurance, sickness, disability, and accident coverage, as well as approximately five weeks' vacation a year and free legal services when they purchased a home, filed for divorce, or got a speeding ticket. When averaged over its declining number of employees, these benefits alone padded its labor costs by $29 an hour (compared to $7.50 at a typical nonunion firm)—an astronomical and, again, unsustainable expense.

traditional form of pension.For the union, this was a bitter pill—it spelled the beginning of the end of Reuther's pension plan. But the concession did little good: Delphi did not have enough orders to hire new workers on any terms. In 2004, it lost a staggering $4.8 billion. Absent a recovery at GM, its biggest customer by far, Delphi would not survive.

Where were GM's resources? The obvious answer was: in its pension funds, which were disbursing a staggering $7 billion in benefits a year.

It was filling a prescription every two seconds—not just in every state in the nation but in nearly every. Including retirees as well as their dependents, GM was paying for the care of 1.1 million souls, of whom only 140,000 (white-collar as well as blue-collar) were still on the job.Reuther's creation was imploding; it was devouring itself.

wrote in April, in surprisingly strong language, "... the evidence points, with increasing certitude, to bankruptcy."

concession from the union. Meanwhile, the press (egged on by Kerkorian) was lambasting Wagoner for supposedly not having a sufficient sense of urgency. There were constant rumors his days were numbered.

autoworkers.Two storied American institutions—GM and the UAW—hung in the balance.

The parts firm was on the edge—a goblin from GM's past it couldn't be rid of. Following an admission of accounting problems, Delphi was looking for a new CEO. It placed a call to the one former auto executive who had extensive experience with legacy benefits: Steve Miller. Though having sworn to stay retired this time, the sixty-three-year-old Miller was intrigued. Delphi could be a laboratory for his post-industrial vision. He confided in a colleague who told him, "You could have an impact on the world; it's your to take it."This appealed to Miller's vanity. He went to work in July of 2005, a $3 million bonus in hand.

Unlike Wagoner, who preferred quiet, incremental solutions, the blustery Miller was inclined toward drama. He saw Delphi as a pivotal act in a national movement against legacy benefits, with himself playing the part of the "messenger"—a term he used often and one that infuriated the rank and file.

At a press conference, he asserted, "Paying $65 an hour for someone mowing the lawn at one of our plants is just not going to cut it in industrial America." When he visited a Delphi factory in upstate New York, he was met by workers clad in green T-shirts reading, "Miller's Lawn-Care Service: Mowing Down Wages."

When he visited the UAW, Shoemaker and Gettelfinger told him "you can count on a strike" if the cuts he was proposing went through. After he left, Gettelfinger was so enraged he told an aide to remove the chair where Miller had been sitting.

) The primary cause, Miller said, was simple: it was the straitjacket of pension and related legacy obligations. In only six years, Delphi had accumulated an unfunded liability of $8 billion for retiree health care. Its pension hole was $4 billion, of which, if it ever emerged from bankruptcy, half would immediately come due. There was simply no place to get the money. "Delphi needs a pension solution," the company declared in court filings. "It cannot afford to fund the pension . . . and no business can operate successfully if it cannot respond to market forces."

Some of us in the room are old enough to remember that. Today we have Delphi spawned by GM telling us that closing 21 plants in America, eliminating 25,000 middle-class jobs in America, slashing the wages, pensions and benefits of the 5,000 or so American workers in Delphi's seven remaining American plants is good for Delphi. . . . Delphi's plan is to substantially exit its United States operations and transfer its production to low-wage foreign facilities, to convert [its] remaining few American workers from the middle class to the financial margins.

on having good affordable health insurance throughout retirement," Struckman noted.His own daughter would have to give up her dream of attending a four-year college. Chris Brown, a forty-seven-year-old who worked the night shift for Delphi assembling fuel injector parts, had taken the job (back in 1984, with GM) because his second child had been born prematurely and he needed the benefits. Now Miller wanted to take them away, and reduce his wage to $10 an hour— what Brown had earned in his first job after high school.

The union's formal response was more decorous, but no less direct. It reaffirmed that it would go on strike and remain on strike.

.Such miseries at the two companies spilled over, of course, to the union, whose roll of active members was steadily shrinking. All three were suffering—it was only a question of how the losses would be apportioned. As the judge overseeing the bankruptcy observed, the parties were engaged in a kind of three-dimensional chess. Each could check the other two.

The scale of its legacy obligations totally overwhelmed its car business. By illustration, a mere 1 percent decline in interest rates would have raised GM's retiree obligations by enough to offset of the profits it had earned during Wagoner's tenure to date, that is, 2000 to 2004 inclusive. And the crises seemed to multiply by the week: Delphi, Hurricane Katrina, a spike in oil prices.

And he needed it now.

sit down with the UAW leadership, whom he knew from his days as an analyst. GM's labor department was cool to the idea; the UAW was their turf. But Wagoner said okay. Girsky met Shoemaker early one morning at a diner on Jefferson Avenue, near Solidarity House, the union's headquarters. Shoemaker for once behaved like a typical, and frustrated, labor leader. A quiet man, he almost shouted at Girsky: "We have no relationship with you guys. You're not talking to us." When Girsky got back to GM, he called Wagoner. "Rick," he said, "you better get engaged."

Wagoner had told his board he was expecting to get an offer from the union over the summer, then in September. Now it was early October of 2005 and GM did not have a formal offer. The union kept saying they were "tweaking" it. Wagoner knew that GM's third quarter would be dreadful—another billion dollars lost. He needed to show positive when the company announced its results. If the union didn't act, he would cut retiree health care unilaterally. That would trigger an explosive confrontation with the union and probably a strike. GM might never recover from it.

The union's only solace was a little-noticed addendum to the agreement, which took the form of a joint letter on health care. "Given the fragmented and wasteful nature of the U.S. health care system," the document said, "the parties recognize an issue-by-issue approach to reform . . . is no longer sufficient. . . . [A] lasting solution to our health care cost crisis cannot be forged at the bargaining table."

national health care, perhaps because GM's board included the vice chairman of Pfizer, the big pharmaceutical concern, or perhaps because GM's culture was simply opposed. Miller, though, was under no such constraints. He admitted, "Reuther may have been right."

strike if Miller didn't offer a compromise. The only way he could do so, he said, was if GM extended more support to Delphi. "A strike would kill you," Miller said.

.Also like Reuther, he saw himself as the head of a social movement, but he had lost the economic leverage to promote it. He worried about younger workers who would not have benefits, much less a living wage. Without viable auto companies, he wouldn't have union wages to offer at all.

thousands of employees from Delphi. And the mess at Delphi remained unresolved; it was a tinderbox that could ignite at any moment. By Christmas 2005, GM's stock had fallen below $18, its lowest level since Wagoner's undergraduate days. General Motors, an American institution and long the country's premier manufacturer, now was valued at less than the Harley-Davidson motorcycle company. Its offspring, Delphi, was in Chapter 11. The transfer of value to pensioners was nearly complete. Other large corporations, such as Hewlett-Packard, Verizon, and IBM, as if to signal their horror at GM's predicament, were freezing their pension plans, meaning their employees would never again accrue benefits. Nationally, the retreat from pensions was gathering steam.

The only sure way to reduce that figure would be the Delphi route: bankruptcy. The White House declared that, come what may, GM could not expect a bailout à la Chrysler; it had better start making “relevant” products.Wagoner seemed to have run out of options. At the next board meeting, George Fisher, the lead director, pummeled the CEO for GM’s lack of progress. The verbal thrashing left Wagoner stunned.Then Wagoner had to disclose the dreadful result for 2005—a staggering loss of $10.6 billion. The company could not survive another such year. In January, Girsky delivered a presentation to fifty top GM executives. He told them, “Markets think we’re going out of business.”

Despite the UAW’s concession, nothing had been fixed. And given the uncertain prospects for benefit negotiations the following year, no one knew if they could be.

REPRESENTATIVE ELWOOD HILLIS

MICHAEL QUILL

Partly this was due to the steady ratcheting up of benefits, partly to creeping demographic trends, which had greatly stretched people's retirements. Though this had also occurred in the private sector, it was more pronounced in government, where the "right" of employees to retire early was championed by their unions. As workers were also living longer, the math had become unworkable. In the subways, for example, a typical employee in an earlier generation had worked for approximately forty years and then lived off his pension for, say, another ten years. Now employees retired after twenty-five years, after which they were likely to collect a pension for an equivalent quarter-century or even longer. It was as if two conductors were aboard each train—one of them doing the steering and the other lazing in his rocker—and both at taxpayer expense. To Kalikow, this seemed inherently unsound. He worried that the MTA was repeating the mistakes of General Motors.

—was now on the verge of collapse. "Had GM acted earlier, it would be a different story today," Kalikow would say. He was determined to heed this lesson at the MTA. He told an aide, "The greatest company in America is going broke over pensions. We have to do something before it catches up to us here."

caught up to the public sector. Virtually every government agency in New York City and State was facing a pension toll on a par with the MTA's. Nor was New York an isolated case. Other municipalities and states around the country faced a similar pension problem. In many states—California, Illinois, New Jersey, West Virginia—the problem is considerably worse.

tilted in the direction of higher benefits. This is because public unions can organize politically and influence elections—which is to say, they can vote their bosses out of office. This gives them direct clout over the people who determine their benefits. By contrast, the UAW, for all its muscle, cannot vote the CEO of General Motors out of a job.

stop the meter—not even with a union's permission. As early as 1939, pension benefits had been guaranteed by the New York State Constitution—which was interpreted to mean that benefit granted to an employee at any time during his employ was forever guaranteed. Other states subsequently matched this provision.

. From day one, the employer is committed for a span measured in decades. Governments do not even have the option of escaping pensions via bankruptcy. Once granted, public pensions are truly immutable.

problem.

pay for employee pensions? Most of the people riding the trains could not hope to retire after twenty-five years, nor did they earn as much as the average transit worker, which, including everyone from cleaners to train operators, was $58,000 a year.

footing the bill. Squeezed by the system's rising costs, Kalikow had been forced to defer subway expansion projects; he was trimming service, eliminating bus routes, closing token booths, and reducing late-night operations. The fare had been bumped, from $1.50 to $2.00. So one way or another, his customers paying. The MTA's capital needs were massive, and Kalikow was in a perpetual battle with Albany, and Washington, for subsidies. He did not want to spend them on lavish pensions.

employees, and ease the burden on his successors. This would require the acquiescence of the state legislature, as well as the governor (and, in practice, the mayor). Most of all, he would need the agreement of Roger Toussaint, president of Local 100 of the Transport Workers Union of America.

The system's longest route, the A train, spans thirty-one miles, and the tracks in the entire system, if laid end to end, would reach all the way to Chicago. Operating this formidable network without the union would be unthinkable. And for reasons owing to the subways' embattled history, benefits were, for Local 100, make-or-break issues. To Toussaint, pensions were a matter not just of money but of self-respect. He had a simple response to Kalikow. If the MTA touched the union's pensions, present future, the union would strike.

Public strikes have been illegal in New York State since the 1940s, but the TWU had struck twice before, and devastated the city on each occasion. And so, in December 2005, New Yorkers awoke, almost surreally, to a crisis. With the holidays nearing, they were on the brink of losing their buses and trains and, for all practical purposes, their city. New York would literally grind to a halt.

This was arguably true, but it overlooked the larger cause, which was rooted in the transit system's tortured past. The origins of the public pension problem—in New York and around the country—were bound up with the history of the subways and, indeed, that of their rebellious workers and their implacable union.

Benefits were liberal, but the fund was virtually insolvent almost from the start. Such is the nature of public pensions—benefits tied to salaries, wages steadily rising—that the obligation seems to outdistance even the most carefully wrought calculation.

The city thus had to pay benefits from its general funds. The authors of the report, trying to err on the side of prudence, estimated that during the remainder of the century—that is, for the ensuing eighty-seven years—police pension expenditures could cumulatively amount to $375 million. No doubt, this seemed an eye-popping sum at the time. Alas, New York eventually would spend three times as much on police pensions So much for prudent pension forecasts.

Other civil servant groups followed, primarily because government employers needed stable workforces. Teachers (mostly women) would be more likely to continue working after marriage if they knew that a pension awaited them. Also, government paid less than private employers. To compensate for meager wages, civil service jobs offered "benefits." Over time, cities and workers struck an implicit bargain. Wages were low, but no one got sacked. And with a pension, a job meant security for life. In 1912, such security was a rare commodity indeed.

Though he hardly intended so much, Coolidge's example set the template for suppressing public unions. They remained weak or nonexistent, leaving civil servants beholden to suffer whatever salary and pension their employer proffered.

However, the fact that the subways served a public purpose did not imply that the city took any responsibility for the employees—far from it.

