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Prophet of reform

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The former Chilean labor and pensions minister comes to Jerusalem.

Jose Pinera moves fast. Scanning the immaculate table in a private room at the new Waldorf Astoria he describes his enthusiasm for visiting Israel. Although it is not his first time here, “I have come before as a friend, pilgrim and a tourist ... but never to discuss economic ideas.” He is here to spread a message about the empowerment of workers through pension reform – and to speak at a student economic seminar organized by the Friedberg Economics Institute in partnership with the Jerusalem Institute for Market Studies.

A Harvard PhD, Pinera was Chile’s labor and pensions minister from 1978 to 1980. In the last decades he has become a prophet of pension reform. “Africa is in the future,” he says, describing experiences in South Africa. He also describes pension reforms enacted in Hong Kong infecting the rest of China, like a freedom virus.

“In Central Europe I am extremely active, I have met Lech Walesa, I am very hopeful.” In addition, more than two dozen other countries have adopted the Chilean model; and many others are debating it. “My mission is to share this reform.”

The reformer was introduced by Bob Borens, the director of the Friedberg Economics Institute: “We have 30 Israeli university students we selected from around the country and they are listening to lectures, and we have leading economists and thinkers coming to speak.”

Pinera, a fellow at the Cato Institute in the US, “has walked the walk and talked the talk; he transformed Chile from one of the slowest-growing economies to one of the fastest,” explains Borens. “I met him 20 years ago and we worked together to bring these ideas to the US... we would like to have him share some of our thoughts with us and why they are relevant to Israel.”

Israel is a country whose pension system and many other features of government are still connected to the legacy of all-encompassing socialism of the 1950s. The national insurance system here is one of the benchmarks of that system. However, Pinera is very optimistic about Israel and its future.

“I am here to see the dynamic economy, the start-up nation.”

He describes how he carries around a small book he wrote, “my red book, like Mao’s Red Book, but the opposite. Now I have given permission for it to be translated into Hebrew.”

He thinks his ideas could fall on fertile ground in Israel’s tiger-like economy in the Middle East. When he met Prime Minister Binyamin Netanyahu briefly at Davos several years ago, he recalls that Netanyahu said, “Chile, that is the country with the pension reform.” For Pinera it was a sort of catharsis.

“Usually people say ‘wine’ or Pablo Neruda, but for someone to say ‘pension reform’ was new.”

The basic feature of his reform was to take an unfunded pension system, and move it to individual retirement accounts.

“This former system was created by Otto von Bismarck, in the 19th century. He wanted to unify Germany and he gave the people this supposed benefit of pension at old age... Bismarck said I will give you a pension, rather than people saving... and he created it at a small scale... pay as you go... unfunded, based on taxing the workers, from the payroll taxes... and that goes to the retirees, there is no accumulation, it depends on this delicate demographic equilibrium and that is why it is going bankrupt, because it relies on a lot of workers to finance a few retirees.... and that was the case in Prussia in the 19th century.

At that time the average life span was 45, so Bismarck offered [retirement] at 65, a promise that was popular but no one would benefit from it.”

However what has happened, in Pinera’s argument, is that in most countries the demographic pyramid has changed as people have fewer children and live longer. He describes buying “happy 100th birthday” cards in the US. If people are living to 100, that means they must be supported for decades on social security. He calls this system a “black hole” because the money goes into a giant mysterious fund run by the government, with the hope that one day it will come out for the younger workers who are contributing today.

The solution he argues for is “the system I created, [where] the worker sends [money] to the personal retirement account; each worker has a savings account, so the payroll tax goes to an account, about 10 percent of wages in Chile for instance, from the minimum wage worker to the president of Chile...

From 20 years old until you reach retirement age at 65... what is the beauty of the system, when you save for 45 years, without touching it, the money increases with interest, they call that compound interest, money grows exponentially.”

In this system the person can choose from certain regulated investment funds, and as they get older they must choose a less risky fund. He describes a system where people

have made 8.7 percent above inflation on average, and this has helped make Chile a developed economy.

Pinera's main fame comes from, as he says, not just writing a theoretical PhD at Harvard, but actually carrying out the reform. Responding to one journalist on whether it is worth recalling that this reform was carried out under the dictatorship of Augusto Pinochet, Pinera replies that reforms like this, without the creation of a strong civil society and institutions of democracy, will not work.

"I am proud I signed the 1980 constitution... That constitution said that in 10 years there will be democracy, when we strengthen civil society, it is more than private enterprise, I am all for the freedom of expression... that is civil society at its best... this made a lot of [people] middle class."

He compares this institutional transition to democracy to the failure of a democracy where Hamas can win elections. Looking at Israel, he says "you in Israel are not isolated, you are dynamic."

In relation to the anti-Israel Boycott, Divestment and Sanctions movement, he says, "I would defend Israel all over the world. Look at the dynamism, the Leviathan [gas field] project in the sea...an image of countries that are emerging."