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Editorial Commentary

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The Mistrust Fund

By THOMAS G. DONLAN | MORE ARTICLES BY AUTHOR

The chief of federal budgeting misleads the public on Social Security.

If we tell you that Jacob Lew is either an incompetent dunderhead or a liar who puts politics ahead of good government, your response is likely to be: "Who is Jacob Lew?" We regret to say that Jacob Lew is the director of the Office of Management and Budget -- the federal government's chief bean-counter. And he doesn't seem to know beans about accounting.

Lew has been telling Americans that there's no need to worry about their Social Security old-age benefits because there's a trust fund, dedicated to paying benefits owed to current and future beneficiaries. "When more taxes are collected than are needed to pay benefits, funds are converted to Treasury bonds -- backed with the full faith and credit of the U.S. government -- and are held in reserve for when revenue collected is not enough to pay the benefits due. We have just as much obligation to pay back those bonds with interest as we do to any other bondholders," he said the other day.

"Even though Social Security began collecting less in taxes than it paid in benefits in 2010, the trust fund will continue to accrue interest and grow until 2025, and will have adequate resources to pay full benefits for the next 26 years," Lew added.

There are two big misunderstandings -- or fabrications -- in this brief summary. The most important is the mistaken idea that promised benefits must be paid. Actually, no Social Security benefits are guaranteed. Congress has complete power to change them, even for those Americans who are receiving benefits already. The only security behind the size of any future Social Security check is Congress' fear of 43 million angry pensioners and 137 million more people still paying into the system. They vote their self-interest, but their votes won't trump a Greek-style fiscal crisis.

Almost as important, and just as false, is the idea that the Treasury must redeem the bonds in the trust fund. Actually, the bonds in the trust fund are a wash: The government is the borrower and the government is the lender and the government is paying interest to itself. The trust-fund bonds could be canceled without changing the financial position of the United States or any beneficiary. To pay promised benefits, the government has to borrow new money from the public.

Americans who do understand these things probably knew without Lew's telling them that last year the government began borrowing from the real world to pay a small part of Social Security old-age benefits -- a mere $25 billion shortfall on spending of about $580 billion, and all of it covered up by the issuance of more self-dealing bonds for interest payments. They may know the share of benefits that comes from new borrowing in the public market for Treasury debt will increase, leaving an $87 billion-a-year hole in 2019. By 2035, Social Security taxes will be covering only about 80% of promised benefits. They had better understand that the promises will be revised before that.

Lew also tells Americans that Social Security shortfalls are not the major cause of the long-term fiscal problems of the U.S., nor will filling the Social Security gap balance the $1.6 trillion annual deficit. Unfortunately, he's right about that: Compared to the huge growth in the cost of medical care for the elderly through the federal Medicare program and the federal-state Medicaid program (to say nothing of the rising costs of the military and of interest on the debt), Social Security is an also-ran. But it's a big also-ran.

It doesn't help to give Americans false reasons for complacency about Social Security. Even if Yew's reassurances are sincerely given -- and we doubt it -- he should be replaced with a better bean-counter. There isn't much management going on and the country has no budget for this year anyway, so OMB needs an alarmist.