
Interview: Isabel Márquez Lizana



Pension Privatization Plunged Chile Into 'Pre-Industrial' Age

Mrs. Isabel Márquez Lizana is the Director of Research for the Chilean government's Institute for Social Security Normalization, a researcher at the Department of Social Sciences at the University of Chile, and is affiliated with the Development Studies Program at the same university. On Feb. 19, EIR's Cynthia Rush spoke with her about her thesis, "Impact of the 1981 Social Security Reform on Enrollee Benefits," written for her Masters degree at the University of Chile. This work, published in 2004, was the first study of its kind to carefully analyze the negative impact of Chile's 1981 social security privatization on the population, including specific case studies and future projections. The United Nations Development Program cited her work in its 2004 report, Power: For What and For Whom, in its Chapter 5, "Social Protection and Power in Chile."

EIR: One thing that really interested me in your thesis was your discussion of Chilean history and the tradition that has existed historically of protection for workers, in the areas of social security, health, and preventive medicine. Chile appears to have been a pioneer in that sense. Can you tell us something about this?

Márquez: As I indicated in my study, Chile, like other Latin American countries, was a pioneer in the area of social security, and by 1925 the first institutions had already been created providing protection and the social security system which existed up until the [1981 privatization] reforms. Chile's system was considered to be one of the best in Latin America . . . providing coverage to more than 70% of the population, which is significant.

Coverage in Latin America was also among the best. And isn't it interesting that the reasons cited to justify the [1981] reform are exactly the same ones referenced today in the United States? Twenty-four years have gone by, yet in other countries, under other circumstances, in a different reality, the exact same reasons are given.

EIR: Chile's system actually began quite early, didn't it, in 1920?

Márquez: Yes, quite early, and as I said, we were a pioneer in the world, if you will, because we were—and we continue

to be—a Third World country with all that that implies, in terms of lack of industrialization. Yet even so, we could do this because of the great influence of our social movements.

EIR: And as far as other Latin American countries go, they adopted their systems a bit later?

Márquez: Yes, but it wasn't too much later . . . and Chile served as an example of what countries needed in terms of social security.

And, we shouldn't forget that here in Chile, as a result of our mining in the north (and I'm not just talking about copper mining but also about nitrate exploitation), there was a huge mass of workers who were very poor and defenseless. But the worker movements in Chile and in Latin America, especially in Chile, were very large and had a lot of influence in the development of social security.

EIR: So, let's go into what happened then, after the 1973 coup. The economics team set up by the University of Chicago came in—

Márquez: When the military dictatorship took over in Chile in 1973, for the first time in the history of Chile, since the 1920s, social expenditures were cut, which I think is somewhat like what is being proposed now in the United States.

EIR: Exactly.

Márquez: They cut the budget and this occurred in Chile *for the first time* in 1973.

EIR: By how much was it cut?

Márquez: I don't have the exact figures, but I can tell you that the first big cut was 12%.

EIR: Dramatic!

Márquez: And this policy brought about a profound economic transformation—the neoliberal model which imposed economic and social reforms. And social security and education, which for reasons of social protection had always been in the hands of the state, began to be handled by private administrators. . . . That is, they didn't want to protect the population

in social terms. Everything was exclusively financial. Their purpose was to create privileged conditions for the formation and accumulation of capital, and looking at the situation in the United States today, I think it's exactly the same thing.

EIR: I think that in your study you correctly describe this entire process as a “paradigm shift,” with the economic program known as “*El Ladrillo*” [The Brick], written by the University of Chicago’s Sergio de Castro and José Piñera, which was imposed after the 1973 coup, and Piñera was in fact operating as an advisor to the government even before he became Labor Minister in 1978, right?

Márquez: Yes, in fact even before 1973. That is, he was advising the economic groups that were preparing these reforms.

EIR: The argument he used in privatizing the social security system in 1981 was that it would “guarantee the country’s economic development and put an end to poverty.” But just the opposite happened, and the impact especially on the labor force was dramatic. What happened with unemployment and people’s ability to get jobs?

Márquez: I don’t have the exact figures at hand, but during the military government, unemployment got as high as 20%—I’m talking now about the crisis of 1980. . . . I was an observer of this situation because I worked in an institute which hired people . . . from [government-created] unemployment programs. . . . Piñera had a very demagogical line. He said we’re going to favor the great masses of people who’ve been deceived by the old system—exploited and deceived. But you see what the results are today.

We’re talking about 24 years later, and what do we see? First, there is no full employment. Unemployment persists, and from my standpoint, this is a structural problem here in Chile. And you can have all the [unemployment] programs you want, but if we continue with this development model, unemployment will continue to exist. And that’s lawful. Why? Because they maximize competitiveness, at whose expense? They’re not sacrificing corporate profits. It’s done at the expense of workers.

EIR: Piñera said he was going to do away with the “patrimonial state,” and that each person could become an “owner” and a “capitalist.”

