
‘Estafa’: Dictatorship, debt, weapons and pensions in Argentina—An alternative perspective on pension ‘reform’ in Latin America

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Abstract Analysis of pension reforms in Latin America does not take into account the role of international debt and the reasons for it. Taking Argentina as an important case study, the paper explains how enormous external debt was incurred to buy financially unproductive weapons during the 1976–1983 military junta and suggests that state pensions were decimated to pay for it. The subsequent introduction of a part-private system was not based on conventional actuarial concerns but was the result of a military build-up supported by ‘the West’, which attributed pension failure to local issues. Argentina later introduced measures to reconstruct a state system.

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Introduction

The word for swindle in Spanish is ‘estafa’. This has been used to describe what happened to pension reform in Argentina. The question is why? What were the reasons for the so-called ‘reform’, what were the consequences and why should some call it a swindle?

Since the introduction of private pensions’ reform in Latin America 25 years or so ago, a mountain of literature has accumulated to examine the reforms. When I began to write this paper, I thought it would be just as easy to present two or three pages of references and have done with it. But digging deeper, there is still

much to be said. Pension experts may not like it, but reforms were introduced for reasons other than pensions. I will try to explain, taking Argentina as a hypothesis.

The reasons for reform are much more problematic than a simple reductionist argument of ‘private, good; public, bad’ might suggest. The punchline for Argentina is that public pensions helped pay for a heinous military dictatorship that was swamped by an international banking system pushing recycled petrodollars at an unquestioning military junta. Western democracies looked on as their arms’ suppliers fulfilled the demand for weapons. Nobody asked, such as the IMF and World Bank, as the weapons piled up along with the debt to buy them, how Argentina, already in economic trouble, would pay for the burgeoning debt. My contention is that when the financially unproductive debt hit the roof, part of the

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solution was the decimation of public pensions and the eventual introduction of a part-private solution that is now seriously questioned.

Those who fail to take into account the enormous anti-communist push in Latin America, from the end of the Second World War onwards, into which pensions fit, do not understand the politics of the area and the ideological basis of social security provision. Remember, Cuba was taken over by a guerrilla putsch in 1959. Ernesto 'Che' Guevara, associate of Fidel Castro in the Cuban revolution and an Argentinian, was killed in Bolivia in 1967. Ex-Nazis and senior SS officers were received in many countries after the Second World War — Argentina and Chile in particular (Argentina received the highest number so far as one can tell, including Adolf Eichmann and Josef Mengele) — in anticipation of the impending, mythical third world war, this time against the Soviet Union.¹ Ironically, Argentina was also a refuge for thousands of Jews, adding to an interesting cocktail of radical and conservative ideas about social welfare.

Many of the later repressive, anti-communist measures were aided and abetted by the United States,² which knew exactly what was happening under the military dictatorship of 1976, which is the focus of our story. The word 'dissident' by this time had come to mean anything that the state decided was contrary to its interpretation of law and order, from the trivia and stupidity of banning mini-skirts by the 1966 Onganía government of 'Order, Hierarchy and Morality', to counter-insurgency measures against urban guerrilla movements, such as the Montoneros, in the early 1970s.^{3,4} Of course, the history has its inevitable twists and turns. The important matter for our purposes is the role of pensions and pension reform and how the current pensions' situation arose from the all-pervasive anti-communist ethos.

Private pensions, in effect, were not introduced in 1994 by the government and the persuasion of the World Bank to replace an allegedly 'inefficient', 'corrupt', 'generous', public system, but to redress a social security collapse that the financial and social cost of anti-communism

measures, in which the 'West' was implicated, helped to create. The story is not a polemic but an attempt to analyse public pension 'failure' and to try to understand that the causes of failure are not so black and white. Those who call for private solutions, or at least 'pillars' of public and mainly private provision, should examine more closely where 'blame' really lies and re-examine the causal path or logic so often used for privatisation. This may in turn help us to understand private pensions failure. Argentina, for example, has now reintroduced a revamped public system and, in 2007, offered contributors to private schemes (over 15 million people out of a total of 38 million Argentinian population) the choice of opting into, or back into, the new system. How did this occur?

I present in Table 1 a summary of some of the literature that displays a fairly pessimistic review of private pensions in Latin America specifically or by implication. It is important to consider this before we move on to the specific case of Argentina in more detail. I pick out Argentina for closer analysis because of what occurred in terms of its debt, fiscal imbalances, the significant changes in its pension regime and the reasons for its pension 'reform'.

