PENSION REFORM:
THE TURKISH CASE IN THE EUROPEAN CONTEXT

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ABSTRACT

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Since 1990s, there was increasing evidence that pension systems have been restructured across Europe and in Turkey. This thesis aims to analyse the outcomes of the pension reform in Turkey in the light of the pension reforms, realized in the European countries. Theoretically, the thesis also attempts to reevaluate institutionalist approach that is dominant approach within the study of pension systems.

The main argument of the thesis is that pension systems both across Europe and in Turkey have been restructured since 1990s in accordance with the neo-liberal policies. In both contexts, it is underlined that the target of the reform is to privatize and individualize the pension systems. Change from PAYGO to funded scheme, shift towards multi-tiered model, reduction of the scope and coverage of public pension scheme and shifting of risks from public to individuals form the common characteristics of pension reforms across Europe and in Turkey.

Key words: Characteristics and outcomes of pension reform in Turkey, features of pension reforms realized in the European countries, institutionalist approach.

ÖZ

EMEKLİLİK REFORMU:
AVRUPA BAĞLAMINDA TÜRKİYE ÖRNEĞİ

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1990'lardan bu yana Avrupa ve Türkiye'de emeklilik sistemleri yeniden yapılandırılmaktadır. Bu tez, Türkiye'de gerçekleştirilen emeklilik reformlarının sonuçlarını Avrupa ülkelerinde gerçekleştirilmiş olan emeklilik reformları ışığında analiz etmeyi amaçlamaktadır. Tez teorik açıdan emeklilik sistemleri üzerine yapılan çalışmalarda hakim durumda olan kurumsalcı yaklaşımı yeniden değerlendirmeye çalışmaktadır.

Bu tezin temel argümanı, Avrupa ve Türkiye'de emeklilik sistemlerinin 1990'lardan bu yana neo-liberal politikalar doğrultusunda yeniden yapılandırıldığıdır. İki bağlamda da, reformun amacının emeklilik sistemlerini özelleştirmek ve bireyselleştirmek olduğunun altı çizilmektedir. PAYGO esaslı sistemden fonlu sisteme geçilmesi, çok ayaklı emeklilik sisteminin özendirilmesi, kamu emeklilik sisteminin içerik ve kapsamının daraltılması ve sosyal risklerin kamu bütçelerinden çıkarılarak bireylere yüklenmesi Avrupa ve Türkiye'de gerçekleştirilen emeklilik reformlarının ortak özelliklerini teşkil etmektedir.

Anahtar Kelimeler: Türkiye'de gerçekleştirilen emeklilik reformunun özellikleri ve sonuçları, Avrupa'da gerçekleştirilen emeklilik reformlarının özellikleri, kurumsalcı yaklaşım.

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INTRODUCTION

Welfare systems include mechanisms of social security and social aids to protect individuals against loss or inadequacy of income (Arın, 2002: 73). Social security aims to eliminate and/or reduce social risks such as sickness and disability, unemployment, old age, occupational accident, disease, maternity to the probable lowest level. Since 1990s, there was increasing evidence that social security systems have been restructured across Europe and in Turkey. This thesis aims to analyze the outcomes of the pension reform in Turkey. While doing so, it targets to place the Turkish experience within a broader context of pension reform realized in Europe. For that purpose, the thesis provides an analysis of the common characteristics of pension reform realized in the European countries. Theoretically, the thesis also reevaluates institutionalist approach that is dominant approach within the study of pension systems.

In recent years, European debates over welfare restructuring have focused overwhelmingly on pensions (Whiteside, 2006: 43). Therefore, the second chapter aims to identify the common characteristics of the pension reform process across European countries. For that purpose a brief overview of the historical developments of the pension schemes in Europe is followed by an analysis of main determinants of pension reform process in the European context. At this point, the thesis attempts to problematize the concepts such as the aging of population, the strict public expenditure constraints, which are identified as stimulators of the reform. After analyzing the main determinants of pension reform across Europe, European Union’s overall approach to the pension reform process will be indicated.

The second chapter of the thesis argues that the common outcomes of pension system restructuring process in the European context are the change from

Pay As You Go (PAYGO) to funded scheme, shift towards multi-tiered model, reduction of the scope and the coverage of public pension schemes and the shifting of the social risks from public to individuals. In contrast to the traditional pension systems (PAYGO), pension reform has brought the dependence to the mandatory savings in privately managed individual accounts (Orenstein, 2005: 182).

For a more detailed analysis of the outcomes of the pension reform, German and Swedish pension models will be taken as case studies. Sweden and Germany represent two main different types of pension system, Beveridgeon and Bismarckian pension models, in Europe. That is to say, Germany and Sweden have different welfare regimes. According to Esping-Andersen, while Germany is classified as "corporatist-conservative" welfare regime, Sweden is clustered under "social democratic" welfare regime.[1] While in conservative and corporatist welfare regimes, preservation of status differentials is predominant, thus rights are attached to class and status and private insurance plays a marginal role; in the social democratic regime type social democracy is the dominant force behind the social reform and the social democrats pursued a welfare state that would promote an equality of highest standards, not an equality of minimal needs (Esping-Andersen, 1990: 26-27). Since the 1990s, Sweden and Germany have reformed their pension system in a market-oriented way. Pension reforms in Sweden introduced a compulsory private component into the pension system by including a "premium reserve" system. In Germany, private pension scheme has been introduced as a complementary and voluntarily-based funded system by the reforms. The reason why these countries are taken as case studies is that even though Sweden and Germany have different pension structures, their pension systems have been restructured in the direction of neo-liberal policies.

For Turkey, social security reform is one of the most pressing issues. There are three essential headings under which social security reform has come onto the agenda in Turkey; these are pensions, health insurance and social assistance (Buğra and Keyder, 2006: 213). Turkish pension systems have been restructured by the

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[1] Esping-Andersen (1990) clusters welfare states as "liberal", "corporatist-conservative" and "social democratic" welfare regimes on the basis of the degree of decommodification effect.

adoption of several laws since the 1990s. Thus, the third chapter of the thesis aims to analyse the outcomes of pension reform in Turkey through a scrutiny of the texts of the laws and draft laws, reports, press statements and newspaper reports. The fundamental argument of this chapter is that Turkish pension system has been transformed on the basis of neo-liberal policies. Transition from PAYGO pension scheme to funded scheme, the reduction of the scope and coverage of public pension scheme, introduction of private and voluntarily-based pension scheme and the shifting of risks from public to individuals constituted the outcomes of pension reform in Turkey.

The third chapter will contain three main parts. Initially, historical development of pension systems in Turkey will be examined. Second part will attempt to reveal the background to the pension reform process in order to indicate the transformation within the pension system. The third part will try to analyse the pension reform process as a two-stage process (Yakut-Çakar, 2007: 120). For the first stage, the thesis will examine short-term measures, which led to the changes in retirement age, premium payment period, etc.. For the second stage of the pension reform process, thesis will analyze social security laws, enacted since 2006. In this part, the engagement of the Turkish capital and labour to the reform laws will be revealed.

Last chapter aims to compare the reform processes across Europe and in Turkey in order to analyze the similarities and differences in the outcomes of pension reform. European comparison is essential since pension reform in Turkey could not be seen as an independent process from the EU accession process of Turkey. Turkey as a candidate country is conducting membership negotiations with the EU. To get EU membership, implementation of pension reform is presented as indispensable by the EU. Also, Turkey has an ongoing relationship with the European countries economically, historically and culturally.

This study mainly claims that the pension systems both across Europe and in Turkey have been restructured since 1990s in accordance with the neo-liberal principles although they have diverse pension systems. Change from PAYGO to funded schemes, shift towards multi-tiered pension model, reduction of the scope and coverage of public pension scheme and shifting of social risks from public to individuals are the outcomes of the pension reform processes in both contexts. The outcomes of this reform processes in Europe and Turkey and the privatization of pension systems in general might be perceived as a reflection of changing the role of the state. It is claimed by the thesis that transformation of pension systems is related with the shift in the role of the state in providing and regulating the pension system.

CHAPTER 2

RESTRUCTURING OF PENSION SYSTEMS IN THE EUROPEAN CONTEXT

This chapter will mainly deal with presenting and discussing the transformation of pension systems in Europe. Its main goal is to identify the general characteristics of pension reform process in Europe by taking national peculiarities into consideration. The reason why European context is examined is that pension reforms across Europe have a crucial impact on the pension reform process in Turkey. Turkey is an EU candidate country and is conducting membership negotiations with the EU. Reform of pension system constitutes one of the important headings of the negotiation process. Moreover, Turkey has been in a constant contact with the European countries economically, historically and culturally.

The chapter will consist of three main parts. In order to analyze the pension reform restructuring process, historical development of pension schemes in Europe will be explained in the first part. In the second part of this chapter, main patterns of pension reform process in the European context will be given. After identifying the main determinants of pension reform across Europe, the European Union's overall approach to the pension reform process since 1990s will be mentioned. For a more detailed analysis, German and Swedish pension models will be taken as case studies. Generally, these countries are chosen in order to shed more light on the characteristics of pension reform process in the European countries. Furthermore, Sweden and Germany represent two main different types of pension system, Beveridgeon and Bismarckian pension models, in Europe. Although these countries have different pension structures, their pension systems have been restructured in the direction of neo-liberal principles. Lastly, the third part will reevaluate the institutionalist approach that is dominant within the study of pension reform processes by giving reference to its analyses of the reforms in different European countries.

2.1. Historical Development of Pension Schemes in Europe

Analysis of pension reform restructuring process in Europe necessitates considerable inquiry of the types of pension schemes along with their historical developments. In other words, looking at pension reform process from a historical perspective could be the initial point to analyze the factors determining the formation of different pension systems. In order to do this, types of pension schemes and their different patterns, which have been reformed in Europe since 1990s, will be explained.

It is known that the essentials of early social security systems, based on mandatory social insurance method, were constituted by Bismarck in Germany in 1880s due to the inadequacy of traditional social protection mechanisms against the risks and threats (Güzel, 2005: 63). In 1889, Bismarck established the statutory pension scheme as the first formal pension system in the world (Bönker and Wollmann, 2001: 84). In fact, reform movements endeavoured by Bismarck on the social security system had the goal of getting rid of the impacts of socialist thought spreading in Germany. To put it differently, the target of Bismarck was to moderate the working class movement and so to integrate working class into the system through embarking reforms in social policy (Akkaya, 2006: 17). Despite the fact that Bismarckian social insurance system was denied by other European countries at first, it has been used as a model later (Dilik, 1971: 1).

All European states reappraised welfare provision for the elderly in the immediate post-war decades (Whiteside, 2006: 45). Following the Second World War, two main types of pension systems have become institutionalized across Europe: the German Bismarckian model and the Beveridgean model. German scheme, called as Bismarckian model, was financed by contributions shared equally by employers and employees (with a state subsidy), it granted earnings-related benefits, and entitlement to a pension was based on having paid contributions (Bonoli, 2000: 11). Bismarckian pension model are called as premium-based pension systems. In contrast, Beveridgean model has different characteristics. Beveridge Report, prepared in 1942, targeted the principles of universalism and of flat-rate contributions in return for a flat-rate benefit (Whiteside, 2005: 23). The main concern of Beveridge was to guarantee a minimum subsistence level to every citizen (Bonoli, 2000: 59). In Beveridge system, social security is financed from the general budget via taxes and granted flat-rate benefits in contrast to Bismarckian premium-based pension system. In general, whereas Bismarckian lead is followed in Germany, France, Italy, Spain, Beveridge model is followed in UK, Denmark, Sweden, and Norway (Bonoli, 2000: 10-12).

The common pattern that emerged across Europe following the Second World War has been the trend towards convergence in pension provisions in Europe. The first step taken either of two pension schemes was to extend provision in order to cover larger shares of the society (Bonoli, 2000: 12). In Bismarkcian countries, this was realized by progressively including other occupationally defined groups into the social insurance system (Bonoli, 2000: 12). A similar tendency towards enlargement in pension coverage could be seen in Beveridgean countries that started with means-tested pensions, which were expanded into universal scheme (Bonoli, 2000: 12-13). It is significant to emphasize that "some 110 years after the first laws instituting social insurance in Germany and 50 years after the Beveridge Report, the twelve member states of European Community have committed themselves to converging their policies in the field of social protection (Chassard and Quintin, 1992: 107)". However, this policy convergence does not presuppose the unification or harmonization of the schemes, each member state will continue to determine their social protection methods of organization and finance (Chassard and Quintin, 1992: 107).

McGillivray (2000:5) states that types of scheme (defined-contribution or defined-benefit), financial systems (PAYGO or funded), administration (public or private) and participation (mandatory or voluntary) are the features of measures regarding provision of retirement pension. Explaininig these concepts is essential for analyzing the pension reform process, initiated in 1990s across Europe.

In terms of benefit mechanisms, defined-benefit and defined-contribution schemes could be mentioned. While in defined benefit schemes the amount of pension is expressed as a percentage of salary, guaranteed regardless of the performance of invested capital; in defined contribution scheme there is no guaranteed level for pension benefits, depending on amount paid in contributions and the interest earned on that amount (Bonoli, 2000: 25). Typically, whereas defined benefit systems are of PAYGO sort, defined contribution systems are of fully funded sort (Schwarz, 2006: 8). At this point, it is required to clarify what the PAYGO and funded financing methods are. PAYGO system is mainly a financing mechanism in which current generations pay for old generations. PAYGO schemes are funded through a payroll tax on workers' earnings and on their employers. "Workers' future pensions will be calculated based on their contributions during their working life, sometimes the whole span, sometimes their final years or the years when they earned the most" (Williamson and Williams, 2005: 487). Nor are the contributions saved for the workers; instead they are used to fund the pensions of those who have already retired (Williamson and Williams, 2005: 487). It is claimed that it protects individuals from the risks relating to investment and market fluctuations as well as disability, longevity and individual risks (Ney, 2006: 6). On the other hand, in fully funded pension systems, contributions are invested rather than spent and the investment earnings are an integral part of benefit eventually paid (Schwarz, 2006: 7). Benefits, which will be obtained by the individuals, are strictly linked to past contributions.

It is argued that increase in the social security expenditures, led by public budget deficits, put pressures on the countries to restructure their pension systems. Transition from public PAYGO schemes to funded pension schemes is advocated for dealing with this crisis situation in the current pension system. It is claimed that under certain conditions a funded system could bring more saving, and thus make bigger contribution to investment and economic growth (Stahlberg, 1995: 270).

However, encouraging fully funded systems is a way of precipitating the pension system privatization process. In contrast to the arguments supporting the privatization schemes via the implementation of funded pension systems, funded systems worsen rather than improve the financial situation of the public pension system in the medium term (Madrid, 2005: 27-28). Since pension privatization schemes get members of social security system to transfer some part of their social security contributions to private pension fund accounts instead of paying them to the state; however, the state continues to pay pension for existing retirees (Madrid, 2005: 28). Therefore, the social security revenue of the state decreases. What is more, this system tries to eliminate the burden of old-population from the state by increasing personal responsibility of a person for old-age. In this way, state has relieved from its responsibilities.

