# Argentina: 13 years of pension "reform" boosts profits, impoverishes older workers

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At the beginning of the 1990s, following the dictates of the international financial agencies, principally the World Bank and the IMF, some Latin American countries began an overhaul of their social security systems for retired workers. The principal justification for these social security "reforms" was the growth of public deficits, which left governments incapable of expanding their investments in basic infrastructure.

In Argentina, this reform was carried out in 1994 by then-President Carlos Menem. The result, while pleasing the mandarins of the IMF, was a disaster for the Argentine population.

The most controversial element of the economic package introduced by Menem was the privatization of social security. The proposal said that workers, on entering the labor market, would have to contribute to a public social security program providing a reduced benefit and to choose a complimentary plan between the Social Security Administration's public pay-as-you-go system and one of the individual retirement account programs, known as the "capitalization regime." If the option was not explicitly declared by the individual worker, he or she would be automatically enrolled in a private individual account. Thus, gradually, the state would free itself from the responsibility for social security and the burdens resulting from the growth of poverty in the region.

The logic of the system proposed by Menem was simple. Every worker would be free to choose the retirement system that they wanted. In practice, however, things worked out differently. As Sergio Massa, the executive director of Argentina's National Administration of Social Security pointed out in the January 25, 2007 edition of the *Jornal Valor Econômico*, "Only 30 percent of the nearly 50,000 people who enter the labor market annually voluntarily choose the system to which they want to contribute."

While less than a third of Argentine workers choose the plan to which they will belong, those who do choose find that once they have selected a plan, they can never leave it or trade it for another. And still, in the majority of cases, it is the employers who decide where their employees are enrolled and, after choosing the private system, they also select the plan's administrators.

Thus the freedom of choice that supposedly was being given to the workers represented a propaganda cliché promoted by moneyed interests to justify the gutting of Argentina's social security system. It was the slogan employed by Menem to justify the false idea that the market would optimize and maximize retirement benefits. In practice, this freedom of choice became a trap for the workers that only benefited the state and big capital.

Under the system, workers are compelled to contribute for 30 years to receive a universal basic pension at the end of their working life. The question that arises is what happens to workers who spend most of their lives without work or working in the informal sector? The answer of the social security system is clear: they will be condemned to work until the last days of their lives or, if they can no longer earn money, be forced to depend upon the aid of their relatives.

This problem is aggravated by the fact that when workers get older they are excluded from the labor market, being, in the majority of cases, replaced by younger workers capable of carrying out heavier labor. Thus, millions of workers, heads of families, as they enter old age face being marginalized and pauperized.

The consequences of this retirement system became visible and disastrous with the Argentine crisis of 2001. The privileges of the social security system offered to judges and other state functionaries were maintained, but the general population saw its benefits slashed.

The justification used for maintaining the privileges of judges, legislators and others was the preservation of the "principle of the separation of powers." The government, to avoid a "conflict between the powers," decided not to extend the social security reform to the judiciary branch in general. Thus, a judge on retiring maintains his full salary and, in addition, is exempt from taxes. It is interesting that this matter was not a subject for debate during the elaboration of the social security reform.

According to the BBC, in Argentina "judges continue retiring with what they received when they were working—between 4,500 and 12,000 pesos [US$1,385 and $4,100]—while public and private sector workers receive on average 450 pesos [US$155]." Or, a judge receives nearly 10 times more than a retired worker.

Meanwhile, the workers who chose the private system would have to content themselves with being swindled out of their retirement. What happened? Theoretically, the private pension funds should have held onto a percentage of the assets as they were capitalized and should have guaranteed the individual property of the funds, as if they were insurance for the workers. However, when the generalized crisis in Argentina became critical, the government carried out an "assets swap."

