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Cato Scholar: Private Accounts the Only Answer on Social Security, Pensions

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Created 02/25/2010 - 10:32

Americans have been so bombarded with the word "crisis," it appears to have lost all meaning. But distinguished scholar the Cato Institute, there is a real, serious crisis pending in America's addiction to entitlement programs, government-dependence, and imaginary "rights" to live off future generations.

"You will have to look into the future, do the responsible thing, and begin moving toward a system of personal accounts. That is the only long-term solution," said Jose Pinera of America's social security and pension system.

Pinera knows what he's talking about - he's the architect of social security reform in Chile. Introducing a recent interview with Pinera, Fox Business Network's Brian Sullivan said, "Thirty years ago, the social security system of Chile was broke, flat-busted. Entitlement reform was just destroying the nation's finances. In walks the Harvard-educated Jose Pinera. He pushed through by force of will a plan to privatize their entire entitlement system and social security - there is no government social security in Chile now - and everybody has a private account."

In the Cato Institute's 1975 Economic Freedom of the World Report, Chile ranked 71 out of 72 nations evaluated. And while Latin American countries like Venezuela, Nicaragua, and Ecuador have become more centralized and destitute, Chile now has the highest per-capita income in Latin America - largely because it embraced free trade and pension privatization.

Pinera acknowledged that a recent Pew study a trillion dollar gap in state budgets to finance pension plans is a gigantic problem - but citing U.S. government figures, said there is a "\$100 trillion problem" regarding health and social security entitlement (or seven times the GNP).

Suspicious of the \$100 trillion figure at first, Sullivan quickly conceded the possibility and asked: "Okay on this paper from the CBO - \$35 trillion in hospital insurance for current and future, \$34 trillion for Medicare part B, about \$18 trillion for drug benefits, then social security - how are we going to pay for this?" Sullivan asked.

For Pinera it comes down to the fact that many Americans have adopted a dangerous philosophy identical to

the unsustainable culture of European-style socialism. And the first thing Pinera did as Chile's Secretary of Labor was guarantee the benefits for the elderly, but forced a change in the younger generation.

Pinera lamented upon the imperative need for Americans to go back to the roots of the American experiment, take personal responsibility and convert to the only sustainable option - personal retirement accounts.

"In only seven years the social security system will begin to have a deficit. You will have to raise the retirement age, you will have to raise the payroll tax, cut benefits...unless you change the paradigm and you go to a system of personal accounts. Personal accounts are very simple: you save for old age and you benefit from the extraordinary rate of compounding interest," Pinera argued. "It is a system we had all over the world before Otto van Bismarck created this monster of unfunded welfare state that is bankrupting Europe and eventually will bankrupt the U.S."

"All the money is real somewhere," Sullivan interjected when his guest called the current system a Ponzi and Madoff-scheme. Pinera insisted the schemes are identical - there is no "real" money or funding - just a default waiting to happen.

As Pinera told Sullivan, there will always be people looking to game the system and receive unwarranted special treatment. "I believe the only long-term solution is to free yourself from the legacy of Bismarckian unfunded, pension system and go to a system of personal responsibility...that is common-sense."

He went on, "The moment where you change the dynamic and people begin to know that if they save more - they work more, they will get a better pension out of their own savings - then the whole system begins to improve."

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