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Bush's Social Security Plan Is Said to Require Vast Borrowing

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WASHINGTON, Nov. 27 - The White House and Republicans in Congress are all but certain to embrace large-scale government borrowing to help finance President Bush's plan to create personal investment accounts in Social Security, according to administration officials, members of Congress and independent analysts.

The White House says it has made no decisions about how to pay for establishing the accounts, and among Republicans on Capitol Hill there are divergent opinions about how much borrowing would be prudent at a time when the government is running large budget deficits. Many Democrats say that the costs associated with setting up personal accounts just make Social Security's financial problems worse, and that the United States can scarcely afford to add to its rapidly growing national debt.

But proponents of Mr. Bush's effort to make investment accounts the centerpiece of an overhaul of the retirement system said there were no realistic alternatives to some increases in borrowing, a requirement the White House is beginning to acknowledge. Advertisement

"The administration hasn't settled on any particular Social Security reform plan," Joshua B. Bolten, the director of the White House's Office of Management and Budget, said in an e-mail message in response to questions about overhauling the system.

"The president does support personal accounts, which need not add over all to the cost of the program but could in the short run require additional borrowing to finance the transition," Mr. Bolten said. "I believe there's a strong case that this approach not only makes sense as a matter of savings policy, but is also fiscally prudent."

Proponents say the necessary amount of borrowing could vary widely, from hundreds of billions to trillions of dollars over a decade, depending on how much money people are permitted to contribute to the accounts and whether the changes to Social Security include benefit cuts and tax increases.

Borrowing by the government could be necessary to establish the personal accounts because of the way Social Security pays for benefits. Under the current system, the payroll tax levied on workers goes to benefits for people who are already retired. Personal accounts would be paid for out of the same pool of money; they would allow workers to divert a portion of their payroll taxes into accounts invested in mutual funds or other investments.

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The money going into the accounts would therefore no longer be available to pay benefits to current retirees. The shortfall would have to be made up somehow to preserve benefits for people who are already retired during the transition from one system to the other, and by nearly all estimates there is no way to make it up without relying at least in part on government borrowing.

Mr. Bush and Republicans in Congress have paid little political price in the last four years for the swing from budget surpluses to deficits. But some polls show that Americans consider reducing the deficit to be a higher priority than many other goals, including cutting taxes, and embracing a new round of borrowing could pose political as well as economic risks.

A reasonable amount of borrowing now, the proponents say, would avert a much bigger financial obligation decades later. They say personal accounts would yield higher returns for individuals than the current system and could be a catalyst to broader changes that would bring the benefits promised by Social Security into line with what the system, which is also about to come under intense financial strain from the aging of the baby boom generation and the increase in life expectancies, can afford to pay.

Mr. Bush has vowed to push hard to remake Social Security. Republicans in Congress say the White House has signaled to them that Mr. Bush will put the issue at the top of his domestic agenda in the coming year.

But the White House has never answered fundamental questions about Mr. Bush's plan. In particular, it has not explained how it would deal with the financial quandary created by its call for personal accounts.

Some conservative analysts and Republicans in Congress say a portion of the temporary financial gap that would be created by personal accounts could be closed through measures like holding down the growth in overall government spending. But nearly everyone involved in the debate over Social Security agrees that some borrowing will be necessary.

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