

The Banks Will Make Billions from This

Mr. Ríos is a Panamanian lawyer, author, and former trade union leader. He was one of the signers of the founding declaration of the Schiller Institute, and a founding member of the Schiller Institute Trade Union Commission. Although the Commission is no longer in existence, the Schiller Institute remains active.

Carlos Wesley interviewed Ríos on June 6. The discussion has been translated from Spanish.



EIR: A bill has just been approved in Panama which reforms Social Security. Can you explain what this reform involves?

Ríos: The key aspect of the reform is the increase in the retirement age from 57 to 60 for women, and from 62 to 65 for men. In addition to age, the number of monthly contributions that are required has been raised to 300. That is, previously it was 180, but it has now been raised to a minimum of 300.

EIR: Can you explain this business of contributions?

Ríos: Here in Panama, one retires after paying 15 years' worth of contributions during your working life. Contributions are paid monthly, and they are mandatory, paid by direct deductions made by the boss or the company for which one works. It can also be done independently.

EIR: The worker pays part and the employer another part?

Ríos: Yes. The monthly contribution is a payment which combines a sum of money equivalent to 7.25% of gross pay, which is deducted from the worker's wage, plus an amount paid monthly by the employer, which is 10.75% of the salary. So, in general terms, approximately 18% is paid. This contribution is now being raised to 9% from the workers and 13.25%

There will be billions of dollars that the banks are going to enjoy, because no one from the current generation is going to be able to draw their pension. The generation that is now from 25 to 50 years of age has no chance of drawing a pension, either in the private sector or in the public sector.

from the employer. The contribution is increased from 18% to 22.5%. . . .

But the problem with this, is neither the nominal cost of the contribution, nor the number of contributions. The problem is that here in Panama, the average number of months per year that a person nearing the age of retirement contributes to the Social Security system, is now generally six for men and five for women. That is, as one grows older, the opportunities for work are reduced.

Why? Because in Panama, they practice temporary hiring; that is, hiring workers for three months at a time—or for two months, for six months, a year maximum. And because of a law that gives permanent employee status if the contracts are consecutive, people are normally laid off for two to three months, then re-hired. This explains why in a year, the total that one might contribute to the Social Security system would be an average of only six months, at a point when one is approaching the mandatory retirement age.

EIR: But that's a change in the law that was put in place in order to create job instability. At one time, one got permanent employee status quickly. When did it change?

Ríos: These laws were changed in 1995, and they practically established the right to lay off workers without restrictions. The first change, which wasn't substantive, was in 1986, and later it was broadened with the 1995 law. This is what today makes job instability the norm throughout the private sector, and even in the public sector, through the famous contracts which keep a majority of public sector workers under contract for a period which keeps getting renewed—so long as they submit to, and participate in, the activities of the government at the time. Otherwise, they just fire them.

And so, job instability in the private sector here in Panama is what makes it practically *impossible*—and that's the concept, *impossible*—for people to retire. This law has in effect eliminated retirement!

To put it briefly, if I wanted to retire, I would, for example, need 40 years to be able to have the required 20 years of monthly contributions. I would need 40 years! What does this mean? That, beginning at the normal age when people would get a 20-year job, I wouldn't be able to complete the quota of contributions for retirement until 60 years of age.

But here in Panama, even that is practically impossible, because that would mean working and paying in for at least six months every year, which is totally impossible here. Gen-

erally, there is an average of 40 years, during which there is nearly 8 to 12 years in which workers do not contribute here in Panama. That is the average, according to the statistics.

This makes it impossible for [people to retire] in such common industries as fishing, where workers typically only work six months a year. And within that industry, you have the temporary hiring contracts, or workers are contracted per trip, which means working four, five months a year. So, it's a foregone conclusion that they are never going to retire.

Take the construction industry. In that industry, they are never going to be able to retire. Why? Because in construction, one works by the hour, and no matter how big the buildings, technology means that they will finish early. You see a 20-30 story building, yes, but the [workers'] contracts are just for two or three months, or until so many floors are finished, or for a specific operation within the building, meaning that there are never workers who work from the first day to the last on a project.

So there is job instability within that sector. And this obviously implies that, between finishing one job and beginning another, there is generally a tremendous lapse of time. And that already makes it impossible for them to make enough monthly contributions.

The other important aspect is that when construction workers reach age 50, they can rarely find work anymore. When a woman reaches 40, she can hardly ever find work. They're going to have to wait until they reach retirement age, but with the increase in the age requirement, even if they are still alive at the end, they are never going to complete paying the contributions to qualify for a pension.

