

Italian Senator Shows The Plight of Pension Funds

Senator Oskar Peterlini made this contribution to a July 2 EIR seminar on a New Bretton Woods monetary system, held in an auditorium in the Italian Parliament and keynoted by U.S. Democratic Presidential pre-candidate Lyndon LaRouche. Subheads have been added; the graphics are supplied by Senator Peterlini's office. We have used a selection of his graphs; see article p. 4 for graphs on the global crisis, which are similar to those he used in the first part of his speech.

Good evening to everyone. First of all, I would like to welcome Lyndon LaRouche to Italy, and thank Paolo Raimondi, who organized this event, and Dr. Galloni, who preceded me.

I would like to present some images which bring together what we have heard. I intend to give a summary of the crisis of the financial markets; then to speak about the demographic development which has caused the necessity of pension reform; and then to speak about the motion which we presented in Parliament in order to find the right solution to these problems.

Let's take a look at what has happened in these markets. The period which you see here is the five-year period, with the increase—with difficulty—in the years 1998-2000, the peak in March 2000, and then the descent and tremendous fall around Sept. 11. There was hope of a recovery, but then we again saw large falls. What we are looking at is a group of 500 companies on the European Bloomberg Index. We see the same type of movement on the Dow Jones index, with a rapid rise after 1998, when everyone bought stock.

The prices are determined by the demand from institutional funds and also from small investors, who at first saw a fall in the state bonds which had previously paid well, and thus moved on to telecom stocks, and then on to others.

We can see that the trend is one of continuous increase, to the point of going much beyond the real values of these stocks, with price/earnings ratios of 26 and even 50. That is, I buy a stock at a price 50 times what it earns; thus, I would have to wait 50 years to pay back the price of that stock. This graphic regards the United States; it's the Standard & Poor's 500, one of the best-known indices (250 of the stocks are American, and the rest are from around the world). We see the same increase.

In the past, we talked about differentiating, or diversifying a portfolio among various markets, so that if America goes down, then we hope that Europe rises. Here we see a perfect

correlation: Europe follows right behind America and behaves exactly in the same manner. The most perfect rise and incredible dive we see here is the Nasdaq, which is made up of the technology stocks, with the great dream of development which would never end, from cellular phones to the Internet, to everything that had an e- in front of it. We see a continuous increase, to the point of the crash, back to the same level as before the increase.

'Nowhere To Invest'

Besides Asia and Russia, the Argentine market is the one most in crisis, with a consequent danger of contagion of the rest of Latin America, starting with Brazil. This is an index of Argentinian stocks, in dollars and in [Argentine] pesos. The big crash took place, above all, in bond titles, since the peso has lost over 70% of its value.

Now I will show you a graphic which is very well-done and shows the movements of the market from 1925, before the 1929 crash, all the way up to 2001. The lowest line is inflation; the largest line indicates the movement of U.S. government bonds. This shows that you are not safe investing in bonds, because you see that you are barely able to maintain their real value: It's difficult for a pension fund to invest only in these issues, even if they are considered the safest.

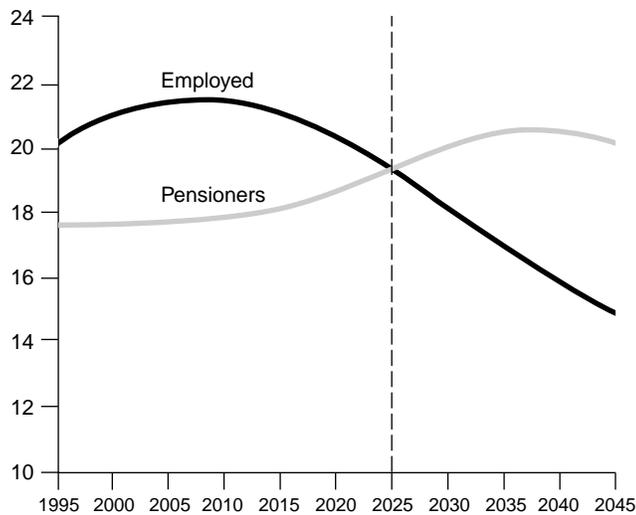
It must be said that, as Argentina demonstrates and as LaRouche demonstrated in his historical *excursus*, the fall of the currency also involves a fall in bond values, because the safety of nominal values is broken. This also happened in Italy when, more than once, inflation caused state bonds to fall, which brought the pension institutes to their knees, because they had invested in these bonds.

