



# The Pension System Must Be Tied to the Productive Economy

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**Galloni:** Here in Italy, the pension system based on the so-called principle of capitalization<sup>1</sup> was proposed and created on the premise that the aging of the population and reduction of the ratio of working people to retirees, were tendencies which made the old “pay as you go” system financially dangerous.

However, the forecasts the experts made regarding these trends in the 1970s and '80s were not at all correct, because although some industrial jobs were lost, we saw an increase in employment in other sectors. From this standpoint, one can conclude that we should have maintained support for public pension systems during the passage from a situation where industrial employees were the majority of workers in the '70s and '80s, to the situation where new, less-standardized professional roles linked to service sectors emerged. This is what happened from the 1980s to today, and if we had stayed with the old system, we would have a more balanced situation today, both from a social and financial standpoint. The second cause of the mistakes in the experts' evaluations was the underestimation of the growth of jobs for women, which has been significant in offsetting the risk of a reduction of total employment.

The crucial aspect of the problem then, was that the growth in employment took place, in large part, in the so-called black economy and in the areas of precarious jobs, which at the beginning were not covered by the pension system. Later, as a consequence of the reforms, they became part of the system, but in a bad way.

In reality, what we should have done was to enact a reform of the labor market which took into consideration the demands

and changes in the companies asking for more flexibility—which we were already implementing, in any case—but at the same time, [we should have] also introduced some careful regulations. The market was moving towards flexibility and the public institutions should have regulated this process in order to make it compatible with the systems we have in place. We have systems that, without any public intervention, are completely schizophrenic. That is, at the level of the single company, labor is considered a cost to be minimized; while at the macroeconomic level, of the economy as a whole, labor is considered a value to be maximized.

This contradiction exists in all capitalist systems, and governments must always deal with it and keep it under control. If a government completely adopts the position of the companies, in favor of flexibility and the reduction of labor, we would have a paradoxical result: The market would only be supported up to the point that the companies themselves are damaged, for example, because of excessive worker turnover, which is a cost, and because they would no longer have highly professional and qualified employees. It is a “throwaway” system for workers which is incompatible with a good educational and training system. The result of this process is that we have a large mass of employed, but these workers have no job stability.

In such a situation, you don't need to be as wise as King Solomon to realize that if you want to move towards labor flexibility, it's also necessary to defend the public and mandatory social welfare system, with some incentives and changes. What we have now though, is a reform which strongly links the personal payments of an employee to the size of that employee's future pension.

The truth is that behind all these maneuvers there are private, speculative interests, which want to have a large private pension system; because the public system pays pensions that are not considered sufficient, the workers are encouraged to increase their savings in order to create an additional pension.

These would make sense only if the labor market were able to guarantee a certain amount of stability for workers, which is not the case, or if the demand for flexibility were compensated with higher wages. What has happened though, is that more flexibility has been offered in order to have more employment, but based on very low wages and precarious

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1. In Italy's “capitalization” system, the money which each worker pays into the system is treated as a personal account built up for his/her pension.

jobs. Introducing a capitalization-based pension system in this situation, has surely favored financial speculation, and at the same time has exacerbated differences and tensions in the labor market.

In the long run, this system is hardly compatible with social balance because people's incomes are determined by the ups and downs of financial speculation.

For example, if we have 5 years of high interest rates or high stock exchange profits, the situation will be good for future pensions. But if there is a collapse of the bubble in the coming years, we will have not only low yields, but also losses on the capital. If the state were involved in managing the system, then there could be some compensation for the losses, even though it would be very risky for the state to take part in such activities.

But what we have is that during times of plenty, financial profits will be distributed, let us say, half and half, between the workers and the banks. But in a period of crisis, there is no risk for the private banks, because they say: "There has been no profit so you do not get anything, but there has been a capital loss and you have to absorb it." In this period, the banks do not gain, but they don't lose either; the workers lose a lot, though. This will tend to create a negative overall situation for the workers. The banks do not gain but they do not lose a building or any other capital values. In the long run, there may be a generation which will retire with good pensions, but be followed by another generation that will get low and unsatisfactory pensions.

In Italy, for example, we have calculated that 25-30 years from now, the workers with precarious jobs, about 2.5 million people, will get pensions equivalent to the 250-280 euros per month—a level completely insufficient for survival. At that point, somebody—the state, families—will have to come in and take on the extra costs needed to reach at least the level of the minimum social pension, which is now 516 euros per month.

In addition, these vulnerable workers are paying about 12% (soon to be 19%) of their income into the public pension system, thus covering the payment of current pensions. And this creates what many, erroneously, call the generational conflict; that is, the younger workers are using up their future pensions to pay for the pensioners of today.

This is partly a consequence of the wrong system we spoke about, and partly a distortion and mystification of the real economic situation. In reality, a society where people can live longer, with good pensions, is a society which requires high-quality goods and services, because a retired person, if he has an income to spend, wants to have quality goods and services. Consequently the younger worker can find stable and well-paying jobs producing them. If we condemn the pensioners to low pensions, we also automatically condemn the youth to working on low-quality goods and services, and to working in precarious jobs that must compete with very low-paying jobs on the international markets.

**EIR:** You have seen that in the U.S. the Bush-Cheney Administration is totally committed to the privatization of the social welfare system and the pension system. They use the same argument: Soon the contributions paid into Social Security will not be enough to pay for future pensions. This push for privatization is intended to transfer workers' payments to Wall Street and to private banks and financial holdings. While private financial holdings will get the money, the state will have to take on a massive amount of debt to compensate for the losses that build up until this new miraculous system begins to function. This is going to be the biggest fraud in history, because we are visibly in a situation of financial crash, and the money collected for future pensions will be used up by the financial system immediately. The pension funds will not be there to pay the pensions at the time when the today's younger workers demand their pensions.

