How the Pinochet Model Was Imposed On Peru's Social Security System

by Manuel Hidalgo

Franklin Delano Roosevelt's powerful example in fulfilling the general welfare mandate of the U.S. Constitution, under Alexander Hamilton's concept of the American System of economics, had its impact on Peru. This is reflected not only in various development programs at the time, but also in the 1941 creation of the Workers' Hospital, the 1958 founding of the Employees' Hospital, and in the unification of the country's pension systems as the Social Security System of Peru, later renamed the Peruvian Institute of Social Security, or IPSS.

In 1942, Peruvian President Manuel Prado was the first President of the Americas to visit Roosevelt. He aligned Peru unequivocally against the fascist Axis Powers, and he was one of the Ibero-American leaders who acted most decisively to establish a Rooseveltian model for social security at home.

The IPSS, which initially covered only public sector workers, was charged with administering a Health Fund, for medical care, and a Social Security Pension Fund, both of which were created between 1960 and 1962. Although the IPSS pension fund was initially protected and earmarked for use only to pay pensions, it was soon made available for the operating budget of IPSS itself. The argument was that the monetary stability, which had been experienced from the time of the original Bretton Woods system through the mid-1970s, would continue, and lead to economic development, which, in turn, would attract more and better-paid workers into the system, which would increase total contributions to the IPSS. But economic hit men, such as George Shultz and Henry Kissinger, destroyed that hoped-for stability, with their international assault on the Bretton Woods system, and in its place they pushed the 1973 Pinochet coup, and the infamous Chile model it ushered in.

In 1974, the Pension Fund was made a functional part of the government's operating budget. Later that decade, private sector workers, who had not been part of the IPSS until then, were incorporated into the pension system, with the same benefits as those who had been contributing all along. On a number of occasions, the state was unable to make its payments into IPSS on behalf of public employees. When Peru signed its first "Letter of Intent" with the International Monetary Fund (IMF) in 1976, fiscal austerity programs were imposed, forcing an increase in payments on the foreign debt, and a consequent reduction in the federal operating and infrastructure budget.

Where did the government find the funds to fill in the holes in its budget? From the IPSS Pension Fund, of course. With workers' pension money going to finance the government's operating budget, pension payouts were consequently reduced, especially from the 1980s onward. Thus began the step-by-step dismantling of Peru's social security system.

This looting was assisted by the post-Bretton Woods floating exchange rate policy imposed by George Shultz, which included the massive devaluation of the Peruvian currency, changing it from from the Peruvian *sol,* to the *inti,* and eventually to the *new sol.* For example, monthly payments to a pensioner who retired, say, in the late 1980s, would now be equivalent to 3 cents of a *new sol,* or less than one American cent! Between 1980 and 1994, accumulated inflation reached the stratospheric level of 1,911,353,512%—or 1.9 billion percent! Supposed cost-of-living adjustments of pensions, although promised, were a chimera; they were never fulfilled. The last word on that subject always fell to the IMF.

Creation of the Private Pension System

Although the situation with IPSS was very bad, the concept of social security—both institutionally and legally—remained solid. But then Carlos Boloña Behr, Economics Minister under the Alberto Fujimori regime, delivered a serious blow, when he launched the Private Pension System (SPP) in late 1992.

In 1990, the bankers' preferred candidate for President of Peru, Mario Vargas Llosa, brought Pinochet's former Labor Minister, José Piñera, and a slew of neo-conservatives, into Peru to promote the Chilean model of ultra-liberal shock treatment for the economy. When Vargas Llosa was defeated at the polls by Fujimori, who had campaigned in opposition to economic shock policies, the bankers maneuvered to ensure that their program would be enforced anyway. They deployed Javier Pérez de Cuéllar (former UN Secretary General), Hernando de Soto (president of the leading Peruvian neo-conservative think-tank, the Institute for Freedom and Democracy, or ILD), and Carlos Rodríguez Pastor (banker and former Economics Minister), to capture the new government. They brought Fujimori to New York to negotiate Peru's so-called "reinsertion" into the IMF, in explicit violation of the voters' mandate.

