

OP-ED COLUMNIST

Just Say No

By [PAUL KRUGMAN](#)

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President Bush's effort to hustle the nation into dismantling Social Security as we know it seems to be faltering: the more voters hear about how privatization would work, the less they like it.

As a result, some Republicans are reported to be talking about a compromise in which they would agree to some kind of tax increase, probably a rise in the maximum level of earnings subject to the payroll tax. They would offer to use the revenue from that tax increase, rather than borrowed funds, to establish private accounts, thereby assuaging fears about the huge debt buildup that would take place under the administration's plan. They might even agree to make private accounts an add-on to traditional benefits, not a replacement.

But it would still be a bad deal. Creating private accounts in the current environment, no matter how they are financed, would be a mistake.

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First, think about the fiscal implications. We have a huge budget deficit, largely caused by Mr. Bush's decision to cut taxes while waging war. Any realistic plan to bring the budget deficit under control will have to include tax increases, especially if we want to avoid the harsh cuts the administration is trying to impose on Medicaid and other essential programs.

There may be a place for a rise in the payroll tax maximum in such a plan: AARP, among other groups, has proposed such a rise as one way to improve the Social Security system's long-run finances. Devoting the extra revenue to the trust fund would also reduce the overall budget deficit.

But if the revenue from a rise in the payroll tax maximum was used to subsidize private accounts rather than to bolster the trust fund, it wouldn't address any urgent priorities: it wouldn't help the long-run finances of Social Security, it wouldn't reduce the budget deficit, and it wouldn't support crucial programs like Medicaid.

What it would do, instead, would be to get in the way of any return to fiscal sanity. After all, raising the maximum taxable income would be a fairly stiff tax increase for some taxpayers. For example, someone making \$140,000 a year might owe an extra \$6,000. And the taxpayers who would be hit hardest by this tax increase would, in many cases, be the same people who will face a growing burden from the alternative minimum tax.

As a result, an increase in the payroll tax maximum would make it much harder to pass other tax increases, frustrating efforts to do something about the deficit.

Furthermore, it's all too likely that any compromise that created private accounts would turn into a Trojan horse that let the enemies of Social Security inside the gates.



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This might happen almost immediately, as a result of the legislative process. As you may have noticed, moderates don't run Congress. Suppose that a moderate senator thinks he has struck a deal for fully funded private accounts that don't directly undermine traditional Social Security. Almost surely, he would be kidding himself: by the time the conference committees were done with the legislation, the funding would be gone or greatly reduced, the accounts would be bigger, traditional benefits would have been cut, and the whole thing would have turned into a privatization wish list.

Even if that didn't happen, private accounts, once established, would be used as a tool to whittle down traditional guaranteed benefits. For example, conservatives would use the existence of private accounts, together with rosy scenarios about rates of return, to argue that guaranteed benefits could be cut without hurting retirees.

In short, anyone who wants to see the nation return to fiscal responsibility, wants to preserve Social Security as an institution or both should be opposed to any deal creating private accounts. And there is also, of course, the political question: Why should any Democrat act as a spoiler when his party is doing well by doing good, gaining political ground by opposing a really bad idea? (Hello, Senator Lieberman.)

The important thing to remember is why the right wants privatization. The drive to create private accounts isn't about finding a way to strengthen Social Security; it's about finding a way to phase out a system that conservatives have always regarded as illegitimate. And as long as that is what's at stake, there is no room for any genuine compromise. When it comes to privatization, just say no.

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