2.2. Pension Reform in the European Context

2.2.1. Common Determinants of Pension Reform in Europe

The 1990s have been a decade of essential challenges to the pension systems in Europe. No matter where one looks, all European countries, EU member state or Accession Country, have addressed the issue of reforming old age pensions at some time during 1990s (Ney, 2000: 2). It is generally claimed that budgetary pressures, socio-economic changes and European Economic Integration have been the stimulators of this reform in Europe.

The necessity of pension reform has been grounded upon long-term unsustainability of current pension arrangements and financial instability in European countries. With the implementation of EMU criteria, the process of economic internationalization and the threat of considerable change in demographic structure of the population, the pension reform has been put on the agenda of European Social Policy (Bonoli, 2000: 8). Ney (2002: 80) argues that "permanent crises of social security budgets caused by increasingly competitive global markets, persistent unemployment, and demographic ageing remind us that social policy seems to be about adapting welfare states, including pension systems, to harsher economic climates". It has also asserted that technological and economic changes such as economic globalization could reduce government's ability to generate revenues and demographic changes like population ageing brings about pension expenditure increase (Taylor-Gooby, 2001a: 1).

The basic subject of pension reform is presented as "re-establishing the compatibility of social policies with socio-economic changes by means of economic competitiveness and cost containment in the area of pension system (Bonoli, 2000)". These socioeconomic changes are defined as low rates of economic growth, high unemployment, early retirement and aging of population. In this context, the main reasons behind the reform are implied as public budget deficit, ageing populations and technological changes. It is argued that in order to eliminate the ill-effects of socioeconomic changes and to ensure sustainable pensions, EU member states need to implement measures such as reducing public pension benefits, encouraging second and third pillar pension provision, raising the retirement age, and removing incentives for early retirement (Velladics, Henkens and Van Dalen, 2006: 477). One should note that the most important stimulator of reform is to reduce the publicly funded pillar of pension system in order to curtail the public budget deficit, which is limited by Maastricht convergence criteria. Explicitly, as Myles and Pierson (2001: 133) indicated, the major drive behind the reform has come from "rising pressures on public budget, creating incentives for policy makers to offload the rise in retirement costs to firms and individual workers". Since, according to European Commission (2003a: 23) adequate pension provision cannot be financed indefinitely through government borrowing. As a result, the term pension reform has been increasingly used by some of the scholars as a synonym for cuts in old age pensions in order to decrease the public budget deficit (Bonoli, George and Taylor-Gooby, 2000: 30).

In line with these arguments, pension reform across the Europe is the product of the implementation of neo-liberal policies. The reform aims to transfer the role of state in the provision of pension to the private sector. This has been done through reducing the role of public pension system and increasing the role of private companies with the introduction of individual pension system.

2.2.2. European Union's Overall Approach to the Pension Reform Process

In the European countries, national pension systems were in the intervention area of member states and there were no common policies in their pension systems. In the late 1990s, European Commission has developed a new policy instrument, called as Open Method of Coordination (OMC) in order to coordinate the policies of nation states.

2.2.2.1. What is Open Method of Coordination (OMC)?

Before elaborating on how OMC is designed to generate coordination in the pension policy in the EU, it will be analyzed in which policy areas OMC are applied and how the implementation of OMC is achieved. OMC method is now operated in the employment field and in the fight against poverty and social exclusion. Other sensitive fields, such as pensions and immigration, have been identified as areas where OMC could be applied (Regent, 2002: 1-2).

Here, it is crucial to make an emphasis on how the implementation of the OMC to a policy area in general is realized. At the first stage, European Council sets guidelines and targets for each policy sector in which OMC is applied with specific timetables for achieving the goals, which they set in the short, medium and long terms (Chalmers and Martin, 2003: 5). In the next stage, Member States' governments in the light of EU guidelines develop National Action Plans (NAP). These National Action Plans are reviewed and developed through mutual learning process, including peer review, periodic monitoring and evaluation by regional, local governments, social partners, NGOs, companies. They arrange thematic seminars in order to exchange best practises. This is called as "partnership" in the

OMC context. It is indicated that “regional and local governments, as well as social partners and civil society, actively involve in the development and review of national action plans and such processes will be carried out by European Commission networking with different providers and users, namely the social partners, companies and NGOs (Chalmers and Martin, 2003: 6)”. Peer review is another key element of OMC. It is mutual learning process based on systematic evaluation of good practice and assessment of selected policies or institutional arrangements coming under the various NAPs.[2] And the last stage is the evaluation of the National Action Plans by the European Council. European Commission prepares Joint Report in order to denote whether the Member States has implemented the guidelines or not and to determine the “best practise” among the member states. The implementation of national action plans is to be regularly reviewed within the European Council in the light of quantitative and qualitative indicators and benchmarks, established as a means of comparing best practises (Chalmers and Martin, 2003: 5).

The OMC process includes many components such as guidelines and targets, National Action Plans, mutual learning processes (periodic monitoring, peer review, evaluation), benchmarking, indicators, partnership, subsidiarity, deliberative problem solving, exchange of good practises, experimental learning. Such a sophisticated mechanism is presented by European Union on the ground that the Open Method of Coordination (OMC) is an experimental approach to EU governance formed on benchmarking national progress towards common European objectives and mutual learning. Member States are undertaken to work together towards shared goals without homogenizing their inherited policy regimes and institutional arrangements.

Pochet (2005: 40-41) claims that OMC is a flexible means of working towards shared European objectives via national plans, which are assessed in accordance with common criteria (indicators), following guidelines and/or targets

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[2] Downloaded from the European Union web site: http://europa.eu.int/pol/socio/index_en.htm on 20 November 2005.

decided jointly by national ministers at the EU level and without legal compulsion, peer pressure represents the means to ensure the national governments adhere to their economic commitments. He also adds that exchange of good practises is supposed to improve public policies and this is an attempt to make official declarations made by Ministers at the EU level morally "binding" at national level, by implementation of a set of complex procedure. In this respect, soft law mechanisms upon which EU governance based is legitimised on the grounds that "it has been devised as an instrument to share best practices and increase policy convergence in areas, which remain a primary responsibility of national governments but are of concern to the EU as a whole (Jassem, 2004: 1)". Unlike the "hard law (Community Law)" mechanism, designing measures that have a legally binding effects, it is supposed as it is to be a decentred participatory process in which national governments are no longer controlled and commanded by the imperatives of EC law, but rather commit themselves to review each other's programmes in the light of series of mutually agreed standards and of domestic and trans-national participatory process (Chalmers and Martin, 2003: 1-2).

2.2.2.2. How Does OMC Generate Coordination in the Pension Policy in the EU?

It is asserted that OMC has created an institutionalized way for the EU in order to play crucial function in pension policy. Put it differently, pension is considered as an area of particular sensitivity to the Member States due to their path-dependent national arrangements; however, it has been decided that OMC should be applied to pension area for challenging the reform of the first pillar of pension schemes, called as "state scheme" (De la Port, 2002: 7-8). Eventhough European Commission has had no authority for uniting national pension systems, Commission has tried to draw up some concepts of pension regime since 1990s. This part will explain how pension policy is currently formulated with the reforms within the European Union. In fact, pointing out the overall approach of European

Union to the pension policy is essential to analyze the key features of pension restructuring process in the European context.

It should be pointed out that today more actors are involved in pension debate in the European context. Pochet groups them into three main categories such as European Commission, economically-oriented actors and socially-oriented actors (De la Port and Pochet, 2002a: 229-230). Initially, the economically-oriented players including the Ecofin Council, the Economic Policy Committee (EPC), the European Central Bank, were the first to enter the playing field through the area of financial sustainability of public finances. They have produced a discourse on the need to accord a greater place for the second and third pillars of the pension schemes. The socially-oriented players, comprising of Ministers in charge of Employment and Social Security, the Social Protection Committee (SPC), the Directorate General of Employment and Social Affairs, entered the pension field later and supported a discourse, centred on the need to protect the first pillar of the pension system (De la Port and Pochet, 2002b: 24).

European Commission produced series of Green and White Papers and communications in order to extend OMC into the area of pension systems. Commission Communication on “A Concerted Strategy for Social Protection” (European Commission, 1999) deals with pension on the bases of “ensuring the viability of pension schemes” in 1999 (De la Port and Pochet, 2002b: 41). Following the communication, in the first half of the 2000, SPC was established to follow through the aims of communication (De la Port and Pochet, 2002a: 226). In October 2000, the Commission published another communication, “The Future of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions”, regarded the pension reforms as linked to good economic policy and increase in employment of older people (Nishio, 2004:8).

In 2000, the EPC claimed that public pension spending will be between 3% and 5% more of GDP in 2050 and will threaten stability of money if the national governments do not reform public pension systems (EPC, 2000). In the Lisbon Summit (2000), reform of pension system was explicitly defined as part of the Lisbon Strategy so as to be prepared for future demographic changes. After Lisbon

Summit, in the conclusions of the Göteborg Summit, Joint Report for evaluating the state of pension reforms in the member states and making recommendations to them was prepared by EPC and SPC in 2001. And through this joint report, the framework for securing the long-term sustainability of pension system was determined (De la Port and Pochet, 2002a: 227).

The member states submitted their first National Strategy Reports for protecting adequate and sustainable pension in accordance with these objectives under the OMC method in 2002 (Erhel, Mandin and Palier, 2005: 227). It is crucial to point out that these countries are ranked in terms of their performance in the pension area so as to determine "the best pupil in the class". The Joint Report by the Commission and the Council, Employment and Social Affairs (2003a) on "Adequate and Sustainable Pensions" classified eleven objectives grouped under three pillars such as "pension adequacy", "financial sustainability of pension systems" and "modernization: responding to changing needs". It analysed the national strategies in the area of pensions and identified how member sates are responding to the challenge of population ageing while taking into account the three broad goals of adequacy, sustainability and modernization (EC, 2003a: 11). Financial sustainability aims to raise employment levels, to extend working lives, to make pension systems sustainable in the context of sound public finances, to adjust benefits and contributions in a balanced way and to ensure that private pension provision is adequate and financially sound. And, pillar of "adequacy" has the goal of preventing social exclusion, promoting solidarity and enabling people to maintain living standards. Besides, "modernization" pillar includes the objective of adapting more flexible employment and career patterns, meeting the aspirations for greater equality of women and men, making pension system more transparent and demonstrating the ability of pension systems to meet the challenges (EC, 2003a). Afterwards, the report (EC, 2004), called "The Social Situation in the European Union" states why the reform is necessary across Europe and how the pension reform in EU member and accession countries has been characterized as parametric and paradigmatic.

It is underlined in the synthesis report, titled “Study on the Social Protection Systems in the 13 Applicant Countries”, “there is no uniform model of social security today in the EU and will not exist in an extended EU. On the contrary, including new member states will render the landscape more diversified than it is already today in the EU” (EC, 2002: 67). Although the form of pension reform differs from one member state to another in the European Union, the common direction is to integrate pension policy understanding to the rules of neo-liberalism. In this sense, OMC is an appropriate tool to institutionalize the role of EU in the pension policy.

2.2.3. Main Patterns of Transformation in Bismarckian and Beveridgean Pension Systems

In the various European countries, pension system restructuring process has been seen as an attempt to adapt welfare regimes to new macro-economic rules by making more emphasis on the market. All European welfare states have been subjected to crucial changes on the grounds that many services and responsibilities are transferred to the market. Therefore, the general tendency in the EU is the decrease in social protection expenditures beginning from the mid-1990s since several countries made structural and unstructural reforms in order to cope with the financial burden, created by ‘aging of the population’ (Kıroğlu, 2006: 19-20) (See Table 2-1). However, social protection expenditures increased slightly since 2001. This increase was explained by the strong growth in social protection expenditures relative to the increase in GDP in 2001 (EC, 2004, cited in Kıroğlu, 2006).

Table 2-1 - Expenditures on Social Protection (as % of GDP)[3]

	1993	1995	1997	1999	2000	2001	2002	2003	2004
EU-25	:	:	:	:	26,6	26,8	27	27,4	27,3
EU-15	28,7	28,2	28.0	27,4	26,9	27,1	27,4	27,7	27,6
Belgium	29,3	28,1	27,9	27,3	26,5	27,3	28	29,1	29,3
Czech Republic	:	17.0	18,3	19,1	19,5	19,4	20,2	20,2	19,6
Denmark	31,9	32,2	30,4	30.0	28,9	29,2	20,7	30,7	30,7
Germany	28,4	28,9	29,5	29,6	29,2	29,3	29,9	30,2	29,5
Estonia	:	:	:	:	14	13,1	12,7	12,9	13,4
Ireland	20,2	18,9	16,6	14,7	14,1	15	16	16,5	17
Greece	22	22,3	23,3	25,5	25,7	26,7	26,2	26	26
Spain	24	22,1	21,2	20,3	19,7	19,5	19,8	19,9	20
France	30,7	30,7	30,8	30,2	29,5	29,6	30,4	30,9	31,2
Italy	26,4	24,8	25,5	25,2	24,7	24,9	25,3	25,8	26,1
Cyprus	:	:	:	:	14,8	14,9	16,3	18,5	17,8
Latvia	:	:	:	:	15,3	14,3	13,9	13,4	12,6
Lithuania	:	:	:	:	15,8	14,7	14,1	13,6	13,3
Luxembourg	23,3	23,7	22,8	21,7	19,6	20,8	21,4	22,2	22,6
Hungary	:	:	:	20,7	19,3	19,3	20,3	21,1	20,7
Malta	:	:	:	17,2	16,3	17,1	17,1	17,9	18,8
Netherlands	32,3	30,9	29,4	28.0	26,4	26,5	27,6	28,3	28,5
Austria	28,2	28,9	28,8	28,9	28,2	28,6	29,1	29,5	29,1
Poland	:	:	:	:	19,5	20,8	21,2	20,9	20
Portugal	21	22,1	21,4	22,6	21,7	22,7	23,7	24,2	24,9
Slovakia	:	18,7	20.0	20,2	19,3	18,9	19	18,2	17,2
Slovenia	:	:	24,8	25.0	24,9	25,3	25,3	246	24,3
Finland	34,5	31,7	29,2	26,8	25,1	24,9	25,6	26,5	26,7
Sweden	38,2	34,6	32,9	31,8	30,7	31,3	32,3	33,3	32,9
United Kingdom	29	28,2	27,5	26,5	27,1	27,5	26,4	26,4	26,3

Source: (Eurostat (2005), Eurostat (2007))

[3] Social protection expenditures include old-age, survivors, sickness/health care, disability, family/children, unemployment, housing and social exclusion expenditures and administration costs.

