PINOCHET AND PINOCCHIO

President George 'Enron' Bush Lies About 'Enron II'

by Paul Gallagher

This article appeared in the LaRouche PAC pamphlet Bush's Social Security Privatization: Foot in the Door for Fascism, *a call to action to prevent the looting of the Social Security Trust Fund, in what would be a futile attempt to bail out the collapsing financial system.*

Recognize the lies of Wall Street and Bush about the privatization of Social Security:

Lie No. 1: "President Bush never said 'privatization.' He just wants to strengthen Social Security. His opponents are using scare tactics."

TRUTH: That was for the suckers during the election campaign, who thought George W. Bush was their personal lord and savior. He lied about it scores of times, then came out in the open demanding privatization after Election Day. Each member of his Commission on Social Security had been hand-picked *in 2001* on the condition of being a supporter of privatization of Social Security.

Lie No. 2: "To make sure the retirement savings of America's seniors are not diverted to any other program, my budget protects all of the Social Security surplus for Social Security, and for Social Security alone."—Bush's Jan. 17, 2001 State of the Union Address.

TRUTH: George W. Bush's budgets, since then, have taken $509 billion of surpluses from the Social Security Trust Fund and used them for general Federal budget expenses, including his wars, so that he could deliver tax cuts to businesses and wealthy Americans.

While other President's have also "borrowed" Social Security surplus for their budgets, *Bush and his father are the only two Presidents who have looted every single dollar of Social Security surplus that came into the Trust Fund on their watch.* Senator Harry Reid of Nevada has rightly called this "embezzlement," on the floor of the Senate.

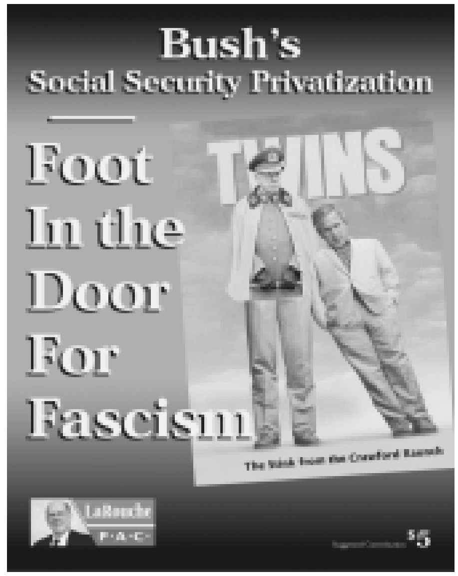
Lie No. 3:"I think some members of Congress could take some lessons from Chile, particularly when it comes to how to run our pension plans. Our Social Security system needs to be modernized."—George W. Bush in Chile, April 2001.

TRUTH: Social Security privatization was imposed in Chile by the fascist military dictatorship of General Pinochet, which by 1980 had already destroyed the labor movement, depressed the wages of Chileans, exiled and assassinated opposition leaders, and was selling off state companies to foreign bankers, cheap; then they turned over public pension funds to the same bankers. A generation later, most Chilean retirees, with their "private accounts," don't even qualify for a minimum pension, and have to depend on government minimum retirement of welfare payments. Chile's privatization is adjudged a failure by the Chilean government and even by the World Bank.

The British privatization of public pension funds has also failed.

Lie No. 4: Social Security is a state program invented in 19th-Century Prussia, which blocks employees from "ownership" of their own retirement fund.

TRUTH: Social Security was started by President Franklin Roosevelt because the U.S. Constitution calls upon the government of the United States to "promote the General Welfare"—not to promote "private investments." Social Security saved the elderly from the destitution brought on when the "private investments" of the 1920s collapsed. Under the



This LaRouche PAC pamphlet exposes the advocates of looting of Social Security funds to bail out the financial system: George Shultz, California Governor Arnold Schwarzenegger, and Shultz's fellow "Chicago Boy," Milton Friedman.

principle of the General Welfare, the younger generations support the basic security of the older generations in their retirement, keeping them from poverty, and provide a surplus, to the benefit of their children and grandchildren.