The triumvirate already had Boloña, who was working for the ILD at the time, as their man. But in 1990, the triumvirate decided that the person for the job of Economics and Finance Minister was Juan Carlos Hurtado Miller, who had done post-graduate studies at Harvard the previous year, and had written a thesis on "adjustment." Hurtado Miller's Harvard advisor was none other than Jeffrey Sachs, inventor of the Bolivian model of "stabilization" (which, not coincidentally, brought about a dramatic rise in coca production), who had visited Peru just months before the inauguration of the new government. During the following weeks, in August of 1990, Hurtado Miller imposed a 7,000% price hike, a freeze on salaries, and the beginning of mass layoffs of public employees.

In February 1991, when his "Fujishock" program was completed, Hurtado was replaced by Boloña, who through a flood of legislative decrees, imposed a series of "structural reforms": privatization, allowing anti-protectionist free-trade policies, deregulation, his infamous labor flexibilization plan, and dismantling of the development bank and the mutual and cooperative credit system. In three years, 120,000 public employees were forced off the state payroll, through a World Bank-financed program of buying their resignations.

"We are prepared to privatize social security, the pension funds, education, and health," and not just mining and oil, Boloña announced at an Oct. 16, 1991 meeting of the IMF and World Bank in Bangkok. And, in fact, by December 1992, through a legislative decree, the Private Pension System was created, administered by private companies known as Pension Fund Administrators, or AFPs, which are currently owned by such foreign banks as Spain's BBVA and Santander banks, Citibank, and Italy's Wiesse Intesa (See Box 1).

The state-run IPSS was not shut down. Rather, its affiliates were given the "choice" of staying with the public system, or switching to the new private system. However, an unrelenting campaign against the public IPSS system, already afflicted by the past decade's freeze on pensions, succeeded in scaring a million and a half workers (by and large, those with relatively higher salaries) to move over to the private AFPs, while those with lower salaries (who were of less interest to the AFPs) remained with the IPSS.

The terror tactics included a notorious statement by the president of the AFP Association in July of 1995, that the state pension system was little more than "a CLAE," a reference to the scandalous Peruvian pyramid scheme that collapsed in 1992, leaving 160,000 defrauded of their savings. On Dec. 12, 1992, Boloña created the Peruvian Normalization Office (ONP), and progressively transferred responsibility for payment of public pensions to that agency, increasingly limiting the IPSS function to health-care management. In 1998, the IPSS was forced to transfer all of its funds, reserves, and assets, to the ONP. Later, the Fujimori government changed the name of the IPSS, retiring it completely from pension management, and dubbing it Essalud, which inherited the IPSS's cash-starved hospitals and clinics.

TABLE 1
Foreign Control of the Peruvian Privatized Pension Funds (AFPs)

Name	Control
Horizonte	BBVA (Spain)
Integra	Intesa (Italy), ING (The Netherlands)
Profuturo	Citibank (United States)
Unión Vida	BSCH (Spain)

The most highly touted aspect of the reform was individual capitalization of contributions to the private pension system, which jettisoned any concept of the solidarity that had been the bedrock of the original public system. With the brutal "labor flexibilization" policy, without which privatization of the pensions would have been impossible, the trade unions were dramaticallly weakened. And the Peruvian left—which might otherwise have led public opposition to the pension reform— was generally discredited by its failure to distance itself clearly from the narcoterrorist Shining Path. Shining Path did Boloña's dirty work, by assassinating—among others—the country's most prominent trade union leader, Pedro Huillca.

Thus, opposition to the reforms was effectively silenced, in faithful imitation of the brutal underpinnings of the Chile model.

