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Fed Chief Urges Cut In Social Security

Future Benefits Must Be Curtailed, Greenspan Warns

By Neil Henderson
Washington Post Staff Writer

Federal Reserve Chairman Alan Greenspan warned Congress yesterday that the federal government has promised more retirement benefits than it can pay for and must consider scaling back those commitments soon to avoid damaging the economy in the future.

"I am just basically saying that we are overcommitted at this stage," Greenspan told members of the House Budget Committee as they discussed the future costs of the Social Security and Medicare systems.

Greenspan, who supported President Bush's 2001 tax cuts, again endorsed Bush's proposal to make the cuts permanent. However, he said in response to questions that raising taxes would inevitably be part of any successful effort to reduce the growing federal budget deficit. He stressed that he prefers cutting government spending as much as possible before increasing taxes.

"You don't have the resources to do it all," Greenspan said.

To curtail future spending, Greenspan urged Congress, as he has in the past, to consider cutting promised Social Security benefits to future retirees. Otherwise, he said, the growing burdens would create long-term budget deficits that would drive up interest rates and depress economic growth, making it even harder for the government to pay its bills.

Greenspan said Congress should act as soon as it can because it would take several years to convince financial markets that the actions will be effective, and because future retirees deserve enough advance warning to plan their finances accordingly. About 20 percent of the elderly rely on Social Security for all their income, the government estimates.

Democrats quickly seized on Greenspan's comments as a weapon in blaming Bush for worsening the deficit and endangering Social Security. Republicans welcomed Greenspan's other remarks, which credited the Bush tax cuts for helping the economic recovery.

Several Democrats and Republicans embraced different aspects of Greenspan's comments about the role of tax increases in deficit reduction—a critical issue when the White House's top economic policy priority is extension of President Bush's tax cuts.

Greenspan broke with the White House in the past week to recommend that Congress reinstate budget controls that would apply to new tax measures as well as new spending. Bush has proposed applying the measures only to new spending, so they don't interfere with his push to make his tax cuts permanent, which the White House has estimated would cost nearly $1 trillion over 10 years.

Yesterday, Greenspan again endorsed extending the tax cuts, pleasing Republicans.

But he also said they should be offset by spending reductions, which pleased Democrats opposed to an extension. Greenspan "effectively said [the tax cuts] should be subordinated to the problem of deficit reduction," said Rep. John M. Spratt Jr. of South Carolina, the ranking Democrat on the Budget Committee. "In effect, Bush says tax cuts trump deficit reduction."

Although the Fed chairman has no formal role in budget policy, his views are solicited by both parties. "What he says is received with a lot of deference," Spratt said. "We can cite Greenspan as our third-party validation."

Committee Chairman Jim Nussle (R-Iowa) did the same thing at the hearing, echoing Greenspan's recommendations to focus first on cutting spending. "As I know you've said before, Chairman Greenspan . . . controlling spending is itself a policy for sustaining economic growth."

Greenspan said yesterday that Congress will have to land "somewhere in the middle," between cutting spending and raising taxes. That, he said, "is the necessary outcome."

The chairman said he was more worried about the long-term deficit, which is a structural problem, than the current budget gap, which he attributed largely to more short-term causes. This year's deficit, projected to reach $521 billion, resulted primarily from the recent recession, the popping of the 1990s stock-market bubble, increased defense spending and the recent tax cuts, he said.

With the economy now growing strongly, he said, the deficit "will tend to narrow somewhat" in the short term, but that won't be enough to cover the long-term federal retirement expenses of the 77 million baby boomers. The first-born members of that generation will become eligible for Social Security benefits in 2008, and for Medicare in 2011, he said. Over time, as the population ages, there will be fewer workers paying into the funds for every retiree drawing money out.

"This dramatic demographic change is certain to place enormous demands on our nation's resources—demands we almost surely will be unable to meet unless action is taken," Greenspan said, speaking for himself and not the Fed.

Greenspan, who chaired a commission that studied Social Security during the Reagan administration, said he would not change current retirees' benefits, but reminded members of Congress of two specific ways they could curtail the program's future growth.

He again recommended gradually raising the eligibility age for both Medicare and Social Security, to keep pace with the population's rising longevity. And he noted that they could link cost-of-living increases in Social Security benefits to a measure of inflation other than the consumer price index, a widely followed measure that many economists believe overstates the rise in overall prices. A measure that showed less inflation would cause benefits to rise more slowly.

