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WHouse: Borrowing to Help Fund Social Security Plan



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By Adam Entous

WASHINGTON (Reuters) - The White House said on Monday it would borrow money to help pay for adding personal retirement accounts to Social Security ([news](#) - [web sites](#)), after ruling out tax increases to finance a transition experts say could cost \$1 trillion to \$2 trillion over 10 years.



[Reuters Photo](#)

President Bush ([news](#) - [web sites](#)) has made reform of the U.S. retirement program a top priority for his second term, and he used a private meeting with congressional leaders on Monday to press for action next year. "Most members (of Congress) recognize that the system needs to be fixed," said White House spokesman Scott McClellan.

Democrats at the meeting urged Bush to propose a more specific plan, aides said. Bush has only issued broad principles so far.

The president's economic advisers have been analyzing financing options for more than a year. Until now, the White House has stopped short of saying that borrowing would be needed to cover the transition costs.

Experts say Bush has few other options because of record federal budget deficits. Bush opposes raising taxes or making changes for those at or near retirement, the White House says.

"There will be some upfront transition financing that will be needed to move toward a better system that will allow younger workers to invest a small portion of their own money into personal savings accounts," McClellan said.

The transition costs will be between \$1 trillion to \$2 trillion, according to congressional and private-sector estimates. Asked if the costs would be financed by government borrowing, he added: "That's what you're looking at doing as part of the transition to a better Social Security system." He declined to say how much borrowing would be needed.

Bush's economic advisers believe a short-term increase in borrowing is

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economically feasible, and that the cost of doing nothing would be far greater in the long run. While the nation's debt load would increase initially, it would fall as the reforms are phased in, advocates say.

Democrats have vowed to protect Social Security from "privatization" by Bush and his Republican allies in the U.S. Congress. They warn that the nation's mounting debt could drive up interest rates and become a drag on economic growth.

McClellan countered: "The Social Security system is unsustainable. It needs to be fixed." He said it would cost \$10 trillion "if we do nothing... It will lead to either massive tax increases or massive benefit cuts for younger workers."

Brian Riedl, a budget expert with the conservative Heritage Foundation, said the White House and Congress should minimize the amount of new borrowing by restraining federal spending.

"Even a transition cost of \$1.5 trillion over 15 years comes to \$100 billion a year, and there's enough wasteful and outdated spending to cut \$100 billion out of the annual budget," Riedl said.

A recent analysis by the White House Council of Economic Advisers found that tapping the bond markets to pay for private accounts would increase the nation's debt-to-GDP ([news](#) - [web sites](#)) ratio by 23.6 percentage points by 2036.

Under this scenario, the debt held by the public would increase by as much as \$4.7 trillion. But the new government bonds would be repaid 20 years later, eliminating Social Security's unfunded liability while reducing the tax burden in the long term, advocates said.

"The president, at this point, has not endorsed a specific plan," McClellan said.

But Republicans say the Bush administration favors a plan that would allow workers to voluntarily redirect 4 percent of their payroll taxes up to \$1,000 annually to a personal account.

The White House had once hoped that budget surpluses, projected in 2000 at \$5.6 trillion over 10 years, would fund the transition period. But those surpluses have vanished.

The federal budget deficit hit a record of \$412 billion in the 2004 fiscal year that ended Sept. 30, and the Congressional Budget Office ([news](#) - [web sites](#)) has projected \$2.3 trillion in accumulated deficits over the next decade.

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