STATEMENT of SENATOR GORDON H. SMITH
Aging Committee – Greenspan Hearing
March 15, 2005

Good morning. Today, the Senate Special Committee on Aging conducts its second hearing on Social Security. We are fortunate to have Federal Reserve Board Chairman Alan Greenspan here to help us explore the economics of this issue. I know he has given these matters a great deal of thought, as well as having the experience of chairing the bi-partisan Social Security panel that helped forge the last rescue of the program in 1983.

As the witnesses in our hearing last month clearly articulated, with the onslaught of baby-boom retirees in the coming decades, the expenditures of Social Security, Medicare, Medicaid and other public and private pension programs will rise rapidly.

However, with the large exodus of older workers from the labor force, the pool of working-age Americans will rise only modestly, potentially depriving our nation of what has been one of its major engines of economic growth.

Balancing the income and outgo of the Social Security system may now be our principle focus, but as we will hear today, a primary goal of any legislation should be to increase national savings and stimulate the increased productivity needed to achieve higher economic output.

Meeting the promises made to future retirees depends more on the size of the economy than whether claims on future resources are built into public or private retirement programs. Raising future taxes for Social Security or accumulating stocks and bonds in new personal accounts will mean little if the economy has not expanded sufficiently to match the consumption needs of an older nation. It is the economy's capacity to grow over the next few decades that offers the greatest security to our aging population.
Much of the recent debate considers Social Security in isolation from the rest of the government, the economy, and the other means by which people strive for retirement security. If balancing the system's income and outgo were all that mattered, the simplest fix would be to pass a law adding more government bonds to the Social Security trust funds.

However, there is no excess money in the general fund, and because federal deficits are projected for as far as the eye can see, none is expected in the future. That means there are two recourses in the future for making good on those bonds: raising taxes or borrowing. Neither of those actions will increase the size of the economy, and in all likelihood, they would impair it.

Economic growth will not occur without sacrifices. People can do two things with their money: they can buy things that they consume immediately, or they can invest their money to enable them to consume in the future. Simply put, there is no free lunch in achieving national saving. As we will hear today, the same is true when making government policy.

Before we proceed I turn to my colleague, Senator Kohl, who has a few remarks of his own.