

Mexico's Privatization: A José Piñera Disaster

by Dennis Small

In an April 10, 1998 open letter to President Bill Clinton, José Piñera, the architect of Chile's fascist Social Security privatization, wrote: "This [Chilean] success has led seven other Latin American countries—Argentina, Bolivia, Colombia, El Salvador, Mexico, Peru, and Uruguay—to emulate our example in the last five years."

Let's look at what Piñera and his Wall Street sponsors wrought in Mexico—a country that Piñera personally visited in 1997, to help ram through pension privatization.

In December 1995, during the government of the pathetic Yale economist Ernesto Zedillo, Mexico's Congress passed a new Social Security Law, which went into effect in July 1997. It made it mandatory that all private sector employees "invest" their pensions with private *Afores* (Retirement Fund Administrators), rather than with the state-run, pay-as-you-go IMSS (Mexican Social Security Institute).

The agency for public sector workers, ISSSTE, has not been privatized as of 2005, although there is a campaign under way to do so. Of the total Social Security system in Mexico, the IMSS covers about 81%, the ISSSTE 15%, and a handful of other smaller programs account for the remainder.

Looting by Foreign Banks

After almost eight years in operation, the privatized system is a disaster. According to a study published in 2004 by the Parliamentary Group of the opposition PRD party, *The Pension System in Mexico*:

- 26% of the labor force are not covered at all, because they do not pay in, or they do so at a level too low to qualify for a pension. This reflects—and probably understates—the massive unemployment and underground or "informal" activity in Mexico.

- 47% of the labor force is either seasonally employed or have wages so low, that they will receive benefits less than the official minimum pension.

- Only 27% of the labor force will receive a pension greater than the official minimum. This is almost as bad as Chile, where only 20% of the labor force will get a pension greater than the minimum.

Mexico's *Afores*, like Chile's AFP's, skim a cool 25% off the top of what workers pay in, as administrative fees. There are currently 12 *Afores*, managing about \$37 billion in assets, and they are 77% controlled by foreign financial interests. These interests include Citibank, which controls 23% of the

TABLE 1

Mexico: Top Five Retirement Fund Administrators

(January 2004)

| Name | Control | Assets (\$ Billions) | % of National Total |
|-----------|-----------------------|----------------------|---------------------|
| Banamex | Citibank (US) | \$8.5 | 23.0% |
| Bancomer | BBVA/Aetna (Spain/US) | \$7.7 | 21.1% |
| Profuturo | Bal Group (Mexico) | \$3.8 | 10.2% |
| ING | ING (Holland) | \$3.4 | 9.3% |
| Santander | BSCH (Spain) | \$3.2 | 8.6% |
| Sub-Total | | \$26.6 | 72.2% |

Source: PRD Parliamentary Group, *The Pension System in Mexico*.

system's total assets; Spain's BBVA, with 21%; and Spain's notorious, synarchist Banco Santander, with almost 9% (see **Table 1**).

Mexico's state-run IMSS was created in 1943 under the government of Manuel Avila Camacho, and was clearly influenced by the U.S. system established by FDR. Its 1942 enabling legislation states clearly: "Since the protection provided by Social Security involves a function which is in the public interest, it cannot be encharged to private companies, but rather the State has the obligation to intervene in its establishment, because, in the final analysis, it is the entire collectivity which bears the risks of the loss of the labor capacity of workers."

In other words, the Piñera/Zedillo 1997 pension privatization attacked the basic principles of the general welfare on which the country's Social Security system was established—and it is illegal, to boot.

A number of the studies published in the above-mentioned congressional booklet address this point. For example, an essay by former IMSS Director General Ricardo García Sáinz reports that, for the system "to achieve its goals, it is necessary that it be the collective responsibility of society, which can be attained only by public action, and whose fulfillment becomes the obligation of the State and of collective activity."

García Sáinz explains: "In recent years, the reforms that were approved under the neo-liberal economic model have attacked the basic principles that gave rise to Social Security. . . . It was a radical turn to convert a social institution into a financial institution . . . based on the Chilean model."

As in the United States, one of the most widespread lies used to justify social security privatization in Mexico, is that "demographics" ultimately dooms any FDR-style system. In the case of Mexico, the cited demographics are as follows. In 1930, life expectancy was 35.9 years; in 2002, it was 74.6 years. The ratios of active workers per pensioner, in the IMSS (for private sector workers) and the ISSSTE (for public sector workers) are given in **Table 2**.

TABLE 2

Mexico: Ratio of Active Workers per Pensioner

| | 1980 | 2003 |
|--------|------|------|
| IMSS | 13.1 | 6.0 |
| ISSSTE | 19.0 | 4.4 |

Source: PRD Parliamentary Group, *The Pension System in Mexico*.

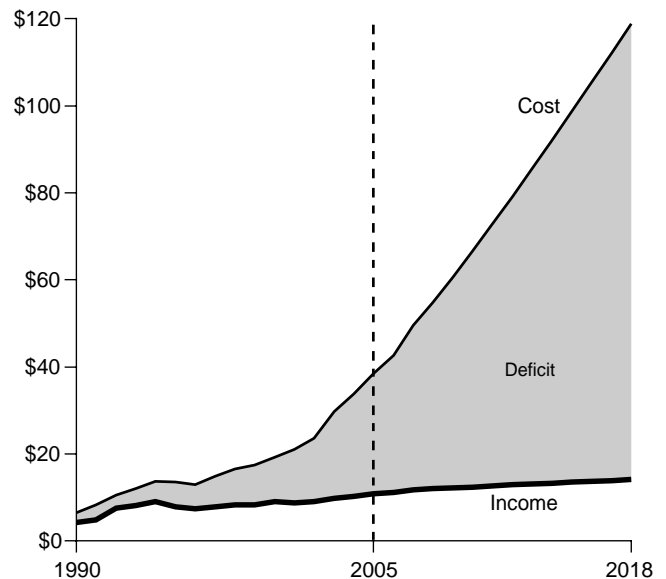
The particularly dramatic drop in the ratio for the ISSSTE is a result of the dismantling of state sector industries and employment in Mexico after 1982. This has led to a total stagnation of the income coming into the ISSSTE system (since it is directly dependent on the level of employment), while benefit costs have continued to rise (see **Figure 1**).

This same general problem of economic decay underlies the IMSS parameters as well. As National Autonomous University of Mexico researcher Berenice Ramírez López correctly argues, in her essay in the cited booklet: "Undoubtedly, these demographic changes affect the pension systems. . . . However, it's necessary to emphasize that the factor having the greatest repercussion on the pension funds, is the lack of economic growth. . . . The funds would not have collapsed so radically, if the creation of salaried jobs had not stopped, if public employment had not plummeted, and if the drop in income had not been of the magnitude seen over the last 20 years."

FIGURE 1

Mexico: ISSSTE Income and Cost

(Millions Constant 2002 Pesos)

Source: *The Pension System in Mexico*, PRD Parliamentary Group, Mexico.