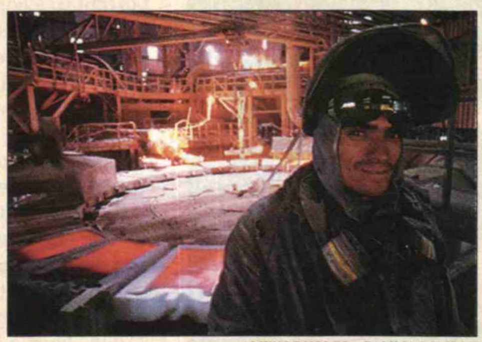
If Chile Can Do It . . .

. . . couldn't (North) America privatize its social-security system?

BY JOE KLEIN

EDUARDO SILVA'S FIRST THOUGHT WAS THAT IT HAD TO be a scam. Augusto Pinochet and the generals wanted him—and every other young worker in Chile—to give up his state-funded old-age pension and join a new system. Oh, they made it *sound* good. He would pay less—13 percent of his salary, as opposed to 20. He would be able to choose from more than a dozen private (though government-approved) mutual investment funds. The funds would invest conservatively and be strictly regulated. He would receive a statement every four months—and if he didn't like the way his fund was performing, he could switch to another. "But I didn't trust that government. We had been through hard times," Silva, who is 47, says now. "Also, I was secretary of my union, the textile workers. I felt a responsibility to be cautious: would the money really be ours, or would the government find some way to take it? I waited several months before I joined." That was in 1981. Last week Eduardo Silva—now the personnel manager in a textile factory—proudly showed me his latest pension-fund statement. He has accumulated 9,778,950 pesos ($23,620). The money has grown at an average of 14 percent annually. If it continues at even a fraction of that rate—and if Eduardo continues to pay in (as every wage earner must)—he will retire, at the age of 65, with a pension larger than his current salary. "When I go to my winter quarters," he said, with a smile, "I'll be pretty comfortable."



ALEXIS DUCLOS—GAMMA-LIAISON

Explosive growth: *A Chilean copper miner*

Bill Clinton might well pay attention to Eduardo Silva's story as he meets with his 33 hemispheric colleagues at the Summit of the Americas in Miami this week—for several reasons. First, the success of Chile's privatized social-security system is a symbol of the new confidence and explosive economic growth in South America. Pinochet's pension plan has created a massive pool of money available for private investment in Chile, $22 billion and rising (nearly 50 percent of that country's GDP, expected to top out at 100 percent in 2005). It has helped sustain an unprecedented economic boom. "We are like an Asian tiger," says Julio Bustamante, the Chilean official who manages the pension program. "Our national savings rate is 24 percent [vs. 6 percent in the United States]." More important, the Chilean system—now being emulated or studied in six other Latin American nations—is perhaps the first significant social-policy idea to emanate from the Southern Hemisphere. Even though most (North) American politicians would rather talk about *any* other issue than this one, it's a reform that will have to be considered as our fragile social-security system slides toward financial and demographic catastrophe.

Pinochet's radical plan turns workers into big-time investors

And Augusto Pinochet, one of the more brutal recent South American dictators, brought it off? "Pinochet has a great nose," says José Piñera, the Chilean labor minister who implemented the plan in 1981. "He smelled the future. He could have sold out to the vested interests—as most generals do—and retired with $50 million in a Swiss bank account, but he was more interested in a place in history." Actually, Pinochet didn't have much choice. The old economic order in South America, a closed system run for the benefit of a tiny ruling elite, was collapsing under a mountain of foreign debt. In Chile a group of brilliant economists—known as the Chicago Boys, since most had studied with Milton Friedman at the University of Chicago—proposed a way out: free trade, fiscal and monetary reform, privatization, deregulation, a paring of inefficient bureaucracies . . . and social-security reform. "They say we were able to get it done because it was a dictatorship," says Piñera, "but have you ever tried to convince a bunch of generals to decentralize *anything*?"

Running a surplus: The biggest problem was how to pay off the pensioners in the old state-run system. Chile has done it, in part, by running a budget surplus, which might be difficult to emulate in a country not run by a junta. "We sold off state enterprises, cut a lot of spending. It was wonderful: every time the military asked for more destroyers, I said no—we need the money to pay off social security," says Piñera, who now travels the world proselytizing for the system. "*You* will probably need a more gradual transition." No doubt. There are other problems: about 30 percent of the Chilean work force is either "informally" employed or jobless and doesn't pay into the system—the government will still have to provide for them. "I would not advocate the end of this system," says Jaime Estévez, a Socialist Party member of Chile's Parliament. "It has many attributes, especially macroeconomic ones, but it must be perfected to provide better coverage for the poor."

Indeed, the Chilean pension system has created a situation that confounds many local socialists: through the money invested in their pension funds, Chile's workers now own the means of production—or at least a good chunk of it. That realization hasn't quite sunk in yet. The money accumulating in their monthly statements doesn't seem real to most workers (although they do follow the performance of the funds as avidly as they watch soccer scores, and—in response to a fierce marketing campaign—routinely move their money from fund to fund). But the implications are staggering. "It gives people an incentive to think about the future, to work harder, to be more involved," says Piñera. "It has changed the culture." Not quite yet, perhaps. But Eduardo Silva has a loose-leaf binder, and in it he keeps every statement he has ever received from a pension fund. He has watched his money grow. He has seen the government keep its hands off. And he isn't nearly as skeptical as he used to be.