Private Pension Funds Also Failed in Colombia

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Colombia and ten other countries in Ibero-America have privatized their social security systems along the lines of the Pinochet model of private pension funds, in compliance with orders from the International Monetary Fund and creditor banks. In every instance, it has been an abject failure. This is the model that George Bush now hopes to impose on the United States.

In Colombia, there are actually two social security systems existing side by side: 1) the familiar U.S.-style pay-as-you-go system, known in Spanish as "*el régimen pensional solidario,*" and 2) the private pension fund system. The first system is administered by the Social Security Institute (ISS) and by a handful of smaller public entities, the latter managing the pensions of members prior to April 1, 1994. As of December 2004, the public system registered a total of 5,734,600 members (both paying and non-paying) and 793,170 retirees, with resources equivalent to $635 million.

The private pension funds have 5,603,900 active contributing members and 15,570 retirees, but their resources amount to $9.298 billion, all of which is managed by six fund administrators, only one of which is Colombian-owned.

In other words, the ISS was left with the retirees, and the private funds with the money and with the majority of active contributors still in their "savings phase," most of whom will be taking their retirement in about 15 years.

But the reality is that even with the third pension reform moving through the approval process under the current government of President Alvaro Uribe, the private pension system is neither viable nor sustainable. Rather, the idea of the bankers is to continue raising the age at which one can receive a pension, while at the same time increasing the social security tax on wages, and reducing the benefits to retirees. Under such conditions, the few that will be able to meet the requirements for drawing a pension under the privatized system, will be "receiving" those benefits after they are in their graves. The private funds meanwhile will use the savings of their contributors to try to prop up the collapsed international financial and monetary system, creating a speculative bubble that can pump a little more air into the moribund speculative markets in Wall Street and the Street in London.

It was recently made public that, at least for the moment, the Uribe government has decided not to completely eliminate the ISS-administered public pension system. But in the annual assembly of the National Association of Financial Institutes (ANIF), held in Bogota on March 31, 2004, ANIF board president and head of the Aval business group, Luis Carlos Sarmiento Angulo, demanded that President Uribe eliminate the public pension system which has been coexisting with the private system. Sarmiento proposed that the pension portion of the Social Security Institute be converted into a private pension fund of individual savings.

In that meeting, President Uribe greeted banker Sarmiento's initiative with a great deal of enthusiasm, which led to a great national debate, not only because the proposal would seriously affect the general welfare of the lower income strata of the Colombian population, but also because some of those who were "philosophically" in agreement with Sarmiento's proposal, nonetheless found it politically inconvenient at the moment, as it might put at risk a package of IMF-dictated legislative proposals before the Congress. According to Juan Carlos Echeverri, Dean of the University of the Andes economics department, and Finance Minister Alberto Carrasquilla, it were preferable to have a more "modest" approach, to insure its success. And so, for the moment, the pension reform goals of the government have been pared down to: eliminating "special regimes"; imposing taxes on the "highest" pensions; raising the age at which one may draw a pension; putting a limit on the size of pensions, and so forth.

Dismantling Public Health

Ever since Rudolf Hommes, Finance Minister under President César Gaviria, got his 1993 Law 100 approved, the process of converting public health into a matter of financial speculation has been gaining ground. Health management organizations, known in Spanish as "Entidades Promotoras de Salud (EPS)" appeared. Under the pretext of expanding coverage, great amounts of state funds were allocated to public health, but these somehow managed to remain in the hands of the intermediaries, or financial octupuses. Colombia's public hospital network, health professionals, and public health in general took a beating.

It was in that same period that the private pension funds were created, under which pensions would be paid depending on the financial yields of the fund investments. The economic think-tanks, Fedesarrollo and ANIF, following the guidelines of the IMF and World Bank, prepared various reports to "prove" that ISS was insolvent, or on the brink of bankruptcy, and that therefore it should be dismantled gradually, as has in fact been occurring. A powerful campaign to strip the ISS of active contributors was undertaken, and the entity itself was subjected to every kind of administrative "reform" designed to ultimately liquidate it. For example, it was prohibited from accepting paying members. At the same time, ISS retirees have been denied all kinds of medical treatments and medications, in a bald attempt to force them to turn to the private EPS (HMOs).

All of these well-financed campaigns have had their effect. In March of 1998, ISS had 4,645,000 paying members; in June of 2000, it had 1 million fewer; today, ISS has fewer than 2 million paying members, and yet must respond to the needs of more than 600,000 retirees. And so, the ISS, according to Minister Carrasquilla, has run out of its reserves, and the government will have to disburse 16 trillion pesos in 2005 to meet pension payouts. For this reason, banker Sarmiento Angulo insists, the "inefficient and onerous" public system should be buried as quickly as possible.

As part of this slow strangling of the ISS, the three aspects of the system (health, pensions, and compensation) have all been the targets of every conceivable nasty operation. With regard to ISS's health-care division, the government has separated out and transformed the public hospitals and clinics into Social Companies of the State (ESE), which have been given legal status for a three-year probationary period, to see if "they survive on the resources they themselves generate." That is, they have been condemned to death, as more than 30 public hospitals have already shut their doors. The government's plan, imposed by the IMF, is to be able to auction off the hospitals and clinics of the public health grid at bargain-basement prices, which would then be picked up as so much "junk" by the private EPS.

The immediate goal of the bankers is to seize control of the entirety of ISS resources, and to have the freedom to invest them in whatever they choose. Given that Rudolf Hommes, despite the fact that he holds no official position in the government, continues as the economic "Rasputin" of President Uribe, and that Uribe himself is known for his neo-liberal inclinations, the bankers are hoping that under this government, the pension and health system will be totally privatized. Only the person who can pay for his pension and can manage his medical costs will survive, and we are speaking in the best of cases of 20% of the population. The other 80% is condemned to die to satisfy the usurious banks.

As U.S. statesman and former Democratic Presidential pre-candidate Lyndon H. LaRouche has scientifically demonstrated, the usury and the moribund international financial and monetary system must be abandoned. Great new infrastructure projects required by humanity to initiate a genuine world economic recovery, along the lines of what Franklin Delano Roosevelt did before and during World War II in the United States, must be undertaken. In Colombia, a Financial Corporation for Reconstruction (CFR) can be created, which by virtue of being a public entity, would not require state funds to operate, as it would be permitted to finance itself through the bonds and other financial paper it would issue. The entirety of the CFR's capital would be allocated to financing the great development and infrastructure corridors that Colombia needs to join itself to the rest of the world.

With productive, stable, and well-paying jobs derived from such a genuine economic recovery, workers' payments into social security would be guaranteed, as opposed to the current situation where many citizens are not able to pay into the fund because they are either without work, or without regular work. But the private pension funds must be immediately eliminated, and adjustments made to the public system to guarantee its viability and sustainability. A New Social Security Institute (NISS), with all the country's workers contributing, would have no problem meeting pension payouts, including to those unable to make the necessary contributions to guarantee a minimum-wage pension.

Under these conditions, the fiduciary fund of the NISS would be able to buy CFR bonds, thereby guaranteeing the profitability of the investment, as the CFR would only be allowed to finance infrastructure projects, and not to serve as a "petty cash" account of consecutive governments who cover their budgetary deficits by contracting new debt, for example, through treasury bonds. If the solvency of Colombia's pension system is to be guaranteed, the Congress should immediately establish new legislation eliminating the private pension funds, and restructuring the current ISS into an NISS, which would operate according to the criteria we've described here.