Mirroring the rise in the consumer price index, monthly payments to the nation's 47 million Social Security recipients rose 2.1 percent last month, with the average benefit for retired workers rising $19, to $922.

House Democratic leader Nancy Pelosi, of California, said in a written statement that Greenspan's comments "dramatize the destructive effects of Republicans' reckless economic policies: record budget deficits, higher interest rates, lower economic growth and substantial risk to the Social Security benefits that retirees depend on."

Bush, when asked about the committee hearing, said he hadn't read Greenspan's remarks, but agreed that current federal retirement benefits should be untouched. The president said his proposed solution for Social Security would create "personal savings accounts for younger workers that would make sure those younger workers receive benefits equal to or greater than that which is expected."

Greenspan said the first thing Congress should do to address the deficit is to restore "pay-as-you-go" rules and caps on increases in discretionary spending— controls that were imposed in 1990 and allowed to expire in 2002. They essentially required that almost any tax cut or spending increase be matched by an offsetting budget change of equal value so there would be no net increase in the deficit.

Without such rules, Greenspan said, lawmakers aren't forced to choose between worthwhile, competing claims on the government's purse. Without them, he said, cutting the deficit is an "almost impossible job."

Greenspan reiterated that he favors cutting tax rates "continuously," because otherwise the overall tax burden will increase as incomes rise and taxpayers are pushed into higher tax-rate brackets. That, he said, could dampen economic growth, and with it the government's revenue base.

However, he conceded, it "may not be possible to keep the tax rates down and maintain some semblance of deficit control."

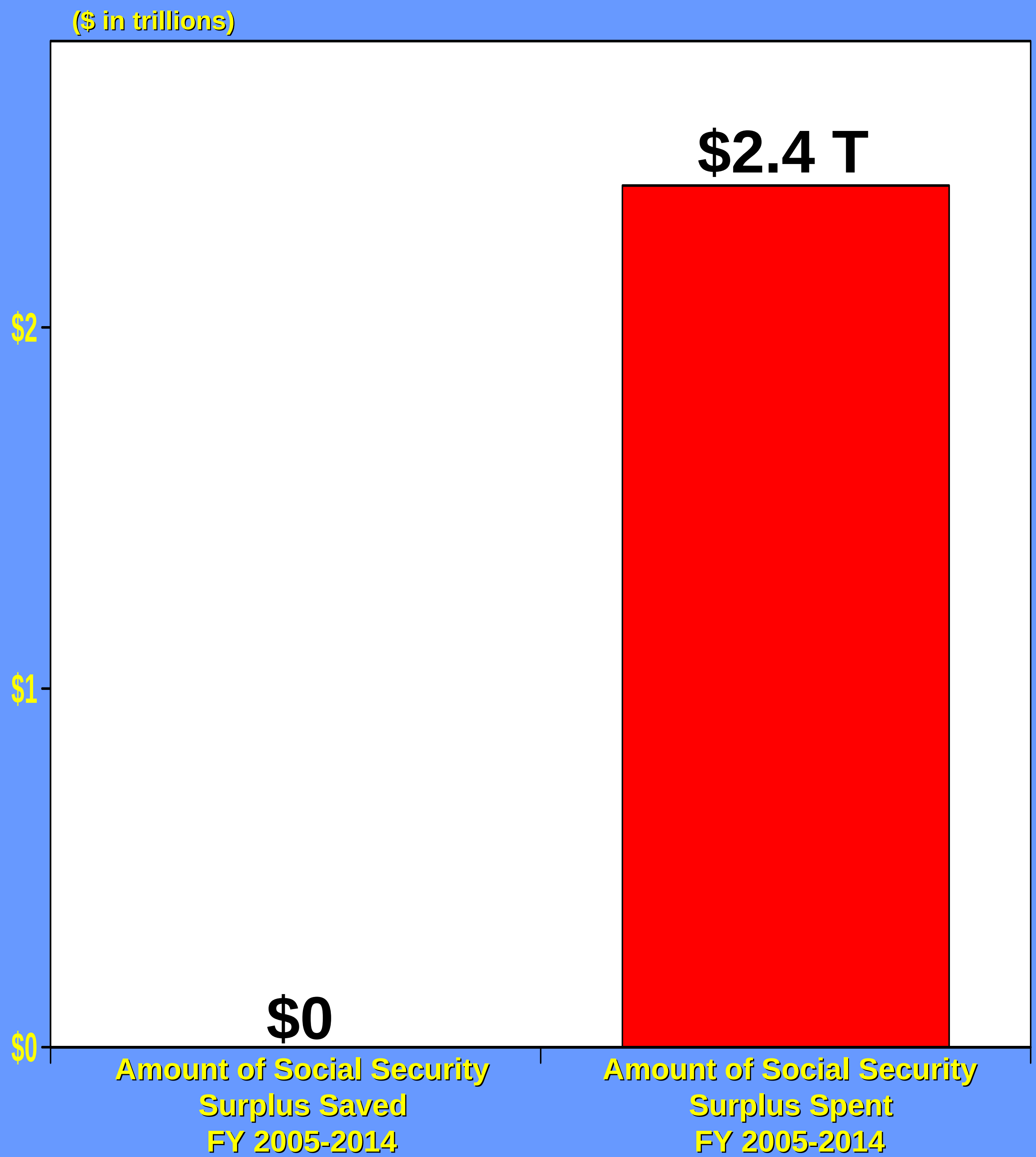
President Bush Promised to Protect Social Security

