population, according to official data, lives below the physiological subsistence level. This subsistence level is currently defined as an income of $35 per month. The official minimum wage in Ukraine has remained, for two years now, at 30¢ per hour. And although, of course, that minimum wage is not what anybody receives, the entire wage, pension, and subsidy system is grossly distorted. When the Parliament of Ukraine attempted to raise the poverty level to $28 per month, the government refused.

Meanwhile, the cost of a minimum consumer's market basket is $128 per month for one person. Thus, neither the average wage, nor the poverty level wage attains even half the cost of a minimum market basket of consumption. This is what drives people to steal, to violate the law in all kinds of ways. This lowers the birth rate and raises mortality.

The government replies to all of our proposals to raise wages and pensions, by saying that there is no money. But we are able, by speaking from the rostrum in Parliament, to convey some of the truth to the people. I would like to cite just one particular example. All the debt payments Ukraine owes in 1995, on credits from the IMF, the World Bank, the European Bank for Reconstruction and Development, and the European Community, total $4.7 billion. Meanwhile, all of Ukraine's light industry has been deliberately destroyed. We have calculated that due just to the export of raw materials, at dumping prices, and the refusal to finance domestic job-creation, Ukraine lost at least $5 billion.

Ninety-five percent of Ukraine's flax harvest, for example, has been exported to Germany and Italy at dumping prices—$130 per ton. We receive only one-ninth of this quantity back in the form of finished fabric, for which we pay $8,000 per imported ton of linens fabricated from the flax we exported. We are exporting the output of our light industry, semi-manufactureds and finished goods, to Germany and elsewhere. When we re-import any of this as finished products, we are paying $2,000 per ton, expressed in conventional weight units.

When I presented this state of affairs on Ukrainian TV, I pointed to the sweater I am wearing today as an example. It was manufactured in Poltava, Ukraine and cost $5.50. We are capable of processing and manufacturing all of this ourselves. We have, for example, a technology for cottonization, to make cotton out of flax.

Therefore, I must say that the government hears, they know what we are saying, but neither the President, the prime minister, nor the parliamentary majority has any use for this information. We believe, nevertheless, that our people need to know it, and that our efforts are not in vain. We will be doing everything possible to bring the ideas of Lyndon LaRouche and of the Schiller Institute, as ideas that generalize the prospects for world development, deeper into the awareness of our people, and to supplement those ideas with our own. And I would like to believe that there will still be democratic elections, in which we shall win.

Speculators blow out Chile's pension fund

by Dennis Small and Cynthia Rush

EIR has confirmed that Chile's much-vaunted privatized pension fund of $25 billion is, in its majority, invested in highly speculative paper linked to the international derivatives bubble. For that reason, it is only a matter of time until the entire pension fund goes up in smoke—like Barings Bank, Orange County, California, the Mexican financial system, and other big derivatives players before it. Already, the Chilean fund lost a whopping $1.5 billion—about 6% of its value—in the month of September 1995 alone.

This new information underscores what *EIR* magazine had already warned of in its July 21, 1995 cover feature, "An Obituary for London's Chilean Economic model": that the Chilean model, which is being shoved down the throats of many eastern European and developing-sector nations today by the City of London and Wall Street, on the grounds that is the only means to achieve economic stability, is a deadly hoax. Governments which have adopted, or are considering adopting, aspects of the model imposed on Chile in 1973 by followers of mad economists Friedrich von Hayek and Milton Friedman, should take heed before it is too late. They should especially avoid like the plague imitating what is widely propagandized as Chile's greatest "success": the privatization of its pension system.

Remember Mexico

Sources in Santiago involved in the pension privatization from the very beginning, have confirmed that in September 1995, Chilean pensions funds lost about $1.5 billion of their total value of about $25 billion. One-third, or $8 billion, of the fund is invested in the Santiago stock market, they report, and the loss apparently came about as a result of "market fluctuations," which wiped out $1.5 billion, or about 20%, of those $8 billion. In October and November, the losses were reportedly recouped due to the markets "bouncing back."