The story commences with the introduction of a relatively progressive pension system in Argentina (and Uruguay too) in the early years of the 20th century, vying with the UK and Germany for the first comprehensive systems. They were not in fact comprehensive but they created a precedent for subsequent attempts at state pension provision. It was not just a Social Democratic or Liberal phenomenon, but it was concerned with alternatives to social repression necessary to subdue violent or other extra-Parliamentary reaction to government social policy (or the lack of it). The international context of revolution, socialism and communism was already prevalent, as it was in Europe. The attempted and violently suppressed 1905 revolution, and then the successful Bolshevik revolution in 1917 in Russia concentrated the mind. Some in the early 1920s also admired the approaches of Spain (under de Rivera) and Italy (under Mussolini).

Table 1: Points arising from private pension reforms (with reference to Latin America)

<p>1. The reforms were designed to achieve only <i>one</i> of the objectives of social security, namely individual equity (benefits commensurate with contributions). The others were overlooked: equity between and within generations; social well-being; security; income redistribution.⁵</p> <p>2. They overlooked the economic context in which they were introduced. Latin America is characterised by insecure labour markets, low wages, a large informal sector, high unemployment, often massive inequality in distribution of income and wealth (<i>ibid</i>) (although, in fairness, some of this depends on the dates and countries chosen).</p> <p>3. The private arrangements suffer from high start-up costs and high oligopolistic management fees. Half the contributions of the average Chilean worker who retired in 2000 were consumed by management fees.⁶</p> <p>4. Coverage is poor. Chile covers 50 per cent of the working population, but most are around 20 per cent.⁷</p> <p>5. Fiscal sustainability and the burden/bankruptcy argument. There have been some savings in Peru, Uruguay and El Salvador. But in Bolivia the 'pension-related deficit' increased as a percentage of GDP because of poor regulation and high transition costs.⁶</p> <p>6. There is no evidence that the reforms have increased national savings (Claramunt). They may have in the case of Chile, but otherwise the evidence is inconclusive (summarised in Davis and Hu⁸).</p> <p>7. Capital market development. The size of pension assets in Latin America has doubled as a percentage of GDP. But it is argued that heavy investment in government debt has decreased the contribution to private investment.⁶ Unfortunately, nothing is said here about the increase in <i>public</i> investment. This should be considered alongside the contradictory argument that pension funds extend capital markets and therefore economic growth. See the next points.</p> <p>8. Increases in the size of capital market do not translate into a better and more efficient allocation of capital for productive investment. It <i>may</i>, but there is no proof.</p> <p>9. Davis and Hu,⁸ however, use econometric tests — a 'modified Cobb–Douglas production function with pension assets as a shift factor' (for those in the know) — for 38 countries (OECD and Emerging Market Economies) showing a direct link between pension assets and economic growth. The reasons are that pension funds can apparently affect economic growth through financial market development. Or they can raise output through 'corporate engagement'. Or they can reduce labour market distortions.</p> <p>10. Meso-Largo,⁹ one of the most important authors and researchers on the subject of Latin American pensions' issues, compared performance in Latin America between private (ten countries) and public pension systems (eight) using nine indicators: labour force coverage; ages of retirement; pension levels; gender equality; administrative costs; wage contributions; compliance; portfolio diversification in investment of pension funds; rates of return on investment; and 'financial equilibrium'. Public systems scored better than private ones on most of the indicators.</p>
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Following violent attempts at suppressing social unrest in Argentina in 1919, the Radical Party under the government of President Alvear introduced in the mid-1920s social legislation including full recognition of trade unions, retirement plans for company employees and those on the railways (although there were already initiatives in this direction dating from 1904 to 1915), along with regulation of female and child labour. Between 1904, when a pension fund for civil servants was introduced, and 1944, coverage of pension provision increased from 24,000 to 428,000.¹⁰

In 1946, Juan Peron became President and extended social welfare as part of a corporatist approach to political, economic and social issues, crucially involving business groups, agricultural associations and trade unions — key corporate groupings in Argentine history throughout the

20th century.¹¹ Under Peron, and what became 'Peronism' — a political cult that is still vitally important today despite its transmogrification over the years — the welfare state had the *primary* responsibility for social justice and social identity.¹² Peron justified his approach to sceptics by pointing to the danger of communism, while supporting workers' ideals of social justice. His 'third position', 'third way', required a distance from communism and capitalism. The local communist party split down the middle. Peron then introduced a national retirement system along with many other welfare measures as part of an 'interventionist and welfare state'. Peron also assisted ex-nazis to escape to Argentina.¹³ The main point of all this, again, is the obsessive and prevailing atmosphere of anti-communism and anti-nonconformity since the second World War.

Anything could be explained away or justified by this (mini-skirts included).