"None of the Social Security surplus will be used to fund other spending initiatives or tax relief."

– **Excerpt from President Bush's FY 2002 Budget**
A Blueprint for New Beginnings

Bush Budget Hides the Full Story

Every Penny of Social Security Surplus Spent



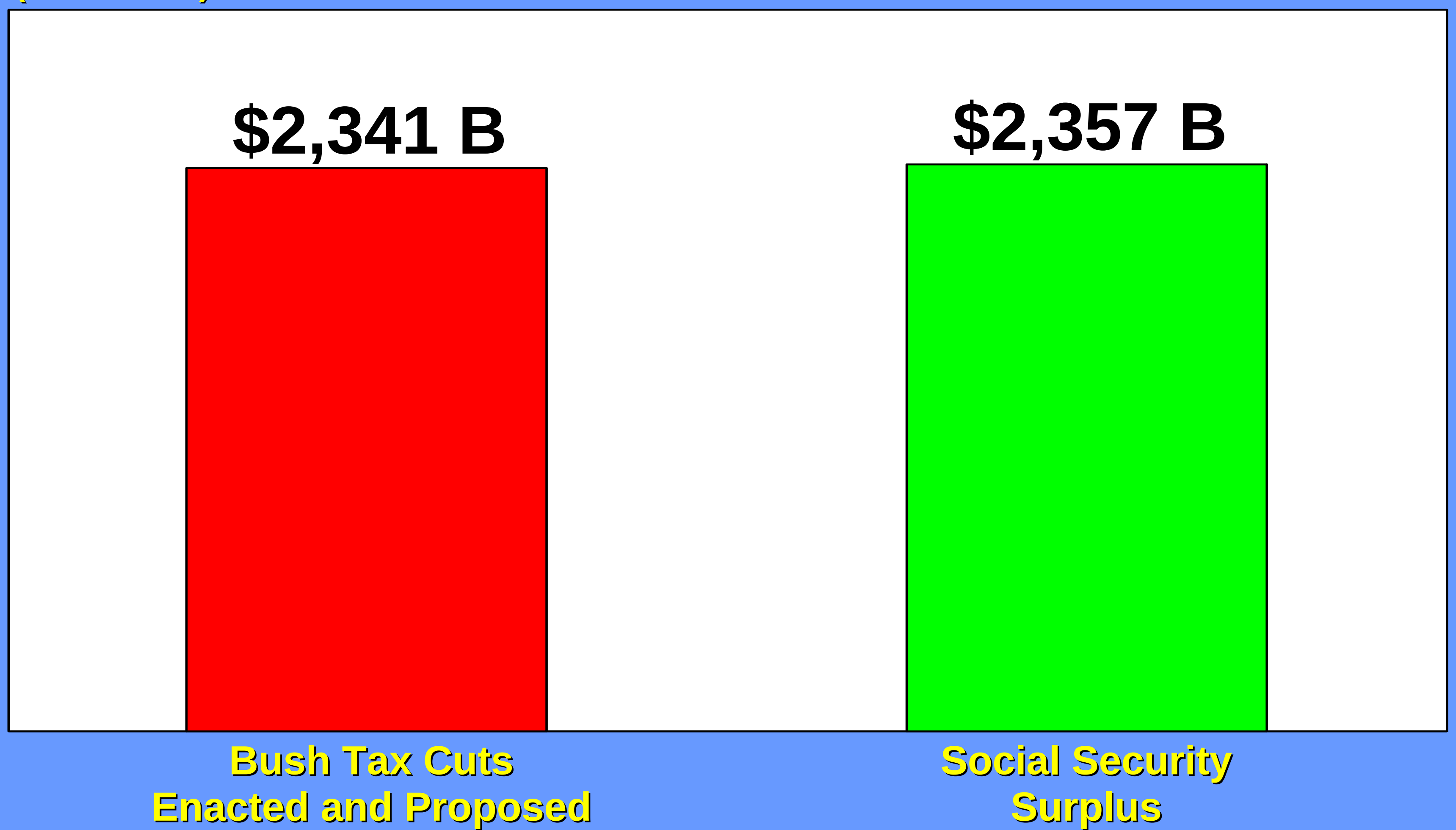