Social Security has been successful for 70 years, through three full generations of Americans' retirements, and only small and occasional adjustments in its tax rates and ranges are needed to keep its commitments into the future. It's the only thing solvent in a debt- and deficit-ridden U.S. economy. Three-quarters of the company pension funds in the nation have been abandoned by their corporate sponsors, the rest are underfunded; Social Security remains solvent and trustworthy. It has provided better broad benefits, with cost-of-living adjustments, than private social security schemes like the British system, the "Galveston Plan" in Texas, etc. As for the "Chile model" of the privatizers, it's been a disaster for more than half the workforce in Chile.

Lie No. 5: "The United States government has no legal obligation to pay Social Security benefits to retirees."

TRUTH: The management of the funds and payment of the benefits by the Federal government, is an obligation of the United States created by the Social Security Act of 1935. The right-wing privatization ideologues at the Cato Institute and elsewhere make this claim because they want Treasury to keep "borrowing" from the Trust Fund without repaying, and to destroy Social Security for ideological reasons. Any similar claim from within the Bush Administration would constitute a *threat* to cut off benefits.

Lie No. 6: "Social Security is in crisis. The crisis is here. There is an $11 trillion deficit."

TRUTH: Wall Street is in a crisis; the U.S. dollar is in a crisis; the U.S. and world economy is in a collapse crisis worsened by Bush Administration policies; but President Franklin Roosevelt's Social Security system is not in crisis. No competent agency has projected any $11 trillion deficit, nor half that.

But Bush's business and upper-income tax cuts are generating a *$14 trillion long-term deficit in the general Federal government budget.* Bush wants to add anywhere from $2-$6 trillion to U.S. debt to pay for privatizing Social Security—turning the contributions over to Wall Street in "private accounts," then going to Wall Street to borrow the money to pay retiree benefits.

If the Bush Administration stopped running huge deficits and repaid to Social Security the money improperly borrowed from the Trust Fund for other government expenses over the years, Social Security would be in surplus for at least another 40 years—*without changing the payroll tax rate or range at all.* If a U.S. President, instead of losing jobs and depressing wages, knows how to restart real high-technology employment growth in the U.S. economy, Social Security will be fully solvent through the 21st Century.

Lie No. 7: "If Social Security isn't privatized now, taxes will have to be raised or trillions borrowed in the next decade, or benefits cut."

TRUTH: This is another form of blackmail threat, by a bankrupt Bush Administration and a desperate Wall Street, to cut off Social Security benefits unless they get trillions in Social Security contributions to support the Wall Street bubble a while longer. In fact, real economic growth, with small adjustments in the Social Security tax range alone, will keep the system solvent indefinitely.

Lie No. 8: "Wall Street doesn't have much at stake in Social Security privatization; its fees would only be a few tens of billions over 70 years."

TRUTH: Wall Street and Boston "Vault" banks like JP Morgan Chase and State Street Bank are the original and the biggest funders of the Cato Institute Social Security Privatization Project, the cog-wheel since 1995 for the schemes to loot Social Security. These banks would haul in, conservatively, $950 billion in fees over 70 years, according to the thorough study by Prof. Austen Goolsby of the University of Missouri. More important, Wall Street would rake trillions in new accounts into the falling stock markets.

Lie No. 9: "Younger workers will be able voluntarily to choose to put just a part of their Social Security tax contributions into a private investment account instead."

TRUTH: The Chile model of privatization was mandatory for all young workers. They were barred from entering the old public pension system.

General Pinochet's Labor Minister, who privatized Social Security in Chile, now heads up the Cato Institute Privatization Project, which instigated President Bush's manic drive for privatization. The Cato Institute private-accounts scheme becomes *mandatory* after a few years, for all employees born after 1954; and it calls for diverting *all, not a part* of the employee's Social Security payroll taxes into a private account.

This will happen if Bush gets his way. There will be tremendous economic pressure, as well as political pressure to reduce future benefits by kicking workers out of the Social Security system into the arms of Wall Street investment banks. Why? The trillions in new debt which Bush proposes to borrow to privatize the system, *will create the crisis in Social Security he's claiming.*

Lie No. 10: "Nothing will change for those at or near retirement; their benefit check won't be touched."