Márquez: Yes, that anti-statist culture is very strongly rooted in the people who were in power, and they said it was necessary to eliminate the state to instill in people a sense of “individual responsibility.” So with that paradigm—that model—we are returning to an era of social *insecurity*, to a *pre-industrial era*.

When we speak about the notion of risk, for them it was a notion of culpability, of blame. But when all those protections were implemented that were part of the Keynesian state,

then it was said that it wasn’t your fault if you had an accident. You weren’t to blame for not foreseeing that situation. . . . So the notion of *socialization of risk* is what came into being. And this is a problem that affects social cohesion, so there has to be some kind of institutionality *from the state* which can foresee these types of situations.

EIR: There was something you mentioned the other day which struck me, which was the change in people’s mentality, in the way they thought as a result of these reforms, in terms of the idea of solidarity. What was this?

Márquez: This is something that has to be looked at very carefully, also from the standpoint of social psychology, because society’s paradigm was changed. When earlier generations thought about what they had to do, it was almost automatic, almost biological, that you knew you had to have solidarity with the older generation—with the sick, the disabled, and this was something that was very deeply rooted in the Chilean population. Today, after having had a dictatorship that lasted 17 years, and in which [that dictatorship’s] development paradigm has not changed, what dominates is individuality. It was the social paradigm that changed.

Yet despite this, I saw in the interviews that I did for my study that people still have in their collective imagination the notion that the state must protect them, and this is something that is still really very strong.

EIR: Especially in the interviews that you did with workers, many of them remarked, “How can we think about a pension or making some kind of monthly payment when we don’t even have enough to eat?”

Márquez: That was the issue with some fishermen I interviewed, not included in my study, who said, “Look, we live from day to day. What are we going to put in a savings account?”

Moreover, there is huge distrust of the private system—the AFP system here in Chile [Pension Fund Administrators, AFPs, is the name given to Chile’s private pension funds—ed.]. And people say, “If I could pay into system, maybe I’d make the effort. But I won’t. Why? Because I think that people are getting rich off my funds and I’m getting almost nothing.” So nobody trusts the system here in Chile. And that’s no accident, because we see the results.

EIR: And it’s pretty fraudulent that the directors of the AFPs and other officials say, people really prefer to work “independently” or to have their own “businesses.”

Márquez: Yes, and of course faced with the impossibility of finding a job, people often opt for some kind of subsistence existence. They set up a little business or become street vendors and in fact, sometimes they earn more than they might earn if they worked on the books. But this is an absolutely precarious income, and if you ask people, the great majority

Let me tell you that if today in Chile, the doors to the old [state-run] system were to be opened, I am certain that 90% of the people would go back. So that tells me something. The private pensions aren't better. People are left defenseless. Their pensions last for only two or three years and they are left completely unprotected in a totally individualized society.

would prefer stable employment.

EIR: One other striking thing is the phrase that Piñera uses in speaking of the AFP system, stating that it would have a “solidarity at the base”—that there wouldn’t be any generational solidarity but a “solidarity at the base.” What does he mean by that?

Márquez: Well, I wasn’t exactly sure what he meant by that either, but I finally concluded that what he was saying is that ultimately, the state is the last recourse of society, and that solidarity would come from the state. So in fact, he’s saying that the primary expression of the social security system is the minimum old-age, disability, or death pension guaranteed by the state, and that this benefit is available to all those who have worked the minimum of 20 years, but who have accumulated [in their private accounts] such a small and miserable amount of capital that they only have the right to collect a pension which is *below* the minimum.

Now Piñera mentioned this situation in an analysis he did in 1991, and he said that this situation would be the exception. That is, that there wouldn’t be very many people who would have to resort to the state-guaranteed pension. But today, all the studies and analyses show that more than 50% of the AFP enrollees will have to ask for that state pension. Moreover, many won’t even qualify for it! In my study, I show that more than 80% won’t even have been able to make the 240 monthly payments required [over 20 years]. That is, they will be left completely defenseless. I’m telling you that if this situation isn’t resolved in Chile, we’re going to be a country of miserable old people.

EIR: So really the final responsibility has fallen on the state to cover those who can’t pay into the private system. And do those who don’t receive the minimum state-guaranteed pension have the possibility of obtaining the basic welfare pension?

Márquez: Yes, but here the welfare pension operates differently than in the more advanced countries. Here, people have to live in *extreme poverty* to obtain the welfare grant, which is 36,000 pesos, the equivalent of \$140 monthly. And if you have a water heater in your house, so that you can bathe with hot water, then you don’t qualify for the welfare pension.

EIR: So you have to prove you are destitute.

Márquez: Yes, that you are indigent, that you live on practically nothing. So, this isn’t an option for the great masses of people, who, despite the fact that they can’t qualify for a state pension, still don’t live in absolute misery. This is a reality of the level of technological development, that just about anybody has a television at home.

EIR: Well, these programs are now being imposed on other countries. A similar program is being promoted in Germany, in which people lose their state benefits or guarantees, and then are offered some miserable amount, but only if they get rid of everything—their possessions, bank accounts, furniture, etc.