Consequences of Social Security Privatization

The creation of the AFPs put in the hands of the foreign banks a sum of about $7 billion in forced and captive workers' savings. This, in turn, gave the AFPs a major influence over economic decision-making, to the point of being able to name directors to the boards of many major companies, which gave them additional leverage for the accelerated cartelization of the economy. This also meant the transfer of more than $1.8 billion in state funds to the AFPs, using a mechanism called "recognition bonds,' " which were issued by the State and handed over to the AFPs, in amounts equal to the accumulated pay-ins to the old IPSS by the workers who were transferring to the AFPs.

Although the Private Pension System has some 3.3 million affiliates, only 40% of them are up-to-date in their payment to the system, which means that few of the remaining 60% will ever see a pension when they retire. They will lose their partial pay-ins to the AFPs, and will end up on the rolls

Hernando de Soto and The Economic Hit Men

In 2005, the Cato Institute, the leading U.S. mouthpiece of the Mont Pelerin Society—which has José Piñera as the co-president of its Project on Social Security Privatization—gave its annual award to Hernando de Soto, president of the Institute for Freedom and Democracy (ILD), and George Bush, Sr.'s favorite "Third Worldist" economist. The award ceremony boasted as its star none other than George Shultz, the economic hit man who did the most to destroy the original Bretton Woods system, and godfather of the Pinochet Model, In the past 25 years, the ILD has been one of the closest allies and beneficiaries of the networks of neo-conservative synarchist financiers.

In the 1980s and 1990s, the ILD received massive funding from Project Democracy, the same apparatus which, through the Iran-Contra operation, filled U.S. cities with crack cocaine. With the support of the National Endowment for Democracy and of the Hudson Institute (especially when it was run by Elliott Abrams, and of private foundations linked to the Cato Institute, such as Smith Richardson), the ILD organized its economic hits to discredit and intimidate opponents in electoral and other campaigns.

If it was Pedro Beltrán who brought the Mont Pelerin Society's Ludwig von Mises to Peru for the first time in 1950, it was the ILD which brought Milton Friedman to Peru in 1981, together with Elliot Richardson, David Becker (also of the Cato Institute), Javier Pérez de Cuéllar, Mario Vargas Llosa, and top Peruvian oligarch and businessman Manuel Ulloa, among others. This was the same Ulloa who (unsuccessfully) sued Peruvian LaRouche associates to try to stop the sale of the Spanish-language edition of the book *Dope, Inc.* and who, as Economics Minister in the 1960s, put Carlos Rodríguez Pastor and Pedro Pablo Kuczynski in the Central Bank.

De Soto, together with Rodríguez Pastor and Pérez de Cuéllar, not only organized Peru's "reinsertion" into the IMF, but proposed putting Peru's main coca-growing valley under an Autonomous Authority of the Upper Huallaga which, according to press accounts, de Soto hoped to head. The Autonomous Authority's policy was the same as that of Gen. Alberto Arciniega, the political-military chief of the Upper Huallaga zone: Make a deal with the drug traffickers, supposedly so that they would stop financing the Shining Path and MRTA terrorists. When Alberto Fujimori refused to give the Autonomous Authority a green light, De Soto openly broke with him.

Boloña refers to De Soto's role in his book: "The developments of April 5, 1992 [when Fujimori shut down the Peruvian Congress] threatened the reinsertion. We were on the verge of becoming political pariahs. We nonetheless managed to avoid this, thanks to Fujimori's commitment, made May 18, 1992 in the Bahamas, with regard to the election of the Constituent Congress, an idea whose formulation I shared with Hernando De Soto. This commitment (with the Bush, Sr. government) enabled us to keep open the doors of reinsertion until Dec. 30, 1992, a period during which Boloña imposed the reform, including the privatization of pensions, through 745 legislative decrees."

—Manuel Hidalgo

of those applying for state-run minimum pensions—which will be a real social time-bomb, when it hits in.