Within the context of pension reform, expansion of funded financing and reduction in PAYGO public pension schemes has been realized since 1990s. Pension reform has introduced individual and private pensions saving accounts and aimed at increasing reliance on them as a means of funding retirement benefits over time (Orenstein, 2005: 181). Since the population in Europe is aging and declining, it is asserted, "a trend that could have been perfectly manageable with foresight could turn into a catastrophe given the increasing unfunded liabilities arising from PAYGO public pension reform" (Pinera, 2005: 45). By contrast to the traditional social security pension systems (PAYGO), pension reform has brought the dependence to the mandatory savings in privately managed individual accounts (Orenstein, 2005: 182). In the European context, development of multi-tiered pension system has come to the agenda. First pillar is public earnings-related scheme, second one is private occupational scheme and third pillar is individual retirement provision (EC, 2003a: 6). Introduction of third pillar (personal pension plans) is brought as a supplementary to first (state schemes) and second (occupational schemes) pillar of the pensions scheme. And, participation to the third pillar is arranged by individual contract directly with a product provider, generally a life insurance company or collective investment undertaking (EC, 2003b). That is to say, instead of state, pension companies carry out the investment management and thus the role of state is turned into regulation of the private pension funds, rather than a direct provider. Therefore, benefits are linked to strictly to past contributions, there is a little redistribution between the generations and risks and rewards are individualized, with individual taking greater risk for their own retirement (Orenstein, 2005: 182).

EU argues that inefficiencies in pensions system should be reduced through especially changes in financing with the less dependence on PAYGO schemes by strengthening the funded elements, introducing funded components in the first pillar of statutory schemes or shifting the weight from the first to second or third pillar of occupational and private schemes, weakening the incentives for early retirement and thus increasing the effective retirement age (Eckardt, 2003: 2-3) (See Table 2-2). In fact, inefficiencies in the pension system mostly take the roots from 'financial instability'. In this context, introduction of incentives for individuals to apply individual pension system, increase in pensionable age and reduction of average level of benefits are presented as the measures to reduce financial instability (Bonoli, 2000: 23).

The common features of pension system restructuring process across Europe could be emphasized as the change from PAYGO pension scheme to funded scheme, shift towards multi-tiered pension model, reduction of the scope and coverage of public pension scheme and shifting of risks from public to individuals. However, it is essential to analyze the changes in different pension systems followed in the European countries. At this point, German and Swedish pension models are taken as a case study. It is vital to explain why thesis looks at Swedish and German cases. These cases are significant to illuminate the characteristics of pension reform process in the European countries. Besides, Sweden and Germany represent two main different types of pension schemes, Beveridgeon and Bismarckian pension systems, in Europe. Eventhough Sweden and Germany have different pension schemes, their pension systems have been reformed in line with the same principles, which are neo-liberal policies. Therefore, the thesis attempts to analyze how the pension systems have been transformed in Germany following Biscmarkian pension scheme and Sweden, implementing Beveridgean pension scheme.[4]

[4] It should be addressed that categorazing pension systems in two pension schemes, Bismarckian and Beveridgeon ones, could be considered as a tool in order to identify the main patterns of transformation in pension systems in different European countries. In other words, certain categorizations in the thesis is perceived as a criteria to compare the restructuring process of each pension systems across Europe. However, this does not mean neglecting the peculiar characteristics of countries' pension systems.

Table 2-2 - Reformed Pension Systems in EU-25 According to Main Features

	PAYG Flat-rate Public 1st pillar	PAYG Earnings related, Public Single or 1st pillar		Pre-funded "Mandatory" or "Major" 2nd pillar
	"Beveridge"	"Bismarck"	"NDC"	
Austria				
Belgium				
Denmark				
Finland				
France				
Germany				
Greece				
Ireland				
Italy				
Luxembourg				
Netherlands				
Portugal				
Spain				
Sweden				
UK				
Cyprus				
Czech Republic				
Estonia				
Hungary				
Latvia				
Lithuania				
Malta				
Poland				
Slovakia				
Slovenia				

Source: (European Commission, (2004)).

2.2.3.1. Transformation within Beveridgeon Pension Systems: Swedish Case

Throughout the post-war era, Sweden was hailed for its economic political model, which successfully combined rapid economic growth with full employment, a solidaristic wage across the whole economy, a generous welfare state and gender equality in the workplace (Bieler, 2005). Esping-Andersen (1990: 27) defines Sweden as the model of the "social democratic welfare regime" since social democracy was clearly the dominant force behind social reform in Sweden. Esping-Andersen explains the "social democratic welfare regime" in this way:

> Rather than tolerate a dualism between the state and market, between working class and middle class, the social democrats pursued a welfare state that would promote an equality of highest standards, not an equality of minimal needs as was pursued elsewhere (Esping-Andersen, 1990: 27).

However, in the 1990s, Sweden has reformed its pension system in a market-oriented way (Bieler, 2005). This part will attempt to analyze how the Swedish pension system has been restructured.

In the late 1950s, Sweden had a 'Beveridge' starting point with universal basic pensions (Green-Pedersen and Lindbom, 2007: 245). The pension system in Sweden was constituted on two parts: the basic pension and the ATP (Earnings-related Supplementary Pension Scheme). While the basic pension provided a flat-rate benefit, ATP system paid the income related pension according to defined-benefit principles. It is essential to note that both tiers were PAYGO, financed by employer contributions and indexed to inflation (Anderson, 2004: 293). Put it differently, until the reforms of 1990s the outstanding features of the Swedish pension system were the dominance of the state and the significant role of the public pension funds in generating national savings (Anderson, 2001: 1076). And, public pension funds formed the largest share of social insurances.

Changes in Swedish pension system have been introduced in 1990s. Prior to the 1990s, pension reform never occupied a prominent place on the political agenda; however, as the ATP system approached to maturity, the Social Democrat Government appointed an Official Commission of Inquiry in 1984 to determine the reform direction (Anderson, 2004: 294). However, there was no agreement on the reform. TCO (The Swedish Confederation of White Collar Workers) was the main opponent to this reform since they stated that "the best 15 of 30 years benefit formula" could not be changed (Anderson, 2004: 294).

In the early 1990s, economic crisis appeared in Sweden. "By 1993, the public sector borrowing requirement had risen to over 12% of GDP. The following year, the national debt had risen to 84% of GDP (Gould, 1999: 166, cited in Tepe, 2005)". It was claimed that as a consequence of 1990s economic crisis, weak economic growth, rising unemployment and a growing number of retirees led to unanticipated financial pressure on the pension system (Anderson, 2004: 294). The idea of Swedish membership to the EU was put forward as a further solution to Sweden's economic and social problems (Tepe, 2005: 296). To illustrate, objective of meeting the EMU convergence criteria was one of the causes led to reduce the economic figures, which resulted in narrowed social and public expenditures (Gould, 1999: 166).

In this context, Sweden has implemented fundamental reforms in the 1990s and has replaced the old age system design by a new one (EC, 2004: 21). The reasons of the crisis in the Swedish model were indicated as budget deficits, weak economic growth and rising unemployment. While more conventional analyses of the pension reform in Sweden emphasize on the drivers of change, more critical approaches argue that the factors of transformation is the result of neo-liberal politics. According to Ryner (2002: 1), "the crisis of Swedish model in 1990s was fundamentally political in nature. In this political crisis, the neo-liberalisation of Swedish social democracy itself played a decisive role". As Bieler (2005) points out Swedish model has been restructured by the adoption of neo-liberal policies focusing on price stability and low inflation at the expense of full employment and the Sweden's application to join increasingly neo-liberal European Union in 1991 and its accession in 1995.

In 1991, the nonsocialist government appointed a working group composed of representatives from the Parliament to formulate pension reform legislation; however, the members of the union confederations, LO (The Confederation of Manual Trade Unions), TCO (The Swedish Confederation of White Collar Workers) and SACO (The Swedish Confederation of Professional Associations) were excluded from the reform negotiations (Anderson, 2003: 1079). This pension law was passed by the Parliament in 1994 with the support from all the main political parties (bourgeois and social democrat parties) in Sweden (Bonoli, George and Taylor-Gooby, 2000: 33). In other words, there was an agreement between SAP (The Social Democratic Workers' Party of Sweden) and four main non-socialist political parties (Liberals, Conservatives, Centre Party and Christian Democrats) about the framework of pension reform in 1994 (Anderson, 2004: 295). The reform of 1994-1998 has made earnings-related benefits more tightly linked to contributions, abolished universal national pensions and made mean-tested benefits more tightly conditional on participation in activation measures and early retirement too difficult (Timonen, 2001: 29, 40).

One of the most significant effects of the 1994 / 98 pension reform was that Notional Defined Contribution (NDC) system based on lifetime earnings replaces the "best 15 of 30 years" benefit formula in the ATP system (Anderson, 2004: 295). This new pension system is called as "income-related pension". This tightens the link between contributions and benefits and reduces some of the pension system's redistributive elements (Anderson, 2004: 295).

What is more, the reformed pension system has included new individual pension investment account, known as the "premium reserve" (Anderson, 2003: 11). It is legitimized on the grounds that workers have a chance to choose their pension scheme from several schemes. Therefore, the reform has introduced a funded element in the system, in which contributions, which amount to 18.5

percent of gross earnings, are split between a PAYGO scheme (16%) and a new funded scheme "premium reserve" (2,5%) (Stahlberg, 1997).

It was also proposed by the reform that half of the pension contribution will be paid by the employer and half by the employee and that there is a flexible pension age from the age of 61 (Stahlberg, 1996: 272). Before this practice, employers paid the contributions in the form of percentage of their payroll taxes. Furthermore, pension increases have been linked to the rises in income, instead of increases being linked to rises in prices (Gould, 1996: 80).

Through these changes, Sweden has transformed its defined benefit public pension system into a notional defined contribution system (NDC) that includes mandatory, funded, individual investment account. According to Myles and Pierson (2001: 319-320), Sweden is one of the countries that have so far carried out moving from fully developed PAYGO system to a system with some funding. Therefore, some of the redistributive character of Swedish pension system has been reduced. In this context, the main outcomes of the pension reforms in Sweden are the decrease in the share of the public pension funds in the social insurance system and the shifting of the burden, associated with pension provision from public to individual.

2.2.3.2. Transformation in Bismarkcian Pension Systems: Case of Germany

Germany is one of the European countries where Bismarkcian social insurance systems have been implemented. According to Esping-Andersen (1990: 26) Germany could be clustered under "corporatist-conservative welfare state". Esping-Andersen (1990: 26) argues that,

> In this conservative and "corporatist" welfare state, the liberal obsession with market efficiency and commodification was never pre eminent and the granting of social rights was hardly ever a seriously contested issue. What predominated was the preservation of status differentials; rights, therefore, were attached

> to class and status. This corporatism was subsumed under a state edifice perfectly ready to displace market as a provider of welfare; hence private insurance and occupational fringe benefits play a truly marginal role.

At the heart of Germany's conservative model of welfare, there is a social insurance system, which includes employers and employee paying social insurance contributions that are differentiated in relation to wage income (Poole, 2001: 156). "In times of sickness, unemployment, old-age, accident and injury, benefits are paid in such a way as to reflect the level of contributions and hence are strictly proportional to former earnings (Poole, 2001: 156)".

In Germany, three tiers of old-age security have existed for a long time: mandatory basic pension schemes for different groups of the population, supplementary occupational schemes and additional private voluntary arrangements for old-age provision (Schmahl, 2007: 320). First tier provides PAYGO earnings-related contributory pensions to all employees and some self-employed workers and the second tier of the German pension system provides supplementary pensions to some employees (Taylor-Gooby, 1999: 9). Supplementary occupational pension schemes are in general voluntary in private sector and as a third tier there exists a great variety of voluntary capital-funded additional types of saving for old-age (Schmahl, 2007: 321).

In the mid 1980s concerns about the future of the pension system were increased by the predictions of an ageing of population and its possible implications, increasing tendency to retire early and high levels of unemployment (Toft, 1997: 156). As a result, pension reform has been put on the agenda of Germany in 1990s.

First of all, in 1992, it was explicitly designed to respond to the expected increase in pension expenditure due to population ageing and decrease in retirement age (Bonoli, 2000: 157). For 1992-pension reform in Germany, an agreement was eventually reached after the Kohl's Government and Opposition (SPD) engaged in complicated and lengthy negotiations (Toft, 1997: 156). The Kohl's Government responded positively to the new needs of many of the elderly and in doing so sought broad agreement with the SPD and the trade unions (Lawson, 1996: 39). This reform was called as an essential reform, aiming at safeguarding the state pension against demographic trends over the next decade (Lawson, 1996: 12). The main changes were a shift in the indexation of pensions from gross earnings to net earnings and an increase in the cost of early retirement for worker (Bonoli, George and Taylor-Gooby, 2000:35). It was indicated that "early retirement will in future cost the individual a larger reductions in pension, while postponing retirement by up to two years will be rewarded" (Toft, 1997: 156).

In 1997, Kohl government introduced a more radical reform. One of the most important and controversial measure of 1997 reform, was the introduction of "demographic weighting" of pension benefits, which meant that 'if life expectancy increases, benefits are reduced so as to counter the effect of demographic pressures' (Bonoli, George and Taylor-Gooby, 2000:36). This reform of Kohl government in 1997 was not consensual. There was a strong opposition of Social Democrats and they become influential in cancelling this reform.

With the 2001 pension reform, red-green coalition government introduced two elements into German pension system: the first one is a means-tested transfer payment in case of insufficient income for persons aged 65 and older, as well as for disabled persons and the second new element is a subsidy for contributions into private pension scheme that fulfils certain criteria (Schmahl, 2007: 322). Since 2001 the PAYGO pension system in Germany has been in the course of developing supplementary funded systems (Palier, 2007: 87). This reform introduced a new strategy in pension policy and had not gained the support of the labour. Since, one of the main objectives of the reform was to make employees finance their pensions instead of employer financing of occupational pensions. Another reason why labour has not embraced the 2001 pension reform is that "'defined contribution type' pensions contain no redistributive element, lead to enlarged economic inequality in old age and only employees who can afford to forego present consumption will additionally provide for retirement" (Hinrichs, 2003: 14).

After the formation of the second Grand coalition government (between CDU (Christian Democrats) and SPD (Social Democrats) in the late 2005, pension reform was back in the political debate. Pessimistic projections concerning the rise in the equilibrium contribution rate pushed the leaders of the new government to agree on a substantial pension reform, the increase in the age of retirement from 65 to 67 and this is expected to happen gradually between 2012 and 2029 (Bonoli and Palier, 2006: 11).

According to some analysts, social insurance model of Germany is outdated and not durable due to the costly nature of the regime, its recent tendency towards deficit and its detrimental implications for the competitiveness of German economy (Poole, 2001:187). In contrast to these arguments, it could be argued that important changes have been done in the German pension system since the 1990s. In short, the introduction of privately-managed, complementary funded pension scheme and thus the shrinking in the scope and the coverage of the public pension scheme and the reduction of social security rights to the individual rights form the outcomes of pension reform, realized in Germany.