The other terrible thing that has happened is that, in violation of Constitutional provisions, all the money of that great mass of money that will be accumulated from contributions, is going to be handed over directly to the banks, 5% for each worker.

EIR: Before they approved the new law, where did that money go?

Ríos: The Social Security Fund was given to the National Bank, and here, too, they have run an operation that violates the law. Before, the National Bank had to invest that money by law, and pay interest to the Fund, that was equivalent to the interest the National Bank itself would have earned by investing its own money.

From a certain point on, they twisted that interpretation

of the law, such that the money that the Fund gave to the National Bank was considered the equivalent of any depositor's money, and was treated like the money of any depositor off the streets, and it received a fixed interest rate. So, to repeat, the Fund would enter into a contract, and from the outset it was told, "We are only to pay you 2% or 3% or 4%," and this lost billions of dollars from the reserves of the Social Security Fund. And in this way, the state was able to finance itself with income from the Social Security Fund, to the point that it is believed that if an investigation were done today, the state would owe the Fund more than \$8 billion.

Now, this situation has been made worse. It is no longer just the state that is going to be the beneficiary, but also the banks. Because, it turns out that the issue here is that the different banks are all owned by the same people. So, 5% of the more than 2 billion balboas [equivalent to dollars] now in the Fund, plus 5% of everything that's coming into the Social Security Fund, will be handed over to those banks—which obviously means handing it over to those same people, because they are on the boards of directors of almost all the banks, who already were approved for the first privatization, which was carried out in 1997. . . . Let us suppose that the Fund today has \$2 billion; 25% of that \$2 billion is \$500 million. That would be the total amount that the banks would divide up among themselves. Each bank would get 5% of that \$500 million.

And it is going to be the same banks whose representatives include the Ambassador to Washington, Humber, and others from the Mota family, who are involved with nearly all the banks here. Thus, it is the leading families in Panama who sit on the boards of all the banks, like the Galindos, one of whom is Vice President of the Republic.

In sum, there has been an assault on the Social Security Fund in Panama. The people have been put down. The argument is that there have been a lot of people retiring, but the truth is that the nearly 100,000 retirees who actually exist today are thanks to the 21 years of "dictatorship," when there was labor stability in the public as well as the private sectors. Those are the people who are retiring today, but these people, starting last year, have begun to die out, at a rate of 3,000 to 4,000 a year.

And that means that virtually within five to six years, that whole retired generation, the product of those 21 years of labor stability in the public sector, will no longer be alive, and then, there will be a mass of billions of dollars that [the banks] will keep, which they are going to enjoy, since it will all go to them, because no one from the current generation is going to be able to draw their pension. The generation that is now in their 30s, or from 25 to 50 years of age, has no chance of drawing a pension, either in the private sector or in the public sector.

EIR: The press here, the *New York Times* and others, say that the real motive behind the privatization, one of the factors behind the reform is—and you mentioned this—that the gov-



EIRNS/Stuart Lewis

Mr. Ríos with Helga Zepp-LaRouche at a conference of the Schiller Institute in in Richmond, Virginia, in 1985.

ernment is hoping to accumulate, I think you said \$115 billion, as capital from this reform, to be used to widen the Canal. Is that true?

Ríos: They don't want the money to widen the Canal, because they are also planning to privatize the Canal, and mortgage it *sui generis*. What they do want, what the international financial institutions are demanding that the government do, is to put all the money in the banks, and they in turn promise to give loans for the widening of the Canal—as long as the money from the Social Security Fund is put in the private banks.

This is typical of the international financial institutions, right? "Give me the money; it doesn't matter if you lose, that's not my problem. I want you to put it in the private banks, and in particular, in two foreign banks, BBVA and Citibank. If you put the money here, then we will be happy, and then we will give you \$8 or \$10 billion; we will finance you from the banks. We are going to finance the widening of the Canal in exchange for what we are obviously going to demand as guarantee." No one is going to lend a dollar without a guarantee, and the guarantee is, to put a *sui generis* mortgage on the Canal by means of which, they are going to be guaranteed the administration, the fees, and all the rest.

EIR: This law is approved, it was signed into law by the President. What is the next step? Will there be more resistance?

Ríos: At this moment, virtually the entire education sector is out on strike. The entire health sector is out on strike, because it is going to be extremely hard on them to extend the period

[before they can get a pension], because they are going to go for a while without collecting a nickel. The whole construction industry is on strike. All of Coca Cola in Panama is on strike.