Márquez: Perhaps the American situation is different in terms of living standards. But if you have a system offered from the institutionality of the state, there is an underlying principle that says that the risk of poverty due to old age or illness isn’t an individual risk, but a *collective* risk. . . .

EIR: I think your remark that we’re entering a pre-industrial era is absolutely correct.

Márquez: And imagine that the debate in Chile is just now starting on what the role of the state should be, regarding the impoverishment of the population! This is what was being discussed in the pre-industrial era! And today, we’re asking the same thing!

EIR: Despite the fact that Chile had this very strong tradition during the 1920s and 1930s.

Márquez: Yes, despite the fact that this system [of protection] existed for education, health, and in all areas. Today, the Chilean government is just now beginning the debate on social security. Two years ago, this subject was taboo. This was the crisis no one was supposed to talk about. You couldn’t mention it. In fact, there was a person in the government who did a really good study that was reported on in a newspaper, and the newspapers were confiscated. The study said exactly what my thesis said: that 50% of the population has no right to the minimum pension.

EIR: So this is still a very touchy subject.

Márquez: Yes, it's a debate that's still in diapers. The debate is just beginning.

EIR: And this, despite the fact that because of the utter failure of the private system, the state has to pay out a very high percentage of its budget to cover these unfunded liabilities.

Márquez: Yes, 7% of its Gross Domestic Product.

EIR: And the pay-as-you-go system still exists for some people.

Márquez: Yes, for a small number—164,000—outside of the Armed Forces. Unfortunately, there aren't many statistics.

I think that transferring the analysis a bit to the U.S., however, the Democrats are the ones who are fighting to stop this reform, and they have to appeal to their principles. They need to look at what it means to have social cohesion, because it's important not to have a fragmented society. We need social protection based on an institutionality from the state. . . .

And many Latin American governments who wanted to copy the Chilean reform haven't been able to, because of the opposition from their populations; in Venezuela and in Mexico itself, there is a tremendous battle.

I think that without a military government of the type we had, people have the opportunity to get a different view of things and not let themselves be deceived. I think that's an advantage of American society. There is the possibility of not just having that one view, for reasons that even the *New York Times* covered, by looking at the Chilean situation, and saying let's not just go with Piñera's speeches, but look at what other people are saying.

EIR: Since you've lived in Chile throughout this whole period since 1973, what advice would you give to U.S. Congressmen and Senators who are debating this now, and also to citizens of this country?

Márquez: In terms of American Congressmen, I would appeal to their sense of social solidarity. If they are really thinking of helping the population, they had better look at this question of Social Security reform very carefully. And it's possible that you could implement a [private] system as a complementary program, but *never* the way it was done in Chile, by eliminating the other system entirely.

Let me tell you that if today in Chile, the doors to the old system were to be opened, I am certain that 90% of the people would go back. So that tells me something. The private pensions aren't better. People are left defenseless. Their pensions last for only two or three years, and they are left completely unprotected in a totally individualized society.

EIR: And also, here in the United States. The system isn't broken. The statistics and predictions put out are fraudulent. It works fine, and with a different economic policy that allows

for real economic development and employment, you don't need to change anything.

Márquez: No, you wouldn't have to change it. Citizens have to have their eyes very wide open on this and not let themselves be fooled. When there is something that is going to affect our lives and our future, then we must fight . . . and I'm willing to help in whatever way I can on this.

EIR: Is there anything else you'd like to say to our readers?

Márquez: Well, I think that you have the advantage of looking at how our system works here. It's an advantage because, if it's failed here after everything they've invested in it—and they didn't pay attention to the issue of costs either. The transition costs have been incredibly high. And with all this, it's still a failure. Coverage didn't increase. If you look at all the assumptions of this system, they said there would be total coverage. But the assumptions didn't work. They said that once that employers no longer had to pay their part (before the system was a tripartite one, in which the government, the employer, and the employee paid; but in the private system only the employee paid), they would be so happy that they would go out and hire a lot of people. That didn't happen. They said that people would be able to accumulate enough capital to get better pensions. That didn't happen. The capital was going to be invested in social development, but that has hardly happened. And, they all said, there would be full employment; but that didn't happen either. So *all* the assumptions of today's system *are a failure*, a fraud. Nothing happened, none of the promises were kept.

If I had Mr. Piñera in front of me, I would ask him, what do you have to say about your promises? What happened to them? What about all these siren songs?

EIR: I think it's interesting that since the fight began here, Mr. Piñera hasn't shown his face in public and hasn't said one word. He wouldn't even be interviewed by the *New York Times*, since we began organizing and exposing Bush's Chilean model.

Márquez: It's simple. What was promised by this system and what really happened? We arrive at the conclusion that *none* of these promises were kept. That means the system isn't working. It was conceived on the basis of assumptions that don't work.

WEEKLY INTERNET
AUDIO TALK SHOW
The LaRouche Show
EVERY SATURDAY
3:00-4:00 p.m. Eastern Time
<http://www.larouchepub.com/radio>