key offered to provide 100 locomotives and rail cars to Syria to enable them to operate the railway. Also in June 1999, Syria and Jordan agreed to reopen their portion of the Hijaz Railway, and to connect the Syrian and Lebanese ports with Jordan and Saudi Arabia.[6]

The second route, a sea route, is similar to the existing agreement between Iran and the authorities in Dubai, in the United Arab Emirates, to connect the two countries by ferry-borne trains. The problem with this project is its high cost. If this route is chosen to connect Egypt with the New Silk Road, Egypt must extend the rail line from Rafah to Nuweiba el Muzein, and build the technology for sea-borne trains. This implies a cost which Egypt cannot afford alone under present circumstances. The same applies to the idea of building a rail tunnel under the Tiran Strait south of the Aqaba Gulf, through which the Orient Express could pass to the Arabian Mashriq. In both cases, there is the hard task of expanding the rail line from Rafah to the Gulf of Sinai throughout the Sinai Peninsula.

6. The London-based Arabic daily *Al-Hayat*, April 30, 1999; Hussein Al-Nadeem, "Mideast Projects Boost Eurasian Land-Bridge," *EIR*, July 23, 1999, p. 7; "Turkey, Syria Set To Revive Hijaz Railway," *EIR*, May 21, 1999, p. 21.

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German Pension Reform

# From Social Security to Casino Economy

by William Engdahl

Pension Reform-2000, the latest proposal by Germany's Labor Minister Walter Riester, dramatically changes the German state pension system. It is intended to be the first step in de facto privatization of the state social security program, one of the underpinnings of the postwar German "social market" economic model.

The approval on July 3 by the Social Democratic Party (SPD) Executive of the controversial Riester Plan, and by the Green Party-SPD parliament members on July 4, was greeted in the boardrooms of Deutsche Bank, Allianz Insurance, and similar financial centers, with the sound of champagne corks popping. In the next session of the German Bundestag (parliament) this fall, the plan is expected to win approval, despite growing opposition by the once-powerful SPD trade unions.

## Pensions To Be Cut

The Riester plan calls for cutting the percent of a person's publicly funded pension from the present level of 69% of his wage before retirement, down to 64% by 2030. As well, employee tax payments into the State Pension Fund will rise from 20% of gross wages to, "if possible," not more than 22%. This compares with the present U.S. Social Security payroll tax of 12.4%.

It is notable that of 45 people in the SPD Executive eligible to vote, only 19 voted for the plan, 9 voted against, and the rest abstained. Every SPD social policy expert either voted against, or expressed strong reservations, including SPD social security expert Rudolf Dressler and German Trade Union Federation Deputy Chairman Ursula Engelen-Kefer.

The plan was pushed on the party by Social Democratic Chancellor Gerhard Schröder, on the argument that drastic overhaul of the federal government pension structure is needed now, to avoid a collapse of the entire system in the next decades, owing to the rapid aging of Germany's population. Other than Japan and Italy, Germany has the most rapidly aging population of the major industrial nations.

It is not surprising that younger Germans, as well as those at or nearing retirement age, are anxious about the stability of their pensions. For the past several years, in an effort to build popular acceptance for a radical pension privatization



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scheme, Deutsche Bank, led by its Malthusian chief economist, Dr. Norbert Walter, has run a media campaign on the issue. Endless articles and TV interviews from such financially self-interested circles as insurance companies and banks, have stressed that younger workers can no longer be assured of receiving full public pension benefits upon retirement.

Since the beginning of the 1980s, if the rise in the cost of living is taken into account, the real pension a worker receives has dropped fully one-third, in terms of actual purchasing power. That, because price inflation has risen far faster than nominal pension payments. In short, Germans are having to pay more and more, to get less and less.

## Private Plans

The heart of the controversy over Pension Reform-2000 is its provision to add a tax which will reach 4% of gross wages by 2008, to be invested into private pension plans, on the argument that this would fill the hole left by cutting pensions to 64% of wages prior to retirement. The president of the German War Disabled and Handicapped Union, Walter Hirrlinger, has attacked this 4% private tax as "signifying the end of solidarist pension financing," whereby the employer and employee each make half the regular payment to the pension fund.