That the workers were often exhausted (a function of seventy- to eighty-hour workweeks and the lack of days off) increased the risks. As late as the 1920s and early '30s, an of eighteen IRT employees a year suffered fatal injuries.

disabled and had twenty-five years of service under their belt. Moreover, wages, which were the basis for calculating benefits, were low even by then prevailing standards. An IRT machinist earned $2 a day; a motorman about $3 (autoworkers in Detroit were making $5). Yet, worried that the pension might prove too costly, the IRT directors imposed a further limitation: total pension benefits were capped at $50,000 a year. If too many workers qualified, individual benefits were simply reduced.

, two thousand employees turned out.For a formerly cowed workforce, this was an impressive showing. Then the union petitioned the court to declare the plan invalid. It claimed that the pension amounted to a payoff for the recent wage cut—making the TWU the first to detect the recurring trade (future benefits for wage restraint now) in American pension schemes. It is unlikely that the employees followed such particulars, but the pension remained a rallying point because the workers were contributing as much to it as was their miserly employer.

Once he got married, he lived with his wife, Mollie, in a small Bronx apartment, "like any IRT motorman."

that if the subways could be struck for even six hours, life in the city would come to a halt and "knock a few bricks off the capitalist structure."

For a mix of pragmatic and ideological motives, Quill made the party his ally and, to some extent, his master.

Actually, pensions were already a burning issue. For retirees, the transit pension was patently inadequate. Thomas O'Brien, a seventy-two-year-old train-man who had worked twenty-seven years, was collecting a mere $38.37 a month; Henry J. Dunne, who had become disabled after twenty-four years on the job (he was now seventy), was getting only $32.69. The TWU archives are rife with such pitiable cases.

For many transit workers it was the first time they saw a doctor.

with management, the city would not recognize it as an exclusive bargaining agent, nor did it accept its right to strike. To underline the point, the city mailed pamphlets to 32,000 subway workers, defiantly informing them that they were free to quit the TWU.

Whether such outbursts were genuine or calculated was, in Quill's case, always impossible to tell.

union. The secretary of labor, Frances Perkins, an old friend of unions (including the UAW), adopted a reproachful tone; she warned that if the city engaged in collective bargaining it would dilute the power of its elected officials. FDR got personally involved, opining that "the Board of Transportation in New York cannot enter into a contract with the subway workers."

guaranteed. If certain actuarial assumptions—how long retirees lived, for example—proved to be optimistic, employees got less than the promised "half." And many did receive less.

This enraged Santo, who made a stirring pitch to his fellows on the union board to fight for a fully paid pension:

But the level of benefits scarcely budged—mostly because, in the public sector, the Walter Reuther and John L. Lewis types were scarcely able to bargain. Most state and local governments still did not recognize unions; more important, they did not think of their employees as a legitimate interest group. This was as true in New York as anywhere else. Indeed, since the city takeover of transit, Quill had seen his negotiating power seriously backslide. He reckoned that to move his agenda forward he would need an ally in City Hall.

constituency was—all of the "oppressed," or transit workers alone. He was soon voicing support in radio ads for a fare hike—for which the denounced him as an opportunist. Probably Quill did not intend a total break, but in the late 1940s nothing was so impossible as to be half opposed to (or half in support of) communism. Addressing four thousand members at a TWU rally, Quill proclaimed his independence from the party in dramatic fashion. "They say I have to read the editorials to make up my mind what to do," he said derisively. Then he grabbed a copy of the newspaper, conveniently at hand, held it above his head and tore it to shreds, eliciting a cheer.Promptly he went about purging the union of more than a dozen communists in leadership roles. Meanwhile, he and O'Dwyer had arrived at a deal. The subway fare rose to a dime. And O'Dwyer gave the TWU a wage hike, a pension increase, a health plan, as well as a dues check-off (which let the union collect dues directly from member paychecks). It was not quite the Treaty of Detroit, but it brought the TWU closer to full-fledged union status.

Every time O'Dwyer went on vacation, or so it seemed, he had to rush back to New York to avert a threatened transit strike. Though Quill generally led the insurrections, he didn't necessarily instigate them. He was continually being challenged by splinter factions and rival unions on his left (one group resorted to pelting him with eggs). To avoid losing control of his rebellious union, Quill repeatedly had to adopt more confrontational positions. L. H. Whittemore, a Quill biographer, captured the dynamic between Quill and his unruly troops when he wrote, "If they pulled a work stoppage, Mike pulled a slowdown on the whole system. If they were angry, Quill was furious."

The next year, his efforts were rewarded: the TWU was anointed the exclusive bargaining agent for transit workers and handed its first contract. In return, it pledged not to strike.Thanks to its enhanced clout, the union won an improved pension, with half pay at age sixty. City employees were also admitted into Social Security, which boosted their living standard in retirement considerably.

But Quill grasped its value, at least in a human sense, when he took a vacation in Ireland. Walking a dirt road, he heard an old farmer greet him, “Goodning, Mike,” as if it were the most natural thing in the world to see Quill on the old sod in County Kerry. The man was a former transit worker who had retired to his homeland on a transit pension.

In 1957, an election year, an aide proposed that he authorize full collective bargaining. She described it as a potential vote-getter: “You can call it the ‘Little Wagner Act.’ ”

Massachusetts enacted legislation permitting public employees to join unions in 1958, the year of Wagner’s order. Soon after, the Bay State authorized the unions to bargain. Three-quarters of the states did likewise—setting in motion a process in which public employees would wrest ever bigger rewards, and especially bigger pensions.Membership in public unions rose exponentially. Virtually proscribed only a decade earlier, by the mid-’60s these unions had been transformed into lobbying power-houses with salaried staffs, hired lawyers, in-house newspapers, and (just in New York City alone) a quarter of a million dues-paying members.

to get the pension terms they wanted through negotiation could also lobby Albany directly.

And from the early ’60s on, the calendar was stocked with pension measures. The legislature began to dole out pension plums little by little and group by group—now to patrolmen, now to sanitation workers, now to teachers. Thus, while the size of the pension had once depended on whether actuarial forecasts came true, Albany now guaranteed it regardless. And now, too, the cash contribution of employees toward their pensions was significantly reduced—leaving the public to carry the freight. Also, the definition of hazardous work was liberalized, so that the transit police, the housing authority police, and corrections officers came to get pensions as lucrative as those of firemen and cops.Albany enacted no fewer than two hundred pension bills over the course of the decade—every one of them resulting in higher costs.Indeed, from the Wagner era to the early ’70s, the city’s payroll rose four times while retirement benefits surged nine times.And of course, these benefits could not—ever—be revoked.

Though Quill continued to be both active and outspoken on civil rights, particularly voting rights, he no longer resonated with younger blacks and Hispanics. They saw a leadership whose pale, lined faces still overwhelmingly reflected its Irish traditions.Unhappily for Quill, upper-echelon motormen, while heavily Irish, were also dissatisfied, because Quill had focused on raising wages in transit’s lower ranks. As wage scales compressed, higher-paid drivers felt neglected and threatened to break away.

And that was the end of it. Such small victories notwithstanding, the fact was that Quill had ten times sought authorization from the members to call a general strike and—always negotiating a “miracle” settlement at the eleventh hour—never once used it.His members were no longer amused. One worker wrote, “Dear Mr. Quill: Nobody believe [] that you will ever call a strike in the subway. You haven’t called one in thirty years.”

This marked a new phase in public employee militancy. More immediate to the TWU, transit workers remained poorly paid. Motormen earned $3.46 an hour, compared with $3.96 for those on trains run by the Port Authority, a rival agency serving commuters between New York and New Jersey.But the decisive factor was a changing of the guard at City Hall. After three terms, Wagner was retiring. The mayor-elect, John V. Lindsay, was a liberal, forty-four-year-old Republican congressman who represented the wealthy Upper East Side “silk-stocking” district. Lindsay was tall, handsome, and full of ideals. Though he wasn’t personally wealthy, his background could hardly have been more unlike Quill’s. Educated at an elite prep school and at Yale, he campaigned against the personalized politics and backroom deals of the Wagner years, promising a more enlightened era in which labor relations would be handled by fair-minded experts and fact-finding panels.Though popular with voters, he struck labor leaders as naïve.

He ridiculed him by deliberately mispronouncing his name as “Lindsley.” Perhaps, had Lindsay gotten involved, as Quill was imploring him to do, they could have come to terms. It is more likely that this time, Quill had resolved to strike. The Transit Authority procured a court order enjoining the union's leaders from calling one. Quill tore it to shreds.

It is not clear if Quill's lieutenants understood this crucial point. And Quill, visibly gray, had weakened physically. His suite at the Americana was stacked with medicines, and he was dizzy from popping the pain-killer Demerol.

Monday morning Lindsay walked four miles to work in a show of solidarity with ordinary New Yorkers. Citizens (as well as the press) were overwhelmingly siding with the city. On Tuesday, the city moved to enforce the no-strike law. A sheriff arrived at the Americana to arrest the leaders of the TWU. Quill snapped, "The judge can drop dead in his black robes and we would not call off the strike."Shirley brought him a book on Irish history to read in his cell.

After thirteen days, the transit strike mercifully ended. It was an unalloyed triumph for the TWU, which received twice as large a settlement as under Wagner.Flush with victory, the union hired a pension specialist and began to prepare for its next fight.

insurance, plus ten to twenty sick days per year, twenty-five vacation days, and eleven holidays. In addition, unions bargained for numerous work restrictions (and thus, inefficiencies). For example, the TWU secured a ban on part-time work, meaning that bus drivers would be paid for long stretches of idle time in between the morning and evening rush hour.In this and myriad other ways, city employees were redefining the meaning of the term "public servant." They had become an entitled class—a group entitled to the public's largesse.

subways, and the NYPD, were all they had. No matter how much the employees earned, and no matter what their services cost, the citizens were captive customers.

pensions (that is, equal to their full salaries) after thirty-five years.A game of leapfrog ensued. The sanitation workers, arguing that they were also "uniformed," got pension sweeteners over the mid-1960s, vaulting them to a half pension after twenty years and virtual parity with the firemen and cops.A panicked PBA came hurrying back for more.

This was late 1967. With its contract nearing expiration, the union threatened a strike. This made pensions truly a citywide issue. Transit disputes always galvanized the public, and memories of the strike of '66 were still raw. Fearing a repeat, the city agreed: half of final salary—guaranteed—for workers fifty and up with twenty years' service. And there was more. Transit agreed to change the definition of the "final salary" upon which the pension was calculated. Previously, it was the average earned over an employee's final five years. Almost unbelievably, it now became the last year's salary—. This led to significant abuse, as retiring employees maneuvered, with the help of friendly overseers, to be assigned heroic amounts of overtime. As the TWU crowed to its members, an employee who retired after thirty years, and who had earned $9,000 in his last year, would receive an annual pension of $6,129— compared with $3,943 under the old contract.In a pen stroke, the city's future commitment to transit workers had soared by more than half.

The authority made the same decision two years later, when it agreed to pay the transit pension's full cost, thus eliminating entirely the employee contribution. Transit workers—and they alone—now had the "free" pension that the fiery Santo had demanded.

with my pension deal." He negotiated a better one.

than half pay after twenty-five years (a rather short career for a white-collar professional). When Gotbaum saw he had been leapfrogged by the teachers, in 1970, he demanded yet a sweeter deal. The response of a Lindsay aide to one such pension demand was memorable: "When would we have to start paying for it?" Told that, due to the peculiarities of the pension calendar, an increase would not affect the budget until three years later, by which time Lindsay would be serving out his final year, the aide breezily approved it.

Interest groups gained new influence at City Hall, and unions were among the beneficiaries.

Transit was thus able to piggyback substantial wage gains—36 percent over four years—on top of its rich new retirement benefits.The irony is that, despite Lindsay's generous treatment of labor unions, he was hit by a wave of crippling strikes anyway.

after they retired. A transit worker could retire on 120 percent of his final salary; a teacher, on 130 percent.

Within two years, of the subway maintenance crew was gone.

The exodus of workers thinned the ranks of experienced repairmen and drivers when they were needed most. New Yorkers who were scarcely aware of the ins and outs of employee pensions very much aware that trains were breaking down, employees were less attentive, stations were suddenly less clean, and incidents of crime—including violent crime—were soaring.

By the early 1970s, transit was in financial trouble.

And just as such costs were cutting into performance at transit, so they were eating into the perception of New York as a livable and affordable place to live and work.

have a monopoly in services after all. If taxes became too high, or service too slipshod, residents might move away. It wouldn't happen overnight, but by the early '70s a migration was clearly under way. New York was hemorrhaging private-sector jobs and losing its middle-class core to the suburbs, especially out of state, where taxes were significantly lower. Just as car buyers were defecting from GM to Toyota, so "consumers" of government services were abandoning New York. In truth, the unions had overreached.