2.3. An Evaluation of the Dominant Approach on Pension Reform: Institutionalist Approach

In this part, institutionalist approach, representing dominant approach on pension reform, will be reexamined with giving reference to its description of the reform processes in some of the European countries.

According to institutionalist approach, while socio-economic changes set the scene for pension reform, political environment have influenced the dynamics of pension policy in the European countries. The main theme of institutionalist approach is that since reform in pension system could lead to serious political controversies, politics surrounding the adoption of pension reform should be looked at. In the institutionalist approach, state institutions and political structures are taken as an explanan of state-society and state-economy relations. In other words, this approach grasps the relationship between state and society as a relation of exteriority. Thus, they accept state and political institutions as an independent variable in the public policy analyses and emphasize the impact of institutions in the policy-making process. According to this view, the power and the interests of political actors constitute only the first tier of a causal explanation of policy-making and their impact on public policy is significantly mediated by institutional setting in which they operate (Bonoli, 2000: 39). Institutional variables are seen as setting the boundaries within which policy-makers can operate. For them, institutional structures provide access to policy-making for various groups. Analysis of policy process in the pension area is made on the basis of these institutional variables such as type of political regime (parliamentary, semi-presidential or presidential), form of government, type of electoral systems, existence of veto points etc. They argue that on the basis of the institutional characteristics, the reform to be implemented changes from country to country. In other words, nature and dynamics of the pension reform in one country is shaped by whether there is a presidential or parliamentary system or federalist or centralist system of government. For instance, institutionalists allege that UK's political system allowing government comparatively wide room to manoeuvre in policy making made possible and encouraged the adoption of a particularly radical pension reform (Bonoli, 2000: 53-55). Taylor-Gooby (2001b: 148) argues that the UK has a distinctive highly centralized policy-making apparatus, in which the party of government enjoys considerable power and very few concessions are made to external interests. The period between 1983 and 1987 is, due to the strength of the parliamentary majority in which search for consensus was least needed and majoritarian character of the British democracy reached its highest level, did have an impact on the pension policy process in UK (Bonoli, 2000: 65). Besides, for institutionalist analysis, the French case emphasizes dynamic character of the influence of institutions on policy-making. The existence of two-distinct and non-coordinated electoral cycles (for legislative and executive organs) and the division of executive power between a president and prime minister produced different configurations of power, which were convenient for negotiated policy changes (Bonoli, 2000: 149). For instance, whereas in 1993, cohabitation between a

Socialist president and Gaullist prime minister put pressure on government to negotiate the content of reform with the unions, in 1995 that pressure was absent and thus the attempt of Juppe to impose the reform of public sector pensions became a failure (Bonoli, 2000: 149). In Germany, during the 1990s, the strong constraints on executive authority, most notably the veto power of the Federal Council, has given the opposition the chance to block pension reforms and to force government into concession (Bönker and Wollmann, 2001: 97). As it is indicated, veto points are also one of the institutional factors affecting policy-making strategies and policy outcomes in the pension area. Their existence provides the integration of external groups to policy-making process so as to block law-making process. Bonoli (2000: 48) points out that the higher the veto points, the less a government will be able to influence policy outcomes and seek consensual solutions. According to Kay (cited in Béland, 2001: 155), political institutions shape political conflict by providing interest groups with varying opportunities to veto policy. To illustrate, the division of executive power can provide a veto opportunity if president and prime minister belong to different political camps, like experienced in France. In general, Bonoli and Palier (2006:4) present relatively influential labour movements, a largest population age structure and strong voters' attachment to good public pensions as the reasons that made the reform in Germany, Italy and France particularly difficult.

As it is denoted by the country examples, institutionalist perspective explains national differences through the country-specific characteristics of institutional limits to pension policy-making process. This is related with the institutionalist understanding which supports the existence of path-dependence in policy formation. According to Taylor-Gooby (1999: 2), "the notion of policy legacies, trajectories and paths directed by feedback from past policies that created the current institutional structure of welfare systems is influential in many accounts of policy developments". They assert that since there is an impact of decisions taken at the introduction of a new policy on future developments, it would be extremely difficult to mean-test a contributory scheme of Bismarckian inspiration;

in contrast, this option is easily implemented in tax-financed system (Bonoli, 2000: 41).

It might be argued that the emphasis of institutionalist approach establishes an obstacle to a critical understanding of pension reform. Initially, this approach is not concerned with the state in relation to dominant and dominated classes. Moreover, it might be claimed that some variables used for explaining the reasons of pension reform are taken for granted by institutionalists. Although the approach clarifies why the reform is needed, these reasons such as demographic changes, economic crises, European Integration process, are not problematized, they are accepted as given facts. To illustrate, Bonker and Wollmann (2001) indicates why the German welfare state has come under heavy pressure as globalization, European Integration, socio-demographic change and labour market changes. They do not state the origins of the factors affecting the reform process. Furthermore, the determinant power of class politics on the initiation of pension reform process has been ignored and the reason of changes in the context of reform is only related with the political institutions of the country. Social classes are conceived as an object, limited by institutional power and, their expectations are not included in institutionalist analysis of pension reform process. Institutionalists argue that "labour's impact on policy-making depends on the institutional setting of public pension system as well as on the claims associated with it and institutional factors can transform labour unions into formal and ideological 'veto players'" (Béland, 2001:167). They perceive trade unions as institutions in which each interest group represents their own interest, rather than an organization in which social forces play an active role.

To sum up, institutionalist approach presents public budget deficits and demographic changes as the reasons of the pension reform in the European countries. It should be underlined that this is a significant indicator of how this reform process has been shaped by the class struggles.

2.4.Conclusion

This chapter identified the main characteristics of pension reform process across European countries. While doing this, it also reevaluated the institutionalist approach, which is dominant within the studies of pension systems.

In the European countries, public budget constraints, ageing population and technological changes were claimed as the determinants of pension system crisis. Cuts in the pensions were presented as a solution for this crisis. Along the lines of this solution, this chapter argued that pension systems in the European countries are being transformed along with the neo-liberal principles. In the European countries, some measures have been taken in order to decrease the public pension expenditures since the mid-1990s. Initially, expansion of funded financing and reduction in PAYGO public pension schemes and development of multi-tiered pension system have been realized. Individual private pension scheme was brought as a supplementary third pillar to first and second pillars. In this way, social risks have been shifted from public to individuals.

Sweden and Germany cases were examined as two countries of diverse pension systems for a detailed analysis of the outcomes of pension reform in the European context. The substantial outcomes of the pension reforms in Sweden were designated as the decrease in the share of the public pension funds in the social insurances and the shifting of the burden, associated with pension provision from state to individual. In the same way, the reduction in the scope of the public pension scheme and the shifting of social security rights to the individual rights were indicated as the outcomes of pension reform, realized in Germany. It was analysed by the thesis that although Germany and Sweden have different pension structures, their pension systems have been restructured in line with the neo-liberal policies.

Lastly, institutionalist approach was reexamined with giving reference to its description of the reform processes in some of the European countries. According to this approach, the necessity of pension reform is based on financial unsustainability of current pension arrangements. This chapter emphasized that this approach accepts the reasons of the pension system restructuring process such as financial instability, budget constraints and ageing of population, as given facts. It was argued that this is a crucial indicator of how the pension reform process is formed by the class struggles.

CHAPTER 3

RESTRUCTURING PROCESS OF PENSION SYSTEMS IN TURKEY

Since the mid 1990s, pension system in Turkey has been restructured on the basis of the arguments that the actuarial balance has been damaged by the early retirement practices and the resources transferred from the budget for meeting the social security institutions' deficits has put huge burden on the public budget. Some laws were adopted in order to get over the crisis in the pension system. It should be highlighted that pension reform process has been accelerated in the period of Justice and Development Party (AKP) Government. "The Law on Amendments to Social Security and General Health Insurance Law and to Certain Laws and Decrees", no. 5754 became effective in this period.

This chapter attempts to assess the outcomes of the pension reform process in Turkey. To do this, it will analyze how social security reform in general, pension reform in particular has transformed the pension systems in Turkey. Therefore, it will try to analyse the role of international and supranational institutions, IMF, WB and EU in the reform process. Besides, it will identify the different approaches of capital and labour about the formation of the pension reform law. This analysis will be done on the basis of the texts of the laws and draft laws, reports, press statements and newspaper reports.

This chapter will contain three main parts. Initially, historical development of pension systems in Turkey will be pointed out. Second part will attempt to reveal the background to the pension reform process in order to indicate the transformation within the pension system. The third part will try to analyse the content and the adoption of the pension reform. This part will evaluate the pension reform process as a two-stage process. For the first stage, the thesis will examine short-term measures such as "Unemployment Insurance Law", no. 4447 and "Law of Individual Pension Savings and Investment System", no. 4632 and the second stage of the pension reform process includes administrative measures and establishment of a new system (Yakut-Çakar, 2007: 120). For this stage of the reform, thesis will analyze the laws of social security reform, enacted since 2006. In this part, the engagement of the Turkish capital and labour to the reform laws will be revealed.

3.1.Historical Development of Pension Systems in Turkey

Social security system in Turkey has a fragmented structure, provides different rules and regulations for the different sections of the society and does not cover all the population. Therefore, it could be asserted that the Turkish welfare regime displays a similarity with the Southern European type (Andreotti et al., 2001, cited in Yakut-Çakar, 2007). "As in Southern European type, it is highly fragmented and hierarchical, system of a corporatist character provides combined health and pension benefits to formally employed heads of household according to their status at work (Buğra and Keyder, 2006: 212)".

Eventhough social security had been provided partly in the Ottoman era through different funds, modern social security has not had a long history in Turkey (Elveren, 2008: 3). Put it differently, in terms of social security institutions, the young Turkish Republic had inherited negligible arrangements from the Ottoman Empire, essentially limited to government officials (Boratav and Özuğurlu, 2006: 164). Until II. World War, under a single party regime, social policies in Turkey were mostly concerned with protecting civil servants as regards to their pension and health service entitlements while at the same time being motivated by traditional paternalistic considerations (Yakut-Çakar, 2007: 104). One of the crucial social security regulations, implemented in that period is Labour Law, no 3008. This law was enacted in 1936 with the aim of forming a compulsory social insurance system in Turkey.

After the World War II., modern social security system was constituted. In this period, the public expenditures increased with the aim of guaranteeing the continuity of the social security system and providing higher social security standards (White Paper, 2005: 4). In that context, new institutions have been established in order to unite all the social security funds. It was in 1945 that Ministry of Labour was constituted and Law of Workers' Insurance Institution was enacted. And after a year, Workers' Insurance Institution was established. This institution was renamed as Social Insurance Institution (SSK), through the Social Insurance Act in 1964. In Turkish social security system, SSK is responsible for workers and agricultural workers working with contracts. Retirement Fund (ES), providing social security for state employees, was established in 1949 by the law no 5434. By the mid-1960s, the two schemes were covering 20% of the population (Boratav and Özuğurlu, 2006: 176).

Gradual expansion is seen in Turkish social security system. In 1960s, it was realized that Turkish social security system had some deficiencies and defects. Large section of dependent employees was out of the scope of social security and none of the independent employee was protected against social risks by any social security institution (Güzel and Okur, 2004: 33). After military coup of May 27, 1960, 1961 Constitution was prepared and it attributed a constitutional characteristic to the right of social security. Article 48 of 1961 Constitution stated that,

> Everyone has got a right of social security. The state is charged with the duty of establishing and assisting in the establishment of social insurance and social welfare organizations.[5]

In other words, the norms of social regulation, which can be evaluated as a new approach against the social and economic problems, were put into use with the 1961 Constitution (Topak, 1999: 101). According to Boratav and Özuğurlu (2006: 174), "the 1961 Constitution provided the basis for the establishment of Western-type industrial relations based on tripartite representation and the social basis of

[5] 1961 Constitution, [Downloaded from http://www.anayasa.gen.tr/1961constitution-text.pdf on 31.08.2007].

parliamentary populism was broadened by incorporating the organized urban working class". During that time period, regulative framework of social security system was drawn by the enactment of Social Insurance Act, no 506, on 17 July 1964. This act aimed to provide social insurance benefits in cases of work accidents, occupational diseases, sickness, maternity, invalidity, old-age and death. As pointed out, with this Act, Workers' Insurance Institution was renamed as Social Insurance Institution (SSK). After this Act, the Social Security Institution of Craftsmen, Tradesmen and Other Self-Employed People (Bağ-Kur) was formed as an institution for self-employed and farmers in 1971. Besides, some funds entitled the status of foundation were set up to provide those working in banks, insurance companies, trade chambers, stock markets with social security in the same period (TUSIAD, 2004: 42).

It could be concluded that social security system in Turkey has a fragmented structure since there are three major support funds each of which provides pension and health care services in Turkey; Social Insurance Institution (SSK), State Retirement Fund (ES) and Insuranced Self-employed Institution (Bağ-Kur). And, the system was established upon social insurance institutions, which are predicated on differences in occupational status of employees (TUSIAD, 2004: 31). That is to say, in Turkish social security system, different rules are available for the different sections of the society. Civil servants, workers and self-employed benefit from the social security right on the basis of their legal status, determined by the constitution. The amount of benefits and contributions differ as a consequence of fragmented structure. Whereas the ES fund for the white-collar public employees offers the best range of benefits, the benefits provided to self-employed and workers offer lower pension entitlements (Rose and Özcan, 2007: 33). To illustrate, the pension rights attributed to the civil servants are more comprehensive than the others. ES provides the benefits to its contributors with respect to different requirements. These are retirement pension, job disability pension, disability pension, survivor's pension, retirement bonus, death grant, marriage bonus, lump-sum payment and repayment of contribution; on the other hand, SSK warrants contributions to work injury and occupational disease insurance, sickness insurance, maternity insurance, disability insurance, old-age insurance and death insurance and Bağ-Kur provides relatively low levels of benefits such as disability insurance, old-age insurance, death insurance and health insurance (Elveren, 2008: 6).

On September 12, 1980, the military coup took place with the target of eliminating the effects of political instability in the country. In this context, 1982 Constitution and complementary legislation were prepared in order to institutionalize the regulation of relations of distribution by active and full support of business organizations (Boratav and Özuğurlu, 2006: 179). "A military coup in 1980 and constitution changed the balance of forces within the social matrix leading to the domination of the neo-liberal agenda up till the end of the 1990s (Boratav and Özuğurlu, 2006: 157)". In post-1980 period, instability, short-lived coalitions pushing for populist policies, and vicious cycles of economic instabilities have long been the norm (Yakut-Çakar, 2007: 111). Thus, in the area of social security, populist policies have been implemented in order to gain the support of the society.

Initially, there was an attempt to expand the sections of the society under the scope of social security in 1983. In this context, agricultural workers were added to the social security system through the law no 2925 "Agricultural Workers Social Security Act" and the law no 2926 "The Social Security Law for Self-Employers in Agriculture" (Seyyar, 2005) (See Table 3-3). Although this kind of expansion seems contradictory to the neo-liberal policies, it is related with it. Since, access of more people to the market increases the financial risks and this has a function of strengthening the market. That is to say, the provision of social insurance is a crucial component of the market reforms since it reduces the blow of liberalization among those most severely affected, it helps maintain the legitimacy of these reforms and it prevents backlashes against the distributional and social consequences of integration into the world economy (Rodrik, 1999: 98).

