Prime Minister

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15 November 1982
ALAN WALTERS

PRIME MINISTER

VISIT OF DR. ALAN GREENSPAN

Dr. Greenspan was Chief Economic Adviser to President Ford. He was the Chairman of the Committee of Economic Advisers. It was a very distinguished Committee, including people such as William Fellner. Most people whose judgement I respect, regard Greenspan as the best Chairman of the Council. I understand that after Murray Wiedenbaum departed, Greenspan was again the first choice as Chairman of the CEA. But he preferred his present activities, split jointly between private consulting and public service.

I suggest you discuss with him the following topics.

(a) American Monetary Policy

The main issue is whether there has been a substantial change of policy at the Fed. There are mixed signals from the media. (For example, Bill Ford, President of the Atlanta Fed, clearly indicated last week that monetary policy was going to be much more expansionist. This was in the context of a panel discussion, and it is not clear whether Ford made the point that the media attribute to him.)

As you know, I believe that there has been no substantial change in monetary policy. The Americans are running into the same sort of problems we encountered in 1981 with some indicators being temporarily upset or misleading.

(b) The American Budgetary Deficit

Forecasts of the budget deficit for next year tend to be near $200 billion. Greenspan may well have a good appreciation of what measures are likely to be taken in order to reduce the deficit.

(c) Social Security

Greenspan is Chairman of a bi-partisan commission charged with the job of producing a consensus on how to handle the enormous social security deficits that

/are looming

are looming in the years ahead. Although the short answer is to increase social security payments and/or reduce the benefits, the politically acceptable answer is much more complicated. He has had some considerable experience in negotiating feasible and acceptable solutions. You might wish to ask him whether he could make any recommendations about our pension problem.*

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*See Wall Street Journal, 12 November (attached).

WSJ 11/12

Greenspan, Playing Mediator, Tries to Prod Diverse Social Security Panel to Agreement

By Robert W. Merry

Staff Reporter of The Wall Street Journal

ALEXANDRIA, Va. – Alan Greenspan, the New York economist, isn't a stranger to controversy. A few years ago, when he was President Ford's top economic adviser and economic stagflation was battering the country, he remarked publicly that stock brokers were among those hardest hit by hard times.

The comment produced an enormous controversy. A relative newcomer to Washington at the time, the brainy, low-keyed conservative learned quickly how sensitive some issues can be.

Now Mr. Greenspan finds himself in a political situation as delicate as Washington has seen in years. He is chairman of a high-level, bipartisan commission charged with producing by year-end a consensus on how to handle Social Security's financial ills. Some people on Capitol Hill call the issue "the middle rail of American politics—touch it and you're dead."

Yet something has to be done to save Social Security. Its trust funds may be unable to cover promised benefit payments within a year or so. And the major proposals for solving the problem—cutting scheduled growth in benefit payments or raising taxes—strike most members of Congress as much too painful.

"If Alan Greenspan can succeed," says Rep. Willis Gradison, an Ohio Republican, "he should get the Nobel Peace Prize."

Mr. Greenspan doesn't seem to have any illusions about the difficulties of the job. "We've now clearly become aware of the extent to which the general weakness of the economy has real negative impact on the Social Security trust funds," he said yesterday as the commission began three days of public discussions here.

He steered the commission to agreement that the trust funds will need between $150 billion and $200 billion in tax increases or benefit-growth cuts through the rest of the decade.

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Mr. Greenspan has cultivated the image of an impassive mediator dedicated to drawing together diverse viewpoints. "It's clear to most people that Greenspan is putting aside any personal opinions," says Laurie Fiori of the American Association of Retired Persons.

But some are beginning to wonder if Mr. Greenspan's approach is forceful enough to produce an actual consensus. Commission member Robert Dole, chairman of the Senate Finance Committee, says the 15-member panel will probably produce 15 answers. "Don't look for miracles," the Kansas Republican says.

The panel is composed of 10 members appointed by President Reagan and Senate Republican leader Howard Baker, and five appointed by the Democratic House Speaker, Thomas P. O'Neill. As a result, the commission is a repository for all the views and political forces that have contributed to political stalemate on the issue over the past two years.

Speaker O'Neill's five appointees are the most willing to accept large payroll-tax increases. For some of them, the idea of benefit-growth reductions—considered necessary by many Republicans and some Democrats—represents an assault on the legacy of the Democratic Party.

The group includes Robert Ball, a former Social Security commissioner and a bureaucratic infighter. He favors speeding up to next year the non-Medicare payroll tax increases scheduled for 1985 and 1990, which would raise the maximum Social Security tax nearly $300 next year and ensure further increases later. Other O'Neill appointees are Florida's octogenarian Rep. Claude Pepper, who has recently focused most of his energy on opposing Republican efforts to check Social Security benefit growth, and New

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Greenspan, Playing the Mediator, Tries to Prod Social Security Panel

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York's Democratic Sen. Daniel P. Moynihan, who argued until recently that there was no need for any Social Security overhaul at all.

Some Republican members are getting jittery that Chairman Greenspan may become too cozy with these Democrats. "My concern," says a staff aide to an influential commission member, "is that catering to Bob Ball could pull the commission to the left of Congress." It could also lead to the loss of conservative backing.

But Mr. Greenspan's mandate is to produce a consensus report that can be the basis for congressional action. And many consider support from some of these Democrats crucial. Without Mr. Ball, for example, the reasoning goes, you don't get Speaker O'Neill; without Speaker O'Neill, you don't have any real bipartisan cooperation.

The commission's conservative members fall into two categories—the hardliners and the more flexible. Leading the hardliners is Sen. William Armstrong, a Colorado Republican and the chairman of the Senate Social Security subcommittee. Along with many in Congress, Sen. Armstrong is afraid that major payroll-tax increases could retard any economic recovery. He also vows to lead a filibuster against any such tax-increase measure.

Other conservative commission members are less adamant. Finance Committee Chairman Dole and New York's Rep. Barber Conable, senior Republican on the House Ways and Means Committee, have suggested they might accept some payroll-tax increases if they're accompanied by some important benefit-growth reductions.

Chairman Greenspan has another delicate task as well: getting agreement on the nature of Social Security's long-term problem. He and most other commissioners are afraid disaster will strike the system when the large "baby boom" generation reaches retirement age and finds there aren't sufficient Americans in the work place to finance their pensions. Mr. Ball and other Democrats doubt that this problem is as dire as some pessimists fear. They oppose the kinds of phased-in benefit reductions often proposed to address it.

Mr. Ball says many short-term solutions will reduce the long-term problem, and he supports payroll-tax increases to solve the rest. This approach is anathema to many conservatives, which leads may to wonder what Mr. Greenspan will have to give up to reach commission consensus on long-term solvency measures. Will he have to give up more than the conservatives will accept?

All of this leads some to suggest that the commission won't produce a comprehensive package at all, but will merely settle as many questions as possible and leave the rest to Congress. "They may end up going for a higher percentage of consensus on a lower percentage of completed work," says a congressional staff assistant.

But there's even disagreement on whether this makes sense. Some say it does because Congress has ultimate responsibility anyway. Others don't agree. "We've got to take the heat," says Rep. Conable. "If we don't, how can we expect Congress to?"

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