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Argentina

Renationalization of a pension system facing a black hole

- IV Online magazine - 2009 - IV408 - January 2009 -

Publication date: Friday 9 January 2009

After the defeat of its project for a system of variable taxes on agricultural products, the Argentine government led by Cristina Kirchner has appeared inclined to seek an exit through the satisfaction of the requirements of the financial markets.

[https://npa31.org/IMG/jpg/540px-Discurso_de_Cristina_Fernandez_el_25_de_marzo_2008.jpg]
Cristina FernÃ¡ndez de Kirchner
Image: Wikimedia

Thus it let the exchange rate fall, announced the payment of almost 7 billion dollars due to the Paris Club and the reopening of the exchange system to holders of Treasury bills who had not accepted the renegotiation of 2005 - representing some 27 billion dollars. The official argument to justify these measurements was that the country could thus be reintegrated on the international financial markets, whose closure deprived Argentina of access to foreign credits.

Impact of the crisis

The aggravation of the world-wide crisis after the bankruptcy of Lehman Brothers however led the government to change orientation. The payment to the Club of Paris thus became a declaration “for the future” and the opening of the exchange of old Treasury bills to those who had refused it in 2005 was frozen. Only the renegotiation of the so-called “guaranteed loans” - bonds given to the banks in 2001 which should bring them 4.5 billion in total in 2009 - remains an actuality.

At the same time, amid general surprise, the president announced the nationalization of private pensions, which implies the automatic transfer of the subsidiaries of the Pension Fund Administration Company (AJFP) to the state system.

This decision had a strong impact on local markets, whether in Chile and Peru which have similar systems, or Spain which has important investments in the area and fears state intervention in big companies if the world-wide crisis worsens, seeing here a precedent which could be used for future nationalizations. And it is a fact that the possible expropriation of the air transport company AerolÃ-neas Argentina is increasingly spoken of.

Some antecedents

In 1994, within the framework of its policy of privatization of the public services, the government of Carlos Menem transferred all contributions to the pay as you go pensions system towards a funded pension scheme. Workers only had 90 days to choose to remain within the framework of the official system and the same was true for new employees entering the labour market. Argentina thus entered the small club of around 20 countries whose individually funded pensions system was placed under private management (it should be recalled that in several countries - inter alia Poland, Italy and Sweden - such a system remains under state management).

Some 4 billion dollars per annum were thus transferred to the private sector, accentuating the official pension fund deficit. In addition it represented a clean break with the historic criterion of social solidarity, according to which the active generations finance by their contribution the pensions of the retired generations.

The balance sheet of 14 years

At the beginning of this system, twenty-four private Pension Fund Administrations (AJFP) were created, the majority of them linked to banks, insurance companies and big trade unions. While fighting for the contributions of the affiliates and in competition to attract them, the AJFPs offered reductions on commissions and other costly attractions. Over the decade their profitability fell and there was a significant process of concentration through sales, absorptions and mergers of AJFPs. The trade unions were the first to give up “the business”, followed by the banks. They were replaced by international insurance companies. Today only ten AJFPs remain, with some 9.5 million members of whom only 3.6 million pay contributions.

During these 14 years the AJFPs received 15 billion dollars as commission and administrative expenses, which amounted to 20-30% of the capital contributed. The system functioned as follows: the profit of the AJFPs was guaranteed, there was no “entrepreneurial” risk, whereas the capital accumulated by the members depended on the variations of the stock exchange markets and the investment criteria of the companies.

By September 2008 the AJFPs had accumulated a loss of 20% on the capital of the members, highlighting the nature of the private pensions system. It is subject to the logic of the market and equipped for periods of strong profitability, but it does not provide any social guarantee when profitability drops; the investments only bring losses, as it is currently the case.

There are currently 445,000 recipients of the private pension system. For 77% of them the State must contribute to the payment of services. 179,000 receive supplements so that their pension is not lower than the minimum pension established by the law, whereas 33,000 others have lost their capital completely and the state must pay them their pension in its entirety. That represents a cost for the state budget of approximately 6 billion dollars per annum.