: "State Pensions: A Gravy Train." Nelson A. Rockefeller, the longtime governor, who had been the model of largesse with respect to unions, invariably supporting pension hikes and encouraging the legislature to do likewise, executed a swift about-face. This time, Rocky lobbied the legislature to say "no."

powerful employees: low-ranking civil service, health and hospital workers, housing employees, security people. These lower-ranking workers were predominately Hispanic and African American.

, "hundreds of thousands of motorists were trapped in massive traffic jams on the hottest day of the year when municipal workers opened drawbridges in the city and abandoned trucks on major highways."In a feat worthy of commandos, Feinstein's men had swiveled twenty-seven of the city's twenty-nine movable bridges to an open position in the early hours of the morning, then fled their posts on a Teamsters-driven skiff, taking their operating keys and much vital electrical equipment with them. They left a helpless Army Corps of Engineers to try to sort out the damage. Gotbaum's truck drivers were less effective.

municipal union with a new "retiree welfare fund," including prescription drugs, dental care, and life insurance. This was considered no big deal, even by the city actuary.Such benefits soon spread to public unions across the country, and of course their costs would eventually mushroom. In one bizarre stunt, Feinstein had paved the way for benefits similar to those won by the UAW over decades.

adopting his plan, Kinzel implied, would be grave. "I think our system would save New York City from bankruptcy," he declared in a press conference. That was in January 1973—perhaps the first public suggestion that the city was headed for a financial crisis.

, the fact that public employees stood to earn more in retirement than on the job demonstrated that the city's, as well as the state's, pension system had gone badly off course.Business leaders, working behind the scenes, strongly supported Kinzel as well.

That would have been the end of matters—had not Wilson, the lieutenant governor, leaned on Rockefeller to reconsider.The governor was also feeling heat from bankers—his political base—and from the press.

Rockefeller, who had long harbored presidential ambitions, understood that a pension mess at home would hurt his image nationally. In July, he convened a special session of the legislature and strong-armed it into enacting a compromise measure that would, indeed, reduce pension benefits for new employees. The cuts were piecemeal, and not nearly as severe as those advocated by Kinzel. Police and firemen were barely nicked. However, at transit and other departments, the age and service requirements were modestly increased—in transit's case the minimum age was hiked to fifty-five.Also, new employees' pensions would be calculated on the basis of their last years' pay, not just the final year.

When that no longer sufficed, the city began to patch its budget with short-term loans. Then, in 1975, lenders stopped the game, and the city ran out of people and institutions to borrow from.

Of course, this was money they had from the city, by virtue of its reckless pension promises, and now were merely lending back. In reality, the city had never been able to afford those promises. The fiscal crisis merely proved it.

What's more, although the city slashed its operating budget, pensions (in the short run) were immune. Thus in 1976, the first year of fiscal austerity, New York's retirement costs reached a record $1.5 billion.The fiscal crisis simply slowed the rate of accumulation and gave the city a chance to catch its breath.

For Koch, such talk was as routine as breathing.

. The delay would save the city some money—but after that, of course, it would be on the hook to make higher contributions forever.

side, made Koch want to scream all the louder. “I was so f——ing angry I wanted to kill him,” he would recall. “I could have choked Barry Feinstein and sent his body in a box to the others.” But Koch knew that if he did that, or rather, if he continued to squawk, Feinstein would withdraw his offer and the city would lose anyway. Koch made the deal.

Instead, they concocted an elaborate script for getting it past the local’s executive board. Here was the plan:

Union members seethed with resentment.

Aside from the effect on commuters, who suffered excruciating delays and were squeezed like cattle into the cars that functioning, the breakdowns made life miserable for the workers in numerous small ways, as they navigated trains with sticky doors or malfunctioning intercoms and trod along catwalks with rotted or missing planks. Employees and passengers alike feared for their lives as incidents of crime in the subways soared to well above fifty a day.

To cover the gap, the MTA relied on federal and local subsidies, and on monies dedicated by the state, such as a portion of the revenue collected from tolls and various taxes and fees. Transit was thus knit ever more closely to the local economy.

fared as poorly as many believed. Their salaries had more than kept pace with inflation, for instance. However, public employees, who constituted a sizable portion of the city’s middle class, did not share in the general feeling of prosperity, especially as once affordable neighborhoods were steadily priced out of reach by white-collar types. By the late ’80s, civil servants were smarting to make up lost ground, and the 1989 mayoral campaign provided a showcase for their frustrations. Mayor Koch (the unions’ frequent tormentor) was challenged in the Democratic primary by David Dinkins, the Manhattan borough president. As an African American, Dinkins had a natural affinity with the swelling population of black civil servants. Though the campaign had a racial overlay, Dinkins got a strong boost from public employees of all colors who were tired of being made to feel like the scapegoat for the city’s problems. His triumph signaled that public employees were on the way back.

, which spoke to employees in a more personal voice than the mainline TWU. It focused on benefits and workplace issues, such as child care and separate toilets for female workers, that resonated with the rank and file.

, began to fixate on restoring the “20/50” pension—that is, retirement after twenty years at age fifty. For all their radicalism, transit employees cared about the same issues as more moderate autoworkers: fringe benefits, health care, pensions. No union leader could ignore them.

Nonetheless, he faced an immediate threat from the vanguard, whose adherents had upped the ante by organizing a political faction within the union known as “New Directions.”

relying on taxes. That is to say, the MTA went on a borrowing spree.

Both the pension and the debt saddled the authority with long-term commitments.

to increase, giving rise to ever rosier forecasts and a consequent liberalization of plans.

into state retirement funds. Illinois cut back on contributions with virtually no regard to actuarial need. In New Jersey, Christine Whitman, a Republican governor elected in 1993, relied on buoyant stock market predictions to finance hefty tax cuts, which were the centerpiece of her administration. Thus, on the eve of her reelection bid, in 1997, New Jersey borrowed $2.8 billion and advanced the funds to its pension system, on the convenient theory that its pension managers would make more in the market than the state paid out in interest. New Jersey even raised benefits. Meanwhile, Trenton achieved a sort of transitory budget balance by drastically cutting pension contributions. For three consecutive years, New Jersey's contribution to the Police and Firemen's Retirement System was

There is a well-known principle in pension economics known as "smoothing." The idea is that, since the stock market fluctuates, pension plans should not assume that a rapid rise (or a sudden drop) will necessarily persist. Therefore, plans book only a small portion of their gains at the outset, and the rest (depending on whether the gains do in fact last) over a period of years. However, by 1999, the gains were pretty tempting. The city's brassy mayor, Rudolph Giuliani, who had defeated Dinkins in 1993, had managed tight budgets during most of his tenure. But now he was gearing up for a U.S. Senate bid and loosening up on the budgetary reins. As spending increased, it was becoming evident that whoever succeeded Giuliani would have to deal with a deficit.

of its recent stock market gains, which naturally made the system look more flush. To his credit, Robert North Jr., the city actuary, insisted on a dollop of conservatism, and scaled back his estimate of future asset growth. But the net effect of these changes was anything but prudent: they permitted the city to halve its customary pension investment.

From a longer-term perspective, this was patently reckless.

was preparing to run for governor, against Pataki, in 2002. McCall had enormous political leverage, as he determined how much various employers were required to contribute. With the state's fund brimming over, he dished out political chits, reducing contributions from school districts, cities, state agencies, and so forth to practically zero. Some districts were cut precisely to zero.

the move to reduce contributions. Though it might have seemed a selfless gesture for the unions to have excused employers from contributing to "their" funds, in fact it was cynical in the extreme. Since pension benefits were an inviolable obligation of the state, the financial condition of the funds was of no concern to the unions. One way or another the state would to make good on their benefits.

members get the pension supplement. Seabrook was a buddy of Pataki's and regularly went to the races with the governor and with Senate leader Joseph Bruno. Though that surely helped, it was Pataki's looming election battle against McCall that truly loosened Albany's purse strings. For political reasons, neither party could afford to say no.

No matter: the legislature approved, and Pataki signed, the increase. Subsequently, it extended heart bill status to sanitation workers and emergency medical technicians.

It also warned that if the measure was enacted, firemen and cops would demand similar treatment. But Albany approved the bill. Then, as predicted, the firemen and cops got an HIV bill too. They also won back a cherished perk, as the legislature agreed to redefine their "final average salary" as their last year's pay.

votes in the legislature. Consultants such as Schwartz were able to certify that, given the present surplus, increases would not require an appropriation from the budget. The prospect of a "free" entitlement made the legislators giddy. Pataki vetoed more of these bills than he approved, but the temptation to sign at least some was enormous. The unions contributed heavily to gubernatorial and legislative campaigns and simply could not be ignored. Transit's Local 100 spent $1.2 million on political donations and related expenses in 1999-2000 alone.

for those who were most in need. McCall, however, was pushing for an across-the-board, annual adjustment for everyone.

Pataki had to know that every other union negotiating with the state would demand the same, and they did.

Nonetheless, Willie James, the head of Local 100, was under intense pressure from his members, including those in the rival New Directions caucus, to reclaim their lost benefits.

and, what's more, it partially indexed pension benefits to inflation—an unusual and costly plum. The cost of these changes over the ensuing decade was estimated at $36.5 billion. Pataki, McCall, and various legislators gushed that they had wrought an "historic" change, a "milestone," and so forth.

The chill was on.

He emigrated to the United States and attended Brooklyn College, where he again became immersed in left-wing politics. Then he quit school to become a welder. In 1984, Toussaint joined the Transit Authority as a subway car cleaner—a poorly paid job that stoked his working-class consciousness. Within a year, he was promoted; however, he became incensed by what he deemed the MTA's arbitrary approach to discipline, as well as its insensitivity to the workers, and quickly became active in the TWU.

The Kalikows put apartments where the farms had been and struck it rich.

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exposed him to a fair amount of ridicule. Other papers gleefully reported that the bankrupt millionaire's assets included a trio of mansions and estates, as well an $8.5 million yacht and a collection of vintage Rolls-Royces, Maseratis, Ferraris, and other cars.He owed his banks $1 billion and his public life seemed over.

and his hotel, he kept some of his real estate, including the Park Avenue skyscraper that was his signature building. As the economy recovered, he was soon riding high again.

, were skeptical, to say the least. Kalikow was seen as a political novice, probably a dilettante. Worse, he was viewed as beholden to Pataki, and too close to D'Amato, who had a questionable record on ethics and who, since losing his Senate seat, had become a high-priced lobbyist on MTA-related business.

Also, subway ridership had resoundingly rebounded to its level of the early '60s.

The MTA's costs were also inflated by high-level influence peddling. In one notorious incident, D'Amato collected $500,000 for placing a single telephone call to Conway on behalf of a client hoping to remodel space for the MTA. The project ended up running hundreds of millions above budget.

But the MTA's image had been tarnished by the whiff of cronyism. Hopeful subway contractors contributed to Pataki campaigns as a matter of course, and the MTA's board was thick with the governor's pals. The appointment of Kalikow fit the pattern: a rich benefactor claiming his reward.

And he brought considerable political talents to the job. The secret of his charm was that he didn't hide his ego or apologize for his wealth. ("I don't take a salary," he noted a few years after becoming MTA chairman. "I paid $70 million in taxes in three years. Who the hell do I have to apologize to?")His bankruptcy, which was born of his characteristic cockiness, had softened his roughest edges. "I thought I could do no wrong," he admitted later. "I was a victim of my own success—of my hubris." Failure had given the new MTA chief a heightened awareness, a sense of financial risk.

Bloomberg thus raised taxes on ordinary New Yorkers to pay for pensions. He served up an incredibly steep 18½ percent hike in the property tax. Within the year, every penny of the increase had been absorbed by the rise in pension costs.

North explored various alternatives, including switching the city from a traditional, defined benefit system to 401(k)s, which was the path being followed by many private employers. A few states around the country were contemplating such a switch, as a means of freeing themselves from pensions. North thought it was a bad idea. The original justification for public pensions—that they would deter employees from leaving—still made sense. Unlike employers in the private sector, who thrive on mobility, government employers such as schools, mass transit, and fire departments still depended upon workforces.

the retirement age. Bloomberg agreed that cuts were warranted. However, such a step would, of course, require Albany to go along—unthinkable in the aftermath of the Trade Center attack, in which firemen and cops had died heroes' deaths. For the moment, Bloomberg did nothing.

