nation's 50 governors—leaders in innovation, as the now-shipwrecked Michael Dukakis of Massachusetts was fond of saying—have embarked on some outrageous shenanigans of their own. And in one of them, they are mimicking their counterparts on the Potomac.

Like the federal government, now infamous for its diversion of the Social Security Trust Fund surplus, states are beginning to chisel public pension funds in order to ease their situation. In the last five years, two-thirds of the states have cut their annual retirement fund contributions by little more than accounting decisions. By changing the interest rate assumption—the projected rate of return on invested funds—states are able to lower their current payments into the retirement systems.

The temptation for the economically squeezed states is great. Social insurance fund assets (of which pension funds are the largest component) and general fund balances have been rapidly moving in opposite directions over recent years: the insurance funds steadily building, the administrative balances dropping like a stone. From 1985 to 1989, the pension and other funds grew from $51.3 billion to $78.0 billion, while the general funds sank from a surplus of $13.8 billion to a deficit of $33.8 billion.

The savings for these desperate states are enormous, and can be had for the stroke of a pen. In 1989, New York Governor Mario Cuomo and officers of the state's $45 billion pension funds agreed to increase the interest rate assumption from 8% to 8.75% per year. As a result, the state saved a tidy $325 million without cutting a single job or stopping even a foot of new paved roadway. Now, as the state faces a staggering $1.7 billion shortfall, Cuomo is pushing some additional adjustments, which will net another $200 million, with less political fallout than service reductions or tax increases.

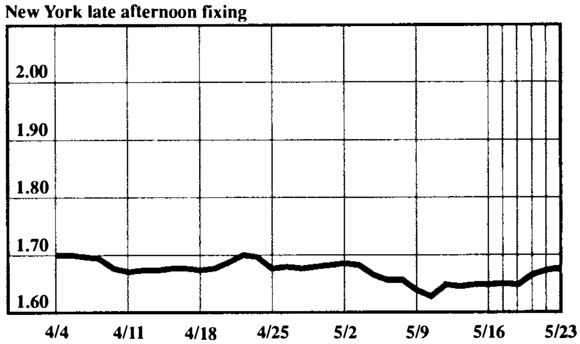
But, like the paper charade with Social Security, such short-term measures imperil the future. Pension funds are heavily invested in the volatile stock market and other instruments, not all of them insured. Despite the record Dow Jones surge of late, good things don't always last forever—just ask the federal government overseers of the savings and loan bailout, who are now beginning to unload phenomenal amounts of sharply devalued real estate. A recent study by the federal Pension Benefit Guaranty Corporation found that some of America's largest and wealthiest corporations have tens of billions of dollars in unfunded liabilities.

The likely immediate victims are beginning to squawk. "This is robbery, pure and simple," said Joe McDermott, head of the union representing 260,000 active and retired New York State employees, of the Cuomo move. "They're using the pension funds as a piggy bank that they can turn over when they get into a jam."

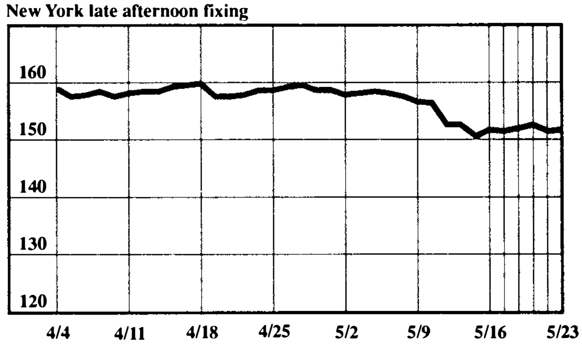
McDermott's members know what other Americans are rapidly learning: Bookkeeping tricks and other bureaucratic manipulations also have their costs.

Currency Rates

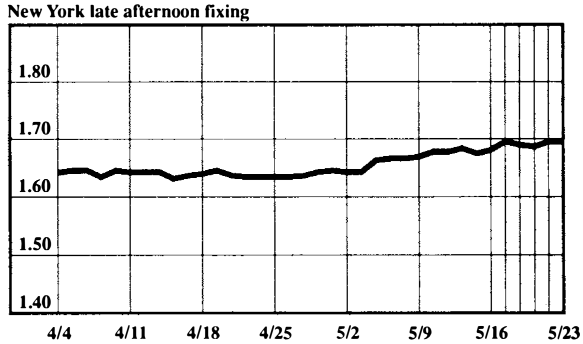
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss franks
New York late afternoon fixing