Peron was ousted in 1955 by the usual military putsch. Pensions started to atrophy as employers withdrew their contributions, with state approval. Reforms were introduced including by the Onganía government in 1967. But the system was increasingly unsound. Unless we think, however, that this is all about contribution/benefit levels, longevity, evasion and coverage as an actuary might explain (and there were certainly elements of all these), it was continually undermined by extraneous issues. For instance, in 1973, along came the third-term government of the reinstated Juan Peron after years in exile. There is some controversy about this but under his 1973–1974 administration, before his death, the ‘Triple A’ state-sponsored death squad started its operations, with US CIA ‘assistance’.¹⁴ Its work was continued under the Presidency of his former Vice-President and widow, Maria Estella Martinez de Peron (Isabel). The ‘Alianza Anti-Comunista Argentina’, first called ‘Comando Libertadores de America’, under the alleged control of the Minister of Social Security, Jose Lopez Rega, in association with a future indicted, mass murderer (one of the members of the triumverate that ousted Isabel Peron in her turn in 1976, namely, navy Admiral Emilio Massera), ‘disappeared’ 2,000 people between 1973 and 1976. Their first assassinations were of journalists and non-compliant Peronists in 1973. The legendary Peron, about whom trade unions in Argentina will still entertain no criticism, was allegedly the President responsible for the initiation of the state terror. Under his widow and successor, the coffers of the social security ministry, including pension reserves, were used to pay for it.

So, now to 1976, and the reasons for the subsequent, gradual and final destruction of state pensions. The military junta of Army, Navy and Airforce commanders assumed control and began ‘el proceso’ of economic change and oppression. Their regime culminated in 1982 with the Falklands/Malvinas war with the British, and the junta quit a year later. During this period, Argentinan external debt increased by 365 per cent, and some put it higher,

Table 2: Defence expenditure, weapons imports and external debt: Argentina 1972–1987

Year	Defence expenditure (US\$m)	Weapons imports (by 'volume')	External debt (accumulated) (US\$m)
1972	695	355	4,800
1973	958	189	4,890
1974	1,609	217	5,000
1975	1,031	150	7,800
1976	1,287	181	9,700
1977	1,415	138	11,700
1978	2,819	505	13,600
1979	1,500	301	19,000
1980	4,426	541	27,200
1981	8,557	369	35,700
1982	14,708	241	43,600
1983	12,778	1,200	45,100
1984	2,678	579	46,200
1985	1,889	264	49,300
1986	1,166	47	52,500
1987	979	69	58,500

Sources: (i) Defence expenditure, *The Military Balance*, Institute for Strategic Studies, Brassey's, London, various years.

(ii) Weapons imports, Stockholm International Peace Research Institute (SIPRI), Arms Transfer Database (by kind permission). ‘Volume’ is used instead of financial data which is frequently not available or incomparable.

(iii) External debt, Financial Tables in ‘Global Development Finance’, World Bank website.

to over 500 per cent if one includes domestic debt.

Table 2 shows the increase in external debt, defence expenditure and arms imports. Also, rather than just presenting bald, abstract statistics, Table 3 details who supplied the weapons, presenting some detail about what pensioners in Argentina ultimately helped pay for. The point is that the west, granting export licences and advisory support, knew, or should have known, that the economic situation was increasingly precarious with debt piling up and increasing international concern about human rights. The junta ‘disappeared’ (now a transitive verb) 30,000 people. The investigations and trials for those culpable continue to this day. Western countries and the arms suppliers turned a blind eye. There were jobs and profits, along with pension contributions in Western companies, at stake, not to mention the anti-communist justification for supporting, implicitly or explicitly, a terror dictatorship. The literature on Western support for all this is substantial, in particular the involvement

Table 3: Suppliers of arms to Argentina, 1976–1983

Year of contract	Country of origin	Company of origin	Type of weapon	Quantity
1976–1977	UK	Westland	'Lynx' helicopters	3
	USA	Fairchild	'Merlin' Transport aircraft	4
1977–1978	France	Aerospatiale	'Mirage' jet fighters	7
	USA	Bell	Helicopters	8
		Boeing	Training aircraft	16
		Boeing	Chinook helicopters	6
1978–1979	Austria	Steyr	'Kuerassia' anti-tank guns	120
	France	Aerospatiale	'Puma' helicopters	12
		MBDA	Frigates	6
		Aerospatiale	'Lama' helicopters	12
			Frigates	6
	Germany		'Mirage' (copies) fighters	26
	Israel		Tanker aircraft	2
	USA	Lockheed	Utility helicopters	2
		Bell	Transport aircraft	6
	Raytheon			
1979–1980	UK	Westland	'Lynx' helicopters	8
	France	Aerospatiale	'Alouette' helicopters	12
		MBDA	Frigates	1
		Dassault	'Super Etendard' ground attack fighters	14
1980–1981	Austria	Steyr	Anti-tank guns	57
	France	Euromissile	'Roland' surface to air missiles	
	Italy	Alenia	Training aircraft	10
1981–1982	France	Aerospatiale	'Puma' helicopters	9
		Panhard	Armoured cars	12
1982–1983	Austria	Steyr	Anti-tank guns	198
	USA	Lockheed	Transport aircraft	2

Source, *The Military Balance*, Institute for Strategic Studies, Brassey's, London. Various years, plus personal enquiries.

of the US and France.¹⁵ The UK also supplied weapons, as the table shows.

