LaRouche PAC Memorandum

Fascist Chile Model of Pension Privatization

LaRouche PAC on Feb. 7 issued the following fact sheet, which is circulating on Capitol Hill and elsewhere.

President George Bush has repeatedly cited Chile as his model for Social Security privatization. While in Chile last November, he called it a "great example." And in an April 2001 visit to the country, Bush said: "I think some members of Congress could take some lessons from Chile, particularly when it comes to how to run our pension plans."

The architect of Chile's 1981 privatization was Harvard-trained José Piñera, who was Chile's Labor and Social Security Minister from 1978-80, under the Pinochet military dictatorship (1973-90). Piñera today is co-chairman of the Cato Institute's Project on Social Security Choice, one of the ideological centers of the Bush assault.

George Shultz, the éminence grise of the Bush-Cheney Administration, visited Piñera back in 1981. In his capacity as advisor to the incoming Reagan Administration. Shultz asked Piñera to provide him with a one-page memo on Chile's pension privatization, which had barely been implemented, for Shultz to try to sell the idea to Reagan. Reagan didn't buy it, but George W. Bush has.

What is the Chile model?

1. Up until 1981, Chile had a U.S.-style pay-as-you-go system. In 1981, workers already in the system were given a hard-sell "choice" of switching to a new, privatized system. All new entrants to the labor force after 1981 were required to enter the private system—with the exception of the military, who protected themselves by staying in the public system. Under the private system, workers pay 10% of their salaries into private investment accounts, run by financial institutions called Pension Fund Administrators (AFPs).

2. The Chilean privatization and related economic measures were implemented by a fascist police state. From 1973 to 1979, many unions were dissolved and collective bargaining was sharply reduced. Then in 1979, Labor Minister Piñera's "Plan Laboral" abolished the minimum wage, wiped out all collective bargaining, de facto eliminated the right to strike, prohibited trade union federations, reduced unionized workers to less than 10% of the work force, and allowed workers to be fired without cause. Dissidents were rounded up, jailed, tortured, or disappeared.

3. The driving force behind Chile's privatization of social security was the impending meltdown of its entire financial system, under the weight of a giant speculative bubble—a national bankruptcy which in fact occurred a year later, in late 1982. Chile's international creditors were able to refloat the country's banking system, based largely on the multi-billion-dollar income stream appropriated through pension privatization, in order to keep looting it. Shultz and related financial hit-men are driving the Bush privatization frenzy today for the similar reasons, only on a much larger scale of impending bankruptcy.

4. After 24 years in operation, the Chilean system today is such a fiasco that almost all political forces in the country now agree that it has to be jettisoned, and some sort of an alternative devised. A few facts summarize the crisis:

5. Half of Chile's 6.1 million labor force is not even captured by the pension system: They are unemployed, in the underground economy, or are seasonal workers. Of the remaining half, only 1.2 million workers—a mere 20% of the labor force—are covered with a pension greater than the government minimum standard of about $110 per month.

6. The government subsidizes those who receive less than this minimum, paying out more than a quarter of its total budget in social security payments—nearly as much as it does on education and health combined. And government social security payments are rising, with no end in sight.

7. Anywhere from 25% to 33% of worker payments are skimmed off as "administrative fees" by the AFPs.

8. From 1997-2004, the AFP annual profit rate was a cool 50%. Even in 2002, a year of economic recession in Chile, the average AFP profit rate was 50.1%—with one of the largest AFPs achieving a 210% return!

9. There were 18 AFPs when the system began in 1981; now there are only 6, of which 5 are foreign-controlled. Out of $36 billion in Assets Under Management in the system, 95% are controlled by these foreign banking interests. These are: BBVA (Spain) with 32% of the total; Citibank (U.S.) 23%; Sun Life (Canada) 16%; Aetna (U.S.) 13%; and Banco Santander (Spain) 11%.

10. From 1982-2004, the annual return on individual accounts with the AFPs has averaged only 5.1%. If two co-workers retire in Chile today, both having the same salary and the same number of years paying into social security—one into the old pay-as-you-go system, and the other into the privatized AFP system—the co-worker in the privatized system today would receive less than half of the pension of the one who remained in the old public system.

The Chilean model is a failure. It means fascist economics, and fascist politics. It should not be repeated in the United States.

For more on the Chile Model, see our website, www.larouchepub.com.