The government has done everything possible to prop up the AFPs, which are assured of multi-millions in risk-free profits. For example, retirement age was raised, and the state committed itself to providing a minimum pension for those workers who have not paid in their full quota to the AFPs by their retirement. The social debt resulting from the state's earlier spending of the funds accruing to the social security pension fund, which were paid in by workers and employers over the years, has reached $36 billion. When Pedro Pablo Kuczynski, Peru's current Economics Minister and friend of Rodríguez Pastor, was asked about this social debt, he said blithely that it would not be paid!

Furthermore, even the already reduced public system pensions have continued to shrink—although, to accomplish this, the government has resorted to changing the Constitution itself. The current regime of Alejandro Toledo and his minister Kuczynski, took a step that even Boloña had not dared: They got the Congress to annul the cost-of-living adjustment of pensions that Law 20530 had given to a group of pensioners, by first annulling the Constitutional protection that was based on considering pensions an "acquired right" of the retiree. Today, pay-outs are not a "right," but are subject to so-called financial "sustainability"—that is, the system is now subject to the arbitrary whim of the bankers. The group of pensioners previously protected by Law 20530 was the only one with some form of cost-of-living protection. This latest pension reform was approved on Nov. 12, 2004, and the pensioners' federations, CONUPEP and CENAPP, have begun a campaign to force the courts to overturn the decree as unconstitutional.

Boloña, Buchi, and Piñera

Carlos Boloña, a rabid supporter of the Chile model, used public funds to promote the private pension system, and sponsored the visit of Pinochet's former ministers José Piñera and Hernán Buchi to Peru. Boloña even wrote a book in 1991, together with Buchi, on the Chilean reforms and their parallel in Peru. In that book, *Cambio de Rumbo* (Change of Direction), he gives thanks to his "good friends Hernán Buchi and José Piñera, as well as to Hernando de Soto and Carlos Rodríguez Pastor.[1] Javier Pérez de Cuellar wrote the book's prologue.

Boloña faced a lawsuit because, after using his ministerial post to promote the privatized pension system, he went on to become the director of one of the private AFPs, Horizonte, which at the time was owned by the Banco Interandino of Carlos Rodríguez Pastor (who then sold his part to Spain's BBV bank), and by the Chilean AFP Provida. Provida, Chile's largest AFP, counted among its stockholers the Genesis Chile Fund, whose director is José Piñera. In other words, Piñera and Boloña were partners, although by an indirect route.

Boloña, who founded the Institute of Free Market Studies, which promotes the ideology of Von Hayek, von Mises, and Milton Friedman, with financing from the International Republican Institute, travelled to Russia to promote the Chile model there. On that trip, paid for by the U.S. Agency for International Development in April 2000, Boloña was accompanied by the godfather of the Chile model and trainer of the so-called Chicago Boys, Arnold Harberger of the Cato Institute and the Mont Pelerin Society. That same month, Joséa Piñera, now with the Cato Institute, also travelled to Russia.[2] Boloña was also key in arranging the Peruvian government's payment of more than $160 million in dubious debt to Hank Greenberg's insurance company, AIG; AIG's lawyer is none other than Henry Kissinger.

Boloña was the Presidential candidate of Vamos Vecino, a political group affiliated with former President Fujimori's advisor Vladimiro Montesinos, who is currently jailed and on trial on charges of corruption and drug trafficking. Boloña himself was just sentenced to four years in prison for one of the charges.

Boloña once said, "I panic at the word 'inequality' . . . human beings are unequal in their physical and mental attributes, and that is why equality among them should be equality before the law, and not equality of results or opportunities. Human beings are and always will be unequal."

1. *Change of Direction: An Economic Program for the Nineties.* Carlos Boloña Behr (Lima, Peru: Institute for a Free-Market Economy, SIL, First Edition, 1993).

2. " 'Chile Model' Crazies Besiege Moscow" by Rachel Douglas, *EIR,* May 12, 2000.