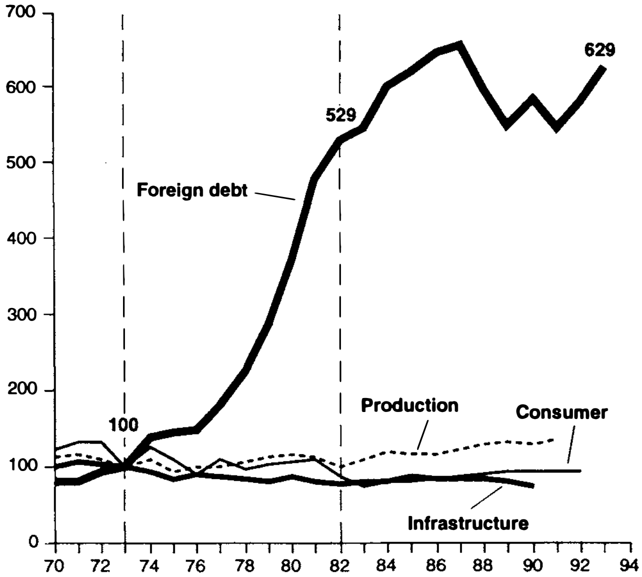
But the truth is that the entirety of the $25 billion could go up in smoke at a moment's notice, as can be seen by examining its placement:

- $8 billion are invested in a volatile, derivatives-laden Santiago stock market;
- $7 billion are invested in equally unstable mortgage securities, bank deposits, corporate debt, and overseas in-

FIGURE 1

Debt vs. physical economy

(indices 1973=100)



Sources: World Bank, ECLA, Central Bank of Chile.

vestment (authorization has just been granted for this last portion to increase from its current 1-2% level, to 10% of the total, which will undoubtedly end up in equally shaky international derivatives markets); and

- $10 billion is invested in Chilean government treasury bills.

That means that about two-thirds of the total Chilean pension fund can be properly characterized as purely speculative, and can crumble as quickly as Mexico's financial house of cards did in December 1994. *EIR*, it should be recalled, also warned of Mexico's debt meltdown more than two years before it occurred. Or recall the case of Barings Bank, whose collapse earlier in 1995 was prompted by the investment of billions in derivatives linked to the Japanese stock market (Barings trader Nick Leeson was then blamed for what were, in fact, bank policies dictated from London). Orange County, California, one of the richest counties in the United States, went bankrupt when it lost big on a similar derivatives gamble.

Is it really credible that Chile and its pension fund are somehow safe, when most of the fund has been bet on derivatives-dominated instruments of exactly the sort that sank Mexico, Barings, and Orange County? The truth is that Chile's September drop was only a taste of things to come.

Mont Pelerin's fascist economics

The premises of the City of London's "Chile model" are a Big Lie. In its study last July, *EIR* demonstrated that, since the model's imposition over 22 years ago, the crucial parameters of Chile's physical economy have actually fallen in per capita and per household terms. At the same time, the speculative bubble of foreign debt grew more than sixfold, and interest on that debt has been paid religiously. *EIR* also showed that the "privatization," or theft, of Chile's national pension fund created a $25 billion slush fund which bankers used to keep their financial bubble afloat, as they continued to loot the economy at the expense of the population's living standards. Today, one-third of Chile's population lives below the poverty line.

Yet advocates of the Mont Pelerin Society's "Conservative Revolution," who hold up U.S. House Speaker Newt Gingrich as a hero, are madly selling this Big Lie to foolish governments worldwide, with the pitch that this is the only route to economic stability and industrialization. The Santiago-based International Center for Pension Reform, founded by the man who privatized Chile's pension system, Dr. José Piñera, is engaged in a flurry of organizing activity to convince several governments, particularly those in eastern Europe and the developing sector, that their salvation lies in Chilean-style pension reform. Poland and Croatia are special targets. Poland's Adam Smith Research Center, which promotes the Mont Pelerin Society's economic schemes in that country, is working closely with the Santiago Center to sell the privatized pension plan.

According to a spokesman at the International Center for Pension Reform, the greatest "dynamism" in the development of private pension systems exists in Ibero-America, where Argentina, Peru, Colombia, Bolivia, and Ecuador have already adopted, or are about to adopt, versions of the Chilean system. And Mexico is already on the road to privatizing the Mexican Institute of Social Security (IMSS) under International Monetary Fund and City of London pressure. Earlier this year, Piñera accompanied Chilean President Eduardo Frei to Mexico, where his views on "internal savings"—the buzzword associated with privatized pension systems—were reported on at length in the Mexican press.

Piñera is in fact the "Nick Leeson" of Chile. Like many hoaxsters before him, he was trained at Harvard University, and then went on to become Labor Minister in Gen. Augusto Pinochet's government. His "reforms" helped smash Chile's organized labor movement, as a prelude to the privatization of the pension system. He is an associate of the Washington, D.C.-based Cato Institute, a propaganda and organizing center for Mont Pelerin's fascist economic programs.

Piñera has traveled extensively in the United States to promote Chile's privatized pension model as a replacement for the U.S. Social Security system, and is working with several of Gingrich's allies in the U.S. Congress on the project as well. Two large congressional delegations have traveled to Santiago to learn from Piñera first hand how he privatized Chile's pension system, and to discuss how this might be replaced in the United States.