Chile's privatized pension funds are going belly-up

Chile's privatized pension system, so lavishly praised by Conservative Revolutionaries internationally, is little more than a $25 billion slush fund, based on forced savings, designed to prop up whichever sector of the fraudulent Chilean economic "miracle" needs propping up. In December, *EIR* confirmed that, just like other speculative players before it, such as Orange County, California or Barings Bank, the entire system could go up in smoke overnight, because one-third of it is invested in the derivatives-heavy Santiago stock market, and the remainder in equally volatile mortgage securities, bank deposits, corporate debt, and overseas investment.

In September 1995 alone, the fund lost $1.5 billion, reportedly due to "market fluctuations" (see *EIR,* Jan. 5, 1996). For 1995, the Chilean system experienced real returns of −2.5%, supposedly due to "over-concentration" of its investments in the electricity sector (54% of the total), which dropped by 25% during that year. This could be just a taste of what is to come.

While the system is still being promoted everywhere by its architect, Dr. José Piñera, and by his associates at the Washington, D.C.-based Cato Institute, these recent developments are giving some people reason for pause. The City of London's *Financial Times,* on Jan. 18, portrayed the system in a very negative light, quoting a Chilean pollster who reported that "almost half our respondents said they didn't trust the current economic model, that it isn't stable, that the current success is just an Indian summer."

The *Times* explained that the fact that Chile's Armed Forces had remained within the old social security system, and that the new pension system was introduced by decree in 1981, didn't help to inspire confidence in it. Moreover, the *Times* reported, "only about half the active workforce of 5 million is up to date with contributions." Another 1.5 million affiliates of the Pension Fund Administrators "have made no payments into their accounts for more than a year."

But the most dramatic revelation, one which the *Times* argued could bring the pension system "under heavy fire this year," is the fact that for those pensioners who opted to take programmed monthly withdrawals from their savings account, rather than buying an annuity, the result will be a whopping 12-15% *cut in their income* this year!

—*Cynthia Rush*

chael Novak today show how such subversion works.

Was this why Chile's Catholic University was chosen by Shultz, et al.? Some Catholic University professors objected to signing a contract with an American university such as Chicago, which advocated "a brand of conservative economics where social justice considerations do not exist," Valdés says. But in the end, reportedly largely through Shultz's intervention, opponents were mollified, and the 1956 contract signed.

How honest opponents of the project might have been swayed, or silenced into acceptance of the contract with the Von Hayekites, is suggested in Valdés's report on the polemic which Chicago professors waged against Raúl Prebisch, founder of the "developmentalist" theory of economics, based on import-substitution and light consumer industries. Prebisch, who created the U.N. Economic Commission on Latin America in 1964, was villified by the Chicago economists for supposedly advocating "statism," which they claimed was responsible for Chile's economic problems.

But, as *EIR* has documented, Prebisch was born of the same British "mother" as the Mont Pelerinites. In the 1930s, he and Bank of England official Otto Niemeyer worked together to set up the Argentine Central Bank, as a wrecking operation against the Banco de la Nación Argentina, the national bank founded in 1890 by free-trade opponent President Carlos Pellegrini. In 1955, following the overthrow of Argentine President Juan Domingo Perón, Prebisch again appeared on the scene to dismantle all of the dirigist measures Perón's government had implemented, paving the way for the International Monetary Fund's entry into the country.

The "pure economic science" elaborated by Milton Friedman, Frank Knight, Gary Becker, and other of the University of Chicago's ideologues, was the essence of curriculum in which the Chilean graduate students selected to study there were immersed for two to three years. In the process by which they were chosen, one of the criteria for selection was that students have little or no political affiliation or activity. The first candidates rather showed a "professionalist, secular, and individualist" bent, Valdés reports. The purity of the "core principles"—monetary theory, price theory, and resource allocation—must not be contaminated by historical, social, cultural, and particularly *moral* considerations, in the Von Hayekians' view.

Following completion of their program, the students were required to return to teach at Catholic University, where an exact replica of the University of Chicago curriculum was established. They dutifully reproduced themselves, through their teaching work, creating, as the project report optimistically put it, a "reservoir of skills which the Chilean community will be able to draw upon for many years to come . . . a human capital asset that is uncommon in the world's low income countries."