Source: CBO

Note: Amount of Social Security surplus spent on tax cuts and other things, instead of saved to prepare for retirement of baby boom generation.

Cost of Bush Tax Cuts vs. Social Security Surplus

(FY 2005-2014)

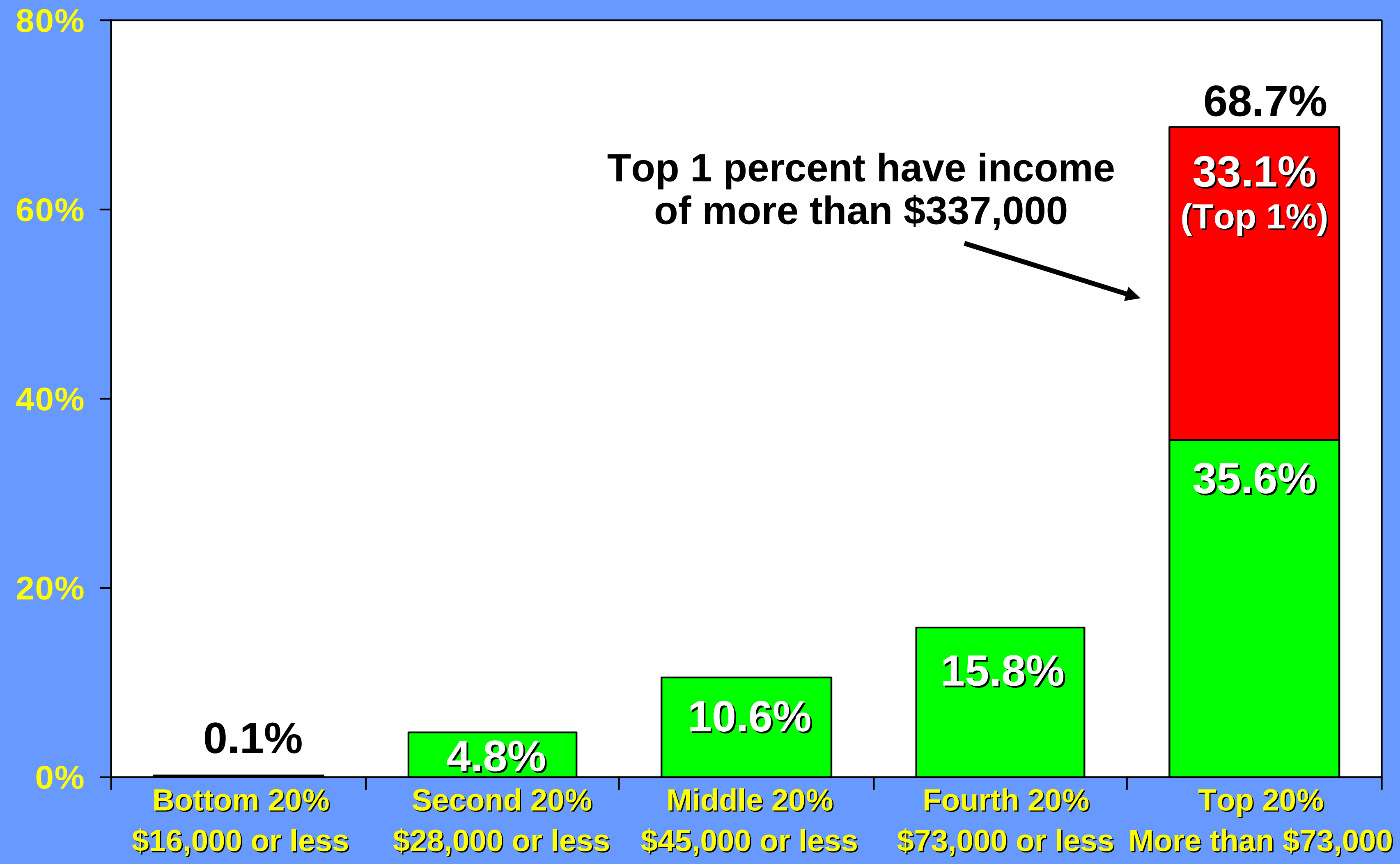
($ in billions)



