Chile: A Synarchist Showcase

by Dennis Small and Cynthia Rush

If President George W. Bush and his controllers have their way, the United States will soon be following in Chile's footsteps—straight into hell. Bush himself has been explicit. In Santiago, Chile for a Nov. 19-21, 2004 summit of APEC, he stated that "Chile provides a great example for Social Security reform."

They may not have told the President yet, but it is more than Social Security privatization that his synarchist controllers seek to replicate from the Chilean model. Chile is their test-tube case for:

1. The untramelled looting of the country's physical economy and labor force, under three decades of the lunatic doctrine of free trade, as concocted by the notorious "Chicago Boys" disciples of George Shultz and Milton Friedman.

2. The bankruptcy meltdown of the national banking system under a mushroom cloud of financial speculation, and its resurrection based principally on a gigantic captive income stream, coming from the privatization of Social Security.

3. The use of cold, political terror and police-state repression against all potential opposition to these measures, including "the formation of special teams from member countries who are to travel anywhere in the world to non-member countries to carry out sanctions—up to assassination—against terrorists or supporters of terrorist organizations."

These are the words used in a declassified 1976 FBI memo, to describe the functioning of the assassination squads that had been set up by Chile's Pinochet dictatorship, along with five other South American governments, under the code name *Operation Condor.* If reading this quote made you nervous, because it sounds just like one of Vice President Dick Cheney's latest press conferences or a recent Donald Rumsfeld rant, then you are starting to get our point:

These are the same synarchist forces, intent on carrying out the same fascist policies, in order to defend the same bankrupt economic system. Chile isn't "over there"; it's here.

Social Security: 'But It Worked In Chile. . .'

No, Social Security privatization did *not* work in Chile—except for the foreign bankers who stole the money.

Social Security was privatized in Chile in 1981, as per the specifications of Harvard-trained economist and Mont Pelerinite ideologue José Piñera, who had been Labor Minister for Pinochet from 1978-80. After 23 years in operation, the Chilean system is such a flop that almost all political forces in the country—labor, business, government, thinktanks—now agree that it has to be jettisoned, and some sort of an alternative devised. In fact, in early 2005 the Chilean Congress will be reviewing a *government* proposal on how to revamp the bankrupt system—at exactly the point that the Bush Administration is trying to sell the same lemon to the U.S. Congress!

Here's the real story of Chile's social security privatization.

In 1973, at the time of the Pinochet coup, Chile had a U.S.-style "pay-as-you-go" social security system, to which both the worker and his employer contributed, and which covered about 78% of the labor force.

Through a splashy multimillion-dollar propaganda campaign, Piñera and Gen. Pinochet's "Chicago Boys" told Chilean workers the same thing that Bush is telling Americans today. A large number of funds (run by banks, insurance companies, and other financial vultures) would offer workers an array of "choices" on how and where to invest their money, without government meddling. They promised workers a high rate of return and a secure future, if they would switch from the government to the private funds.

The only thing that "enrollees" would have to do, is allow a mandatory 12.5% of their monthly paycheck to be deducted and deposited into the Pension Fund Administrator (or AFP, as they are known in Chile) of their choice, who would then "wisely" invest the money. Unlike the old system, employers would make no contribution at all.

One million Chilean workers did switch to the new system in 1981. They were offered incentives and rewards, including an initial wage increase. "Most of the Chilean workforce was, in fact, forced to join the new system, including all those workers hired since 1981, who were given no choice at all," according to the Chilean economist and U.N. researcher Manuel Riesco, a member of the board of CENDA (Center of National Studies of Alternative Development).

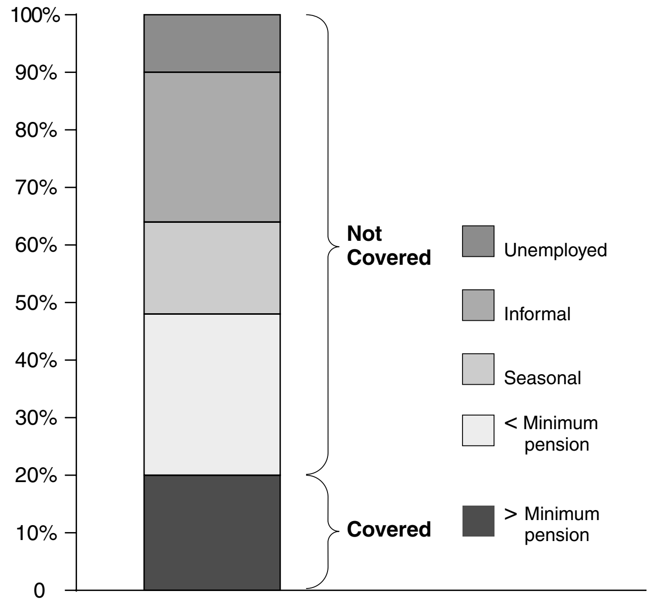
Where are those workers now? Again Riesco:

"If two co-workers reach retirement age in Chile today, both with the same salary and the same number of years paying into social security, one of whom remained in the old pay-as-you-go system and the other who changed to the AFP system back in 1981, the latter will receive less than one half of the pension of the former."