Secondly, Özal government attempted to reform social security system in 1986 and aimed to introduce an additional ceiling and flat rates for the calculation of benefits in the SSK system and therefore to allow the high income group to pay more premiums in order to get higher pension benefits, known as “super pension” (Yakut-Çakar, 2007: 119). However, Constitutional Court annulled the law enacting the reform in 1990 by the argument that this reform attempt created disparities within the social security system in the sense that the ratio of ceiling pension to flat rate had been 4, 6 in the ES system, while jumped to between 10 and 11 in the SSK (Constitutional Court, 1990, cited in Yakut-Çakar, 2007).

Furthermore, in this period, Social Security Support Premium and Poverty Aiding Fund (Fak-Fuk Fon) were formed and premium exemptions were implemented in order to clean the accumulated debts of employer who do not pay the premiums (Topak, 1999).

Table 3-3 - The Population Covered by Social Insurance Programs

								(In thousand person)
INSTITUTIONS	**1980**	**1989**	**1993**	**1995**	**1999**	**2002**	**2003**	**2004**
I. THE PENSION FUND (ES) IN TOTAL	**5933**	**8 258**	**10 088**	**7 185**	**8 434**	**9 038**	**9 238**	**9 270**
1. Active Insured	1 250	1 500	1 812	1 180	2 118	2 373	2 408	2 404
2. Pensioner (Passive Insured)	495	810	999	952	1 257	1 409	1 467	1 535
3. Dependants [1]	4 187	5 948	7 276	4 532	5 059	5 256	5 363	5 331
4. Active Insuerd / Passive Insured (1/2)	2,5	1,9	1,8	1,97	1,69	1,68	1,64	1,57
5. Dependency Ratio (3+2)/(1)	3,7	4,5	4,6	2,82	2,98	2,81	2,84	2,86
II. THE SOCIAL INSURANCE INSTITUTION (SSK) IN TOTAL	**10 202**	**17 916**	**22 545**	**28 726**	**36 367**	**33 089**	**35 065**	**37 626**
1. Active Insured	2 204	3 271	3 976	4 411	5 858	5 257	5 656	6 229
2. Voluntary Active Insured		266	438	981	901	942	698	328
3. Active Insured in Agriculture		74	177	253	194	149	165	177
4. Pensioners	567	1478	1999	2 338	3 149	3 748	3 936	4 121
5. Dependants	7 430	12 826	15 954	20 734	26 266	22 994	24 611	26 772
6. Active Insuerd / Passive Insured (1+2+3)/(4)	3,9	2,4	2,3	2,41	2,21	1,69	1,66	1,63
7. Dependency Ratio (5+4)/(3+2+1)	3,6	4	3,9	4,09	4,23	4,21	4,38	4,59
III. THE SOCIAL SECURITY ORGANIZATION OF CRAFTMEN, TRADEMEN AND OTHER SELF EMPLOYED (BAĞ-KUR) IN TOTAL	**4 925**	**12 935**	**14 028**	**11 833**	**13 876**	**15 548**	**15 883**	**16 234**
1. Active Insured [2]	1 100	1943	2 002	1 791	1 940	2 193	2 224	2 212
2. Voluntary Active Insured		107	92	82	264	238	236	238
3. Active Insured in Agriculture		711	776	796	861	891	923	998
4. Pensioners	138	544	777	881	1180	1 394	1 447	1 519
5. Dependants [1]	3 687	9 628	10 380	8 283	9 632	10 833	11 053	11 266
6. Active Insuerd / Passive Insured (1+2+3)/(4)	8	5,1	3,7	3,03	2,6	2,38	2,34	2,27
7. Dependency Ratio (5+4)/(3+2+1)	3,5	3,7	3,9	3,43	3,53	3,68	3,69	3,71
IV. PRIVATE FUNDS IN TOTAL	**272**	**393**	**261**	**291**	**333**	**324**	**296**	**301**
1. Active Insured	79	82	73	71	79	72	71	73
2. Pensioners	14	29	45	52	59	78	72	74
3. Dependants [1]	179	281	142	168	195	175	153	154
4. Active Insuerd / Passive Insured (1)/(2)	5,6	2,8	1,6	1,36	1,35	0,92	0,99	0,99
5. Dependency Ratio (3+2)/(1)	2,2	3,8	2,6	3,11	3,22	3,53	3,17	3,11
V. GENERAL TOTAL	**21 332**	**39 504**	**46 923**	**48 035**	**59 010**	**57 999**	**60 482**	**63 432**
1.Active Insured	4 634	6 797	7 863	8 153	9 994	9 894	10 359	10 919
2.Voluntary Active Insured		374	530	1 063	1 166	1 180	934	566
3. Active Insured in Agriculture		785	953	1 049	1 055	1 040	1 088	1 175

Table 3-1- (continued)

4. Pensioners	1 124	2862	3822	4 223	5 644	6 628	6 921	7 249
5. Dependants [1]	15 483	28 684	33 752	33 546	41 153	39 258	41 180	43 523
6. Active Insuerd / Passive Insured (1+2+3)/(4)	3,8	2,8	2,4	2, 43	2,16	1,83	1,79	1,75
7. Dependency Ratio (5+4)/(3+2+1)	4,6	4	4	3,68	3,83	3,79	3,88	4,01
VI.GENERAL POPULATION IN TOTAL				**61 075**	**64 851**	**69 302**	**70 231**	**71 152**
VII.RATIO OF INSURED POPULATION (Percent) 2		**71,2**	**78,2**	**78,8**	**91**	**83,7**	**86,1**	**89,1**
Source: (SPO, 7th and 8th Five Year Development Plan, 9th Development Plan Specialized Commission Report)								
[1] Estimation								
[2] Dependants of voluntary active insured have been considered within the insurance coverage.								

3.2.Background to the Pension Reform Process:

The necessity of a new pension policy has been indicated in the beginning of 1990s on the basis of the arguments that the Turkish social security system is in crisis due to the past mismanagement, particularly in the use of the accumulated of the social insurance funds, plus toleration of leakages from the system as well as the expansion of non-covered (unregistered) employment (Boratav and Özuğurlu, 2006: 185). According to the I. Çiller Government[6], the actuarial deficit has been increasing since the early retirement, increase in the size of the informal economy and premium collection decrease. And, the resources transferred from the general budget for meeting the social security institutions' deficits has led to severe budget deficits. All these problems were debated in the 7th Five Year Development Plan.[7] This development plan (1995: 5-9) pointed out that "Economic Precautions Implementation Plan" was put into force on 5 April 1994 due to the 1994 economic crisis. This plan was also called as "5 April Decisions". One of the goals of this plan was signified as to reform social security system through decreasing the public deficits. The instruments to achieve this goal was indicated as reducing the money

[6] The coalition of DYP-SHP/CHP constituted the 50th Government for the period of 25 June 1993-5 October 1995.

[7] See for the 7th Five Year Development Plan, 1995, pp: 111-117.

transferred to the SSK, encouraging the private pension system and increasing the retirement age and the rate of premium payment. As can be seen, the early retirement and the actuarial deficit of social security institutions were discussed during the I. Çiller Government.

In fact, the practise of early retirement under the VII. Demirel Government, right-left coalition government (True Path Party (DYP) - Social Democratic Populist Party (SHP)), in 1992 was indicated as one of the crucial reasons for the crisis in social security system. Because, this regulation abolished the retirement age limit, for women at 55 and for men at 60 and decreased the retirement age to 38. It was introduced that a person could retire provided 20 years of full contributions for women and 25 years of full contributions for men regardless of age limit.[8] In the I. Çiller Government period (April 1995), "Pension Draft Law" was changed in order to increase the retirement age to 53 for woman and 58 for man after 10-year transition period.[9] For protesting this Draft law, DİSK organized a demonstration, called "No to Retirement at Grave". At the same time, TÜRK-İŞ organized a meeting in order to protest the retirement age increase.[10] These oppositions became influential to postpone the implementation of this draft law.

The debate about pension reform was exacerbated by the argument of budget constraints of social security system. It was emphasized that although the government was not a contributor to the social security systems, all of the schemes were running into significant current deficits and their viability became increasingly dependent on transfers from the state budget (Boratav and Özuğurlu, 2006: 176). Transfers from the state budget to Social Security Institutions aimed at

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[8] 49th Demirel Governmet Programme, [Downloaded from http://www.tbmm.gov.tr/hukumetler/hp49.htm on 25 May 2008].

[9] Office of the Prime Minister, Directorate General of Press and Information, [Downloaded from http://www.byegm.gov.tr/yayinlarimiz/ayintarihi/1995/nisan1995.htm on 1 August 2008].

[10] DİSK Etkinlikleri Dizini, [Downloaded from http://www.disk.org.tr/default.asp?Page=Content&ContentId=28 on 27.07.2008]

financing their deficit have increased steadily since the 1990s (See Figure 3-1) (Elveren, 2008: 7). According to the ILO Report, titled "The Turkish Government Social Security and Health Insurance Project" (1995, cited in Elveren, 2008: 8) the total deficit of the social security system in Turkey will reach 10.1% of the GDP if there is no intervention to the system until 2050.

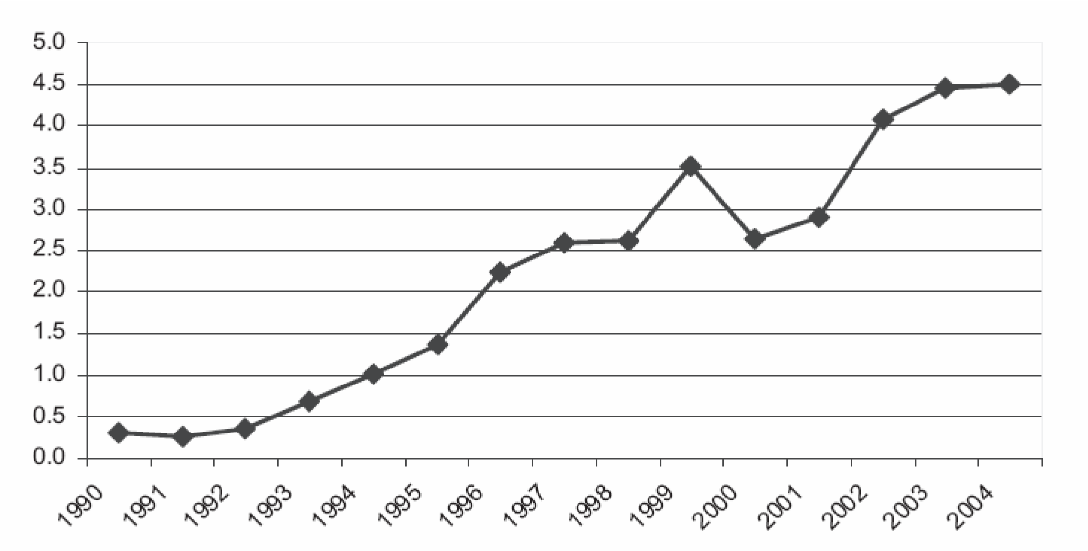

Figure 3-1 - Transfers to Social Security Institutions from Government Budget as % of GNP

Source: Elveren, A., (2007).

"At that moment, the pension reform debates which form the central axis of the credit policies of international financial institutions such as World Bank and IMF were put on the agenda (Topak, 1999: 106)". In the report of World Bank, titled "Averting the Old Age Crisis" (1994), the debate about pension crisis in Turkey has rested upon the assumption of "aging of population". And, it was argued that if social security system is not reformed, not only this system but also national economy can not carry out the burden of old-age population and this would put huge burden on the budget (Erdoğdu, 2006a: 216). As a solution to the problem of "aging of population", Bank suggested Turkey to implement multi-pillar approach via the report "Averting the Old Age Crisis". World Bank describes this approach as follows:

> Financial security for the old and economic growth would be better served if governments develop three systems or pillars of old age security: a publicly managed system with mandatory participation and the limited goal of reducing old-age poverty and insuring against various risks; a fully funded, privately managed, mandatory savings system; and voluntary, occupational and/or personal savings system. The first covers redistribution, the second and third cover savings, and all three coinsure against the many risks of old age" (World Bank, 1994: xiv, underlined by me).

Furthermore, IMF stated that "fiscal sustainability is threatened by the costs of an overly generous and poorly managed social security system, whose deficit reached 2% of GNP in 1996". According to IMF officials, the only way to eliminate the deficit of the social security system was to increase the minimum retirement age and to tighten the link between contributions and benefits.[11]

TUSIAD, representing the big capital in Turkey, has put pension reform into their agenda. As World Bank, TUSIAD has been the defender of multi-pillar pension system in order to get rid of social security system crisis. According to TUSIAD, the deficits of social security institutions and the burden of these deficits on the budget have been the reasons for transition to multi-pillar system of benefits. The first report of TUSIAD, called "Retiree and Happy" (1996) includes the arguments that uphold this situation. Report stated that Turkish social security system is in crisis because of early retirement, inefficient use of pension funds and ineffective control on social security institutions (1996: 11-12). In the report, Chilean model[12] was given as a successful example of private pension schemes to

[11] IMF Concludes Article IV Consultation with Turkey, Press Information Notice Number 97/17, August 5, 1997, [Downloaded from http://www.imf.org/external/np/sec/pn/1997/pn9717.htm#I2 on 4 August 2008].

[12] Chile is one of the Latin American countries that implemented structural reform programmes with the World Bank credits in 1980s. Through pension reform, social security system was completely privatized in Chile and pension insurance was provided by private insurace companies.

Turkey. In this context, report denoted the necessity of current system to be structurally transformed. In the report, it is recommended that:

> ...The current system necessitates a fundamental structural transformation. It could be a more reliable system within which individuals are the owners of their savings and which provides right of choice among competitive companies, instead of a state-administered system (1996: 41).

Therefore, it was argued that private insurance companies would be more productive in the pension field than the state because of their competitive structure. This is a way of encouraging the individual pension system. As is the case in Chile, individual pension practices have been legitimized on the basis of the argument that under this system individuals are able to give their decisions on their retirement. And, individual welfare will be increased by defined contribution schemes. However, the failure of Chilean model has been proved by the bankruptcy of pension insurance companies as a consequence of financial crises emerged in Latin America in the late 1990s.

Social security reform continued to be on the agenda of TUSIAD in 1997. In this year, TUSIAD prepared a report, entitled "Restructuring of Turkish Social Security System". The report (1997: 13) revealed the reasons of the pension system crisis as the mismanagement of the politicians, so-called populist policies of the state, active-passive imbalance due to aging of population, early retirement practises, increase in informal employment, finance deficit of the state and high premium ratio for the employers. TUSIAD upheld that governments should act to provide long-term macro-economic stability instead of acting for their short-term interests.