Source: JCT, CBO, and SBC staff

Note: Assumes EGTRRA and JGTRRA (except for bonus depreciation) are extended.

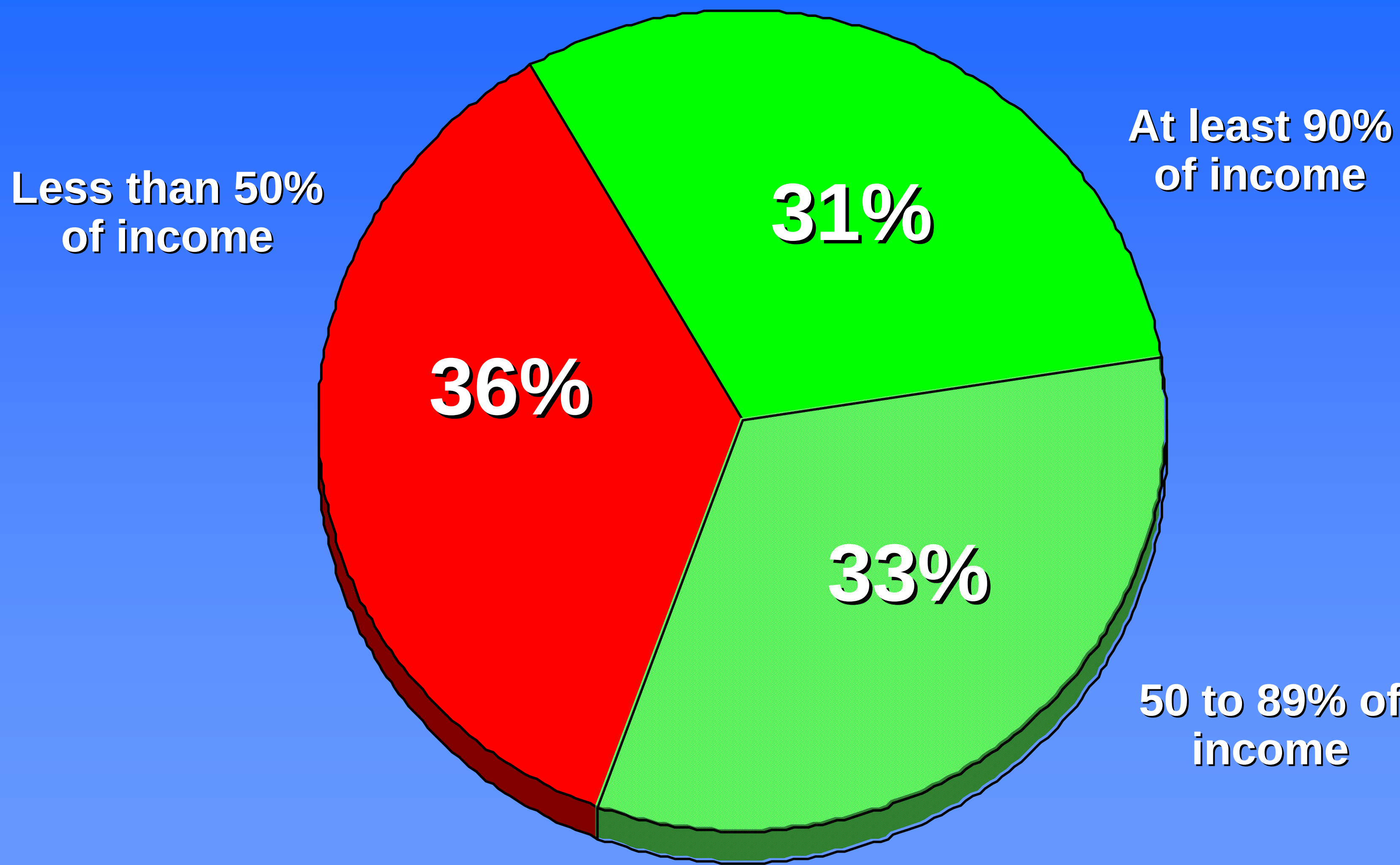
Benefits of Bush Income Tax Cuts



Source: Tax Policy Center and Citizens for Tax Justice