TRUTH: If privatization goes through, benefits will be reduced by $18 trillion. For retirees who have been in the middle 20% of Americans by income, Social Security benefits *would be reduced,* in the privatization scheme of Bush's handpicked Commission, by 6% over the next decade; 10% in the decade after that; 15% in the decade after that. The nonpartisan Congressional Budget Office showed this; and Stephen Goss of the President's Commission admitted it on Dec. 9: "It [Bush's privatization plan] clearly would provide for slower growth in benefits than under current law. The private accounts will provide an opportunity for the worker to make that back up." Goss estimated benefits would be cut by $18 trillion through mid-Century. President Bush *knew this three years ago when the Commission made its recommendations.*

In fact, despite these ideologues' fantastic, lying assumptions about the earnings young workers will allegedly be making in the stock and bond markets, the sad reality is that Americans' remaining Social Security benefits will be cut by much more than the Congressional Budget Office has estimated, if Bush's fascist privatization goes through. After being blown up into a brief new bubble by trillions stolen from Social Security, Wall Street will collapse and leave retirees with nothing. "Enron I" left hundreds of thousands with empty 401(k)s and lost corporate pensions; Bush's "Enron II" will steal the retirement of *tens of millions.*

Lie No. 11: "Younger workers will get a private account the government can never take away from them."

TRUTH: The Bush Administration has already illegally "taken away" more than $500 billion from the Social Security Trust Fund to pay other government expenses; yet Social Security has never taken retirees' accounts away from them. If Americans fall for diverting Social Security payroll taxes into stocks and bonds accounts instead, a Wall Street crash will "take away" the retirement they are foolish enough to put there.

Lie No. 12: "Equity [stock] investments earn high rates of return over the long term. By the principle of compound interest, these younger workers will be able to earn a better return on funds for their retirement."

TRUTH: If American workers' Social Security payroll taxes had been invested, instead, in the Standard and Poor's 500-stock index for the last five years, *they would have lost money, overall, in their "private accounts,"*—according to Standard and Poor's itself.

This repeats the Enron syndrome with American's 401(k) private retirement accounts; in surveys, one-third of Americans with 401(k)s say they've lost so much in them that they'll have to keep working long past retirement. Social Security will really be "in a crisis" if President Bush is allowed to shift it to Wall Street.

The idiot President, whose own business ventures all failed, believes he's just discovered a "miracle of compound interest." The Social Security Trust Fund already earns compound interest on the investment of its surplus in Treasury bonds—and every year, Bush's White House has looted the fund of its surplus and its interest, to pay for war, "homeland security," and tax cuts for businesses and wealthy Americans.

Who's Looting Peru's Privatized Pensions?

by Manuel Hidalgo

Peru's privatized pension system is a case study of what's wrong with U.S. President George Bush's proposed privatization of Social Security. Peru in 1992 became the second Ibero-American country to privatize its pensions, following Pinochet's Chile in 1981.

When the Peruvian Congress approved a reform of the privatized pension system on Nov. 11, 2004, forcing *all* retirees to place their pensions into that system, one of the national associations of retirees fingered foreign financial interests represented by the International Monetary Fund, the World Bank, and the privatized pension funds (known as AFPs), as the actual authors of the legislation. With fascist plundering under the pretext of pension reform now firmly established by law 20530, the last public social security system to protect retirees has now been eliminated. Tens of thousands of enrollees under law 20530 will no longer have any option but to join the AFPs, despite the serious questions raised about that privatized system's financial health.

In July 1995, Jaime Cáceres Sayán, the president of the Association of AFPs, dared to charge that the state-run National Pension System is like the bankrupt CLAE, a reference to Carlos Manrique's pyramid-style savings plan, which suckered people into investing their savings by promising high returns, then went belly-up in 1992, resulting in 160,000 depositors losing their shirts. Ironically, it is Cáceres Sayán's own AFPs which would be more accurately described as the next CLAE.