However, its biggest expenses could not be trimmed. Pension costs were exploding, and so was interest. (The MTA's debt had doubled during Pataki's tenure to $21 billion.) And the MTA's continuing capital needs were huge—roughly $3 billion a year just for maintenance and upkeep. Within a few years, the agency projected, debt service, pensions, and other fringes would eat up 40 percent of its budget.

policies. He would suck on a Tootsie Roll as he made this pitch, which made him seem boyishly earnest. Surprisingly, Kalikow managed to get nearly twice as much federal aid out of a reluctant Bush administration as the MTA had received during the Clinton years.

Also, he had fallen a little in love with the subways: with the system's vastness and its centrality to the average New Yorker—and, naturally, with his role as its protector. Even the, which early in Kalikow's tenure had criticized the chairman for being a carbon copy of Pataki,changed its mind about him. Seeming surprised that Kalikow, unlike his predecessor, was willing to challenge the governor, the observed that he had been "better known as a Republican donor and heir to a real estate business than as a forceful voice in civic affairs. . . . But in recent months, Mr. Kalikow has become a far more forceful advocate for the system than Mr. Conway was."

had already made some sacrifices. He had raised the fare, he had pressed for new taxes, he had given up, at least for now, on expanding the system. The TWU would also have to give. And the workers, he maintained, had little to complain about. A typical bus operator earned $63,000 (those close to retirement earned in the neighborhood of $75,000, and sometimes more, depending on their overtime). Even a low-ranking cleaner was paid $51,000.Kalikow thought of his workforce as among the privileged—blue-collar workers with middle-class incomes.

Thanks to its high wages and benefits, transit perennially had a long list of job applicants and razor-thin turnover (only 4 percent a year). Subway jobs were jobs.

Health care for retired firefighters would raise the total to more than 100 percent. Incredibly, taxpayers would be paying as much for retired firemen as for active ones.

in 2005. This figure was projected to nearly double by 2009.(Other cities in the state were also dealing with alarming increases.) And while cities were paying more, the employees were paying considerably less.

-thirds.

and to a booming real estate sector. It was unlikely, and presumably undesirable, that the city could keep raising taxes. And sooner or later, the real estate market would cool (or so economists kept saying).

The CBC concluded that New York's pensions were far more generous then they needed to be; once again, many public employees were earning (including Social Security) more in retirement than on the job. No one in the private sector enjoyed such a pension. New York's pensions were rich even compared with those at General Motors, the gold standard of private benefits. In 2004, a freshly retired municipal employee with thirty years' experience drew a pension of, on average, $42,000—20 percent more than his counterpart at GM.And unlike the case with the retired autoworker, when the city clerk or subway maintenance man began to collect Social Security, pension would not be reduced.

However, he shied away from pressing the issue.

This subtly encouraged Toussaint to press ahead. He reckoned that if he and the authority could reach a pension deal, the governor would sign it.

Meanwhile, Toussaint resisted peace overtures from the union's old guard, who still dominated the TWU (the parent organization). Mistrusted on both left and right, Toussaint was dangerously isolated within his own union.

The pressure for a big settlement increased considerably in the fall, when the MTA (which received a portion of the taxes on commercial property transfers as well as on mortgages) disclosed rather sheepishly that it would reap a huge, unexpected surplus, approaching $1 billion, thanks to the continuing boom in real estate. Kalikow had to explain that the bull market in property was and that once it cooled, the agency still expected very large deficits. This did not go over well with the union, especially when the MTA earmarked a small portion of the surplus for holiday-season fare cuts—giving riders (but not employees) a Christmas gift. Toussaint hit the roof. If previously the forty-nine-year-old union chief had been suspicious, now he was apoplectic. His troops were ready to strike then and there.

Since no present employees would be affected, Kalikow figured that the concession would be no big deal. He could not have been more wrong.

As to future employees, he snapped that he would not sell out "the unborn." In the next few weeks, he proclaimed, repeatedly, that defending the unborn was a matter of "principle."

on pensions. Dellaverson, if anything, was more flexible, because he understood the subtleties of managing a workforce. Unlike some would-be reformers, he did want to abolish the pension, which he recognized was vital for hanging on to employees. He simply thought fifty-five was an unaffordable, and unjustifiable, age at which to grant retirement.

can't run a subway."

called on Pataki to prove his mettle by "stand[ing] up to the transit workers union that is threatening to ruin New York City's Christmas." But as far as the governor was concerned, it was Kalikow's ball game. The local press generally sided with the MTA. According to polls, most New Yorkers opposed a strike, but transit workers were solidly in favor.

As the afternoon wore on, Paterson, who was painfully aware of the legal penalties that would befall his client, kept urging the parties (on both sides) to keep at it. Dellaverson gave a little ground; the union stood pat. Toussaint was increasingly argumentative; Dellaverson, peering from behind his wire-rimmed glasses, thought he was under enormous pressure. In the evening, as if afraid to abandon his constituency, Toussaint ducked out to give a press conference. Some militants led by John Mooney, the union vice president for station workers, tried to storm the podium. Toussaint's security guards bodily shoved him aside while Toussaint kept talking and tried to appear calm. He returned to the conference room in an agitated state. Then Dellaverson saw Toussaint on television, ripping into the MTA. Dropping his customary detachment, Dellaverson bolted downstairs to give the media version.It was now well after 10 p.m.; the deadline was less than two hours away. At 11 p.m., Kalikow joined the bargaining and faced Toussaint for the first time.

sell out the unborn. He and his aides, their patience exhausted, made ready to leave. Kalikow's spirits sagged; he had thought they were close. Trying to rekindle the momentum, he made a patronizing speech, telling Toussaint that a strike wouldn't hurt him or the rest of the brass at the MTA; it would hurt the "little people":

“the shoeshine boys and the guys who work in the luncheonettes, the chambermaids, the small business guys.” Trying to disarm him with a dose of humility, Kalikow added, “I’m begging you; don’t walk out.” Toussaint barely replied. Exasperated, Kalikow said, “Roger, if you strike you go to jail.”

Toussaint and Kalikow kept up the flow of rhetoric. Each invoked the larger struggle. Kalikow said the MTA was like “every business and government in this country . . . seriously clouded by the extraordinary growth in pensions and health-care costs.” Toussaint, drawing an opposite moral, said, “Working people and people of good faith will look at what’s going on with General Motors and the stripping of health care for tens of millions of Americans, and the taking away of the hard-earned pensions of retirees, as an outrage.” Eighty-four years after the IRT’s first, threadbare pension, subway benefits had become a national metaphor.

Monday morning, the union began a limited strike against two private bus companies in Queens. This sent an SOS to the seven million New Yorkers who daily relied on the subways and city bus lines. At 10:45 a.m., the bargaining teams reassembled at the Grand Hyatt. They were down to their final day—again.

Toussaint doubted that agreement would satisfy such members.

.” It struck him as a dark portent: the sky was falling and Toussaint was focusing on internal politics.

the outcome, nor would it shoulder all of the burden. But transit employees still could plan on a youthful retirement.

But soon Toussaint’s organization would be hit with a contempt citation and $1 million a day fines. He also faced the opprobrium of much of the city. The, unsatisfied with mere court citations, editorialized with its trademark New York bluntness, “Throw Roger from the Train!”Kalikow also was furious at Toussaint, who he felt had betrayed him. Later he would reckon that fixing the pension system was more difficult than he had imagined.

CARL DEMAIO,

Public employees were being laid off; plans for a new, state-of-the-art downtown library had been shelved; swimming pools had been closed; hours at existing libraries had been curtailed; an after-school program for kids had been gutted, as had maintenance of the sprawling parks network, formerly one of the prides of San Diego. Some 60,000 potholes had gone unfilled.

for its benefits. That is what the subway strike was about; New York realized that pensions bore a cost, and the transit agency, through the person of Kalikow, resolved to hold the line.

If the residents of this deeply conservative enclave mistrusted government, they simply taxes.

has been paramount. (Its editor in the 1960s was Herbert Klein, who doubled as press agent in Nixon's campaigns and ultimately was his White House director of communications.) For practical purposes, the reigning authority was the Chamber of Commerce, an arrangement that may have been reasonable when San Diego was more or less an oversized hacienda in between Los Angeles and the Mexican border, but it was unsuitable for a metropolis of 1.2 million.

And the effect endured. By 2000, schools in California were receiving $600 per pupil than the national average, compared to $600 above the average in 1978.A perhaps unanticipated result was that localities furiously began to look for other sources of revenue.

Still eyeing retirement contributions as a potential life raft, Wilson took the extraordinary step of withdrawing San Diego from the federal Social Security system (it remains one of the few cities that is outside the system). Wilson no doubt figured that San Diego would reap a saving, as it was spared from having to pay its share of the federal payroll tax. However, the city employees, who now lacked Social Security protection, naturally demanded a heftier pension from the city and also retiree health care.

Its budget woes worsened when the country suffered a recession in 1990 that hit California especially hard. The following year, after the Gulf War, the defense industry went into a nosedive, eviscerating San Diego's tax base.

In effect, the trustees could say to the beneficiaries, "Though there is less money in the fund now, more will be coming your way later." But the fact remained that San Diego had set a dubious fiscal precedent, borrowing from the future to avoid a short-term squeeze, and offering a carrot to get the trustees to look the other way.

From then on, the city government was chronically short of cash.

Council members complained they didn't understand his machinations, that he never explained the budget (the complexity of which one member likened to that of a Leonardo da Vinci drawing), but the truth was they were happier knowing what McGrory was up to.

, almost always thwarted him. Whereas businesses in nearby Los Angeles paid a fifth of 1 percent of their receipts for licensing fees, those in San Diego contributed one- of 1 percent. Similarly, residents in L.A. paid $137 per capita as a utility tax; those in San Francisco $97, and in Santa Ana $75. San Diegans paid. Despite its appeal as a tourist haven, hotel room taxes were among the lowest in California. Home-owners in San Diego did not want to to have their garbage hauled away, and so, unlike virtually every other municipality on the planet, the city did it for free. Nor did the city impose on its snug denizens the indignity of parking meters along their miles of pristine beaches. Overall, the revenue collected by the city amounted to only 2 percent of household income—the lowest ratio of any big city in the state. Since the average was 3 percent, San Diego was forgoing fully a third of the revenue that presumably was available to it.

seems expedient, because future beneficiaries do not have a voice. And what other option did Golding have? San Diego already was coping with a threadbare level of public service. It had fewer cops per capita; it spent less on upkeep per each acre of park; it made fewer repairs on its streets, highways, and storm drains than any city in the state. (Frustrated bureaucrats occasionally twisted the official slogan, referring to their hometown as "America's City.") So badly outmoded were its sewers that it was under a federal mandate to improve them.

McGrory quietly worked out a deal (rubber-stamped by the city council) under which the city would pay for any unused football tickets, up to an attendance of 60,000, and thus ensure Spanos a guaranteed purse.

exist for the purpose of bailing out the city, much less its football team. However, when an auditor says he needs a break, boards find it hard to refuse. It voted 7-6 to reduce the city's pension contribution, pending an approval from the board's lawyer.

recognized that the underfunding would violate the city charter, which required the city to make contributions at a rate consistent with the actuarial calculation, and the law firm said so plainly.As far as the 1995 budget process was concerned, that ended the matter.

its contributions, and the board was controlled by the city. Indeed, the three trustees who worked at City Hall had an intimate, day-to-day involvement with the city's budget.

The rest of the country, and in particular the Republican Party, seemed to be catching up to San Diego in terms of its dislike for taxes, and Golding was a politician in glorious harmony with the moment. In her otherwise expansive State of the City address, she boasted of having further taxes. With regard to the proposed library, she chirped that the council had "figured out a way to pay for it, and adopted a plan to build it—all without raising taxes."

Given that Governors Wilson and others had shortchanged their state pension systems, his plan did not seem so outlandish. However, by offering the four city unions an explicit quid pro quo—a sweetener in the form of higher benefits—McGrory had crossed a serious line. He was not just asking for a favor; he was literally trying to buy the unions' acquiescence.

Smith tried to feign a deep fiduciary concern, as though she was truly upset that the city was "tampering with funding methods." She added that it would require a "yeoman's effort" to overcome her, and her members', misgivings. By yeoman's effort, she meant a bigger payoff than McGrory had proposed, or, as she put it, "gains [that] are clearly respectable." This was patent blackmail. Left unstated was the inconvenient fact that if Smith were truly worried about funding levels, higher benefits would be counterproductive, since they would increase SDCERS's liability. Higher benefits wouldn't for the underfunding, they would aggravate it.

increase in the multiplier used to calculate municipal workers' pensions—a staggering raise. The other unions also got hefty raises. The uniformed services (police and fire) would now be able to retire, after thirty years, on a pension equal to 90 percent of salary—a level unheard of in industry (save for the unpardonable pensions of many CEOs).

• Have SDCERS cover retiree health care.

the full tab. According to the terms of his underfunding scheme, the city would pay only a little over 7 percent. This would further increase the liability in the following year, when the actuarial cost would rise to 12 percent. Each year of underpayment would exacerbate the deficit in the next. The plan was fiscal lunacy on its face.

