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Greenspan Urges Cuts to Social Security to Rein In Deficit

By EDMUND L. ANDREWS and KENNETH N. GILPIN

WASHINGTON, Feb. 25 — Alan Greenspan, the Federal Reserve's chairman, called on Congress and the Bush administration today to cut spending and rein in Social Security programs to narrow the record budget deficit and protect the "vigorous expansion" now under way in the American economy.

Giving a lift to Republican lawmakers and to President Bush, who are trying to make $1.7 billion in tax cuts permanent, Mr. Greenspan said tax increases posed a risk to economic growth and should only be adopted as a last resort.

"The crucial issue out here is the rate of growth of productivity and the rate of growth of the economy, and what history does tell us is that keeping tax rates down will tend to maximize that," Mr. Greenspan told members of the House Budget Committee.

In addition to spending cuts in the overall budget, Mr. Greenspan said Congress should consider ways to reduce the costs of Social Security, including pushing up the age at which retirees could begin to receive Social Security and Medicare payments.

Mr. Greenspan essentially rebuffed Democrats, who have argued that Mr. Bush's tax cuts were fiscally reckless and need to be rolled back partially at least.

But in a characteristic display of his penchant for giving something to everyone, Mr. Greenspan once again parted ways with President Bush by insisting that Congress should only make the tax cuts permanent if it makes up for lost revenue with spending cuts or tax increases in other areas.

Mr. Greenspan's views on fiscal policy have enormous influence in Congress. Though he has usually portrayed himself as a staunch opponent of budget deficits, he provided crucial support for President Bush's first tax-cutting package in 2001 and he raised few criticisms of last year's $350 billion tax cuts even though the federal deficit was hitting new records.

The White House anticipates a shortfall of $521 billion this year, and the administration contends that it can reduce the deficit by half over the next five years by cutting back on domestic spending not related to the military.

Many outside analysts say the administration's plan is unrealistic, because it omits the costs of many of Bush's own priorities. Making the tax cuts permanent would cost more than $1.5 trillion over the next 10 years, for example, but most of the revenue losses would not show up until after 2009.

Senate leaders hope to start work next week on a budget resolution that would set the overall framework for both spending and tax legislation.

Republican lawmakers, particularly in the Senate, concede that they have only a slim chance of making all of Bush's tax cuts permanent this year. Instead, they are focusing on extending three very popular tax cuts that expire at the end of 2004 — a more generous child tax credit; relief from the "marriage penalty" for two-income families; and an expansion of the lowest tax bracket.

In his testimony today, Mr. Greenspan noted the budgetary challenges posed by the coming retirement of the Baby Boom generation, saying that the first wave of Baby Boomers would be eligible for Social Security retirement benefits when they reached age 62 in 2008. Three years later, those people will be eligible for Medicare.

Mr. Greenspan also cited a Congressional Budget Office forecast that projected that under current law federal outlays for Social Security and Medicare would rise from a little less than 7 percent of gross domestic product today to 12 percent by 2030.

To date, the issue of the fiscal challenges posed by the Baby Boomers to the nation's entitlements system have not surfaced as a political issue in the presidential campaign.

But if a Democrat is elected and serves two terms, at some point between 2005 and 2013 the problem will need to be addressed, analysts say, because the number of Baby Boomers who will reach retirement age starts to rise exponentially in 2010.

"We absolutely need to come to grips with the fundamental problems of our social welfare system," said David Resler, chief economist at Nomura Securities International.

At the White House, responding to a reporter's question about Greenspan's suggestion that adjustments be made in Social Security, President Bush said he had not yet read the testimony.

"I need to see what he said," Mr. Bush said. "My position on Social Security benefits is just that those benefits should not be changed for people at or near retirement."

The presidential campaign of Senator John Edwards, Democrat of North Carolina, later issued a statement in which Mr. Edwards asserted that "there is a better way" than cutting Social Security benefits.

"Alan Greenspan is right to call attention to the record-shattering deficit under President George Bush," Mr. Edwards said. "But it is an outrage for him to suggest that we should extend George Bush's tax cuts on unearned wealth while cutting Social Security benefits that working people earn.

"There is a better way. If we roll back these tax cuts for the wealthiest Americans, if we institute a new tax on the wealth of the top 1 percent, and if we take other steps to eliminate corporate subsidies and wasteful spending, we can reduce the deficit and extend the life of the Social Security trust fund."

Today was not the first time that Mr. Greenspan has urged Congress to curtail spending, and it will likely not the be the last. Under questioning, he admitted that spending cuts alone were not likely to balance the government's books.

Representative John M. Spratt, Democrat of South Carolina, ran through a recent analysis by an economist at the Brookings Institution that outlined the steps that could well be needed in the future to bring the budget into balance. Among those steps was an 80 percent cut in domestic discretionary spending.

"Do you think cuts of that magnitude are politically realistic?" the congressman asked Mr. Greenspan.

"I don't think they are," Mr. Greenspan replied. "But I still think that you have to start with the presumption that you're going to get as much as you can on that side."

"I'm just basically saying we are overcommitted at this stage," Mr. Greenspan added. "To the extent we try to resolve the overcommittment on the government side by raising taxes, we are risking lowering the rate of growth in the revenue base."

Edmund L. Andrews contributed reporting from Washington and Kenneth N. Gilpin contributed reporting from New York.