The necessity of social security reform was again put on the agenda in the period of 55th Yılmaz Government in 1997 by the "Meeting of Economic and Social Council". In the meeting, it was decided that joint working for social security reform would be initiated with the trade unions and labour unions.[13]

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[13] Office of the Prime Minister, Directorate General of Press and Information,

As it is seen, in the process of determining the factors leading to pension system crisis in Turkey and developing some solutions to the crisis, World Bank, IMF and ILO have been influential. Three of them underlined the necessity of transformation in the pension system through indicating the financial budgetary constraints. At the same time, Turkish Governments have put pension reform on their agenda since the mid 1990s. They used financial indicators such as actuarial imbalance and budget deficits in order to explain the necessity of the reform. Beside these financial indicators, TUSIAD revealed the inevitability of the reform by the reason of the mismanagement of the politicians.

In this part, it is essential to underline that pension system crisis should be analysed on the basis of the political developments in Turkey in the 1980s and the beginning of 1990s. As indicated, after the military coup of 1980, there emerged instable and short-lived coalitions pushing for populist policies (Yakut-Çakar, 2007: 111). Under these circumstances, in the area of social security, populist policies have been implemented in order to gain the support of the society. As above-mentioned, these policies were application of super pension and increase in the ratio of ceiling pension to the flat rate in SSK and premium exemptions. Moreover, the practise of early retirement under the right-left coalition government, True Path Party (DYP) - Social Democratic Populist Party (SHP) in 1992 is crucial. This regulation abolished the retirement age limit, for women at 55 and for men at 60 and introduced that a person could retire provided 20 years of full contributions for women and 25 years of full contributions for men regardless of age limit.[14]

Another factor, leading to social security system crisis is that the funds of Social Security Institutions, especially SSK funds, have been used in order to meet the deficits in the public sector (Müftüoğlu, 2006: 45). Put it differently, these SSK funds was transferred to Investment Bank of the State and Undersecretariat of Treasury of as low-interested credits (Harb-İş, 1995, cited in Topak, 1999). It could

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[Downloaded from http://www.byegm.gov.tr/YAYINLARIMIZ/ayintarihi/1997/agustos1997.htm on 1 August 2008].

[14] 49th Demirel Governmet Programme, [Downloaded from http://www.tbmm.gov.tr/hukumetler/hp49.htm on 25 May 2008].

be argued that capital accumulation was provided by the Investment Bank of the State and pension funds were important for this accumulation process. It has been estimated that if the accumulated funds of Social Insurance Institution had been invested at 2% real rates of return since 1960, by the end of 1997 the institution would have had available resources in excess of $20 billion (Kocaoğlu, 1997: 235, cited in Boratav and Özuğurlu, 2006)

3.3. Content and the Adoption of the Pension Reform:

With the laws enacted since the late 1990s, some essential changes have been done in the Turkish pension system and this has formed the basis of the Draft Law of Social Security and General Health Insurance Law, no. 5489. It is vital to underline that analysing this process could make to see pension policy as a whole.

Actually, a pension reform project has been designed as a two-stage process, the first of which targets to address short-term measures while the second stage has a longer term vision with administrative measures and establishment of a new system (Yakut-Çakar, 2007: 120).

3.3.1. Pension Reform: Short-term Measures

The enactment of "Unemployment Insurance Law" in 1999 has constituted the first stage of the reform package. The regulation of 1992, which annulled limit of retirement age and gave a chance to become retired after completing the 25 working years for man and 20 for woman, was considered as a threat to the sustainability of the system. TUSIAD (1997: 85) criticized the reform of 1992 by the argument that this reform deepened the financial crisis and it claimed that early retirement practices, seen as a solution to the unemployment problem, should be eliminated. Hence, under the coalition government of the left-of-centre Democratic Left Party (DSP), the Nationalist Action Party (MHP) and the right-of-centre Motherland Party (ANAP) in 1999, "Unemployment Insurance Law", no. 4447 was enacted. Some of changes were done on Law of Social Insurance, Law of State Retirement Fund, Law of Insuranced Self-employed Institution, Social Security Law for Agricultural Workers, The Social Security Law for Self-Employers in Agriculture and Labour Law. This reform law was presented in order to ensure a sustainable actuarial structure in the social insurance system and to solve the existing problems in the social security system. One of the controversial topics of the law has been the change in retirement parameters. It introduced an increase in the minimum retirement age and in the minimum period of contribution necessary for entitlement to pension benefits, was enacted (Buğra and Keyder, 2006: 214).

This law, within a certain transition period, has elevated minimum retirement age to 52 for woman and 56 for man, for those who are already within the system. For those who are newly entering the system, the retirement age for woman has been elevated to 58 years and 60 years for man (7th Five Year Development Plan: 111). Under these circumstances, it gets difficult to be entitled pension right.

Moreover, by the law the minimum premium payment period required to gain the right of retirement has been prolonged, the average ratio of granting pensions has been pulled down and the reference period considered for calculating pension has been designated as the whole working period for SSK and Bağ-Kur pensioners (8th Five Year Development Plan: 118).

The level of the increase in pensions, paid by SSK and Bağ-Kur has been adjusted according to Consumer Price Indexes (TUFE). Actually, with this change the expectation of pensioner to get a share from the increase in national income has been removed.

Another point to be emphasized is that this law does not cover the civil servants under the coverage of ES apart from the regulation about the limit of retirement age. Retirement system of civil servants, called as “benevolent retirement system” by the World Bank (Erdoğdu, 2006b: 1), is an important topic for the supporters of social security reform.

Table 3-4 - The Features of Pension System Before and After the Law, no. 4447

	Before the Law, no. 4447	After the Law, no. 4447
Retirement Age	Becoming retired after completing: ▪25 working years for man ▪20 working years for woman	▪Age of 58 for woman ▪Age of 60 for man
Premium payment period	5000 days	7000 days for SSK (Gradual Increase)
The level of increase in pension	Pensions was calculated by the coefficient and indicator system.	Pension was indexed to CPI (for SSK and Bağ-Kur).

After the 2001 February crisis in Turkey, new legal and institutional framework has been drawn by "Program for Transition to a Strong Economy", presented by Kemal Derviş. International financial institutions such as WB and IMF indicated the reason of the financial crisis and social problems, emerged in Turkey, as improper implementation of the reforms (Güzelsarı, 2004: 104). And thus, 2nd Generation Structural Reforms have started to be implemented in order to deal with this crisis. Social security reform has been put on the agenda again in the context of 2nd Generation Structural Reforms.

In this period, the law, called "Individual Pension Savings and Investment System", no. 4632, became a law in 28 March 2001 under 57th Government, the coalition government of the DSP, MHP and ANAP. This law has brought about some adjustments, which formed the important part of short-term measures.

The argument of this law is that individuals to be covered with a complementary pension system will increase day by day due to the financial deficit of social security system (EGM, 2004: 19). Individual pension system put into operation on October 27, 2003. Through its operation, complementary to public retirement system, voluntary and defined-contribution-based new system has been introduced. "The goals of the law are raising the pensioners' welfare level with providing supplementary income in their retirement period via directing their savings to investment, increasing the employment through creating long-run sources to the economy and contributing to the economic development".[15] That is to say, individual pension system in Turkey is a supplementary system, applied by the individuals who want to make an extra investment. In this system, individuals pay their premiums to the pension companies. The formation of voluntarily funded private pensions to complement the existing system basically serves to appeal to higher-income individuals (Yakut-Çakar, 2007: 121).

3.3.2.Pension Reform: Administrative Restructuring Process

Pension reform process has been accelerated in the period of Justice and Development Party (AKP) Government. First of all, "Urgent Action Plan (Acil Eylem Planı)" was prepared in 2001. This plan mentioned the regulations relating to the social security reform. According to the Plan, all sorts of regulations about the area of social policy should take into consideration the arrangement of income distribution and poverty alleviation.[16] In this plan, the necessity of development of poverty alleviation strategies was emphasized and the aim of social security system was defined as decreasing the relative and absolute poverty.

Social security reform has put on the agenda of Turkey with the argument that "everybody will be taken under an umbrella of social security and the social security services will be provided more effectively than the social security institutions are providing now" (Özveri, 2006: 321). In other words, administrative restructuring stage of the reform, so-called second-stage, has been initiated with a

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[15] The Law dated 07.04.2001 and no. 4632 on "Individual Pension Savings and Investment System".

[16] Urgent Action Plan, [Downloaded from http://www.belgenet.com/eko/acileylem_161102.html on 1 September 2007].

draft text titled "Proposal for Social Security Reform", prepared by Ministry of Labour and Social Security in 2004 (Yakut-Çakar, 2007: 121). Revised form of this report, called White Paper (2005), has been based on elimination of social security institutions deficits. Reform proposal has argued that the transformation in the social security system is necessary and inevitable in order to provide the sustainability of the system. The transformation in the social security system has been justified with the arguments such as demographic changes, finance deficits of the social security institutions, insufficiency of social security system to deal with poverty and inability to cover entire population. For this reason, report has recommended a reform in four different areas, General Health Insurance, Non-premium Payments and Social Assistance, Retirement Insurance and creation of new institutional structure (White Paper, 2005: 22).

Pension reform has put on the agenda by AKP Government in order to prevent actuarial imbalance, caused by early retirement and to decrease the transfers from general budget to social security institutions. This situation is supported by the arguments of demographic changes and increase in the proportion of population over 65 in the whole population. It is stated that if this continues, financing of the social security system will become difficult due to the active-passive imbalance[17] (White Paper, 2005: 5-7). According to White Paper (2005: 7), dependency ratio will decrease until 2025, however this ratio will increase after 2035 and finance of the system will get difficult. In this context, elapsed time after retirement, which is 34 for women and 27 for men, has been perceived as a problem and it is affirmed that the steps for prevention of encouragement to early retirement should be taken (Başesgioğlu, 2007: 22). In fact, presenting the ageing of population, expected to be a big problem in 2040, as one of the fundamental reasons of social security reform is a result of IMF and WB policies on Turkey (Erdoğdu, 2006a: 215).

[17] Active-passive balance is figured out by the proportion of working people (active-premium payers) to pensioners (passive insureds). As of April 2007, the proportion of active to passive insured is 1, 61 for ES, 2, 05 for SSK and 2, 14 for Bağ-Kur. Social Security Institution, Monthly Statistics Bulletin, No: xx, 30 April 2007.

Incapability of the existing social security system to fight against poverty has been presented as another reason of the crisis. White Paper (2005: 9) highlights the urgency of the transformation on the basis of the problem of absolute and relative poverty. Supporting the employers and waged labour, who have lowest poverty risk, has been identified as inefficient use of social security funds and the inability of social security system to cope with poverty (White Paper, 2005: 10-11). In fact, the public masses are totally swept away from power channels and state appears to the masses as the "state fighting against poverty" (Güler, 2006: 29).

Moreover, social security reform has been legitimized by reasons of failing to ensure norm and standard unity, uncovering all of the population and increase in informal employment.[18] This problem is associated with the high number of social security institutions, the differentiation of rights and responsibilities of people under the coverage of different institutions and thus difficulty to coordinate these institutions. As a solution, establishments of new social security institution, which will cover the entire population, meet changing needs of the society and provide good quality services to the citizens, has been suggested (White Paper, 2005: 12).

3.3.2.1.The Role of International and Supranational Institutions, IMF, WB and EU in the Formation of "The Law of Social Insurance and General Health Insurance", no 5489

It is crucial to point out that the pension reform has been put as a conditionality by IMF and World Bank to Turkey for the release of a considerable part of the loan credits. For EU, 'success' of Turkey in reforming pension system has been presented as a necessity to get EU membership.

[18] While the proportion of insured to population is 80%, the proportion of uninsured to population is 20%. Social Security Institution, Monthly Statistics Bulletin, No: xx, 30 April 2007.

World Bank (WB):

World Bank has supported the transformation in the social security system through the loans and grants in Turkey. To illustrate, in 2004, World Bank affirmed that Turkey would take 1.5 billion dollar within the context of Country Assistance Strategy in return for enforcement of social security laws.[19] For the Bank, social security reform law will enable the implementation of necessary reform which will bring both greater equity and sustainability to the social security system of Turkey, both on the pension and health side.[20] Put it differently, Turkey Country Director, Andrew Vorkink, has stated their readiness to help the Government particularly in providing insight from best practices globally and in helping finance the necessary investments in institutions, systems and the people to make social security reform in Turkey work.[21]

International Monetary Fund (IMF):

IMF is one of financial international institutions, which make a deep impact on Turkish economy via the credit agreements. In this sense, Turkey could be termed as a country, dependent on Stand-by Agreements signed with IMF.

1998 Staff Monitoring Agreement and 1999, 2002 and 2005 IMF Stand-by Agreement have made an impact on the practises of increasing contributions, decreasing costs of pension regimes and strengthening individual retirement programs in Turkey (Erdoğdu, 2006a: 213). IMF 8th Letter of Intent (2004: 3) presents social security reform in Turkey as "implementing the structural reform

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[19] *Evrensel*, 30.09.2004

[20] Downloaded from http://www.worldbank.org.tr/WBSITE/EXTERNAL/COUNTRIES on 20 August 2007.

[21] Downloaded from http://www.worldbank.org.tr/WBSITE/EXTERNAL/COUNTRIES on 20 August 2007.

program to support a sustained improvement in Turkey's fiscal performance". As a part of structural reform program, IMF identified the pension system reform strategy of Turkey, "including unification of the existing three pension institutions and objective to place the pension deficit on a firm downward path by 2007 and to reduce it to 1 percent of GNP over the long-term" (Letter of Intent, 2004: 4). In October 26, 2004, Hugh Bredenkamp, the IMF's Senior Resident Representative in Turkey, issued the statement that Turkish government should finalize its proposals to ensure effective implementation of macro-economic policy and to flesh out structural reforms such as tax and social security reform and new banking law. He also indicated "as soon as this work is completed, a follow-up mission would continue discussions on the new Stand-By Arrangement".[22] In September 2005, IMF staff stated that 1.6 billion dollar loan tranche (restructuring credits) would be released if the Turkish Parliament adopts social security reform.[23] That is to say, IMF expressed the necessity of implementation of social security reform as a condition for providing credits. After three months, in December 2005, the statement issued by Bredenkamp is significant. He states that since the most important agenda topic of 2006 is social security reform, an approach, highlighting financial discipline in social security expenditures and cost-effectiveness, should be adopted.[24] IMF always signifies the necessity of settling the social security system deficits because only through this way, 6.5% of GNP public sector primary surplus target, which is seen as necessary for economic stability, would be achieved. "IMF puts some kind of "informal conditionality" on the release of a considerable part of the loan by its announcement of linking the release with the parliamentary approval of the law (Yakut-Çakar, 2007: 123)". Consequently, social security reform is significant in terms of forming one of the components of IMF structural reform programme.

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[22] IMF, Press Release No. 04/225, October 26, 2004.