So, there's the question of where to invest. These blue and green curves show the stock values of small and large companies (the small ones do better). We see the crash of '29, when the stocks lost up to 70% of their value within only a few months. Then we see that the stocks rise again, and that the stocks rise more than bond issues. Then we see the dive in 1973 after the oil crisis. There is a recovery after that. Participation in stocks means participation in companies, houses, machines, and in factories which create development.

The problem is: Be careful of overvaluation, because if I buy a stock at a price higher than it's worth, it can't work any longer. Let's look at the same graphic over a span of 200 years: a dollar invested from 1801 to 2001 does the following: With gold, I lose money; with state bonds, I make \$275; with

FIGURE 1
2025 Scissors Crisis for Pensions

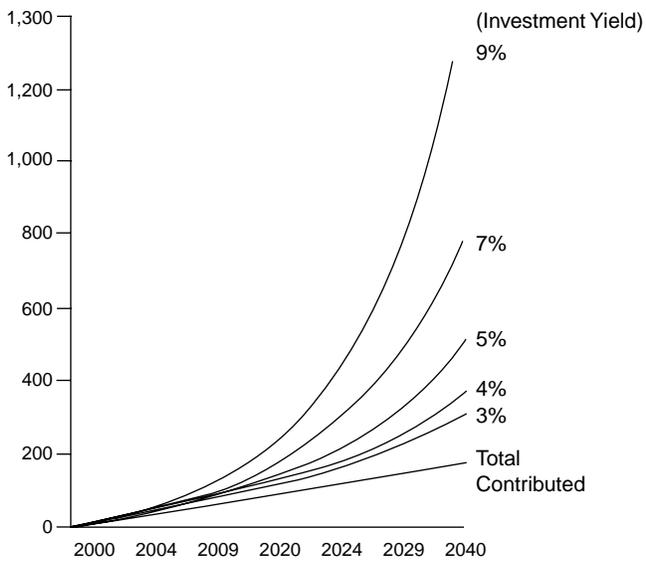
(Workers Compared to Pensioners, Millions)



Source: Oskar Peterlini, *To Plan the Future*, 2000.

FIGURE 2
Projected Growth of Pension Contributions

(Thousands of Euro)



bonds issued by private companies, I earn \$800; and with stocks, the earning is up to \$600,000.

We see the annual returns, which fall in the periods of war and the oil crisis, etc.

The Pension Crisis

Up to today, the pensions have been supported by the following mechanism: The people who work pay for the people who are retired. In the past, the system was very stable because there were many young people compared to the elderly. Now, we have seen a large reduction in births, and the group of young people is smaller. This statistic illustrates the number of children per woman of childbearing age, the rate of fertility. Italy, together with Spain, has the lowest fertility rate in the world, with 1.19 children per woman of childbearing age. This means that the rate is much lower than in Ireland, which is almost double, but also than in the Nordic countries.

This is a lowering of the number of youth, and thus of the workforce, slightly ameliorated by the number of immigrants (this would be a point to discuss at length).

We see how life expectancy has grown, that is, median age expectancy. We have a minimum in ancient Greece, where the median was 18 years (infant mortality was very high); in ancient Rome, it was the same; and we see it take off at the beginning of the 1900s, as the average lifespan grows together with great discoveries such as penicillin, the revolution in medicine, in surgery, etc.—to reach the level of about 80 years (with 5 years more for women than for men).

This means that there are fewer and fewer youth, and more elderly (**Figure 1**). This dark curve is the sum of pensions, which is growing, while this is the sum of workers, which is contracting. It is estimated that by 2025, the number of workers will be equal to the number of pensioners [in Italy], and later there will be fewer workers than pensioners.

This is unsustainable, because we have seen that the system is based on the fact that the youth support the elderly. Already now, 33% of every salary is paid to INPS [Italy's national pension institute], a third of the salary, between the employee and the employer; this amount will have to increase to 50%. For Italy, the OECD figures show that further on, up to 70% of the population will be retired. It's not sustainable.

