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Guest Author

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Argentine Government Renationalizes Privatized Pension Plans

by Guest

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[Andres Gaudin is an Uruguayan journalist living in Buenos Aires, Argentina. Among the publications he writes for are Noticias Aliadas/Latinamerica Press in Lima, Peru, Africa 21, and the Argentine publications Veintitres, Chacra, and Accion.]

Fourteen years after privatizing the pension system, the Argentine government retook control on Nov. 21. The government of President Cristina Fernandez de Kirchner said the measure was taken "based on evidence that the global economic crisis is causing the retirement savings of workers to disappear, and, when the time comes, the private pension funds cannot pay them even the equivalent of a basic salary, so the government must take charge of this."

However, for the Administradoras de Fondos de Jubilaciones y Pensiones (AFJP), created in 1994 and patterned on the model imposed in Chile by dictator Gen. Augusto Pinochet (1973-1990), nationalizing the system is nothing short of a "populist act, authoritarian and confiscatory." Bloomberg found another explanation. It quoted Javier Salvucci, an analyst with the Argentine consulting firm Silver Cloud Advisors, who said that a large part of the resources accumulated by the AFJPs was invested in public debt, so the nationalization was done to let the government write off the government bonds held by the AFJPs.

Wide congressional support for change

The decision was passed into law by an ample majority of legislators, including the traditional political opposition. The vote was 162 to 75 in the lower house and 46 to 15 in the Senate. During the legislative process, the measure was opposed by the national print media, TV, and radio (with the exception of the daily Pagina 12 and a few independent radio programs), large financial institutions and economic consultants linked to the political right, and the multinational groups.

Looking for an explanation for this convergence of interests, economist Alfredo Zaiat said that, when the state took control of the AFJPs, part of the equity of some 40 businesses (oil, iron and steel, banks, multimedia companies, telephone companies, exporters) in which the AFJPs had invested the contributions of their members passed to the state.

"Why has the end of the AFJPs caused a state of permanent anger in the circles of power?" asked Zaiat. "The reason for that irritation is the state's encroachment into spaces where it had not been allowed to participate, in the capital of private businesses."

The AFJPs have invested 75% of their accumulated capital in bonds and stocks whose value has been falling since 2007, when the US recession began. The Argentine government determined that

the objectives that the AFJPs should adhere to were being distorted, among them that of promoting capital markets in the country.

When the government nationalized the AFJPs, only 1.5% of the funds were invested in stocks of Argentine companies. Nevertheless, the more revealing fact was that, at the time the measure was taken, 456,000 retirees were collecting or should have been collecting their benefits from the AFJPs. However, official studies showed that the government was paying the benefits for 77% of those retirees.

Logically, the more retirees there are under the private system, the more the government will have to pay in benefits. In absolute numbers, of those 456,000 retirees, 33,000 are being paid entirely by public funds because they have used all the money accumulated in their AFJP account. For 220,000 others, the state is paying half their benefits. For 100,000, the state pays a part, and only 103,000 (23%) are able to collect their benefits entirely from the AFJP to which they made their contributions.

Other data points to poor business management but also to a lack of state control. In August, the 5 million workers who contributed to the private system deposited 1.02 billion pesos (US\$344 million; at the time 3 pesos equaled US\$1.00). Total accumulated funds in July were 98.42 billion pesos. Therefore, the accumulated total in August should have been almost 100 billion pesos. However, there were only 97.92 billion, that is, 500 million pesos less despite the 1.02 billion pesos that should have been added.

The same was found when the contributions of September were compared with the total deposits that should have been posted. The total continued to fall, eventually reaching 94.442 billion pesos. Despite this loss of 4.541 billion pesos, the government did not denounce the situation until it decided to nationalize the social security system.

The AFJPs explained the anomaly saying that it was because of the drop in the value of the stocks and bonds in which they had invested members' contributions. The government said nothing. If, rather than administrators of pension funds, the entities in question had been banks and the workers' money had been deposited in savings accounts, the members could have sued the AFJPs for damages.