In the middle of 2001, Argentine Economy Minister Domingo Cavallo floated the "swap," in which government debt due for repayment was to be replaced by 10- to 30-year bonds bearing a higher rate of interest. While Wall Street and other foreign creditors refused the offer, by the end of the year Cavallo issued his “patriotic call,” simply forcing the plan on the pension funds, taking some $3.5 billion out of them to service the country’s debt and replacing the money with government bonds paying below market rates of interest. By 2002, the government defaulted on its debts and then imposed a conversion of dollar assets of domestic investors into pesos, an effective devaluation that wiped out two-thirds of the value accumulated in the individual accounts.

By 1998, there existed more than 20 functioning private social security funds in Argentina, with combined assets of US$5 billion and an annual average rate of return of 12 percent (highly profitable by international standards). This capital, which according to the propaganda of the “reformers” was going to create jobs and the expansion of industry, instead was concentrated in government bonds and traded on the world’s stock markets, reflecting the general tendency of capital concentration. The funds became an object for the predatory and speculative operations of the Wall Street finance houses preying on the “emerging markets.” The five largest administrators of pension funds by 1998 accounted for 65 percent of the Argentine social security funds.

According to Meiriane Nunes Amaro, legislative consultant for Social Security in Latin America, the results obtained after two years of the reform in Argentina (1994-96) were encouraging: “70 percent of the insured were linked to the capitalization regime, the majority belonging to the younger age groups, and evasion was reduced.”

At a conference held in Buenos Aires in March of 2007, CEPAL (Economic Commission for Latina America and the Caribbean) demonstrated some of the obvious consequences of social security reform in Argentina. The following points were raised:

1. Social security expenses increased significantly in the first years of the reform. But this result provoked a new deficit in the system—rising from US$891 million before the reform in 1993 to US$6.7 billion in 2000. The Argentine public deficit in 2000 was US$6.9 billion, practically the same size as the social security deficit (facts recorded by the International Labor Organization—ILO);

2. Among the most important causes of the social security deficit was the reduction in employer contributions, which provoked a deficit equal to 1.3 percent of the GDP. The practical significance of this process was the reduction of the social responsibility for the retirement system on the part of big business;

3. The reform yielded an increase in the percentage of the urban population over 65 who lacked any benefits whatsoever, rising from 23 percent in 1994 to 35 percent in 2002;

4. This ratio varied according to gender, with the rate among men rising from 15 percent in 1994 to 31 percent in 2002, and among women going from 29 percent to 37 percent in these same years;

5. The problem is tending to deepen, as the figures indicate a decline in the economically active population covered by social security, which fell from 47 percent to 36 percent between October of 1994 and May of 2003.

6. While in 1987 contributions and taxes financed practically all of the expenses of social security, by 2001 they financed only 31 percent;

7. While 36 percent of the population between the ages of 65 and 69 was excluded from coverage by social assistance before the reform, the rate rose to 48 percent afterwards.

In addition to this, the IMF is exerting great pressure for the privatization of the remaining public part of the social security system in Argentina. The IMF’s policy in the region is to demand fiscal readjustment aimed at achieving a consistent surplus in the public budget. Who pays the costs of these demands? The IMF’s recommendation is to slash public spending, including for social security, but to leave Argentina’s creditors untouched. Thus, the deficit provoked by the 1994 reform was defrayed by the Argentine government by driving the pension funds deeper into debt. The contributions that before went into the current account receipts of the government to pay social security benefits to workers are now used to pay interest to the private sector. It is no accident that pension funds accounted for 65 percent of Argentine government bonds in 2001.

Social security reform in Argentina was imposed without any serious discussion involving the broad mass of the working population. Despite its being presented to Argentine workers as something marvelous for them, it was implemented by a corrupt government and parliament which represented only the interests of capital. With the reform, the workers remained increasingly abandoned in their old age, while stockholders and insurance companies have grown ever richer and more powerful.

A secure and dignified life for workers in their latter years—as well as before—will only be possible with the end of the capitalist labor market and the liquidation of all of its social security “reforms.” Such a life can be achieved for millions only when human beings cease to be treated as mere labor power. That is a social task that can be realized only through the struggle to achieve socialism on a world scale.