But he didn't say outright that it was illegal. The actuary, Rick Roeder, also waffled. The two advisers needed but a tiny encouragement: a face-saving.

it would owe—at least $25 million and possibly more. The arrangement was akin to a homeowner promising to make bigger payments if he fell behind on his mortgage. It was patently illogical; if he fell behind, even normal payments would be a burden. But the trigger gave the scheme the patina of security: it was a "failsafe," a "guarantee."

The other trustees waited to hear from Hamilton, the lawyer, and Roeder, the actuary. Pension advisers are typically unsung, but they have moments, at least potentially, of quiet heroism. Nothing but the absolute truth will do, and they cannot allow either peer pressure or a desire to please to corrupt their opinion. Neither Hamilton nor Roeder was up to it. Each gave a grudging okay and the resistance collapsed. By a vote of 8-3, the board approved its own underfunding. In July, the council kept its part of the bargain, passing the new, higher pension benefits without discussion.

, likened San Diego to a second Eden—one that fell only "just short" of the original. Bob Dole, the nominee, doffed his cap toward the host city or at least toward its governing ideology, as he promised in his keynote speech no fewer than twenty-four times that if elected he would cut taxes. He was presumably unaware that San Diego had defrayed the convention's cost by shortchanging its public retirement fund.

Arguably, San Diego was also in violation.But no one challenged it. The city's timing was fortunate: the stock market was booming, and SDCERS's investment portfolio was soaring. McGrory, seeing a chance to go out on top, left the government for a lucrative job in private industry.

Attendance flagged, leaving San Diego on the hook for millions of dollars a year in unsold tickets, which it distributed gratis to children. In addition, the city was stuck with debt service obligations on the stadium bonds of $5.7 million a year.The "ticket guarantee" was ridiculed as a costly fiasco; it ended Golding's senatorial hopes.

get pension raises the longer they work and the more they earn. Sweetening the formula amounts to a raise on top of a raise.

and given that it was the second major hike in four years, some respite from further increases was presumably in order. But by the spring of 2000, the height of the dot-com bubble, considerations of prudence were demonstrably passé. In the first few months of 2000, a newly minted tech stock was on its first day of trading every other day, a speculative orgy that seemed to suggest, especially in California, that any public commitment could be underwritten by some future rise in the market.Moreover, 2000 was a local election year. The unions, which were better organized, and better funded, than in previous campaigns, were pushing for higher pensions.

members, including Golding, who was retiring. Each of these hikes, of course, increased the system's future liability.

.But the pension was not a particular concern, and the downtown business leaders, who had always called the shots, fancied they had found the perfect antidote to the profligate and undisciplined '90s. They had in mind a mayoral candidate who was cautious, deliberate, judicious—he was in fact a superior court judge.

was wary of his indecisiveness but endorsed him anyhow.In Murphy's favor was his personal rectitude, his distance from the political fray, and from special interests such as labor unions. He won handily.

salaries were considered, it would raise his benefit enormously, from $86,000 a year to $116,000.That is a truly gold-plated pension (recall that a retired autoworker's pension is only about $36,000).

the terrorist attack.

Under heavy pressure, the fifty-eight-year-old executive agreed to tone down his report.

, a West Coast journal advocating libertarian politics, presented San Diego with a management award. Carl DeMaio, a Newt Gingrich protégé who was representing, shook Murphy's hand and the two were photographed with satisfied smiles. Yet even as DeMaio was stepping off the elevator at City Hall, someone who had been in the audience approached him and said, "I can't believe you gave them that award." Over the next two weeks, DeMaio got a handful of calls from people who maintained that the city wasn't being candid about its finances—about SDCERS in particular.

Even worse, it said the pension was 97 percent funded. That was no longer true (indeed, it was twenty months out of date), and Vortmann and others who had helped to write the report knew it.

idea, its findings, even toned down, were simply too hot for him to handle. Thus the mayor and the council—the one group with the power to raise revenue—resolved that they should wait for the city manager; that is, they should do nothing.

Webster, the expressive assistant auditor, referred to the trigger as a "time bomb" that could sink the city's bond rating, thereby increasing its borrowing costs and setting San Diego on a downward and ever steeper financial spiral.

reporter had begun to sniff around the story. Grissom, the SDCERS administrator, correctly guessed that his masters at City Hall would not want him talking. He slavishly queried Webster, "Is there any 'party line' for me to communicate?"

to the unions in exchange for being released from the pension trigger. This was like trying to disable the fire alarm at the first sign of smoke. The trigger had been created precisely to make sure that SDCERS did not get into trouble, and now the city wanted out of it.

in exchange for getting funding relief.

It is not to be bargained away in return for benefits or money for potholes or anything else.

SDCERS was chartered to provide benefits to workers based on their salaries. Nothing in the local laws authorized the system to pay benefits on wages paid by a union. When the city's personnel director had the temerity to question it, Madaffer slavishly ordered him, "Just do it!" Saathoff's plan was coming up trumps.

—all at a time of financial distress.

This was pension plunder on its face.

concerned about whether SDCERS would fulfill its end of the bargain, by relaxing the trigger. They were counting on Saathoff— who, they believed, controlled the board. "[We] especially need Ron behind releasing the trigger," Webster emailed with characteristic bluntness.

it.

And as Shipione's tone was unnecessarily strident, her criticisms tended to be dismissed. The other trustees suspected that she was a mouthpiece for her husband, Pat Shea, who was a wealthy lawyer with close ties to the Republican Party and had been a classmate at Harvard Business School of George W. Bush. In San Diego, the Shea-Shipione wedding had been a political event, attended by Mayor Golding and presided over by the then judge (and future mayor) Murphy.After they were married, Shipione was appointed to the board of a small endowment and, a couple of years later, to the retirement system.

Herring, the deputy manager, was furious at Roeder. He blurted out, "You're an actuary on the edge!"

Little by little, the pension mess was consuming the entire city. It didn't seem to dawn on the officials that their so-called solution would only create a bigger mess.

Aguirre was good friends with Shea, Shipione's husband. Despite their political differences (Aguirre was a Democrat), both were iconoclastic lawyers who liked to tilt at the establishment. They had once worked on a utilities case together and, like everyone else who came into contact with Aguirre, Shea had been amazed by his energy. Aguirre was known for writing briefs—even for calling other lawyers—well after midnight. He would go to sleep with his books and papers scattered around him and commonly rose at 3:30 a.m. According to a colleague, "his mind never shut off." What Aguirre lacked was a cause. He had recently run and lost for district attorney—his fourth failed campaign. Then Shea called and told him about the troubles at SDCERS.

SDCERS, he knew, was potentially much bigger; it could get him back on the front page. The five-foot-seven, two-hundred-pound litigator, the grandson of an immigrant prizefighter, crackled with barely controlled fury as he warned the board that approving MP-2 would be a costly mistake.

This is the problem with all delayed pension schemes; they leave the fund vulnerable at the worst possible moment—when the sponsor is also hurting.

the city's problems, not the retirement board's. Police and potholes were properly the responsibility of the taxpayers—not of pensioners. Getting to the nub of it in a letter to his fellow trustees, Vortmann reckoned, "The problem is very simply that the City does not want to pay currently for what they want to give the employees."

know. Saathoff had omitted to tell them about his Presidential Leave benefit (the one that would net him an extra $30,000 a year). This was a blatant and calculated bit of deception, as the knowledge of Saathoff's plum might have roused the trustees' dormant sense of propriety.

Blum gradually came around. There is no convincing explanation, other than that he was tiring of offering resistance. He had the necessary virtue but not the backbone. So eager was Blum to please, he also began to work on Roeder. In fact, Blum offered to draft the actuary's letter him.

] on what rick will say in writing and I am trying to find words that will both give him comfort and give the board what it needs."Blum had given his honest opinion in June and the board had ignored him. Now he wished to be done with it.

or anywhere else, enhancing Shipione's feeling that she was fighting it alone. Actually, a retired city bureaucrat and former SDCERS board president named James Gleason was tracking the story by gleaning what he could from the public notices. In August, Gleason wrote to the mayor and to the board urging them not to repeat the mistake of the first underfunding plan. Predictably, he got no response and, for the moment, Shipione remained unaware of him.

in City Hall that there were potential revenue sources in San Diego other than the pension fund. The list of the top twelve cities in California, ranked by revenue raised per capita, made this eminently clear:

But of course, they would be advocating just that.

form, this version was reasonable.

favorable opinion, which ran for fourteen pages, was a triumph of professional plasticity. It has virtually no analysis, even under the lengthy section titled "Analysis." Blum gives a history of the case, he devotes a page to the decision (which established the right of Californians to a secure retirement system), and he somehow arrives at the conclusion that in approving MP-2, the SDCERS board would be reflecting "consideration of the principles set out in," which is not the same as saying it would be consistent with. He cites the actuary's opinion, rather disingenuously since Blum himself had drafted it. But—good attorney that he is—Blum could not ignore the actuary's statement that full funding would indeed be "best." Here is where he does his heavy lifting: "We recognize, as does the Board's actuary, that higher City contribution levels than required under the Agreement [MP-2] would provide better financial protection to SDCERS. . . . However, we also recognize that the board engaged in extensive analysis of the issues."

Given that his signature was on this one, it was an empty gesture. His one duty was to provide strict actuarial advice and he had failed at it.

He was like a priest offering absolution before the crime is committed. The trustees kept arguing, especially Shipione. The mood was contentious. Vortmann thought the scheme was wrong but he had given up—he felt it was preordained. MP-2 was approved with only Shipione and the policemen's rep voting no.

They would literally leave the problem to their successors.

But even for a supposedly lofty purpose, a violation of a retirement system is still a violation.

According to the next day's, "A financing plan for $312.3 million in library improvements was approved by the San Diego City Council amid growing concern over the city's finances." The article did not mention SDCERS.

, was intrigued by Shipione's use of the word "corrupt" and asked her for an interview. The paper published a news article as well as an op-ed by Shipione. Lamont Ewell, the assistant city manager, had to say in response. Lexin drafted a memo, which Ewell signed, charging that Shipione "omitted, slanted and misrepresented the facts."Actually, it was Ewell and Lexin who were distorting. Dissembling the events of the past six months, their letter managed to suggest that the board's action to waive the trigger was "separate" from the city's labor negotiations.The record clearly showed that they were linked.

Only now there was no trigger to force the city to restore it. Presumably, few San Diegans were paying attention the day after Christmas. One who assuredly did notice was Gleason, the retired board president who had tried to derail the underfunding plan by writing to the mayor in August. After the summer, he had lost sight of MP-2, and figured that it had been scuttled. Sometime in December, he learned the truth. Gleason immediately called a local attorney who specialized in pension cases, Michael Conger. Conger was in Oklahoma for the holidays. Gleason sent an urgent email: "Mike, they are under-funding the pension plan. They can't do that."

case. He had two principal claims—that the city was violating the local charter by failing to make pension contributions at the actuarial rate, and that some of the trustees had violated section 1090 of the California Code, which makes it a crime for a public official to participate in the making of a contract in which he or she has a financial interest.

in the case. In practical terms, he wanted the board to switch sides and help him to force the city to restore full funding.

What Conger couldn't know was that Leone basically agreed with him. In his view, his client (or at least its board) was in the wrong. Its deal with the city was both indefensible and contrary to its own interests. Only in the upside-down world of SDCERS would a pension system conspire with the sponsor to deprive of contributions.

Save for Shipione, the trustees gave the lawyers a cool reception. They were hardly about to abandon MP-2, which after all was their creation.

interests were in conflict with those of SDCERS. The lawyers threatened to quit the case unless the board recused itself from directing the litigation. After some jawboning, a compromise was worked out, but the essential conflict of interest remained. SDCERS continued to oppose Conger's suit, and to maintain that MP-2 had been absolutely proper—even though its own attorneys had reached a diametrically opposite view.

called it San Diego's "dirty little secret."As the in-house attorney for SDCERS directed in a memo, "The present strategy is to stress [the] importance of privilege."That meant keeping all information under wraps. The board increasingly skirmished with Shipione, whom they suspected of leaking. In a foolish pique, the board president even took out an ad in the accusing an unnamed party (clearly Shipione) of behaving like "Chicken Little."In point of fact, Shipione was looking prophetic. By mid-2003, SDCERS's funding ratio had plummeted to 67 percent—this for a system that had been almost fully funded three years earlier.

stadium, without which they were threatening, again, to pull up stakes. Characteristically, Mayor Murphy created a task force to study the issue. Taking a definite stand seemed beyond him.

editor, was so agitated that he called on Murphy and urged him to get a grip. "There is a tsunami approaching that is going to take you and all of us down," he warned.

help. Murphy spurned them, too. The mayor increasingly relied on a single adviser, his chief of staff and former campaign consultant, John Kern, to set his agenda, and his view of the city was increasingly blinkered.

case. He hit on a clever tactic. Municipalities are required to make full disclosure to the investors who buy their bonds (just as are corporations). In July, Conger reviewed a trove of the city's disclosures, many of which contained the assertion, "The state legislature requires us to fund our retirement system at the actuarily determined rate." In other words, the city was implying to investors that San Diego was current on its pension obligation—a blatant untruth. For Conger, this was a secret bullet.