What concerns me, as an aside, is that British, French, German, US pension contributors benefited from all this in terms of the prosperity of their employers, and Argentinian pensioners subsequently helped pay for it while their families and friends had been eliminated. Pension systems are never discussed in the context of the destruction, aggression and abuse of human rights they implicitly, unquestioningly or occasionally rely on in other countries. What happened in Argentina in this era is a prime example of this and it ultimately led to the destruction of Argentinian pensions themselves.

1984 and the junta bequeathed its legacy, the highest proportion of debt to GDP in Latin America (at fixed interest rates). Some of the figures vary according to sources but Argentina now had an explosive economic and social situation on its hands. In general Latin American

terms, between 1970 and 1980 Latin America increased its external debt from \$27bn to \$231bn, incurring annual interest payments of \$18bn. In Argentina over the last 40 years, debt has not exceeded an annual growth rate of 21 per cent. Under the junta it was 45.5 per cent, much of it secretly and illegally spent (an estimated two-thirds) on weapons ('illegally' meaning, 'imports without registration'¹⁶). In 1984, state pensions were cut again as the accumulated principal and interest payments soared. Debt and accumulated interest was due to rise to twice its 1981 value between 1983 and 1989.

There were many actuarial problems with the state system. There usually are, with any pension system. There is more detail on this for Argentina.¹⁷ But that is beside the point. I am certainly not suggesting that debt incurred to pay for western armaments explains everything, and that there were no local abuses of the pension system in terms of evasion, privileged provisions

for many, overlapping and multiple and therefore high costs schemes, all of which pervade analyses of Latin American pension arrangements until the story becomes, quite frankly, boring. Also, tell me a pension system anywhere in the world where none of these problems applies. But when one reads about countries, such as Brazil, which resisted privatisation, the story becomes more interesting.¹⁸ The local politics, international alliances and the role of the World Bank were different.

1994 and the Carlos Menem government was in power in Argentina, which lasted from 1989 to 1999. Menem, an ex-Montonero and Peronist, aimed to return to 'the paradise of the welfare state'.¹⁹ But instead, or according to the 1990s version of this, a further 43 billion pesos were taken out of the pension system, following the 28 billion under Radical Party President Alfonsín ten years previously. The junta had already taken 17 billion in 1976.²⁰ I suggest this included the sequestration of social security assets to pay for the initial repression by the 'Triple A'.

A part-funded pension system was introduced with private systems run by AFJPs (Administradores de Fondos de Jubilaciones y Pensiones). In due course, 2006, AFJPs collected 80 per cent of contributions to the private/public system, the state the remainder, while the state paid out 95 per cent of the benefits.²¹ Argentina defaulted on its debt in 2001 and as AFJPs had 70 per cent of assets in government bonds, their actuarial basis was undermined. But the question is about who created the accumulated debt in the first place. It was unlikely that a private solution to the destruction of state pensions could ever survive in this fundamentally and fiscally unsound debt regime, created and supported by western banks and governments in the supposed fight against communism years before, and then by international banks and the IMF in the 1990s.²²

Between 2002 and 2006, after devaluation of the peso and violent social unrest as savings were either frozen or exchanged for long-dated government bonds with lower short-term returns but disastrous longer term yields, without any recognition about how they would be paid (all with IMF agreement), Argentina paid off its debt to the IMF, with help from (oil-rich) Venezuela

which bought an enormous new bond issue. Argentina agreed with private international creditors that it would repay only 30 cents on the dollar. Then a new state pension system was introduced and the private option substantially reformed. The main reason was a substantial change in the economic 'fundamentals'.

Argentina had been the darling of the international financial community, along with the IMF, which encouraged the investment of billions, which only aggravated the debt problem, with western banks, again, being complicit in creating an unsustainable financial situation. No weapons this time: just a search for short-term profits from speculating with bond yields. Argentina was left to swing in the wind when the inevitable crunch came. Only by 2006/2007 had the pension crisis been addressed by local initiatives. All men under 55 and women under 50 will have the option of changing systems every five years. A 1 per cent cap on commissions charged by the AFJPs curbed previous excessive charges, and a new contributions ceiling from salaries was introduced (7 or 11 per cent from monthly salaries up to 6,000 pesos — about US\$2,000 — instead of 4,800 as before).

Debt does not explain everything that happened with pensions in Argentina, or elsewhere in Latin America. No single variable ever does. But it raises fascinating issues about causality, responsibility, ideology and the role of international finance.

Despite all the literature, none has yet presented a satisfactory comparative analysis. I hope this makes a modest start.

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