[23] Evrensel, 06.09.2005

[24] *Radikal*, 15.12.2004, "2006'da Dikkatler Sosyal Güvenlikte".

European Union (EU):

As a country having a long relationship with the EU, the signing of a Customs Union between the EU and Turkey in 1995, and recognition of Turkey as a candidate country at the Helsinki European Council in 1999 and the decision to initiate negotiations in September 2004 and gaining the status of candidate country in October, 2005 accelerated the penetration of the EU within the social policy domain in Turkey (Yakut-Çakar, 2007: 118).

Pension reform is one of the crucial headings of EU accession process of Turkey in the area of social policy. It is seen that EU pension reform constitutes a model for Turkish policy-makers in the reform process since 'success' of Turkey in reforming pension system is presented as a necessity to get EU membership. Eventhough Copenhagen Criteria, declared the requirements of accession, does not directly mention pension privatization for "the existence of functioning market", pension reform is a crucial issue in the accession process (Elveren, 2008: 5). Whereas the regular reports and accession partnerships are the indicators of EU approach to the social security reform process in Turkey, The Turkish National Programme for the Adoption of the Acquis and country reports signifies the eagerness of Turkey to integrate with EU social policy understanding.

Initially, the point to be problematized is to what extent regular reports and accession partnerships touch upon the social security rights. Because, analyzing this would ease to understand the EU approach to the social security reform process in Turkey. Since 1998, regular progress reports and accession partnerships have been published in order to elucidate the current situation of social security system in Turkey from the EU point of view. The reports explain the reform process via the economic terms such as "financial sustainability", and do not regard the social and political consequences of the reform.

The main argument supported by the reports since 1998 is established on "ensuring a sustainable and effective social security system via implementing appropriate fiscal and monetary policies". Regular Progress Report on Turkey for 1998 (European Commission, 1998: 24-49) stated the necessity of a thoroughgoing structural reform due to low retirement age, low social security coverage of labour force and high spending of social security. The 1999 Report (European Commission, 1999: 21) defined pension system as a heavy burden on public finances since there are generous provisions on the retirement age and increasing life expectancy. After a year, report stresses that the social security system continued to be in serious financial difficulty and the reform of social security system was urgently needed (European Commission, 2000: 49-50). Moreover, the report for 2001 (European Commission, 2001: 69) sees the law, providing for the establishment of an Individual Pension Advisory Board, as one of the vital components of on-going social security reform. According to this view, one of the components of EU accession process has been fulfilled by the enforcement of Individual Retirement Law. In the Accession Partnership on 2001 and 2003, ensuring the sustainability of the pension and social security system was indicated as a medium term economic criteria. Insufficient administrative capacity was specified as a reason of inefficiencies, deficits and cases of irregularities in the pension system and the social security institutions (Regular Report, 2002: 69 and 2003: 65). The regular progress report of 2003 (p: 90) and 2005 (p: 59) defined the most urgent problems for the social security system as the lack of financial stability due to general macroeconomic imbalances, the presence of an informal sector and administrative and management problems and it was suggested that Turkey should continue its efforts to reform its social security system and strengthen the administrative capacity.

It is important to denote how these reports and declarations of EU officials have affected the reform process in Turkey. Ferge (2000: 10-11) argues that the recommendations made by European Commission for social reforms in the accession countries has several elements close to what is usually termed the neo-liberal agenda based on the "Washington consensus", the agenda that used to be represented by the supranational monetarist agencies. In other words, it is significant to underline that although the EU emphasizes the importance of enhancing social security by increasing state support, in the final analysis, the EU does not say anything different from the IMF and WB (Elveren, 2008: 5). Denoting in which context social security reform is perceived as inevitable in Turkey could reinforce this opinion. In 2001, "The Turkish National Programme for the Adoption of the Acquis" was announced with the aim of harmonizing the Turkish social security system with the EU acquis on social policy. However, one should note that chapter of the EU acquis communautaire on social policy and employment does not include any precautions pertaining to the social protection systems such as EU social security system, EU pension system (Erdoğdu, 2005: 20). Moreover, Turkey Country Report (Adaman, 2003: 35) asserted that the pension system in Turkey as of today continues to be a major fiscal burden on the budget. And, exclusion of some sections of the population from the coverage of social insurance institutions and a long list of differences (procedures, benefits, etc.) among the three schemes (SSK, ES and Bağ-Kur) were presented as some of the crucial problems of pension system in Turkey (Adaman, 2003: 38–39). As a solution to these main challenges, either increase retirement age or to cut benefits and/or increase contributions, or a combination of these, extension of social security legislation to cover all employees both paid and unpaid was suggested (Adaman, 2003: 39). For the report, it is necessary for providing full harmonization with the EU.

The reports both prepared by the EU and by Turkey have given priority to the economic indicators such as public budget deficits, low retirement age, low contribution rate while analyzing the reasons of the pension system crisis. It was declared in the White Paper (2005: 15) that public debts will be curtailed with the pension reform and thus percentage of public sector primary surplus will decrease. In this way, it is provided that the proportion of budget deficits to national revenue will be reduced to 3% during the integration process of Turkey to the EU. It is presented as a way of providing economic convergence with the European Union.[25] In other words, pension system restructuring process has been presented as a

[25] According to Maastricht convergence criteria, in order to be a member of the European Union, a country should achieve "low inflation rate and interest rates, a budget deficit of 3% of GDP or less and a stable exchange rate. Also, the ratio of gross government debt to GDP should not exceed 60% at the end of the preceding fiscal year (no devaluation in last two years) (Treaty on European Union, 1992).

technical issue. And thus, social rights, “providing individuals protection against social risks especially those arising in the labour market” (Arın, 2002: 73), are destroyed. Thus, it could be concluded that policy proposals put forward by the EU agencies and institutions in the sphere of social security is away from enhancing social rights considering all the reports.

As it is seen, EU has supported the pension reform which has been implementing by AKP Government. The question to be responded here is why the limitation in social security coverage has not be seen as a problem for convergence to the membership criterion by EU officials (BSB, 2008: 247).

3.3.2.2. Supportive Arguments of Capital for the Pension Reform in the Formation of Law, no. 5489

TUSIAD (The Association of Turkish Social Industrialist and Businessmen) and TISK (Turkish Confederation of Employer Trade Union) have become one of the determinant actors in the preparation of Draft Law, 5489. Arguments of the capital about the direction of the pension reform overlap with the AKP Government. However, solution proposals of AKP Government and capital for getting over the crisis differ at some points.

They claim that the deficits of social security institutions put burden on the state and the national economy; for this reason, social security system should be adjusted to the free market conditions in order to eliminate this burden (Müftüoğlu, 2006: 45). In this context, TUSIAD recommends a multi-pillar pension model. Actually, the common denominator of them is to reform social security system in order to reduce the costs of employment for the employer. In this context, local capital, who can not agree on various topics, collectively defends their interests about necessity of social security reform. They support the idea that reform should be realized in accordance with their demands.

TUSIAD (The Association of Turkish Social Industrialist and Businessmen):

TUSIAD has supported the policies that have the objective of restructuring the pension system. For TUSIAD (2004c), the reform of 1999, led to adjustments about retirement age and period of premium payment, and the introduction of individual pension system in 2001 were not enough to eliminate the problems in social security system. It was argued that,

> The current system prevents utilizing resources efficiently and becomes insufficient to alleviate with the poverty. And also, financial deficits of social security institutions affect macro-economic balance and basic economic indicators negatively and the aging of population is a crucial problem for the social security system (TUSIAD, 2004a).

This shows that the current situation analysis of TUSIAD about Turkish social security system was the same with the AKP Government. However, the new pension model, recommended by TUSIAD, was not mentioned in the reform project of the Government.

According to TUSIAD (2004c), pension system in Turkey should be restructured in order to get full membership to the European Union. In this context, TUSIAD has suggested to implement three pillar pension system in accordance with the World Bank model. In the three-pillar pension system, whereas existing social security institutions, SSK, Bağ-Kur and ES, form the first pillar of the system, financed by PAYGO system; social security institutions, taken place at the second-pillar, realize individual saving function (TUSIAD, 2004b: 21-22). In the first pillar, system will be financed by PAYGO and burden of premium will be shared between the employer and employee equally (TUSIAD, 2004b: 21). The second one is a mandatory fully funded and privately managed pillar. State will not contribute to the finance of second-pillar institutions. It is argued that the property and management of the funds will be under the individual control (TUSIAD, 2004b: 21). It is claimed that this will enable the capital and stock markets to develop through creating long-term fund accumulations and will make a positive impact on capital market (TUSIAD, 2004b: 22). And, the third pillar will consist of voluntarily based individual retirement firms (TUSIAD, 2004b: 23).

Furthermore, for TUSIAD (2004b: 20), the pension system to be established should make individuals more responsible about their retirement, increase the population under the coverage of social security through decreasing the direct and indirect tax burden and disallow the intervention of politicians to the operation of the pension system.

TISK (Turkish Confederation of Employer Trade Union):

Holding the similar line with TUSIAD, TISK constitutes identity of capital collectively and supports its interests on a common platform. TISK makes a contribution to the privatization process of social security systems by way of encouraging individual private insurance system.

TISK points out the necessity of constitution of more effective and less expensive social security system through reform since the system is in financial crises. In this context, TISK identifies populist policies, increase in transfers from the budget to the social security institutions, different rights and services to these different institutions due to the norm differentials, active-passive imbalance and high premiums paid by employers as the reasons of reform (Pirler, 2004). For TISK, reform should reduce the cost of employer through decreasing rates of premium paid for employee and this allows employer to hire more employees. In this context, private sector should play an effective role in the social security system and state should behave as a regulative body within the process. This means that individual pension system should be encouraged since it is more profitable (Pirler, 2004).

In fact, TISK has not satisfied with the reform proposal, revealed by AKP Government. Because, according to TİSK, although the solution proposals for social security system crisis seem positive in the first instance, they do not bring solution to the existing problems and do not provide norm and standard unity

(TISK, 2005). In that context, the reform proposal has been criticized on the basis of the fact that it includes extremely negative regulations in terms of employers and prevents new investments and recruitment of new employees with increasing the employer’s rate of premiums. Therefore, it has negative impact on national economy and employment (TISK, 2005).

3.3.2.3. Counter Arguments from Labour Unions to the Pension Reform in the Formation of Law, No. 5489

The social security reform proposal of Ministry of Labour and Social Security does not gain support from the labour unions. DISK (Confederation of Progressive Trade Unions of Turkey), KESK (Confederation of Public Employees Trade Unions) and TURK-IS (Labour Union Confederation) are the labour unions, criticizing the transformation in pension system within the framework of different arguments.

DISK and KESK

DISK and KESK make their analysis through explaining social security reform as transformation of social security right into poverty alleviation strategy. The main point that DISK has a critical stance is the emphasis of ‘poverty alleviation’, which is denoted as one of the reasons of reform. The report, prepared by DISK in 2004, criticizes indicating resources transferred to social security institutions from general budget as the cause of poverty. According to DISK (2004), the aim of the argument, which is “using financial resources as supplying the social security deficits instead of providing social assistance to the poor sections of the society”, is to create an illusion of two opposite groups: informal workers and unemployed people versus working people under the coverage of social security system. This opinion is significant for reflecting the transformation in the social security system. Because, the social security system has been deconstructed and two different understanding such as social security system and social assistance system has been created.

Moreover, DISK criticizes the perception of economic problems as 'technical' issues, which is created during the reform process and emphasizes the inseparability of economics and politics. Perception of budget deficits as a "blackhole" and presenting it as one of the most important reasons of the social security system crisis has been rejected by DISK. For DISK, supporting the privatization of social security system on the basis of aging of population discourse does not seem as a realistic attempt. Because, the target of this discourse is to channel people to individual retirement system via injecting the feeling of social insecurity (DISK, 2004).

The critique of KESK is in line with DISK. According to KESK, Ministry of Labour and Social Security explains the reasons of the reform by economic terms and does not problematize these terms. In this context, the regulations such as increase in retirement age and period of premium payment and decrease in income replacement rate obstruct people from reaching their pension right. By way of the hindrance of retirement, the public retirement system will be replaced with private insurance system, legitimized on the grounds that people will get the chance of deciding on their own pension regime (KESK, 2004). Consequently, reform attempts to disorganize the working class on the basis of creating resentment between insured worker and uninsured worker. KESK (2004) interprets this situation as making social security institutions nonfunctional and serving this institutions to the order of capital markets.

TURK-IS:

TURK-IS, identifies the reasons of the social security system crisis as populist policies of the government and bureaucratic structure of the state. It was argued in the report prepared by the Confederation in 2004 (p: 13-14) that irresponsible use of pension funds by the governments for providing cheap credits for ten years has been one of the crucial reasons of the crisis. After two years, in

2006, TURK-IS indicated again one of the crucial problems of social security system as populist policies of the governments and mismanagement of the politicians. Moreover, TURK-IS criticized the idea of using social security institutions as cheap credit establishments. And, the way of preventing finance deficit of the system was asserted as maintaining active-passive balance at the minimum level, controlling the costs through measuring with concrete criterion, contribution of state as a third pillar to the system, sustaining norm and standard unity among workers and civil servants in terms of their pension rights and struggling with informal employment effectively (TURK-IS, 2006: 5-9).

TURK-IS differs itself from other labour unions, DISK and KESK on the basis of the fact that it discusses the problems of social security system as an only economic issue. In other words, TURK-IS relates mismanagement of the politicians only to the good or bad administration. That is to say, the factors that led to the social security reform do not analysed with giving reference to the economy-politics inseparability.

3.3.3. Legal Process of the Pension Reform

"The Law of Social Insurance and General Health Insurance", no 5489 was adopted by the Turkish Grand National Assembly in April, 2006. This law had the goal of changing the different pension systems that have been operating to-date. However, on May 10, 2006, 10th President Ahmet Necdet Sezer sent back the "The Law of Social Insurance and General Health Insurance", no 5489 to Turkish Grand National Assembly for further consideration of the Articles 3, 28, 29, 31, 40, 46, 55, 63, 80, 82 and Provisional Articles 1, 2,4, 6 and 9 of the law. According to Sezer, the adjustments done in social security system by this law were not fair, reasonable and measurable in line with the state governed by the rule of law.[26]

[26] For further information about the Reasoned Decision of 10th President Ahmet Necdet Sezer on "The Law of Social Insurance and General Health Insurance", no 5489, see the website: [http://www.ttb.org.tr/index.php?option=com_content&task=view&id=198&Itemid=56].

Regarding the pension system restructuring process, he objected to the increase in retirement age and premium payment day.

On the other hand, IMF proposed deepening structural reforms through which social security system remains essential to avoid large future deficits in the pension and health care systems and create fiscal resources for other, growth enhancing reforms in Turkey.[27] Furthermore, in 2006, The Programmatic Public Sector Development Policy Loan (PPDPL) has been given to Turkey in order to support continued implementation and broadening of the structural and institutional reforms of public sector.[28] World Bank has financed the studies to be realized in the context of pension and unemployment insurance, health finance and general public administration sector reforms (Treasury of Finance, 2006).