By initiating a private "supplemental" pension plan as mandatory, the German government is trying to impose an idea which is now in the center of the U.S. election debate. George W. Bush and Al Gore, Jr. have both proposed radical schemes to increase Social Security retirement funds via private investment in financial assets.

The Riester plan is the first phase of the scheme promoted by the large German banks and insurance giants—Deutsche Bank, Dresdner-Commerzbank, Allianz—and their investment funds such as DWS, DIT, or ADIG. The real purpose is not to provide for the social security and well-being of Germany's aging population well into the mid-century, but to force German working people to help prop up the bankrupt global financial system.

Instead of receiving a guaranteed public pension at 70% of a person's last wage level before retiring, now he must "contribute" 4% of his wages to a private investment fund.

## Shareholder Society?

While details of the fund are yet to be made public—a curious "omission" of the Riester reform—it is expected that it will mainly be directed to some form of investment in stocks or mutual funds. The argument is, only this will allow a working person to earn enough to make up for the falling level of his state pension by the time he retires, or at least to prevent a far higher pension tax deduction from his working wage for his public pension. Both are built on false assumptions.

The core of the argument for investing in stocks for retirement is one advanced several years ago in the United States by Wharton School economist Jeremy Siegel, in a popular book, *Stocks for the Long Run*. Siegel argued that investing in stocks, if viewed over time, was far the most profitable form of investment, far more rewarding than had a person invested conservatively in government bonds or property. His argument was promoted widely by Wall Street financial houses and mutual funds seeking to attract new money into their stock funds, a factor helping drive the U.S. stock market in recent years to its phenomenally high levels.

What Siegel conveniently leaves out of his argument, however, in comparing the growth of the Dow Jones Industrial Average of 30 leading American companies, is that the companies making up the index of 30 change regularly. Had a person bought a particular Dow stock, say Bendix Corp., in 1950, it could well have gone bankrupt in the meantime, but the Dow index would rise, because a new company, Disney or McDonalds, was added in its place. The Dow Index has risen, but you may have lost your savings with the bankruptcy of Bendix.

Another fallacy glossed over in the conveniently chosen years of comparison used by Siegel, is the fact that, historically, U.S. stock markets have undergone extremely long periods of depressed prices. The 1929 market crash brought stock prices down to new lows. The Dow Industrials, for the companies that survived, and other key stock prices, did not recover their pre-crash levels in many cases until the early 1950s. That is, almost a quarter-century. Or, the stock crash of 1973, which took until well into 1984 to regain its losses.

In effect, Riester is proposing for working people to make forced investment in a speculative casino of stocks, in the hope that, in 10 or 20 or 30 years, there will be something left for them to live on in old age, by selling the stocks. The argument clearly appeals to naive younger voters, who look at the German DAX stock index rise of nearly 40% last year, and imagine that this is "normal."

## Aversion To Investing in Stocks

Historically, ever since a stock market crash wiped out millions of persons' savings in the early 1890s, Germans have been averse to investing their savings into stocks. The preferred form of investment has been savings bank accounts, home savings accounts, or private insurance policies which pay a guaranteed fixed annual or monthly annuity after a person reaches a specified age.

However, partly because of the intensive media campaign, begun in 1996 by Deutsche Bank's chief economist and head of Deutsche Bank Research, Norbert Walter, younger Germans have become convinced that they are likely to get far less than promised by the time their state pension comes due.

The consequence, according to a study released in June by the German central bank, has been a sharp drop in the

traditionally high level of German private household income put into savings accounts. In 1992, before the banks' campaign about the security of public pensions began, German households saved an impressive 13% of their disposable income in savings accounts or similar safe vehicles. By the beginning of this year, that ratio had fallen to 7.9%.

