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Transition to Nowhere

President Bush's notion — it is not yet a plan — of partly privatizing Social Security has three large flaws. First, it is a cure in search of a disease. Second, it is a cure that won't work. And third, it is a cure that requires the disease to be gone before the cure can start.

This editorial concerns the third flaw. But to recap the others: The Bush administration calculates that Social Security will run out of cash in the year 2042. That's the crisis. It might seem refreshingly farsighted for the president to be dealing with this crisis 37 years in advance — if a prediction about the economy 37 years from now was dependable, and if there was nothing else worth worrying about between now and then. To be sure, the gap between Social Security income and outgo is a problem. But to call it a crisis, to pencil it in for the year 2042 and to make this the major domestic focus of a presidency in 2005 is absurd. That's the first flaw.

The core argument for privatization is that investment in the private economy pays better than the Social Security trust fund's investment in government bonds. But even if this were true for sure and for everybody, privatization won't actually increase total private investment. Unless the government cuts spending — which has nothing to do with Social Security privatization — it will have to raise its dollars from the private economy. Every time privatization denies the government a dollar and puts that dollar into the private investment pool, the government will have to replace it by borrowing a dollar from that same pool. (For the full argument, go to www.latimes.com/proof.) This is the second flaw.

The third flaw involves the "transition." Right now, most of the money that comes in from current workers is paid out to current retirees. But privatization assumes that the money you put in will be available for your own retirement. In order to get from here to there, the cost of paying current retirees will have to come from somewhere else for a while. How much are we talking? Well, the administration acknowledges that this num-

ber is somewhere in the trillions. The Bush people say that they can borrow these trillions, and that they don't have to count it in the budget or the national debt because it is money the government implicitly owes already to future retirees.

This is a wonderful recipe for what might be called "bootstrap irresponsibility": a government program (Social Security in this case) costs far more than the government is willing to acknowledge. Instead of fixing it, it acknowledges the cost after all, borrows it and says that this doesn't count because we actually owed the money all along.

Very modest changes in Social Security benefits or taxes could avert bankruptcy in 2042 without borrowing trillions; if these changes were made soon and not in 2041. In that sense, Bush is right to be bringing all this up now. But, he insists, any changes that amount to a cut in benefits or a rise in taxes are off the table. He probably doesn't mean this. In a comically transparent interview with *Business Week* in its Jan. 25 issue, Treasury Secretary John W. Snow repeatedly invites Congress to force the administration to do the right thing against its alleged will.

But what — you may rightly be asking — does any of this have to do with privatization? The answer is: nothing. The so-called transition to privatization is where the Social Security problem will be solved — or not solved. The trillions poured into Social Security to prepare it for privatization will make the system solvent. Whether privatization actually follows is beside the point.

Remember the legend of stone soup? A man shows up in a hungry village claiming that he can make soup from his magic stone — if the villagers can just supply some salt. Oh, a few vegetables would also be good. A bit of meat would make it perfect, and so on. Social Security privatization is like that magic stone: The soup would be just as good without it. The difference is that the mysterious visitor used the stone to trick people into supplying the nutritious stuff, whereas Bush is using the nutritious stuff to trick us into swallowing the stone.