Bit by bit, the collateral damage from the pension system was spreading.

At this point, it is hard to disentangle Shipione's legitimate concern over SDCERS from her fury with the board. Her relations with the other trustees had deteriorated to open warfare. She was missing meetings, talking out of school, and regularly accusing her colleagues of ignoring their duty. Though she was not always wrong, her accusations were draped in self-righteous fervor, as though she were the lone honest trustee and a victim of the others' persecutions. She even called them "criminals." Roeder took her aside and said, "Diann, try not to make this personal." The city trustees (Lexin most of all) despised her.

In the meantime, San Diego was locked out of bond markets. Like a contagion, the pension scandal was infecting everything it touched.

case. Its offer was woefully inadequate. Incredibly, under the terms of the offer, which had been crafted by

Herring, the deputy manager, SDCERS would have received in contributions than under MP-2. The "settlement" offer was in fact the city's same old game of trying to perpetuate the underfunding.

There is no good explanation for why, except that he was a solo attorney who hadn't been paid in a year, and he may have misjudged what the plan was worth. But Vitek and Leone, the outside SDCERS attorneys, saw through the ruse and urged the board to reject it.

As the lawyers had been saying, SDCERS was the victim—and had been all along. It promptly rejected the city's offer. "Then we started going after the city in a classic adversarial sense," according to Leone.After seven years of being shortchanged, the retirement system had awakened.

required to contribute at the actuarial rate.This was a pivotal mistake—the one Conger had been waiting for. Remember, he had all those bond disclosures in which the city had been saying just the opposite.

court something else.

settlement in theory stopped SDCERS from deteriorating further, the damage already done to the system was severe. Indeed, its unfunded liabilities had soared to $1.4

And of course, the city's now much-higher benefit levels could not be rolled back.

for the pension had shifted. Thanks to the court, the daunting obligation was now the burden of the city. Thus, pension expenses, formerly only 5 percent of the general budget, soared to approximately 20 percent. With SDCERS squeezing out other agencies for funds, the pension debt exploded as a political issue.

Honest bookkeeping being the coin by which Wall Street does business, Standard & Poor's cut San Diego's credit rating a notch and Fitch Ratings downgraded it by two notches.

in response, the city fired its outside auditor. Ed Ryan, San Diego's veteran inside auditor, resigned as well.

to represent the city before the SEC.Yet this showed a basic lack of comprehension of the true source of San Diego's woes. By asking a single law firm to play the roles of both ombudsman and advocate, the city was creating the potential for a new conflict of interest. Neither Murphy nor the city manager had grasped that such conflicts on the pension board had been the system's original sin. Nor did they quite appreciate how corrosive such conflicts were—how they poisoned the well of trust.

) a year. This was too much for Murphy. He wouldn't fire cops and firemen to bail out SDCERS (nor would he raise taxes).He was still unwilling to impose sacrifices on the voters—the flaw from which the pension scandal had been born.

had a serious pension-funding problem.Murphy's point was that pensions were everybody's problem, not just the city's. Of course, he was right. No less than the governor, Arnold Schwarzenegger, was waging a war against state employee unions to phase out pensions for new state workers. This battle was occurring in various forms in a half dozen other states as well.

problem. Murphy could not escape that. As if to underscore the point, in June, SDCERS sued Blum, its hapless fiduciary counsel, for malpractice. Blum instantly settled for $15 million.

Aguirre thought the pension scandal had similar historic overtones. San Diego was a parable of America as his generation—the baby boomers—began to retire, and as companies and communities chafed under the demands of caring for them. Pension abuse was the cutting edge issue he had been looking for. He promised that if he were elected he would dig, and dig deeply, into the unfolding pension scandal.

the trustee who had most vocally opposed it. "It's an interesting conclusion that everybody gets to stay on this board—-unions, city people, retirees—except me," Shipione, in a rare moment of understatement, observed.

sort of closure to San Diego's season of torment. In the first national story on the crisis, the dubbed San Diego "Enron-by-the-Sea," which seemed to reinforce the notion that San Diego was close to a collapse. The newspaper quoted Aguirre, who said that any corporation that had behaved like San Diego would be delisted from the stock exchange. John Kern, Murphy's chief of staff, sounded downright Hooverish on the mayor's behalf, insisting that San Diego was "on a sound fiscal footing."

violation of securities laws.As V&E was also representing the city before the SEC on this very point, its conclusion set off a firestorm over the simmering issue of the firm's independence.

—played on their fears with an alarmist antigovernment campaign.As for Murphy, though the hotel levy was the one concrete measure that might have saved his budget, he stuck with the safe course for a San Diego politician and urged the voters to reject it.

reported 35.3 percent of the vote for Frye, 32.6 percent for Murphy, and 32.1 percent for Roberts. It was obvious that San Diegans had registered a profound desire for change. Aguirre was elected city attorney and a proposition to transition to a "strong mayor" form of government was approved. So were two reforms of the pension system, though their effect was negligible. Predictably, the hotel measure met the fate of previous proposals to raise local taxes and went down to defeat.

, also, to darken an oval bubble beside it. And 5,551 of those who voted for Frye had neglected to darken the bubble. The registrar refused to count them; Murphy had squeaked in.

breathlessly reported.

of San Diego. It was the city's advocate in court, and was chiefly occupied with defending the city against lawsuits. Aguirre had a very different notion—that the office should represent the of San Diego, even people who were suing the city. Since KPMG, the auditor, had requested an inquiry into whether city officials had committed illegal acts, Aguirre thought he had a mandate to look into the actions of city officials.

, Aguirre, would serve as SDCERS's counsel. (The SDCERS board utterly refused to go along with him.)Then he advised the city council members that they should hire lawyers.

He rationalized that since Shipione was a trustee, she should have access. Shipione went through the files as if she were possessed—tipping over cartons, spilling papers on the floor. Aguirre let Shea go through the files too. Meanwhile, he installed a padlock on his door and got into a spat with the chief of police when the latter refused to grant him police protection.

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While Murphy was trying to calm the city, Aguirre was working to raise its temperature—to push the drama to a climax. He so spooked the pension trustees that the board (exclusive of Shipione) took the extraordinary step of suing Aguirre to prevent him from turning over the files he had seized to the SEC and to the Justice Department.

to hand over documents sought by the feds. Aguirre fumed that the board was “completely out of control” and moved to throw it into receivership.The pension mess was leading San Diego to the brink of civil anarchy.

Aguirre had hit on the beginnings of a solution to the entire problem of public pensions—hold them to the same or similar regulations as corporations.

workers). He was fretting over how to fund the library and sorely needed firefighting equipment. He had replaced the pension board with new trustees (Shipione was out, as was Saathoff). And Murphy was pushing ahead on the transition to a “strong mayor” form of government. Though personally ineffective, he had the sense to see that the mayor of America’s seventh largest city should be more than a coequal on the city council.

As Murphy’s approval rating had fallen to less than 10 percent, this was a serious threat. Aguirre, whose rating was 53 percent,said the mayor should simply resign.

magazine, in a cover story on America’s big-city mayors, named the likable judge with the sterling résumé as one of the U.S.’s three worst mayors. It was a devastating blow. Murphy was a decent man, but he had never shown the courage to confront the city’s pension genie, and it had turned his mayoralty into a nightmare. Eight days later, on April 25, he announced his resignation, to become effective in the middle of July.

case sought the unthinkable: a rollback of pension benefits prior to the enactment of MP-1 and MP-2. Typically, pension benefits are immutable; they can never be rescinded. However, Aguirre argued that the two underfunding deals in San Diego were illegal and that, therefore, so were the benefits that flowed from them.This was a novel and also a difficult case.

That ended his “reign.” As a city clerk wondered aloud, “So, who’s the mayor?”

As a perceptive correspondent for the observed, “If a visitor from out of town wandered into a recent debate among leading candidates for mayor, he or she might have come away thinking San Diego is one of the most overtaxed, overregulated cities in the nation.”

which relentlessly savaged her as a would-be taxer. Her platform was anything but radical. She proposed to ignore the new pension benefits, on the basis that the deals were illegal, and if that failed (that is, if a court ordered the city to pay them) to raise the sales tax by half of 1 percent.

excoriated Frye for advocating the of a tax hike. While conceding that the city was facing “a fiscal emergency of staggering proportions,” the newspaper intoned, “Our guess is, the unhesitating response of most San Diegans would be not only no, but heck no.” This was blatantly demagogic; indeed, it mirrored the attitude of politicians who, in refusing to pay the bills for benefits they had enacted, had brought San Diego to its current pass. Taxpayers would to pony up. The only question was whether it would be today’s taxpayers or tomorrow’s.

the highest in the state—that distinction went to liberal San Francisco. However, because of the San Diego system’s poor level of funding, the city’s burden was bigger by far. Pensions cost 26 percent of payroll in San Diego compared to 14 percent for the ten largest cities.Adding insult to injury, San Diego had been saddled with costs amounting to $25 million and counting for the various investigations. That alone would have paid the pension bill when McGrory first ducked it a decade earlier.

McGrory, the wizardlike city manager in the ’90s, did even better—a pension of $86,000.And Bruce Herring, the long-serving deputy manager who helped to orchestrate both MP-1 and MP-2, retired in 2005, with an incredibly rich pension of $144,000 a year.

America is sitting on a retirement time bomb. Companies such as General Motors are fading fast and governments such as the City of San Diego are overrun with obligations. As the population ages, the problem will only get worse. Clearly, retirees need to be taken care of. But the solution cannot be to ruin once great firms or to impoverish whole cities and future taxpayers.

In the private sector, pension failures have been running at record rates since the beginning of the twenty-first century.Many of the steel, airline, and textile companies have already been forced into bankruptcy. Thanks to its intolerable level of pension and health care benefits, the auto industry is shrinking beyond recognition. Delphi and numerous other parts firms are in bankruptcy. The auto manufacturers are struggling to stay afloat. In 2007, after the events chronicled in this book, Chrysler was sold to a private equity concern, Cerberus Capital Management, which went deeply into hock to buy it. And General Motors offered a buyout package to every one of its unionized workers—an unprecedented attempt to escape from its past. Once an army of nearly a half-million, its workforce shrank to 74,000. Then, late in 2007, the UAW called a nationwide strike against GM and its patient CEO, Rick Wagoner, over the festering issues of job guarantees and health care. Wagoner and Gettelfinger, the UAW president, settled the strike with a revolutionary pact, similar to the Plan B discussed in chapter 2, under which GM would transfer more than $30 billion to a special trust, to be managed by the UAW—and finally be freed of its crippling health care liability. Ford and Chrysler reached similar accords. This rewrote the rules for the auto industry overnight. GM emerged, at long last, from its six-decade-long experiment in providing health care as a diminished enterprise, its market share down to a pitiful 23.7 percent. Whether the UAW would be able to meet its new burden was far from clear. Its membership had withered, as had the overall population in Detroit, where some once-busy and formerly thriving neighborhoods were sadly reverting to grass and trees.

As dismal as all that sounds, many state governments are in far worse shape. They are even further behind on their pension obligations than corporations (estimates of the total deficit range from a few hundred billion to nearly a trillion dollars.)And with the stock market slumping and the long-forecast real estate crash finally having arrived, the states have no ability to make good on their obligations. Illinois borrowed $10 billion to pay down its pension debt in 2003, and yet its pension funds remain a staggering $35 billion underfunded.

And most states have not accumulated savings to pay for retiree health care. New Jersey, for instance, recently (and for the first time) added up the promises it has made for its retired employees' medical bills. The total was $58 billion—for which it has virtually no reserves.That is to the amount by which its pension fund is in arrears—roughly another $25 billion. Alarmingly, New Jersey does not have the option, as San Diego does, of raising taxes to normal and thus still-tolerable levels. Taxes in New Jersey are already astronomical. Governor Jon S. Corzine has been mulling whether to sell the fabled New Jersey Turnpike (much as GM has been selling assets). Once you start to parcel off the farm to support the grandparents, you are in trouble. But for New Jersey and others, the alternatives are grim: they can impose austere budget cuts, raise taxes further, or both.

