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Bush seeks $1 trillion debt boost

By Patrice Hill
THE WASHINGTON TIMES

President Bush speaks while visiting the SRC Automotive manufacturing plant in Springfield, Mo., on Monday. (AP)
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President Bush, saying the economic recovery is firmly in place, yesterday proposed adding $1 trillion to the national debt to fund the cost of shifting to a partially privatized Social Security system.

The massive increase in debt, coming on top of a $7 trillion national debt that is growing by about $500 billion a year, adds controversy to what was already promising to be a difficult reform to get enacted.

The debt increase is acknowledged in the 2004 Economic Report of the President, which was penned by the White House Council of Economic Advisers and released yesterday.

The Social Security privatization plan has largely disappeared from Mr. Bush's speeches and budget blueprints, although it was a major campaign platform in the 2000 election. It was judged to be politically palatable at the time because it would draw on some of the government's large projected surpluses to finance transition costs from the current government-funded pension system.

But those surplus projections have disappeared and been replaced by record federal deficits, and Mr. Bush had not previously revealed how he would fund the plan, which would enable workers to put some of their Social Security contributions into private accounts that are invested in stocks and other securities.

Because Social Security relies on current payroll taxes to fund today's retirees, the question has been how to divert money to private accounts and still meet the pension

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program's obligations.

The economic report for the first time tentatively provides the answer — with borrowing — as well as a rationale for the decision that asserts that adding the cost of privatizing the program to the national debt would have little detrimental effect on the economy or workers.

"Since the budget surpluses forecasted a few years ago have not materialized, critics argue that adding personal retirement accounts to Social Security is impossible or impractical," it says.

"In reality, the need to add resources to the Social Security system is no less pressing now that the surpluses have disappeared; indeed, it may be even more so."

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The upbeat assessment on whether another $1 trillion in government debt will harm the economy reflects the report's overall bullish tone on the economy and the consequences of debt.

Maintaining that the economy is in the midst of a "full-fledged recovery," the report credits Mr. Bush's tax cuts as well as the Federal Reserve's lenient interest-rate policies.

The economic advisers forecast that the elixir of tax cuts and low interest rates will help to generate 2.6 million new jobs in 2004. They also predict the economy will grow by 4 percent this year.

Democrats immediately jumped on the jobs forecast, pointing out that the economy came nowhere near adding the 1.7 million jobs the administration forecast last year as a result of the tax cuts. Instead, the economy lost 53,000 jobs in 2003.

"The Bush economic team is infected with a bad case of wishful thinking," said House Democratic Whip Steny H. Hoyer, Maryland Democrat. "But wishful thinking does not pay the mortgage, and sunny predictions do not feed the kids."

While forecasting a robust economy going forward, the White House report also casts a glance backward and offers some historical revisions as well as lessons learned from the 2001 recession and jobless recovery that followed.

It offers an economic justification for the White House's oft-asserted belief that the recession actually began at the end of 2000 during the final months of the Clinton administration — meaning Mr. Bush "inherited" the downturn.

The White House is not the arbiter of when recessions begin and end. That task is given to a private think tank, the National Bureau of Economic Research in Boston. The group has already stated that the recession began in March 2001 and ended in November of the same year.

But after revised economic data two months ago showed the economy contracted in the summer quarter of 2000, several members of the Boston recession-dating panel said they were considering whether the new evidence shows the recession began sooner.

The White House report says that by October 2000, it was clear that "economic activity had slowed sharply or even begun to decline ... including the stock market, business investment, and initial unemployment claims."

Culling lessons from the hard experience of the recession, the report points out that it "can take time to resolve" structural problems like the "capital overhang" created by the late 1990s boom in technology and the stock market. The bust in those sectors in 2000 is largely blamed for ecovering from the tech bust accounts in part for the

Also, "uncertainties" created by the Iraq war, a slew of corporate scandals and the September 11 attacks took time to dissipate, and the economy could not recover until they did, the report said.

But the recession proved to be shorter and milder than usual, thanks to the Fed's aggressive interest-rate cuts and the timeliness of the Bush tax cuts, it said.

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