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Borrow Cautiously, Greenspan Advises

Bush May Agree to Raise Social Security Tax Ceiling

By Nell Henderson and Jim VandeHei

Washington Post Staff Writers

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Federal Reserve Chairman Alan Greenspan warned Congress yesterday to go slow in borrowing to create personal Social Security accounts, after the White House suggested for the first time that it might accept an increase in payroll-tax revenue to bolster the system's finances.

President Bush has made the creation of personal accounts his top domestic legislative priority this year, proposing to borrow \$743 billion over the first five years. Since his State of the Union address, he has campaigned through nine states for support of his proposals to restructure Social Security.

Greenspan, appearing before the Senate Banking Committee, endorsed the idea of personal accounts but said there was no way to predict how financial markets would react to the federal government borrowing as much as \$2 trillion to finance the plan.

"If you are going to move to private accounts, which I approve of, you have to do it in a cautious, gradual way," he said.

Bush has raised for the first time the possibility of accepting higher ceilings on wages subject to the Social Security payroll tax. Currently, the tax is paid on only the first \$90,000 of a worker's annual income. The limit rises every year but some lawmakers have proposed bigger increases.

Speaking to reporters from regional newspapers Tuesday, the president continued to rule out raising the 12.4 percent payroll tax rate, of which half is paid by workers and half by employers.

"The one thing I'm not open-minded about is raising the payroll tax rate. And all the other issues go on the table," Bush said, according to an account yesterday in the New Haven (Conn.) Register.

Lifting the cap on wages subject to the tax would raise taxes for all workers earning over the current ceiling. For



Greenspan said individual Social Security accounts should be introduced "in a cautious, gradual way." (Lucian Perkins -- The Washington Post)

example, raising the cap to \$140,000, as some lawmakers support, would result in an additional \$3,100 tax payment for Americans earning that amount or more. For the self-employed, who pay both the individual and employer portion, the tax would go up \$6,200 for those making \$140,000 or more.

Greenspan, appearing before the Senate Banking Committee, delivered an upbeat assessment of the U.S. economy but also called on lawmakers to help bolster U.S. prosperity by restraining the federal budget deficit. Greenspan has warned for years that large federal deficits, under certain conditions, cause financial markets to drive up interest rates, crowding out private investment and slowing U.S. economic growth. It is "imperative to restore fiscal discipline," he said yesterday.

The budget deficit grew to a record \$413 billion last year and is projected to expand rapidly in coming decades as the baby boom generation retires and starts collecting Social Security and Medicare benefits. Many Social Security analysts have calculated that creating personal accounts would require the government to borrow trillions of dollars in the coming decades.

—Multimedia—

- **Video:** Federal Reserve Chairman Alan Greenspan on Wednesday urged a go-slow approach on personal Social Security accounts, saying that while he embraces the idea central to President Bush's proposed overhaul, he is concerned about stability in financial markets.

—On The Web—

- [Prepared Testimony of Chairman Alan Greenspan](#)
- [Monetary Policy Report to Congress](#) (pdf)



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