SEEN IN THIS LIGHT, Peter Kalikow's stand on subway pensions was long overdue. It was as principled a response in his era as Michael Quill's agitations were in his. Quill fought for decency for the workers. Kalikow drew a line so that ordinary New Yorkers would not have to pay ever higher fares to support the lavish pensions of retirees from age fifty-five possibly into their nineties and beyond. Ultimately, the union agreed to a concession on health care rather than on pensions, but Kalikow's point was made, and the strike was halted after only three days.

Though New York City's outcome was more favorable than the slow death at General Motors or the scandal in San Diego, the MTA's response is unlikely to set a practicable example for others. Few cities or states will be eager to shut down their transportation systems to tackle pension debts—and even if they were, a strike is not a solution. A GM-style "cure" of massive layoffs would be even less attractive, and the Southern California approach of pretending that the problem does not exist is worst of all. As these episodes demonstrate, our current systems no longer work. So assuming that America does not simply abandon its retirees, what can it do?

OBLIGATIONS TO RETIREES come in two forms: pensions and health care. Though pensions have a longer history as an industrial issue, in recent years employers such as GM and the MTA have come to regard retiree health care as an analogous problem. Also, the distinction between health care and care for working-age adults has probably outlived its usefulness. Today we have an illogical patchwork; Medicare covers basic needs for people over sixty-five, but millions of younger retirees, as well as working people, are at the mercy of employers. A system that covers one should logically cover all.

Entire books have been written on how to reform the health care system, but the way out of the current mess can be highlighted without getting mired in the small points of the many recent proposals. Indeed, a solution was first suggested sixty years ago.

Walter Reuther argued that health care was too basic a need for workers to go without, and too burdensome a cost to be foisted on employers. Thus he advocated financing by the federal government. That does not mean the government would become the universal of health care. In education, for instance, Washington provides scholarships and college loans; it does not run our universities. Similarly, in health care, the government should subsidize basic coverage, on a sliding scale according to income. In a world in which people change jobs every few years, there is no reason for health care to be tied to the workplace (any more than there is for companies to provide schooling, shelter, or other basic needs). In any case, they can't afford it. Those that try, or are forced to try, such as General Motors, are gravely disadvantaged.

When Reuther and others proposed the idea of national health care, in the 1940s and '50s, Big Business, as well as the American Medical Association, viewed it as extreme and fought it every step of the way. But the world has changed. For one thing, business is global, and U.S. companies compete against foreign-based firms whose home countries pick up the tab. As GM finally discovered, it cannot compete if it has to provide benefits that Toyota does not.

Moreover, the U.S. government spends an enormous amount on health care. At companies with medical plans, employees receive tax-free income in the form of health insurance. This amounts to a huge subsidy—some $125 billion a year (more costly to the government than even the home mortgage deduction). But it is a subsidy that no one sees. Worse, it is unequally distributed; only employees at certain firms (those with coverage) receive it.

A more direct subsidy—a voucher that could be used to purchase insurance—would be universal and thus more fair. Structurally, it could be accomplished by extending Medicare to people younger than sixty-five, with the level of coverage varying according to one's income. People would still shop for doctors and other services in the market, and still have incentives to save (since the subsidy would be limited). A similar system is being tested in Massachusetts, which has launched universal coverage at the state level. But ultimately, if the fifty states all offered competitive plans, people would move to the states with the richest benefits, just as occurred in an earlier generation with welfare. The states would then be forced to compete for residents by upping benefits. ("Move to Georgia, land of sunshine and affordable angioplasty!") Probably, a uniform national level of coverage would be best. Congress can no longer avoid the issue, and neither can the current crop of presidential contenders. If a trigger is needed, let it be the recent strike at GM that spelled the end for the Treaty of Detroit. As a coda to the settlement, GM agreed to invest $15 million in a new National Institute for Health Care, which will be dedicated to promoting access for all Americans. The time has arrived to take Reuther's proposal for government-financed care out of the showroom—and even his fiercest corporate adversary seems to agree.

PENSIONS ARE A TOUGHER FIX. Depending on how much workers earned over their careers, people need, or expect, very different levels of income in retirement. Therefore, employees or someone on their behalf has to put money aside for them, and in varying amounts, while they are working. This means that retirement benefits will always have a connection to work (if not necessarily to the "workplace"). Pensions met this condition; that is, money was saved, and lifetime benefits were guaranteed, in amounts linked to prior incomes. From the employee's point of view, pensions were close to perfect. By the late 1960s, 60 percent of the private-sector workforce had a guaranteed pension in addition to Social Security. In the next couple of decades, benefits spread to virtually all workers in the public sector as well.

But fierce economic gale winds blew this (seemingly) happy arrangement off course. In the private sector:

The list above describes most of the major labor market trends of recent decades; remarkably, every item served to weaken the case for pensions. Today, only about 18 percent of private sector workers have pensions. Plummeting coverage has seriously weakened the PBGC, the federal insurer, which is caught in a vicious circle. Strong companies such as Google do not offer pensions and thus are not part of the insurance pool; increasingly, the PBGC is an insurer of the weak. It has lost billions on failed pension plans and faces a current deficit of $19 billion (that is what taxpayers will have to fork over to pay for current and predicted future losses). If numerous sponsors that are on the edge ultimately fail, or if the stock market slump deepens, the losses will be far worse.

Congress has repeatedly considered reforming ERISA so that pension sponsors would be to keep their funds solvent. Each time, under pressure from corporate lobbies, Congress has backed off or created new loopholes. This is inexcusable. To require, as ERISA does, that companies fully fund their plans and then to grant forbearance to the companies that get into trouble undermines the very purpose of the law.

Even with a tougher law, it is probably too late to preserve the traditional pension system. Virtually no new companies are creating plans; the examples of GM and its ilk have scared employers off. Even GM itself is transitioning away from traditional pensions for new hires. Healthy firms such as IBM, Hewlett-Packard, Sears, Verizon, Motorola, and others are freezing their plans (such plans will pay off their existing obligations and eventually liquidate). Indeed, of the 44 million Americans with pension coverage, fewer than half are actively accruing benefits. The rest are retired, or they have left their employer, or their plans have been frozen.Thus the private pension industry is gradually dying.

Whatever relief this brings to corporate shareholders, from the employees' point of view the demise of pensions is a calamity in the making. True, firms without pension plans usually offer 401(k)s, which have the attraction of mobility (employees can take their accounts from job to job). However, 401(k)s don't offer anything like the security of a pension plan.

According to the Federal Reserve, among families with retirement accounts, the median family has only $31,000.That would be okay to live on for perhaps one year; to retire on it for a lifetime would be a joke. And a third of the workforce has no retirement savings at all.

Even for people with larger accounts, the structure of 401(k)s is inappropriate for retirement. Employees get a lump sum, but—unlike with pensions—no annual stipend. There is no guarantee that the money will last as long as they do (or that they won't spend it or squander it along the way).

Another serious drawback is that individual plans lack the insurance feature of pensions. If you happen to retire when the stock market is depressed and the value of your 401(k) has crashed, you are out of luck. Not so in a pension plan, which benefits from the law of averages (some people retire when the market is high, others when the market is low). The recent subprime mortgage-related turmoil in the stock market should remind us that relying on individually held stocks for retirement is a risky proposition at best.

Finally, companies can reduce (or eliminate) contributions to 401(k) plans at will. Most contribute far less than they do (or did) to pensions, and, as noted, Americans' retirement accounts are woefully deficient.

Presidential candidate Hillary Clinton has offered one solution: Washington should sponsor new, national 401(k) accounts and offer matching credits to lower- and middle-income earners. Details aside, this is a sensible approach—helping people who once depended on pensions to begin to build adequate 401(k)s.

The government can take a small positive step by requiring 401(k) sponsors to offer annuities to employees as they retire. Even better, they could make annuities (as opposed to stocks, bonds, and other investments) the default option for new retirees. Annuities provide an annualized stream of income (think of them as do-it-yourself pensions). Despite the flowering of 401(k) accounts, annuities are still surprisingly rare. This is unfortunate, because annuities, like pensions, last a lifetime; they alleviate the major worry in an aging and soon-to-be pensionless society, which is that people will outlive their savings. However, this is only a solution for people who enough savings to begin with.

In general, Congress should reconsider the legislative framework of 401(k)s—or rather, it should consider creating one. In the pension arena, Congress long ago demanded social trade-offs to protect the beneficiaries in return for the tax break it extended to sponsors. The point of these rules was twofold: to promote retirement savings on behalf of ordinary workers, and to ensure that the savings were invested with care. But 401(k)s essentially developed in a social and legislative vacuum. The time is ripe to enact similar protective rules for 401(k)s as well.

PUBLIC-SECTOR WORKERS such as San Diego firemen and New York City subway drivers differ from private-sector workers in two important ways. While private corporations are loath to make future commitments, in many public-sector job categories—teachers, firemen, accountants, and so on—employers still need stability in the workplace, and the old model of retaining a worker for two or three decades remains attractive. Thus, in government, pensions still make sense. Second, as unions have discovered, government workers have an extraordinary weapon—they can vote their bosses out of office. Put differently, they can use the ballot box to reinforce their negotiating leverage. Governor Schwarzenegger discovered this when he tried, unsuccessfully, to end pensions for new state workers and got clobbered in the polls. For both of these reasons—the employees' longevity and the unions' power—it looks as though, in the public sector, pensions will be here for many years to come.

Public pensions in and of themselves are not the problem; the problem is they are so often underfunded. The same political clout that enables unions to win, and keep, pensions, also enables them to push for higher benefits. As was seen in New York, the temptation for legislators to vote for higher benefits is nearly irresistible. Even worse, they are under constant pressure to keep taxes low, which creates an incentive to cheat on contributions. The seductive premise that pensions are a free lunch—or at least, a meal that need not be paid for until dessert—was pivotal to the scandal in San Diego and to underfunding everywhere.

There is one fix that is surprisingly straightforward. As Michael Aguirre proposed, states should require (by means of laws similar to ERISA) that dollar of state and local pension benefits is funded as the benefit is accrued—not when the legislature or city council happens to feel like it. Such laws would need real teeth, and the federal government should help by prodding the states to pass them. Legislative details aside, the principle is simple. Legislatures cannot vote for, say, schools without also appropriating the funds. It is only in pensions that they can vote now and fund later. This is what the Aguirre statute would prevent. Pensions would still be subject to political pressures, but stripped of the illusion that pensions are "free," lawmakers would presumably make wiser choices.

FINALLY, THE FATE of pensions in the United States has strong implications for Social Security. Pensions do not exist in a vacuum; since the 1930s, they have been only one leg in the retirement triad that is also composed of Social Security and (for the well-to-do) private savings. Reuther's hope was that Social Security would be expanded to the point where private pensions would become unnecessary, but for many decades the opposite occurred. Federal benefits remained meager and were limited to a subset of the population, and the private pension network expanded. Now, those trends have reversed. In the future, as private pensions continue to wither, Social Security will be all the more essential: the retirement plan of last (and for many people, only) resort. In effect, having experimented with private pensions for sixty years, industry is throwing the burden back into the lap of government. Ironically, Social Security is itself under attack, in particular by conservative ideologues whose champion has been President Bush. It would be a tragedy to weaken the program now; as pensions fade, Social Security should be not dismantled but strengthened.

However, the lessons of failed private plans also need to be heeded by Washington. Social Security's crisis has been exaggerated by many on the right,but as America ages, it does face a significant strain. The most important lesson that Social Security should derive from the private pension horrors is that benefits must be paid for, so that a future generation isn't stuck with the bill. This will require a slow and expensive transition—a catch-up period so that the government can start to salt away money now for the people who will be retiring later. Currently, Social Security is a pay-as-you-go government benefit. Present-day workers and employers pay taxes that support current retirees. When today's workers retire, their children's generation will support them. This leaves the United States vulnerable to a decline in birth rates, just as GM was vulnerable when its workforce declined. Currently, there are 3.3 workers for each recipient of Social Security; by 2032 that ratio will drop by a third to workers for each beneficiary.

The country would be better served if Social Security functioned like a well-managed pension plan, with each generation supporting itself. This would mean raising taxes and locking the savings away for retirement. In actual practice, though Social Security has been collecting more in taxes than it has been paying to beneficiaries, the surplus has not been saved. Rather, the federal government has been borrowing from Social Security to plug the hole in its budget—just as San Diego did. And by 2017—less than a decade away—demographic trends will tip Social Security into a deficit, on a cash basis. At that point, payroll taxes will be sufficient to pay benefits, and the Treasury will have to start repaying its debt. This will put an increasing strain on the federal budget. In other words, the bill will come due in Washington, just as it did in San Diego. But what is bad economics for a city is no less bad for the federal government. Retirement savings should not be used to paper over the budget deficit or to fool taxpayers into thinking that the government is solvent. They should be used for retirees, period.