How is that possible?

Consider **Figure 1,** which gives the breakdown of social security coverage for the Chilean labor force of 6.1 million workers today (the total population is about 16 million). For starters, there is about 10% official unemployment; and another 26% (or 1.6 million) are (mis)employed in the so-called "informal economy"—i.e., that vast portion of the economy of every Ibero-American nation that ranges from the semi-legal to the outright illegal, off-the-books activities. Street hawkers and beggars are the classic cases of such informal "employment." None of them pays into the system; none of them gets anything out. In terms of physical-economic reality, these are also de facto unemployed.

FIGURE 4
Chile: Social Security Coverage
(% of the labor force)



Source: CENDA (Chile); *EIR* interviews.

At least another million workers (or 16% of the labor force) are under-employed, with seasonal jobs which may last anywhere from a few months to under a year. Half of all such jobs last less than four months. This kind of job insecurity and labor recycling is so widespread in Chile, that many analysts put the number at much more than 1 million. According to the Chilean research institute Terram, 93% of recent employees won't last more than a year in their new jobs. Such workers almost never qualify for social security—because under Piñera's fascist law a worker has to pay in for 20 years, in order to receive benefits upon retirement.

That's already 52% of the labor force who get *nothing* from the privatized social security system. The remaining 48% do pay into the system with some regularity, but 28% of the labor force, or 1.7 million workers, will not qualify for even the minimum pension of $110 a month, which is the state-guaranteed minimum. In other words, their "investment" in their AFP yields less than $110 per month—and the Chilean government has to pony up the difference to that amount, *out of the federal budget.* But most people in this situation don't even apply for this "assistance pension" offered by the state, which today comes to about $50 a month and which, in any event, is subject to a quota ceiling of 300,000 such grants—and there is a long waiting list. To even qualify for such aid, a worker has to prove that he is "indigent"—just like the fascist Hartz IV reforms in Germany. Their only other recourse is to withdraw the meager funds accumulated in their individual pension accounts, once they retire—assuming it hasn't been lost to derivatives speculation by their AFP.

When all is said and done, only 1.2 million Chilean workers—a mere 20% of the country's labor force—qualify for more than the minimum pension of $110 per month.

Enron Had Nothing on Chile's AFPs

The truth is that Chile's private pension system is a gigantic Enron-style swindle. The financial sharks who set it up never intended it to be anything other than a mechanism to loot the workforce and the physical economy, while they and their allied financial predators reaped huge profits.

For starters, the AFPs charge gigantic commissions for their services. The official Superintendent of Pension Fund Administrators (SAFP) estimated that, as of March 2002, some 25-32% of each mandatory deduction went to payment of AFP "commissions." A May 2002 report by the United Nations Development Plan (UNDP), written in conjunction with Chilean experts, found that this adds up to about $500 million in commissions annually. Between 1981 and December 2000, commissions totalled $6.2 billion. This compares handsomely with the $35.5 billion in Assets Under Management (AUM) by the AFPs, as of the end of 2001: it's close to 20% of the total

According to the same report, the owners of the AFPs had an average profit rate of 33.8% in 2001, and 50.1% in 2002 (a year of economic recession in Chile). One of the largest funds attained a profit rate of 209.8% that year! From 1997 to 2004, the average annual profit rate was a cool 50%. Chilean law professor Juan Gumucio aptly remarked that AFP managers "make more money than drug traffickers selling white powder."

CENDA concludes that the country's privatized pension system is the "most protected industry in Chile's history, created by those who criticized our earlier protection of industry." Shultz's Chicago Boys aren't averse to protectionism—so long as they are the beneficiaries.

