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## OP-ED COLUMNIST

**Borrow, Speculate and Hope**By [PAUL KRUGMAN](#)

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**T**he National Association of Securities Dealers," The Wall Street Journal reports, "is investigating whether some brokerage houses are inappropriately pushing individuals to borrow large sums on their houses to invest in the stock market." Can we persuade the association to investigate would-be privatizers of Social Security?

For it is now apparent that the Bush administration's privatization proposal will amount to the same thing: borrow trillions, put the money in the stock market and hope.

Privatization would begin by diverting payroll taxes, which pay for current Social Security benefits, into personal investment accounts. The government, already deep in deficit, would have to borrow to make up the shortfall.

This would sharply increase the government's debt. Never mind, privatization advocates say: in the long run, they claim, people would make so much on personal accounts that the government could save money by cutting retirees' benefits. Financial markets won't believe this claim, as I'll explain in a minute, but let's temporarily grant the point.

Even so, if personal investment accounts were invested in Treasury bonds, this whole process would accomplish precisely nothing. The interest workers would receive on their accounts would exactly match the interest the government would have to pay on its additional debt. To compensate for the initial borrowing, the government would have to cut future benefits so much that workers would gain nothing at all.

How, then, can privatizers claim that they could secure the future of Social Security without raising taxes or reducing the incomes of future retirees? By assuming that workers would invest most of their accounts in stocks, that these investments would make a lot of money and that, in effect, the government, not the workers, would reap most of those gains, because as personal accounts grew, the government could cut benefits.

We can argue at length about whether the high stock returns such schemes assume are realistic (they aren't), but let's cut to the chase: in essence, such schemes involve having the government borrow heavily and put the money in the stock market. That's because the government would, in effect, confiscate workers' gains in their personal accounts by cutting those workers' benefits.

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Once you realize that privatization really means government borrowing to speculate on stocks, it doesn't sound too responsible, does it? But the details make it considerably worse.

First, financial markets would, correctly, treat the reality of huge deficits today as a much more important indicator of the government's fiscal health than the mere promise that government could save money by cutting benefits in the distant future.

After all, a government bond is a legally binding promise to pay, while a benefits formula that supposedly cuts costs 40 years from now is nothing more than a suggestion to future Congresses. Social Security rules aren't immutable: in the past, Congress has changed things like the retirement age and the tax treatment of benefits. If a privatization plan passed in 2005 called for steep benefit cuts in 2045, what are the odds that those cuts would really happen?

Second, a system of personal accounts, even though it would mainly be an indirect way for the government to speculate in the stock market, would pay huge brokerage fees. Of course, from Wall Street's point of view that's a benefit, not a cost.

There is, by the way, a precedent for Bush-style privatization. One major reason for Argentina's rapid debt buildup in the 1990's was a pension reform involving a switch to individual accounts - a switch that President Carlos Menem, like President Bush, decided to finance with borrowing rather than taxes. So Mr. Bush intends to emulate a plan that helped set the stage for Argentina's economic crisis.

If Mr. Bush were to say in plain English that his plan to solve our fiscal problems is to borrow trillions, put the money into stocks and hope for the best, everyone would denounce that plan as the height of irresponsibility. The fact that this plan has an elaborate disguise, one that would add considerably to its costs, makes it worse.

And maybe the fact that serious financial experts, the sort qualified to be Treasury secretary, understand all this is the reason why John Snow has just been reappointed.

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*Bob Herbert is on vacation.*

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