To assure that the country does not experience a San Diego-style debacle will require political will in Congress. The payroll tax should be increased,and the federal government should legislate an end to the current practice of "lending" Social Security surpluses to itself. These steps are somewhat similar to what President Bush proposed in 2005—except that the president also proposed the more extreme steps of reducing benefits and of switching to individual accounts. His plan would have converted Social Security into a national system of 401(k)s lacking any collective guarantee. A well-financed collective system would be better. Indeed, with private corporations increasingly refusing to guarantee their employees' old-age security, the government, to repeat, is the only party that can do it.

FINANCIAL DEBACLES are as old as the sun. Virtually all involve some form of borrowing, and borrowing is essentially an arrangement between the present and the future. This is why pensions are so vulnerable. Retirement schemes necessarily involve a treaty between today and tomorrow, and on a mass scale. It is no surprise that so many have run aground, or that when they do, financial upheaval is the result.

The pension schemes—public and private, federal and local—described in this book have been all guilty of similar crimes. To paraphrase Michael Aguirre, they behaved like "credit-card junkies" who charged to the card limit and made only the minimum payments.Eventually, credit card bills come due. The most effective remedy—in pensions, health care, and even in Social Security—is to banish the credit card. Benefits should not be charged to a future generation; they should be paid for now.

This would not necessarily mean that benefits would be lower, or that retirees would be worse off. It force legislatures to make difficult decisions about where to allocate resources. This is what legislatures are supposed to do. On the other hand, when benefits are seen to be "free," it is too tempting to perpetually ratchet them higher.

Changing this pattern will require political courage, and also a realignment across society. Business will have to face the fact that if it is unwilling to shoulder the burden, it must allow government to do so. Unions must recognize that the Treaty of Detroit no longer protects workers as much as it prices them out of the labor market. Politicians will have to look past the next election, and truly toward the "future" of which they so often speak. Lee Iacocca, the auto executive, pointed out more than a quarter century ago that the fault for the pension and health care burdens was shared three ways. Corporations, unions, and government—"the three of us," as Iacocca put it in the Chrysler boardroom—were to blame. If further catastrophe is to be avoided, all three parties must mend their ways.

, particularly Vera Titunik and Gerry Marzorati, encouraged me to write about pensions and laboriously worked to get a cover-length article suitable for mass readership. Without their efforts, this book would never have begun. I am deeply grateful to Vera and Gerry and to everyone else at the who pitched in.

I owe a special thanks to all of the people who were interviewed for this book. With some sources, I went to the well for multiple drinks; I am particularly grateful, therefore, to Robert Abel, John Casesa, Gary Dellaverson, Carl DeMaio, Joshua Freeman, Steve Girsky, Jack McGrory, Steve Miller, Jonathan Schwartz, and Rebecca Wilson. And I am especially grateful to Gilad Edelman, my intrepid and skillful research assistant.

Jeffrey Tannenbaum, a dear friend, and Louis Lowenstein, my father, read every word of this manuscript and offered uniquely insightful and helpful comments. My agent, Melanie Jackson, protected my commercial interests but—as always—looked out for my personal interests even more. Ann Godoff, my editor, once again proved the difference between a good editor and a great one. (Somehow, Ann sees the whole book before a word is writ.) This entire quartet has been with me since my first book, and I am grateful for their invaluable help and, in equal measure, for their steadfast loyalty.

It fell to my incomparably talented (and beautiful) wife, Judy, not only to read but also to reread, and then to re-reread (a that would surely catch her eye) this book in all of its wearying stages—gestational, formative, semi-complete, "almost" done (not to mention "almost-almost"), and so forth. She parsed the deepest nuances, she plumbed the technical details, she bridled at my shortcuts and evasions, she absolutely refused to let me submit a work that was less than I could make it. Hon, I am eternally grateful.

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At year end 2005, GM had the following retiree obligations: U.S. pension benefits, $89.1 billion; non-U.S. pension benefits, $20.6 billion; other (primarily health) U.S. retiree benefits, $81.2 billion; non-U.S. benefits, $3.8 billion. General Motors,, 126.

Jim Millstein, author interview.

Ibid.

Millstein, Girsky, author interviews.

General Motors,, 50.

GM Form 10-Q, filed with U.S. SEC May 10, 2006 (period: Mar. 31, 2006); see exhibit 10.1, Memorandum of Understanding, Oct. 29, 2005, and especially Attachment E: Health Care Reform Letter.

Steve Miller, author interview.

Steve Miller, author interview, and Langley and McCracken, “Collision Course.”

Casesa, author interview.

GM corporate communications.

Christopher Cooper and John McKinnon, “Bush Plays Down Bailout Prospects for GM and Ford,”, Jan. 26, 2006.

Jerry York, author interview.

General Motors,, 3, 5.

3 • AN ENTITLED CLASS

“New York City Retirement Systems,” tables prepared by New York City Office of the Actuary.

Martin McLaughlin, author interview.

The average income for workers ages sixteen to sixty-four in the New York metro area in 2005 was $46,000; the median was $30,000 (George Borjas). Transit figures: MTA New York City Transit “Labor Negotiations Briefing Book,” December 2005, Appendix N. Among the individual job categories, in 2004, bus operators earned an average of $62,551; bus maintainers, $68,152; train operators, $62,438. Other categories, such as conductors and cleaners, earned less.

Peter Kalikow, author interview.

, 21-26. The history of the police fund is also summarized in Robert Tilove, (New York: Columbia University Press, 1976), 262.
, 16, 26.
Ibid., 17. The police contribution in 2005 was just over $1 billion.
Ibid., 21.
See the account of the strike in Robert Sobel, (Washington, DC: Regnery Publishing, 1998), as well as in Donald R. McCoy, (New York: Macmillan, 1967).
Joshua B. Freeman, (New York: Oxford University Press, 1989), 5. Mark H. Maier, (New Brunswick, NJ: Rutgers University Press, 1987), 12-13.
James J. McGinley, S.J., (New York: King's Crown Press, 1949), 202.
Freeman,, 13.
McGinley,, 213.., On petition for withdrawal and rescission of pension plan, June 25, 1936, Mack, Circuit Judge, In Equity, 70-364, U.S. District Court, southern district [the judge's decision contains numerous details of the 1916 IRT pension plan], 1-15.
L. H. Whittemore, (New York: Holt, Rinehart and Winston, 1968), 25; McGinley,, 200; Freeman,, 15.
McGinley,, 171, 213-14, 485;, Mack's decision, 2-3.
Whittemore,, 16, 19; Freeman,, 45-46, 50-51, 55. I am indebted to these two works for the early history of the TWU, as well as for the profile of Quill.
McGinley,, 214-15, 484.
Freeman,, 77.
, Mack's decision, 8; McGinley,, 215.
Whittemore,, 3-9, 27, 37-38; Freeman, 55-56.
Whittemore,, 86.
Quoted in Whittemore,, 21.
Freeman,, 70-71, 132-37, 354.
Ibid., 151-54, 196, 276.
Whittemore,, 47-49; Freeman,, 90, 95-97.
Whittemore,, 51.
Interborough Pension Board, "Amount of Monthly Payroll Payments and Contributions," July 13, 1953, Transport Workers Union of America Collection, Robert F. Wagner Labor Archives, Tamiment Library, New York University (hereafter TWU Collection), box 1, folder 13.
Whittemore,, 56; Freeman,, 113-14, 121-22; McGinley,, 216.
Maier,, 11; Freeman,, 217.
Whittemore,, 104-5; Maier,, 19.
Freeman,, 197-98.
Ibid., 218, 221.
Jonathan Schwartz, author interview.
McGinley,, 219.
Minutes of TWU board, June 27, 1941, box 1, folder 11, TWU Collection.
Dearing,, 27-28.
Whittemore,, 136, 143, 161; Freeman,, 291, 301-2, 303.
Maier,, 34.
Whittemore,, 126.
Maier,, 32.
Raymond D. Horton, (New York: Praeger, 1973), 21-23.
Maier,, 34.
Tilove,, 281.
Whittemore,, 229.
Charles R. Morris, (New York: W.W. Norton, 1980), 89.
Maier,, 48.
Freeman,, 326.

Richard B. Freeman, “Unionism Comes to the Public Sector,” 24, no. 1 (Mar. 1986): 41, 47.
Horton,, 49.
Testimony of Hillis, May 8, 1972, box 39, folder 1, Woodcock Collection, Reuther Library.
Robert A. Caro, (New York: Alfred A. Knopf, 1974), 735.
There is a good history of pension changes in New York City during the ’60s in Morris,, see esp. 99-101.
“Summary—Pension Changes in New York City,” typed report, TWU Collection.
Tilove,, 283.
Richard Freeman, “Unionism Comes to the Public Sector,” 43; Horton,, 51.
Joshua Freeman, (1st ed. 1989; Philadelphia: Temple University Press, 2001), 338.
Freeman, (1st. ed.), 333.
Whittemore,, 248.
Maier,, 40.
Letter of Oct. 31, 1963, box 25, folder 10, TWU Collection.
Horton,, 68.
Thomas R. Brooks, “Lindsay, Quill & the Transit Strike,”, March 1966.
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Ken Auletta, (1st ed. 1975; New York: Vintage, 1980), 59.
Theodore Kheel, author interview, and Brooks, “Lindsay, Quill.”
Kheel, author interview.
Ibid.
Whittemore,, 284.
Murray Schumach, “Union Chief Irate,”, Jan. 5, 1966.
Vincent J. Cannato, (New York: Perseus, 2001), 87.
Kheel, author interview.
Horton,, 81.
Freeman, (1st ed.), 335.
Morris,, 103.
Auletta,, 47, 150, 155.
Ibid., 50.
Schwartz, author interview.
Ibid.
"T.W.U.’s 20-Year, Half-Pay Transit Authority Pension Plan,” TWU Collection.
Transcript of WNBC-TV’s Jan. 11, 1970, panel interview with John J. Gilhooley, TWU Collection.
Schwartz, author interview.
Ibid.
Ibid.
Ibid. The only dollop of sanity in the variable supplement was that the stock market had to recoup any prior losses before pensioners were eligible for a bonus. In other words, if the market index fell from 1,000 to 900, supplements would not kick in until it again rose above 1,000.
Auletta,, see esp. 32, 289.
Horton,, 76.
Freeman, (2001 ed.), 338.
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Schwartz, author interview. A total of sixty-one motormen retired that year on a “final salary” of at least $25,000. Shipler, “City Pension Costs Snowballing.”
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Barry Feinstein, author interview.
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Auletta,, 206.
Ibid., 50.

4 • ON STRIKE!

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Ibid.
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Ibid.
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NYC Actuary; MTA, NYC Transit Briefing Book; Steven Greenhouse and Sewell Chan, “In Talks over Transit Pact, Different Chips, Same Poker,”, Dec. 11, 2005; and Dellaverson, author interview. The pension figures for transit include the entire workforce, including MaBSTOA.
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NYC Actuary. The actuary forecast a total pension bill for 2009 of $6.65 billion.
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5 • FINEST CITY

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Ernie Anderson, author interview.
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Philip J. LaVelle, “Stallings resigns,”, Jan. 30, 2001.

6 • PENSION PLOT

Aguirre II, 25-26.
SDCERS; Levitt, 67-68; Andrew Donohue, “Six SD Officials Charged in Pension Scandal,” (online, nonprofit newspaper; voiceofsandiego.org), May 17, 2005; Indictment,, U.S. District Court, Southern District of California, January 2004 Grand Jury, Criminal Case NO. 06CR0043BEN, filed Jan. 6, 2006, 14. See also E. Scott Reckard, Catherine Saillant, and Kathy M. Kristof, “San Diego Playing a Blame Game,”, May 1, 2005.
Indictment,, 14-15.
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Ibid.
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Ray Huard, “Council OKs library financing proposal. $312 million to cover new main facility, upgradings,”, Nov. 19, 2002.
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7 • THE BILL COMES DUE

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of future pension obligations. This required actuaries to estimate when workers would retire, how long they would live, and also the rate at which assets in the pension fund would grow.

freedom in Berlin so long as we freedom in Birmingham."

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"They [the city managers] are right about us approving new programs without new revenues, but they don't have to go to the electorate."

city salary. They had been contributing part of their union pay to SDCERS all along, with the expectation of receiving a pension based on the formula for employees in their respective unions. The legality of this arrangement had been questioned, but the city had, informally, gone along with it. The resolution implementing the Presidential Leave benefit provided that all three union heads could count their combined salaries, but as only Saathoff got a salary from the city, he was the only one to receive an economic benefit. The only effect on the other two was to codify, and perhaps to sanction, benefits they already expected to receive.