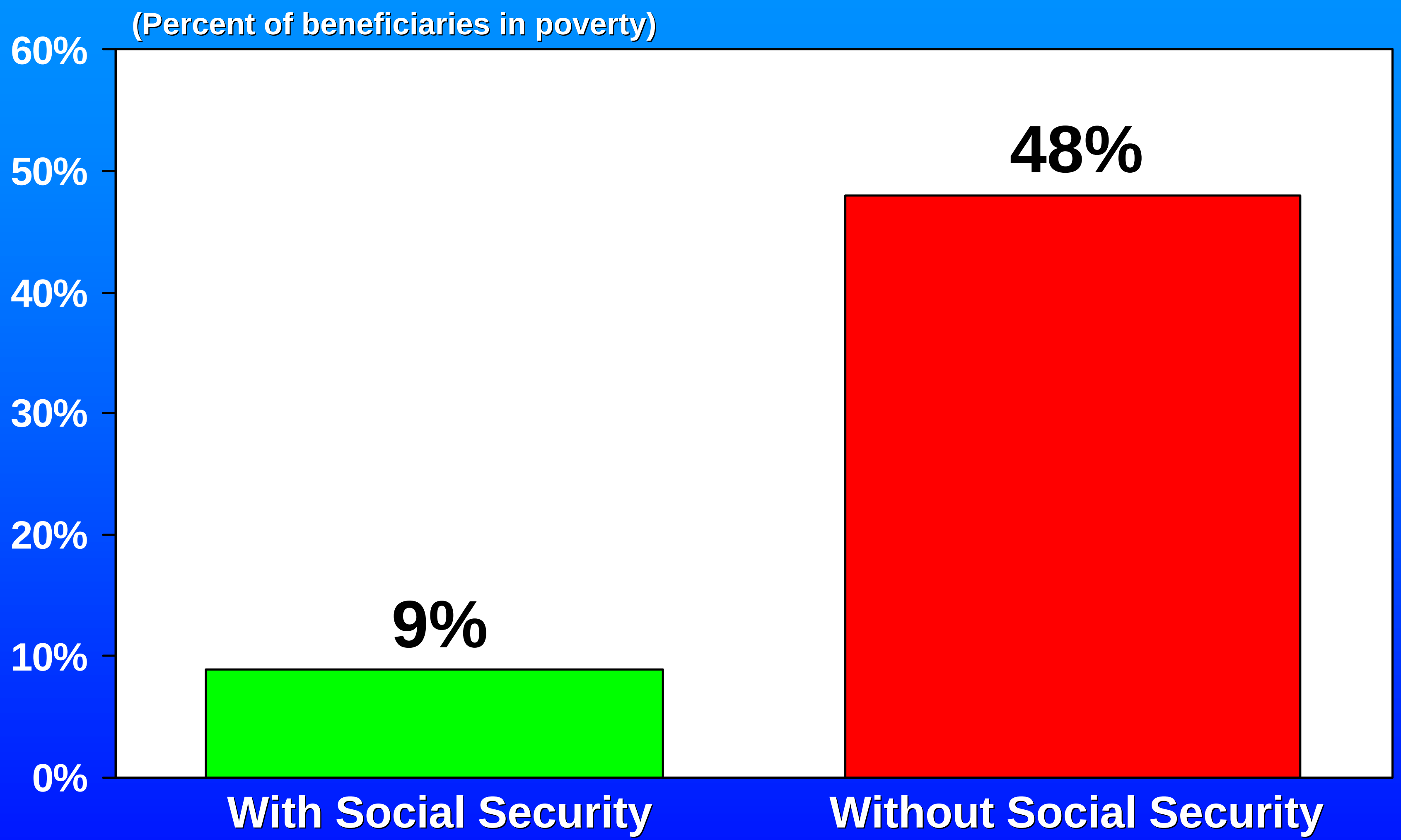
Note: Benefits in 2006, quintiles by adjusted gross income (AGI).

Two-Thirds of Retirees Rely on Social Security for More than Half Their Income



Source: Social Security Administration's Annual Statistical Supplement, 2001.