In August 2004, the same Cáceres Sayán claimed that the investments of the AFPs were increasing the value of stocks on the Lima Stock Exchange, and called on the Central Bank to therefore allow private pension funds to increase

TABLE 1

Peru's Privatized Pension Funds (AFPs) and Their Foreign Owners

(Percent Ownership, November 2002)

Horizonte	
Holding Continental	54 %
BBVA (Spain)	24.9
Provida (Chile/BBVA)	15.9
Integra	
Wiesse Investments (INTESA-Italy)	30
ING (Netherlands)	30
ING Pensiones Perú (Netherlands)	29.5
Profuturo	
Citibank (U.S.)	42
Cervesur	20
Special transactions	19
Unión Vida	
Banco Santander (Spain)	100

TABLE 2

Placement of AFP Funds

Stocks on the Lima Exchange	34.6%
Long-term bank CDs	14.4
Government bonds	13.7
Foreign mutual funds	6.9
Non-financial corporate bonds	11.0
Others	19.4

their investments to not just 10% of their assets in foreign markets, as they had been doing, but a full 20%. If this increase were not allowed, and a bubble in the domestic stock market were created, said Cáceres Sayán, then the Central Bank would be responsible. Not surprisingly, on June 3, 2004, a 4% decline in stock values on the Lima exchange caused a loss of 850 million Peruvian soles, most of which was in a fund administered by the AFP. This fund also showed losses in 2000, and although there are claims that the fund has shown a profit over the long term, those profits are entirely speculative, and could evaporate tomorrow. This risk is global, given the speculative nature of the international financial system, whose collapse Lyndon LaRouche has repeatedly warned of.

The Peruvian AFPs are primarily controlled by foreign banks, as is shown in **Table 1.**

In combination, they administer a fund of nearly $7 billion, and they put that capital in speculative and risky investments like the above-mentioned stocks (mostly in the banks themselves!), certificates of deposit (also of the same banks), government bonds, foreign mutual funds, and others. In August 2001, a study showed that 75% of the fund was in stocks and bonds of companies in only 14 economic groups. (See **Table 2.**)

The reality is that the private pension system presents serious problems. Made up initially of eight AFPs, four of these closed and/or were absorbed by the remaining four. The powerful Romero group, affiliated to the Banco de Créedito, had to sell its AFP to a Spanish bank. Nearly 40% of the enrollees had ceased paying in, thereby losing all rights to their pensions. The rate of new memberships has fallen significantly because of the crushing recession, and growing precariousness of the job market. When in October 2003, there was discusson in the Congress of a project for the right to freely disenroll from the AFPs, press close to the financial interests behind the AFPs screamed that this would put the totality of workers' contributions at risk.

But this doesn't mean that the AFPs do not continue to get the lion's share of the loot: their commissions have risen to 28.7% of worker contributions (as compared to 15% as the regional average); in 2002 alone, they accumulated commissions of nearly $200 million. The profitability of the AFPs reached 68% in 2002. This comes on top of the right to invest $7 billion of workers' contributions in companies tied to the same economic groups as the banks that make up the AFPs! For example, the AFP Integra invests money from the fund it administers, into stocks of the Wiesse Bank (which in turn is linked to Wiesse Investments, co-owner of the AFP), despite the fact that the stocks were in free fall due to the insolvency problems of that bank!

The AFP system is based on forced savings, captured by means of the legal coercion of the workers (who must choose between an AFP or an impossible public pension system). Furthermore, the AFPs have all the advantages that banks have, except that the AFPs have no obligations to their depositors. Indeed, the AFPs have only survived this long because of the shameless intervention of the state in favor of the AFP oligopoly, as the following measures indicate;

- Reduction of pensions for which the state is responsible, with the threat of total shutdown of the state system.
- The state system only covers low-income contributors, while higher-income contributions move over to the AFPs.
- The state has floated special bonds to the benefit of the Private Pension Fund, for $1.82 billion.
- The age of retirement has been increased, thereby increasing the period for contributions and reducing the period for pension payouts.
- Restrictions have been imposed on disenrolling from the AFPs.
- The state is now officialy obligated to finance the minimum pensions of enrollees to the AFPs who have not contributed long enough to achieve an adequate pension level.
- The limit on investment of the fund in foreign markets has been officially broadened, from 10% to 20%.