Pointing to last year's gain of 40% in the DAX, the banks and insurance companies are urging customers to "get modern" and shift out of savings accounts which pay some 1.2% to perhaps 2%. The campaign is having significant effect.

According to the central bank study, "For some time the debate over the public pensions has made clear the need for a personal supplemental old age reserve, in the view of private households."

The study adds that the amount of stock held by private households in Germany has increased by 300% since the beginning of the 1990s. The revolution in attitude toward owning stocks was created by the government in a carefully orchestrated privatization of the state-owned Deutsche Telekom, the state telecommunications monopoly, in 1996. That was also the year the banks began their campaign for private stock-based supplemental pension funds.

A record sum of some $25 million was spent by Telekom to create an appetite for buying the stock. It worked to lure people to take the plunge, and become first-time shareholders. The stock of Telekom was preordained to rise, as the size of the company was so large that all international stock funds needed to hold it as part of their German stock portfolio. The sucker game was off to a good start in Germany. Needless to say, Deutsche Bank was the lead adviser on the privatization of Deutsche Telekom at the time.

Today, some 13% of German families own some stocks. This, of course, is a drop in the bucket compared with the United States, where now nearly 60% of households own stocks.

This relatively low level of family stock ownership by Germans is precisely the reason that the banks, private insurers, and their in-house stock mutual funds have pressured the Schröder government to implement the Riester Reform. A 4% wage diversion into private pension funds, based on today's gross private wage income, would inject another $66 billion into the German stock market, sending prices of shares into the stratosphere—until, that is, they crash into oblivion, an event becoming more likely by the day.

Already in June 1996, Deutsche Bank Research, in a client letter, complained, "Germany's financial markets suffer on the equity side from . . . the limited role played by institutional investors. This could be changed by, among other things, a growing importance given to pension funds." Indicating precisely what they had in mind, the memo added, "Legal and tax obstacles stand in the way of a stronger role for [private] pension funds in Germany. That is why fundamental change needs to be made to the regulatory framework, with radical reform of the pension system."

The Riester Reform is the first step in the Deutsche Bank-led plan to create what Deutsche Bank calls a "huge capital market potential."

## A Giant Fraud

In order to realize this "huge capital market potential," the banks and insurance giants have had to engineer a phony debate, and manufacture anxiety about the very existence of the German state pension system itself. The German demographic problem is well known, and exists in other European and North American economies to one degree or another.

But the demographic crisis is not what is behind the Riester Reform. According to a 1995 study released by the Association of German Pension Insurers, reforms to the pension law made in 1992 had put the system on a solvent footing, and no major changes were needed into the foreseeable future. It stated that the demographic problem was solvable within the present system.

The report went on to note that state-mandated expenditures, so-called "non-pension burdens," paid out of the public pension fund, to an amount already in 1995 of an estimated $50 billion per year, almost one-third of total annual public pension tax income, were the real reason for the pension fund "cost explosion," and not the aging of the population. German governments for the past years, especially since 1990, and because of the high costs of a mismanaged German unification, have found it convenient to hide new state costs from voters by quietly adding them to the public pension fund expenditures, even though they have no relation to payments of pensioners.

Most of the non-pension burdens are legitimate state expenses which government ought to be paying, such as compensation for early retirement (the worker stops paying in and begins to draw out several years early), or payment for schooling or job training after age 16. But these payments ought to be dealt with in the regular federal budget, paid out of normal tax revenues, and not dumped onto the public pension system, where a small portion of the population—employees and employers, 50-50—carry the burden.

One of the most vocal critics of the political manipulations of this non-pension burden, has been SPD social expert Rudolf Dressler. Not surprisingly, Dressler voted against the Riester Reform on July 3. His voice won't be heard on this vital issue for long, however. He will become Ambassador to Tel Aviv, far from the pension debates of the Bundestag. As all sides prepare for the opening of the parliament in September, the German Federation of Trade Unions (DGB) has launched a national campaign in opposition to the Riester scheme. It will be a telling test of strength, as they go against the combined muscle of German and international financial powers.