**Galloni:** I agree with this analysis, because fundamentally, speculative finance always operates according to the scheme of the so-called "chain letter" or multi-level scheme ["St. Anthony's chain" in Italian—ed.] I do not like this expression because in reality St. Anthony fought against usury. But it functions in the following way: You give me some capital and I commit myself to paying a relatively high rate of interest for a number of years. With the rest of your capital I will pay 20, 30, or more other fellows who agree to give me their capital. The news is out that I pay high interest rates and many more come to me with their capital.

But I cannot pay a high interest rate forever. At a certain point, I stop the process, I keep the money, and I disappear. The first ones who came to me got a good yield, but it was not the result of a sound investment in real and productive sectors of the economy. Speculative finance requires continuous and growing capital flows to sustain the promised rates of profit, which at a certain point can no longer be paid. And at this point, they close down the shop and the last people to join the system—that is, the large masses of members—end up holding the bill.

What should actually happen, is the opposite, The pension system must be directly connected to the productive economy, and we must promote a policy of economic growth with good jobs and development in order to create real income, which is also at the base of maintaining pension levels. Pensions will increase only when employment grows and the economy develops. This is the only model that works because it is connected to the real economy. Relying exclusively on finance is very dangerous.

**EIR:** The Bush privatization project means the total destruction of the Social Security System created by President F.D. Roosevelt in the 1930s that was one of the cornerstones of his project to get out of the Great Depression. At the same time, the Bush Administration is publicly advocating the Chilean model of pension privatization, which was the result of the intervention of George Shultz and the Chicago School of

Milton Friedman. Now this scheme is coming back to the U.S. **Galloni:** This model is the same as that recommended by the IMF and the World Bank, and it has also been suggested to Russia. It makes the differences in the labor market extreme. In a state-controlled social welfare and pension system, even if you have large differences between salary levels, the gap is reduced when you calculate the pensions. The difference remains, and it wouldn't be ethical to eliminate the difference completely, but it is reduced, because there is a minimal common component for everyone, which is the public component, while another component is left to the decisions and activities of the private individual.

The IMF and Chile models completely link pension levels to the amount of payments made during work. Even if we were able to eliminate the danger of the current speculative bubbles—which is actually impossible at this time—and thus create a situation where the Chilean system would function perfectly and guarantee pensions directly proportional to pay-

## Mexican Trade Unionists Support LaRouche Effort

*On the final stop of his three-city tour of Mexico, EIR's Will Wertz addressed a breakfast meeting in Queretaro, Feb. 2, organized by the LaRouche movement in Mexico, which included about 35 trade unionists and other state leaders. At the conclusion of the meeting, many of the trade unionists and others signed the following open letter, addressed to the LaRouche Political Action Committee:*

We, the undersigned, representatives of labor organizations and citizens of the state of Queretaro, Mexico, gathered at the conference "Fascism and the Privatization of Social Security, the Cases of the United States and Chile," hereby make public our support for the fight and proposals of Lyndon LaRouche to avoid the privatization of Social Security, which they are trying to implement in the U.S., Mexico, and many other nations.

That privatization, as well as the so-called "structural reforms," should be overwhelmingly rejected for being inspired by the economic policies of dictatorial and fascist regimes, such as that of Pinochet.

What we need today is to rescue the dignity of individuals and of the peoples of the world, which has been violated by criminal austerity policies, and instead, achieve the implementation of the policies of a New Bretton Woods, for the benefit of the nations of the world, as Mr. LaRouche has proposed.

ments made, we would see growing tensions in the labor market. The poor people with low incomes would be thrown into poverty, with nothing to live on, and those with high incomes would enjoy high pensions.

We know that society cannot be governed in this way, where a rich minority receives all the privileges, and the rest, the poor, live miserably. If we study this type of society, we see that the majority of elderly people would become poor and not be able to survive, and this would imply that the society as a whole had become poorer and the new youth would not find any jobs, and thus not have any pensions later on. This system would go through a number of shocks, including a crisis in the real economy, in the financial markets, and also an explosive social crisis. The financial market can be kept alive only as long as there are new capital flows. When these are no longer available, then the crisis, caused also by problems such as the foreign debt, will also destroy the middle class.

**EIR:** In other words, it is an attempt to create a new financial bubble, after the New Economy, the real estate bubble, the derivatives bubble, etc., to prolong the agony of a bankrupt financial system. You were recently at the seminar with Lyndon LaRouche in Berlin, where these issues were debated intensely. . . .

**Galloni:** In Berlin, I mentioned the subjects we have addressed here, emphasizing in particular the necessity of promoting the development of the real economy and the necessity of not treating labor as just another category of "merchandise." I said that if we develop new technologies, we can reduce the amount of energy needed to produce goods; that is a gain for the system. But if we reduce the amount of labor required to produce something, we only gain something if this increase in productivity is redistributed to the labor force in the form of higher incomes; otherwise we lose the driver effect of a more or less Keynesian type of economy.

I saw that the interventions of the American and Russian speakers emphasized the perverse role of speculative finance which is suffocating the real, physical economy and destroying the creation of the very resources which are also indispensable for the survival of finance itself, thus preparing its own crisis. The interventions of the Chinese and Indian participants paid particular attention to the initiatives required to balance the functions of international trade, both in relation to the growth of the world's real economy and the containment of the imperial attitude of the U.S., which hampers the true development of the planet.

I must conclude by saying that I agree with the analysis and proposals of Lyndon LaRouche for a dialogue between the U.S. and the countries of Eurasia over the use and development of raw materials and technologies, and on the necessity to convene a New Bretton Woods conference in order to deal with the crisis of the entire financial and economic system.