

Greenspan Urges Look At Senior Benefit Costs - Washington Post 27 Aug

By Nell Henderson

JACKSON HOLE, Wyo., Aug. 27 -- Federal Reserve Chairman Alan Greenspan on Friday urged Washington policymakers to consider reducing future Social Security and Medicare benefits, saying that the nation has probably promised more to upcoming retirees than the economy can realistically deliver.

"If we have promised more than our economy has the ability to deliver to retirees, . . . as I fear we may have, we must recalibrate our public programs so that pending retirees have time to adjust," Greenspan said in remarks to a conference here on the impact of global population changes. "If we delay, the adjustments could be abrupt and painful."

Greenspan's remarks echoed warnings he has given many times before, though his statement Friday was made in more oblique language. Earlier this year, he made a far more forceful statement on Capitol Hill about the need to restrain the growth in Social Security and Medicare spending by reducing benefits for future retirees.

Those remarks prompted a barrage of criticism, in large part because of the sensitivity of the topic in a presidential election year.

Greenspan's comments about the long-term economic peril of the nation's retirement system came on a day when a key short-term economic indicator also took a downturn.

The Commerce Department yesterday lowered its estimate of economic growth for the second quarter of this year to a 2.8 percent annual rate from its earlier projection of 3 percent. The reduced figure marks the slowest expansion of the country's gross domestic product in about a year and reflects the effect of higher oil prices and sluggish consumer spending.

Greenspan, who chaired the 1983 commission that recommended several ways to strengthen the Social Security program's finances, did not urge any specific benefit changes. But he did note that a variety of amendments in both federal programs and Americans' retirement and saving behavior could ease the "adjustments" that will have to be made as the population ages.

Americans, for example, could work longer, said Greenspan, 78, who has served as Fed chairman for 17 years. They are living longer and healthier. Work is "becoming less physically strenuous but more demanding intellectually," he said. Yet workers have been retiring at younger ages in recent years.

One way to encourage workers to retire later, he suggested, would be to raise the age of eligibility for full retirement benefits or to slow the growth of Medicare benefits.

Americans also should save more, both as individuals and as a nation, he suggested. The individual saving rate is less than 2 percent, and the nation borrows an amount equivalent to about 5 percent of its

annual gross domestic product from overseas to finance its spending and investment.

Without greater savings, he said, the country will not have the money to invest in the new technologies needed to continually boost worker productivity or output per labor hour.

Rising productivity, he said, "offers the greatest potential for boosting" the economy's resources "to a level that would enable future retirees to maintain their expected standard of living without unduly burdening future workers."

Retirees tend to save more, he said, expressing hope that the large post-World War II baby boom generation will do the same.

Greenspan also implicitly urged actions to reduce the record federal budget deficit, saying that "critical to national saving will be the level of government, specifically federal government saving."

"Unless actions are taken," he said, without specifying the actions, the deficit will become far worse as the share of the American population over age 65 grows from about 12 percent today to around 20 percent by 2035.

Greenspan also repeated his call for the nation to "engage in a long overdue upgrading of primary and secondary school education" as another way to enhance productivity.

The problems of supporting a growing elderly population are common throughout the industrialized world, where the ratio of older adults to younger adults has been rising for at least 150 years, he said.

The aging of the population slowed greatly with the baby boom that followed World War II, but picked up again as birth rates fell and life expectancy rose through the late 20th century.

The U.S. working-age population is projected to grow more slowly in coming years, with the rate of increase falling from about 1 percent per year today to 0.25 percent per year by 2035, he said. Meanwhile, the baby boom generation is just a few years away from starting to claim federal retirement benefits.

"The relative aging of the population is bound to bring with it many changes to the economy of the United States -- some foreseeable, many probably not," Greenspan said. "Inevitably, it will again require making difficult policy choices to balance competing claims."