Written by Thomas Sowell on April 5, 2011

Political Statistics Mask Budget Realities

When someone gives you a check and the bank informs you that there are insufficient funds, who do you get mad at? In your own life, you get mad at the guy who gave you a check that bounced, not at the bank. But, in politics, you get mad at whoever tells you that there is no money.

One of the secrets of the growth of the welfare state is that politicians get a lot of mileage out of making promises, without setting aside enough money to fulfill those promises.

When Congress votes for all sorts of benefits, without voting for enough taxes to pay for them, they get the support of those who have been promised the benefits, without getting grief from the taxpayers. It's strictly win-win as far as the welfare-state politicians are concerned. But it is strictly lose-lose, big-time, for the country, as deficits skyrocket.

Anyone who says that we don't have the money to pay what was promised is accused of trying to destroy Social Security, Medicare or Obamacare — or whatever other unfunded promises have been made. It is like blaming the bank for saying that the check bounced.

It is the same story at the state level as in Washington. The lavish pensions promised to members of public sector unions cannot continue to be paid because the money is just not there. But who are the unions mad at? Those who say that the money is not there.

How far short are the states? It varies from one state to another. It also varies with how large a rate of return the state gets on its investments with the inadequate amount of money that has been set aside to cover its promised pensions.

A front page story on the March 28th issue of *Investor's Business Daily* showed plainly, with bar graphs, how big Florida's shortfall is under various rates of return on that state's investments. Florida's own estimate of its pension fund's shortfall is based on assuming that they will receive a rate of return of 7.75 percent. But what if it turns out that they don't get that high a return?

A 6 percent rate of return would more than triple the size of Florida's unfunded liability for its employees' pension. The actual rate of return that Florida has received over the past decade has been only 2.6 percent. In other words, by simply assuming a far higher future rate of return on their investments than they have received in the past, Florida politicians can deceive the public as to how deep a hole the state's finances are in.

Political games like this are not confined to Florida. State budgets and federal budgets are not records of facts. They are projections based on assumptions. Just by manipulating a few assumptions, politicians can create a scenario that bears no resemblance to reality.

The "savings" to be made by instituting Obamacare is a product of this kind of manipulation of assumptions. Even when the people who turn out the budget projections do an honest job, they are working with the assumptions given to them by the politicians.

The fact that the end results carry the imprimatur of the Congressional Budget Office — or of some comparable state agency or reputable private accounting firm — means absolutely nothing.

When Florida arbitrarily assumes that it is going to get a future rate of return on its pension fund investment that is roughly three times what its past returns have been, that is the same nonsense as when the feds assume that Congress will cut half a billion dollars out of Medicare to finance ObamaCare.

We would probably be better off if there were no Congressional Budget Office to lend its credibility to data based on hopelessly unrealistic assumptions fed to them by politicians.

One of the reasons why a federal "balanced budget" amendment is unlikely to do what many of its advocates claim is that a budget is just a plan for the future. It does not have to bear any resemblance to the realities of either the past or the future.

We do not need reassurances that do not reassure, whether these reassurances are in numbers or in words. No small part of the reason for the economic collapse we have been through is that federally designated rating agencies reassured investors that many mortgage-backed securities were safe, when they were not.

Not only investors, but the whole economy, would have been better off without these reassurances. "Caveat emptor" would be better advice for both investors and voters.

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