And every day, more and more companies and others go out on strike. It is unclear if, with the approval of the reforms, the strikes are going to be spreading or not. I believe they are going to be spreading. The problem is that, the basis upon which they went out on strike, I think, and have been saying, is very weak. They are accepting that there is a crisis [in the Fund], and that is a very weak argument because it is the same argument presented by the government. And one cannot brandish the government's argument that there is a crisis, and then turn around and confront the government. One has to have a different proposal for solving the situation, because otherwise the proposal of the one in power is going to prevail.

If those who are governed accept that there is such a crisis, they cannot hope to be the ones to proffer the solution. The solution in that case will have to be provided by those in power. This position is very weak.

EIR: Here in the United States, Lyndon LaRouche has been heading up a fight against the privatization of Social Security. . . . There is an economic crisis because they themselves have created it, and the solution is a New Bretton Woods financial system. There is no problem with Social Security; the problem is with the world financial monetary system, and therefore, LaRouche proposes that the alternative is to move forward with this New Bretton Woods, to reorganize the financial system, to declare it in bankruptcy because it is bankrupt, and to reorganize it completely. We are going to reorganize the system by investing in great infrastructure projects. Not widen the Canal, but build a whole new Canal.

Ríos: . . . This is good, trying to have people see things on a macro level, because, truly, this is the level at which things are happening and domestic policy is a consequence of that. But we also have to see the very specific case of Panama. And the situation is that in Panama, our pension system was a self-regulating one; it was flexible. When you had drops, you increased such and such a thing; when you had increases, you decreased such and such a thing. That worked for 64 years, and it remained healthy. Today, the Social Security Fund is the institution with the most assets in the country; it has the most cash of any institution in the country; it is the largest institution in the country; it has the most employees; and it is the institution which, in its 64 years, has never failed to pay an invoice. I don't know how you can say that an institution with such a historic pedigree is in crisis.

EIR: The Italian Chamber of Deputies approved a resolution in April, which calls for convening a meeting of heads of governments and heads of states to reorganize the world financial system in view of this calamity, that it is collapsing. We have had scandals like that of Parmalat and Enron, and truly, the system is no longer sustainable. Do you think that

you can begin to educate the people about this concept, about this New Bretton Woods idea of the Schiller Institute, of which you were a founder?

Ríos: Well, I do think that it were necessary for Panama and all the other countries to see the big problem, the macro problem, while also working on the domestic problem. That is, that the domestic problem must be attacked at the same time as the international one, and within the domestic problem one can clearly see that this problem is caused by, or is a product of, the macro problem. We here have been fighting, I believe, on all these fronts.

What's more, these [Social Security] reforms correspond to the macro problem; that is, as you have so well described it, to the collapse of the system. This has not stopped with privatizing all the public services in this country, which has driven up our costs four, five times, impoverishing the country; but now it has also seized upon the only healthy institution left in the country. They carried out a campaign and put it in crisis with this campaign, and they've snatched it up.

Obviously, next will be the Panama Canal, which they are going to seize through this strategy of widening it and contracting loans. It is already all very clear. So yes, I believe that the macro problem is relevant, and it must be addressed in this way. We must have very clear guidelines, such that the Latin American population understands it well, and knows that when it is fighting in the framework of a domestic problem, a national problem, it is confronting precisely this large problem, which must also be confronted at the same time, right?

EIR: Do you have a message for the readers of *EIR*?

Ríos: What I would like to say to the people of the United States, to the workers, is that they should try to use all the tools at their disposal now. I believe that the issue is not accepting that these measures be imposed on them, which afterwards they have to fight, but rather to stop them from being imposed, using all the force and all the pressure movements at hand to prevent this from materializing.

Because if this [Social Security privatization] fails in the United States, this will allow us a greater ability to contain those who are coming here with that strategy.

EIR: One last question: You knew Lyndon LaRouche well, and collaborated with him. Is there something you would want to communicate to him?

Ríos: What we would like, is, I believe now more than ever, to have a kind of seminar or event—but Latin American-wide—to exchange these experiences we are having and to provide, from our experience, tools for fighting to those who have not yet fallen into this. And to see how to counteract the siren calls from the lackey governments which are implementing these [reforms], always inventing a domestic issue, just as they did here where, with extensive propaganda, they invented the story that the Fund was in crisis, without showing any figures to prove that this was true.