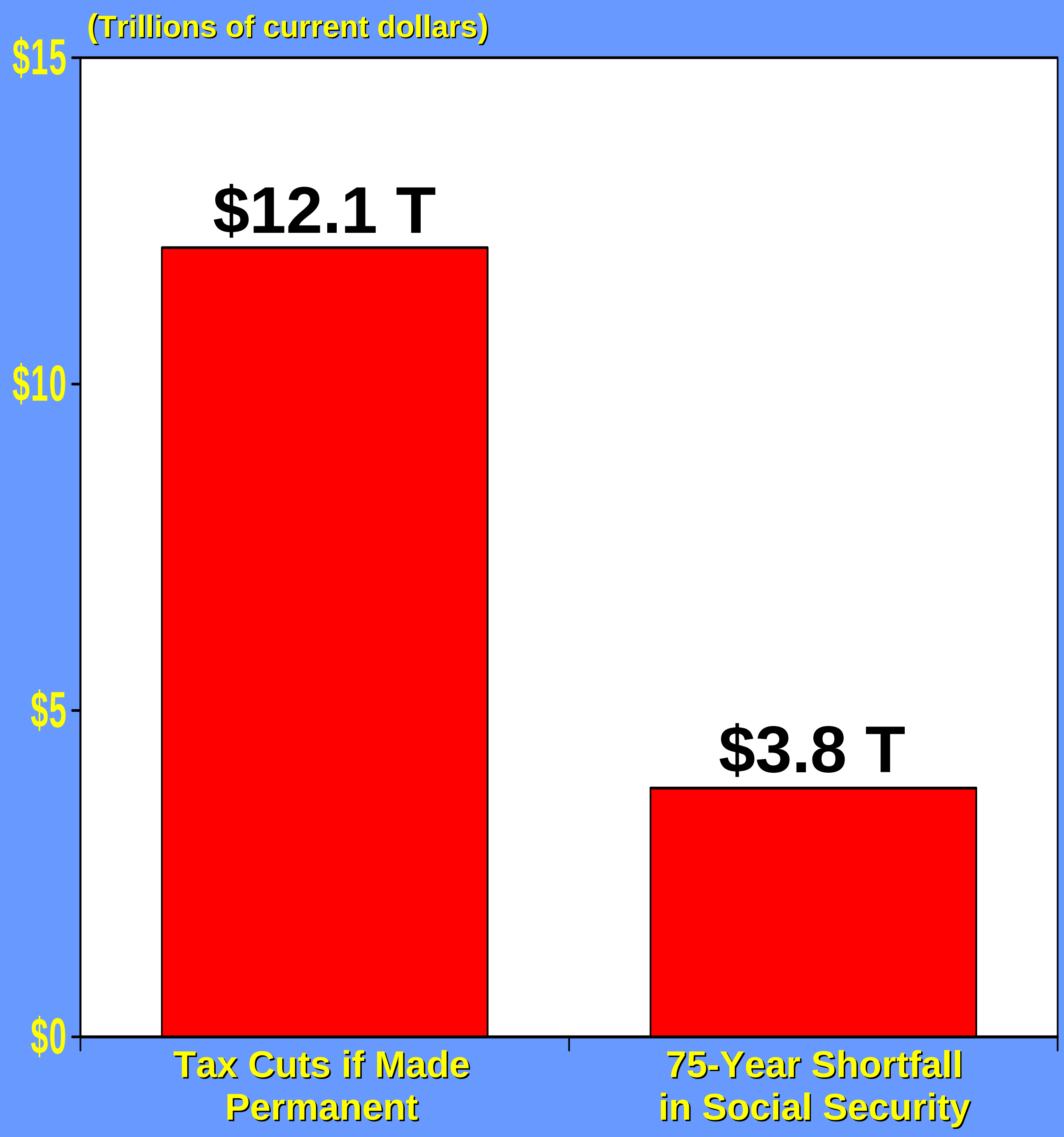
Nearly 50% of Beneficiaries Would Be in Poverty Without Social Security



Source: SSA

The Bush Tax Cuts and Social Security

Present Value of Costs Over the Next 75 Years



Source: Center on Budget and Policy Priorities, unpublished data
Note: Assumes that provisions of EGTRRA, the 2001 stimulus bill, JGTRRA, and other expiring provisions (except bonus depreciation, the education deduction, and the savers credit) are made permanent and the AMT is reformed.