While the AFPs made out like bandits, not so their enrollees. Where did their money go? In 1981, the total Assets Under Management by the AFPs were about $22 billion. A 1997 World Bank report documented that, although individuals' average rate of return on invested funds started out at 12.7% in 1982, it dropped progressively over the next decade. According to a study prepared by The Century Foundation, by 1994 more than half of the AFPs were incurring losses. In 1995, about two-thirds of what was then a $25-billion national pension fund was invested in highly speculative paper linked to the international derivatives bubble. In September 1995, the funds lost $1.5 billion of their total value, and had negative real returns of –2.5% for that year.

A study by a Chilean brokerage firm, CB Capitales, found that the real rate of return on the individual accounts in the AFPs has averaged only 5.1% since 1982.

Today, 33% of AFP funds, which total $36 billion, are invested in Chilean government debt which, under current conditions of a dollar collapse and global financial upheaval, can hardly be called stable. Current regulations permit up to 12% of the funds to be invested overseas (and there is pressure to increase that allowed percentage), and this share is particularly likely to end up in shaky global derivatives markets. The rest goes into unstable mortgage securities, bank CDs, or corporate debt.

The Synarchist Owners

Who are the real owners of the Chilean AFPs? After starting out with 18 funds in 1981, today there are only six left—and five of them are foreign controlled, accounting for 94% of the total Assets Under Management (see **Table 1**). In other words, Shultz's Chicago Boys handed over some $36 billion

TABLE 1

Chile: Pension Fund Administrators

(as of November 2001)

Name	Control	AUM (billions $)
Provida	BBVA (Spain); BofNY (US)	11.3
Habitat	Citibank (US)	8.0
Cuprum	Sun Life (Canada)	5.8
Santa Maria	Aetna (US)	4.5
Summa Bansander	Banco Santander (Spain)	3.9
Planvital	Chile	2.0
Total		**35.5**

Source: Salomon Smith Barney

TABLE 2

Foreign Control of Pension Funds and Banks

Country	Year Privatized	Pension AUM (billions $)	% Foreign Controlled	Bank Assets (billions $)	% Foreign Controlled
Argentina	1994	22.2	91%	65.3	37%
Chile	1981	35.5	94%	159.4	6%
Colombia	1994	4.2	78%	31.9	17%
Mexico	1997	22.3	77%	165.0	82%
Peru	1993	3.2	100%	17.1	63%
Total		**87.4**	**89%**	**438.7**	**62%**

Source: Salomon Smith Barney; EIR.

TABLE 3

The Top 3 Controllers of Ibero-America's Pensions and Banks

Bank	% of Pension Assets	% of Bank Assets
BBVA (Spain)	25%	8%
Citibank (US)	12%	7%
Santander (Spain)	8%	9%

Sources: Salomon Smith Barney; EIR

belonging to Chilean workers, to his synarchist international banker pals—not a bad heist.

Take the case of Spain's BBVA, which controls almost a third of the Chilean pension system. Banco Bilbao Vizcaya Argentaria has historic links into dirty-money-laundering circles, and—along with Banco Santander—has been the driving force of Spain's imperial re-colonization of Ibero-America's entire financial system, on behalf of British interests. Banco Santander, which controls one of Chile's major AFPs, is also the single largest foreign bank in Ibero-America, controlling 9% of the continent's banking assets.

Banco Santander is a real piece of work. It is an old, oligarchic Spanish banking house, dating back to 1857, whose current owner, Emilio Botin, is considered the richest man in Spain. Under Botin, Santander established a "strategic alliance" in 1987 with none other than the Royal Bank of Scotland (RBS), which is at the center of the British royal family financial apparatus. One of the leading members of the board of RBS, the Earl of Airlie, was until 1984 president of Schroeders plc, the British merchant banking house which, with its German corresponding bank, helped finance Hitler's rise to power in the 1930s.

In 1999, Santander signed a second strategic alliance with another hard-core synarchist financial institution: Assicurazioni Generali, the infamous and ultra-powerful Venetian insurance house, which helped put Mussolini in power in Italy.

Where Chile led on privatizing social security, the rest of Ibero-America followed (see **Table 2**). The only major countries that have not yet followed suit, are Brazil and Venezuela. Of the five main privatized systems, Chile's is by far the largest. As Table 2 also indicates, the level of foreign control in those five countries is a dramatic 89%—which surpasses even the level of foreign banking control in those countries, averaging some 62%.

But it is the same foreign synarchist banks which control both the AFPs and the commercial banks: BBVA, Santander, and Citibank (see **Table 3**).

Is this what Bush means when he says the U.S. should follow the Chilean model of Social Security reform? Do you really want your pension in the hands of the same synarchist bankers who put Hitler and Mussolini in power? . . .