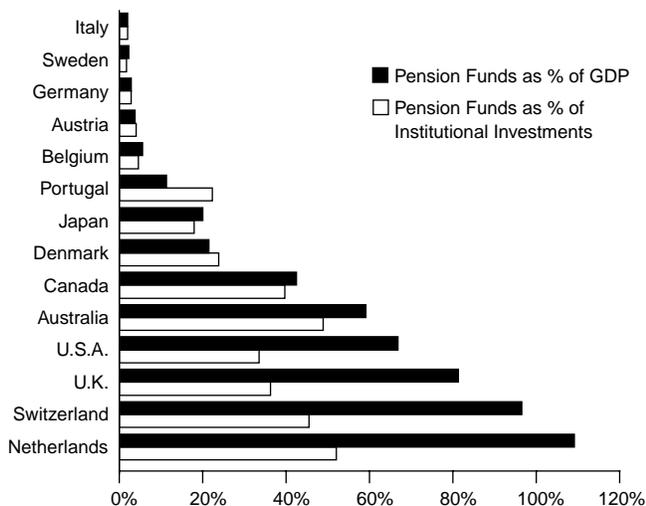
Therefore everyone—not only Italy—developed the idea of pension funds; that is, that in the future there will be more than one pillar on which to base one's retirement. Pension funds accumulate capital in order to invest it, obviously, in the markets, bonds, real estate, and in general in capital markets. What we see in this graphic (**Figure 2**) is that the average worker who makes 1,000 euro a month and contributes 2,500 [annually] to the pension fund, develops about 100,000 euro of his own contributions in 40 years, with the final sum depending completely on how much that fund earns: with 3% return he gets 274,000 euro and with 4%, 80,000 more, which with 7% would be 700,000.

This is to emphasize how important it is to invest well, which means also increasing risk. Here we see the percentage pension funds comprise in world stock values (**Figure 3**).

FIGURE 3

Size of Pension Funds in Principal Industrial Countries in 2000

(Percent of Value)



Source: From data of Organization for Cooperation and Security in Europe.

The highest are in the Anglo-Saxon countries—the U.K. with 75%. How much money is invested in these pension funds? Italy has just begun its reform in this sector, and the new funds have collected 3 billion euro. There were already the old funds, and thus together there are 32 billion euro. Not much, compared to the euro-zone all together, in which there are 500 billion euro invested in pension funds. And the entire euro-zone is only 5% of the OCSE zone, in which 10,000 billion euro are invested in pension funds.

Essential Action Now by Governments

This means that the system must survive, or everything will fall apart. If we are not able to maintain a financial system, then things will truly fall apart, because gold doesn't earn anything; in a balanced portfolio, real estate can't be more than 10%, because it's difficult to manage; with bonds there is the risk of currency drops, or of not keeping up with inflation. The large demand that comes from the world of pension funds is that of *stability and rules on the financial market*, and a strong realignment of the sector, involving all countries.

It's not possible that a world which is so advanced in the technological sector, leaves financial markets alone, in which not only large speculators (who make money in any case), but also small investors, workers, invest in pension funds, without clear and transparent rules which can prevent the scandals which have taken place.

This is the strong demand. And it is the strong demand which, thanks to LaRouche, we are able to make, not only in

Italy but also in other countries. The Italian Parliament has also been involved in this movement. Thus, I am proud to have presented the motion, from which I will read the opening lines:

The crescendo of international financial and banking crises beginning in 1997 with the crises in Asia, Russia, and Latin America, up to the more recent crash of the New Economy in the United States, to the gigantic Japanese banking crisis currently under way, and the bankruptcy of Argentina, cannot but worry the populations, leadership, companies, and investors, since this is not a series of isolated situations, but rather the manifestation of a crisis of the entire financial system, which is characterized by out-of-control financial speculation; the worldwide financial bubble has reached the level of \$400 trillion (\$140 trillion of them in the U.S.A.) compared to a world GDP of about \$40 trillion, and this gap has been growing, especially in the recent years.

This motion, which was initiated by the International Civil Rights-Solidarity Movement, was initially presented in the Senate by the Autonomies Group (this may be a positive aspect, because we are a small group, but one which is not caught up in the opposition between the two political sides) and has collected nearly 50 signatures of authoritative Senators, among whom are Andreotti, Salvi, Treu; and from the House, Brugger and Boato, and also Benvenuto, Maccanico, Ramponi, Biondi, Nesi, Melandri and more than 40 Representatives. We need everybody's support because everyone is involved here—not only the Enron employees who saw their company and their pensions lost, since in America, companies sponsor and guarantee pensions, so that if the company goes, so does the pension. (Fortunately, in Italy, this mistake has been avoided.) The crisis concerns all of us who have invested in the financial world, through pension funds, for example.

Therefore, the motion we presented first addressed the Argentina crisis, calling for strong intervention, and then it formulated the main request:

Regarding the crisis of the entire international financial and monetary system:

- to carry forward, in every aspect, the request for a complete revision of the role and the policies of the IMF;
- to take the specific initiative of proposing the convocation of a new international conference among heads of state and government, like the conference held at Bretton Woods in 1944, with the aim of founding a new international monetary system and taking those measures necessary to eliminate the mechanisms which have led to the creation of the speculative bubble and the systemic financial crash, and to begin programs of reconstruction of the world economy.