Various interpretations and polemics

The government decision led to much polemic and some very varied interpretations:

a) either it was a strategic decision of the government aimed at guaranteeing the payment of pensions in the face of a strong loss of profitability of the AJFPs and the collapse of the system. Currently there is no doubt that the privatization of pensions led to a failure at every level. It does not guarantee the payment of pensions to the beneficiaries of this system, which is why the state ran to its assistance. It did not prove to be useful to the formation of a capital market which would finance infrastructural work and productive investment, which had been presented as its initial objective. And those who hoped that social security cover would broaden must recognize their error: it went from 60% to 40% today and the tendency is ever downwards.

b) or it is an operation concealing the rescue of certain companies which were on the verge of bankruptcy and which are eager to get out of the business. This is a possibility, although we do not have concrete evidence yet. It appears that certain companies with national capital have made it known that they were ready to negotiate their withdrawal, whereas those with foreign capital were ready to plead their case before the courts. The government for its part estimates that the AJFPs could claim compensation of the order of 1.435 billion dollars and that the State would pay them by publishing new Treasury bills, i.e. by increasing its debt.

c) or the government is seeking to integrate the funds of the private funded scheme in its budget in order to be able to make use of them to face the payment schedules of the national debt which will reach 38.358 billion dollars in the three years to come (see Table 1).

The known estimates indicate that while taking over the private pensions the state would secure an annual flow of about 4.1 billion dollars (contributions), usable in budget revenue, and that it would recover for the social security administration (ANSES) investment funds valued at around 30 billion dollars (55% of these funds are invested in state treasury bills and only 10% can be immediately available - see Table 2). Thus the State would have an assured financing because it can invest Treasury bills guaranteed by these funds.

d) or the national government will get share packages in some 40 companies, currently forming part of the investment funds of the AJFPs, which will enable it to intervene in the decisions of the companies. That will depend on the type of shares concerned and for the moment there is no clarity on this subject.

Conclusion

Currently the private pensions system is not sustainable. The state has been obliged to transfer increasingly more resources to support it. Those who question the ill-considered renationalisation forget that this system was already created in a constraining way and that the State has transferred billions of dollars to the AFJPs.

Those who assert that the funds deposited are the private property of each member seem to forget that if these funds were effectively provided by them, they are not at their free disposal. In other words, that they cannot go to the counters of the AFJPs and say “I want my money”.

When liberals and neoliberals challenge the political decision and accuse the government of grabbing these funds to improve its tax surplus and to pay its debt - a rather obvious thing - they forget that when they propose to cool the economy, to increase interest rates and to reduce public expenditure, they do it precisely to try to increase the tax surplus with the aim of facing the obligations of the state. What is the difference? It is that from their viewpoint if it is the workers and popular classes who pay the price, it is good. But when the money is taken from the coffers of the financial sector, as it is currently the case, it is bad. The payment of the debt is questioned. What all and sundry hide is that as long as we focus on the fact “of honouring the debt”, and the latter is not analyzed, that we do not distinguish commercial debt from financial debt, or what is legitimate and what is not, this government and any other government which would replace it are obliged to seek the money as the can, because the payment dates are the payment dates. The debt is unpayable and a realistic policy would impose a moratorium until an audit defines which share of the latter was already paid, which part should be and which should not be.

We can summarise the project by saying that in the immediate future it guarantees the payment of pensions while providing the financing to face the obligations of the national debt. But that leaves doubts with regard to the payment of future pensions and the realization of the law of the sliding scale of pensions which was recently approved. How will long-term pensions be financed? And in particular if a significant percentage of workers continue to be employed in the “black economy”?

In my opinion an alternative system should be based on:

a) a universal minimal pension for all those who reach retirement age;

b) a pension plan which ensures an income of 82% of the last wage for all those who meet the conditions of age and number of years worked;

c) the state can manage an individual funded scheme for all those who have the capacity to save and want to pay supplementary contributions;

d) the system as a whole must be under the control of active and passive workers;

e) the placing in liquidation of the AJFPs must guarantee employment to all their workers who wish to continue their activity in the state sector.

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Table 1: Payment schedules for National Debt

(in billion dollars)

Years	Capital	Interest	Total
2009	9,646	3,944	13,590
2010	7,964	3,664	11,628
2011	9,860	3,280	13,140
27,470	10,888	38,358	

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Table 2: Composition of the investments which would pass to the ANSES

State bonds	55.5%
Shares	11.2%
Long term investments	7.5%
Foreign securities	6.5%

Others	19.3%