However, fund administrators are exempt from this risk, and the depositor who loses his or her savings also ends up assuming other losses. Workers not only contribute 11% of their salary to the private account, but also pay a hefty 6.5% for "administration costs" to the AFJP.

Could others follow Argentina?

The nationalization of the Argentine private social security system set off alarm bells in the region. The announcement immediately was the focus of attention in the media in the countries that were part of the privatization wave. But, a summary of opinions compiled by Argentine daily Clarin found that the news also had a strong impact in the developed countries. Clarin quoted The Financial Times as saying that with this measure the government "harms local capital markets."

Bloomberg had quoted well-known brokers saying, "Argentina seized the money of the administrators of retirement and pension funds." And, The Wall Street Journal said that the Argentine government "has seemingly found a novel way to find the money to stay afloat: cracking open the piggy bank of the nation's private pension system." The three papers each agreed with Sebastian Palla, president of the Union de AFJP, when he said, in alarm, "This confiscatory measure comes at a time in which investment is one of the greatest needs and challenges of economic policy, among other things to combat inflation, and it generates a context that discourages investment in Argentina."

The nationalization was the topic of a documentary by BBC Mundo, in which, according to The Wall Street Journal, sources from the Organization for Economic Co-operation and Development (OECD), the International Labor Organization (ILO), and a survey by the British weekly The Economist set out to answer a central question: Is the nationalization of the Argentine pension system an exception or does it point to an inevitable regional trend within the framework of the global financial crisis?

BBC Mundo concluded that the answer was still open. BBC Mundo reported that OECD estimates, in 2008, put private pension funds losses worldwide at US4 trillion, more than 10 times the Argentine GDP. In Chile, the balance sheet at the end of October of the Supintendencia de Pensiones showed losses of 26.7% in the lowest-risk funds and losses between 34% and 45% in those at the highest risk. The ILO says that it does not have definitive figures, but it has no doubt that worldwide losses have been drastic.

The Wall Street Journal warned that US Reps. George Miller (D-CA) and Jim McDermott (D-WA) were "inspired" by what was happening in Argentina and "eager to change the way Americans save for their golden years." The paper said the lawmakers were looking at Argentina's action in light of the problems facing US retirees whose retirement funds are in 401(k) accounts.

And, in Peru, Congress president Javier Velazquez introduced a bill at the end of October to prohibit the government from taking over private pension funds. Regarding this situation, Guillermo Arthur, president of the Federacion Internacional de Administradoras de Fondos de Pension (FIAP), said, "The problem of the private system is only temporary." However, Michel Cichon, director of the ILO's Social Security Department, said, "If the present financial crisis brings a total collapse of the system, evidently there can be ways out like Argentina's because the state will be forced to intervene."

A survey by The Economist showed that, in the region, 82% of respondents believe that the retirement system should be in the hands of the government, with the highest percentage (90%) holding that position in Chile. With worldwide reverberation from the decision, the Argentine president tried to reinforce a certain leadership and bet heavily on the role of the state. "We have taken this step at a moment of crisis.

While the G-8 countries hurried to protect their banks and businesses, we decided to protect our workers. As First World countries apply nationalization policies that they criticized before, the plan that ended the AFJPs is a sign that things can change." Fernandez de Kirchner went further when

she emphasized, "That 1990s tale about the nonviability of a strong state has been resoundingly toppled."

Days later, on Nov. 23, receiving Mexico's President Felipe Calderon in Argentina, Fernandez said, "We must re-examine at the world economic model and how it functions. In the coming period, the state is going to be a major player." Meanwhile, Congress will soon vote on renationalizing Aerolineas Argentinas, the nation's flagship airline, and the government has already decided to cancel its plan to privatize issuance of identity documents a contract tentatively awarded to the German company Siemens. The state will now also take charge of that.

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