At that time, "The Law of Social Security Institution", no 5502 was enacted on May 16, 2006. This law has unified the three main social security institutions: the State Retirement Fund (ES); the Social Insurance Institution (SSK); and the Insuranced Self-employed Institution (Bağ-Kur) under the roof of the Ministry of Labour and Social Security. Social Security Institution was constituted in 2006 in order to serve this goal.

After that, "The Law of Social Insurance and General Health Insurance" was adopted by the Parliament on May 31, 2006. The effective date of the law was planned as 1 January 2007. The law, no. 5510 has claimed that crisis in social security system could be overcome with the regulations, increasing the revenue and decreasing the expenditure. In this context, the main goal of the pension reform has been identified as transformation of five different pension regimes, including civil servants, workers, self-employers, agricultural workers and self-employers in agriculture, into single retirement insurance regime. For eliminating the differences between the social security institutions in the area of retirement age, rate of premium, income replacement rate, limit subjected to premium payment and period

[27] IMF, Press Release No.06/107, May 22, 2006.
[Downloaded from http://www.imf.org/external/np/ms/2007/030907.htmn on 27 August 2007].

[28] Downloaded from http://web.worldbank.org/external/projects on 15 August 2007.

of premium payment, some changes have been offered. Raising the limit subjected to premium payments, gradual increases in the age of eligibility for pension, reducing income replacement rate and increasing the period of premium payment and rate of premium are offered in order to achieve long-term sustainability.

According to the "The Law of Social Insurance and General Health Insurance (5510)", the minimum conditions for an old-age pension will be age 60 for men and age 58 for women with 25 years of work and period of premium payment will be at least 9000 days. Beginning 2036, the retirement age will rise gradually up to 65 years by 2048 for both men and women (See Table 3-5).[29] Whereas in the present system average retirement age is 50, it will increase to 65 with this law. Also, period of premium payment will gradually increase from 7000 days to 9000 days (25 years) for pensioners of SSK in order to equalize it with ES and Bağ-Kur (See Table 3-6). In addition to this, through increase in period of premium payment and the basis of earnings related to premium, pensions are decreased.

Table 3-5 - Retirement Ages as per Years

Years	**Man**	**Woman**
2005-2035	No change (60)	No change (58)
2036-2037	61	59
2038-2039	62	60
2040-2041	63	61
2042-2043	64	62
2044-2045	65	63
2046-2047	65	64
2048	65	65

[29] Social Insurance and General Health Insurance Law, No.5510, Article 28.

Table 3-6 - Period of Premium Payment for Social Security Institutions

	Before the Law, no. 5510	**After the Law, no. 5510**
SSK	7000 premium days	9000 premium days
ES	9000 premium days	9000 premium days
Bağ-Kur	9000 premium days	9000 premium days

Another topic of social security reform is about the reduction of income replacement rates. With the law, income replacement rate will be 2.5% until 2015 and will be implemented as 2% beginning from 2016.[30] Therefore, old-age pensions will decrease in proportion of 23-33%.[31]

Table 3-7 - Income Replacement Rate after the Social Security Reform (Annual)

Institution	**Current Situation**	**Until 2016**	**After 2016**	**The percentage of decrease in pension**
Social Insurance Institution (SSK)	2.6%	2.5%	2%	23%
State Retirement Fund (ES)	3%	2.5%	2%	33%
Self-employed Institution (Bağ-Kur)	2,6%	2,5%	2%	23%

Source: Eğitim-Sen, www.egitimsen.org.tr.

Moreover, increase in pensions will be indexed to only the consumer prices index (CPI) increases.[32] Updating factor, which is used for updating past earnings

[30] Social Insurance and General Health Insurance Law, No.5510, Article 29.

[31] *Birgün,* 03.12.2007, [Downloaded from http://www.disk.org.tr/content_images/SGY1.pdf on 01.01.2008].

[32] Social Insurance and General Health Insurance Law, Article 55

will be composed of half of the CPI and the half of the average premium amount increase. In fact, this eliminates the expectations of pensioners to get proportion from the increase in national income. Here, the objective is the leaving pensions outside the political process and thus elimination of the impacts of possible social opposition.

The article 81 of the law reveals the change on premium rates. The premium rate for old-age insurance is consisted of 20% of premium-based income, of which 9% is paid by insured, 11% by the employer.

Table 3-8 - Premium Rates

	Before the Law, no. 5510	After the Law, no. 5510
SSK	20%+ for par service %2	20%
SSK-Agriculture	30%	20%
Bağ-Kur	20%	20%
Bağ-Kur-Agriculture	20%	20%
ES	36%	20%

Source: White Paper, (2005), Social Insurance and General Health Insurance Law, No.5510, Article 81.

In the same article, the contribution of state is also readjusted. In the last two decades the state has supported social security institutions because of their budget deficits. It is indicated by the reform that the state contribution does not provide sufficient and regular contribution. In that context, the state is supposed to contribute the 5 percent of pension insurance. "By committing to contribute to the system at 5 percent, the state is beginning to assume responsibility in the financing of the pension system rather than making budgetary transfers to compensate for the deficits of the schemes (Yakut-Çakar, 2007: 122). Before the reform, 45% of total expenditures of three social security institutions were covered by the state. However, with the reform package this ratio will reduce to 20%[33] (See Table 3-8).

[33] Celik, A., "Sosyal Güvenliğe Devlet Katkısı Azalacak",
[Available at http://www.disk.org.tr/content_images/SGY1.pdf].

Table 3-9 - State Contribution to the Social Security System Before and After the Reform

Current Situation (2004)	Million YTL
Premium Income of SSK, ES and Bağ-Kur	23,4
Total State Contribution	18,8
Total Expenditure	42,2
Ratio of State Contribution to Premium Collection	80%
Ratio of State Contriution in the Social Security Expenditures	45%
After the Reform	Million YTL
Premium Income of SSK, ES and Bağ-Kur	23,4
Total State Contribution	5,85
Total Expenditure	29,25
Ratio of State Contribution to Premium Collection	25%
Ratio of State Contriution in the Social Security Expenditures	20%

Source: Çelik, A., "Sosyal Güvenliğe Devlet Katkısı Azalacak".

Furthermore, Article 6 of "Social Insurance and General Health Insurance Law" states social classes, leaved out the coverage of social security institutions. These are the women working as a housewife, poor peasants working in the farm and forest temporarily, small artisans, people working as an irregular employee and poor peasants doing subsistence farming.[34] The reason of this article is that these groups are left out the coverage of social security since premium could not be collected from them (BSB, 2008: 244). This may create a system in which only the premium payers will obtain the social security right rather than all population.

Eventhough it was expected that the date of the law to become effective is 1 January 2007, the 10th President Ahmet Necdet Sezer and the member of the Parliament, Haluk Koç and Kemal Kılıçdaroğlu and 116 Deputy sued for annulment of the some articles of the Law, no.5510. Reasons of the annulment request were indicated by Sezer. He mainly argued that some of the articles of the law, no. 5510 should be examined in terms of the principles in 1982 Constitution; "social state", "equality" and "social security right". And, he indicated that social security system could not be only constituted on the basis of actuarial balance since this means neglecting the principle of "social state".[35]

As a response to this annulment request, the Constitutional Court abolished the some articles of bill no. 5510, including all aspects of pension reform pertaining to civil servants on December 15, 2006. It has been declared that the chapters relating to the civil servants should be undertaken in a different regulation since this law engenders loss of social right for civil servants.[36] Due to the Constitutional Court abolishment, government delayed the enforcement date of the social security law from January 1, 2007 to January 1, 2008.

Regarding the recent cancellation of some articles of the law, the IMF representatives showed a rather defensive attitude in arguing that IMF finds the implementation of the law essential but have not determined its position in the light of this possible delay (Radikal, 2006 cited in Yakut-Çakar, 2007). In the same way, it was declared in 2007 regular progress report (p: 54) that Turkey has made little

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[34] Sosyal Güvenlik Reformu Uzerine Mulkiyeliler Birligi Gorusu, 2006, Ankara, [Downloaded from www.mulkiye.org.tr].

[35] See for the reason of originating notice which is given by President Ahmet Necdet Sezer on 16.06.2006 including annulment request: Dated 15.12.2006 and no 2006/112 Constitutional Court Decision.

[36] Dated 15.12.2006 and no 2006/112 Constitutional Court Decision.

progress with acquis since the enforcement of the social security reform was postponed to 2008.

3.3.4. Responses of the Capital and Labour Unions to the Law, no. 5510

TUSIAD and TISK

TUSIAD has seen the “Law of Social Insurance and General Health Insurance”, no. 5510 as a significant progress for social security system in Turkey. Unification of five different pension regimes, including civil servants, workers, self-employers, agricultural workers and self-employers in agriculture, into single pension insurance regime and therefore eliminating the differences between the social security institutions in the area of retirement age, rate of premium, income replacement rate and period of premium payment and the adjustments concerning the financial deficits of social security institutions were evaluated as constitutive parts of this reform.

In this context, TUSIAD (2006) criticized the Constitutional Court about its annulment decision for the articles, pertaining to civil servants. It was argued that this is a decision, leading to discrimination in favour of civil servants.

In the same way, according to TISK, since social security system in Turkey has been in a deep crisis, reform is inevitable. However, TISK was not satisfied with the some articles of the law, no. 5510. TISK supported the idea of changing some of the articles of this law since it puts new financial and administrative burdens on employers (TISK, 2006a). Evidently, TISK (2006a) criticized that premium burdens on employers are increased although state contributes to the system and this would lead to negative impacts in terms of informal economy and employment. This opinion was predicated one more time by Kutadgobilik, Director of Management Committee of TISK, at the seminar titled with “New Period in

Social Security and Employer Responsibilities" in December 14, 2006. Kutadgobilik (2007: 11-12) declared that:

> We are accepting the law that will be implemented on 1 January 2007.... However, as the representative of civil society, this does not mean not to tell our decisions and solution proposal on this law.... In fact, this law brings new financial and administrative responsibilities to the employers.

For this reason, TISK saw necessary to change some articles, related to the financial and administrative responsibilities to the employers. Therefore, after the Constitutional Court decision, TISK suggested to postpone the implementation of the law for 3 or 6 months and to re-evaluate of the law in the Economic and Social Council (TISK, 2006b).

DISK and KESK:

KESK (2006a) criticized the some of the articles of the law since it could lead to social security rights infringements. For them, increase in retirement age and period of premium payment, decrease in income replacement rates and determination of pension increase to the change in CPI (Consumer Price Index) are contradictory to social security rights. It is also stated that these changes, proposed within the context of reform do not serve to get over the crisis situation (DISK, KESK, TMMOB, TTB, 2006: 4-8). According to DISK, the aim of this argument is to make state irresponsible for their policies, to reject the understanding of social security right and to leave the individual future to the authority of financial markets (DISK, KESK, TMMOB, TTB, 2006). In other words, the solution of financial crisis has been found as transferring pension funds to the capital markets.

After Constitutional Court annulment decision for some articles of the law, no. 5510, DISK and KESK made press statements. For KESK (2006), Constitutional Court decision could be evaluated as a positive step for social security system in Turkey because this decision denoted to provide norm and standard unity through protecting acquired social rights. At the same time, KESK criticized this Court decision on the basis of the fact that it does not overcome the problems such as increase in retirement age, period of premium payment and decrease in pensions for SSK, Bağ-Kur insureds and the people who do not have social security right. In the same way, DISK (2006) asserted that the decision of the Court pertaining to civil servants should be interpreted for all insureds. It was also argued that norm and standard unity should be provided by aiming to equalize all the insureds on the basis of a platform, determined by the social consensus.

To sum up, according to them, the law, no.5510 does not include any novelty. A market-oriented approach, seeing the social security expenditures as black hole, transforming the social security institutions into a business enterprise and limiting the social rights via the "increase revenue, decrease expenditures" finance understanding, has been valid (KESK, TMMOB, TTB and DISK, 2007). In this context, they recommended that a social security system which equalizes norm and standard unity at the highest level, protects vested rights, covers all the sections of the society and eliminates informal employment should be established (KESK, TMMOB, TTB and DISK, 2007).

TURK-IŞ:

According to TURK-IS, sustaining norm and standard unity among workers and civil servants in terms of their pension rights is vital for overcoming the pension system crisis (TURK-IS, 2006: 5-9). For this reason, TURK-IS criticized the Constitutional Court decision on the grounds that different regulations for civil servants could lead to unfair situations for workers.[37]

[37] *Radikal*, 08.01.2007, "Memura Farklı Düzenleme".

3.3.5. After the Law 5510: "The Law on Amendments to Social Security and General Health Insurance Law and to Certain Laws and Decrees"

The new draft law, bringing adjustments to the certain articles of the law of 5510, were submitted to the Presidency of the Turkish Grand National Assembly (TGNA) under the "Draft Law on Amendments to Social Security and General Health Insurance Law and to Certain Laws and Decrees" on November 27, 2007. The Turkish Grand National Assembly, Budget and Plan Commission adopted "Draft Law on Amendments to Social Security and General Health Insurance Law and to Certain Laws and Decrees" on March 7, 2008. The social security reform package became law on April 17, 2008. Some articles of the law became effective when the date it was published and the other articles will be effective in October 2008.

It is crucial to emphasize that this process was contentious. On 15 November 2007, "Tripartite Advisory Board Meeting" was arranged once in order to discuss this draft law with the participation of president of TISK, TURK-IS, DISK, HAK-IS and president of the Ministry of Employment and Social Security, Faruk Çelik.[38] However, the draft law was prepared without taking into consideration the suggestions of labour unions. For this reason, labour unions protested against the implementation of this law, arguing that social security rights are eradicated. In December 2007, labour organizations[39] unified and assessed the "Draft Law on Amendments to Social Security and General Health Insurance Law and to Certain Laws and Decrees" as a "disaster law".[40] After that, on 13 March

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[38] *Radikal*, 17.11.2007, "Sosyal Güvenlik Yasa Tasarısına göre Doğum Yapan bir İnek, Kadından Daha Değerli".

[39] These labour organizations are KESK, DİSK, TMMOB, TTB, TÜRK-İŞ, Türkiye Kamu-Sen, Türkiye Barolar Birliği, Türkiye Eczacılar Birliği, Türk Diş Hekimleri Birliği, Tüm İşçi Emeklileri Derneği, Türkiye İşçi Emeklileri Derneği, Türkiye Serbest Muhasebeci Mali Muşavirler ve Yeminli Mali Müşavirler Odaları Birliği and many NGOs.

[40] Birgün, 03.12.2007, "Emek Örgütleri "Yıkım Yasasına" Karşı Birleşti".

2008, there were mass press statements in Turkey, and on 14 March 2008, there was a 2-hour warning strike for protesting the reform.[41] In brief, the opinions of labour unions were neglected during the works of TGNA Commission for shaping the draft law; however, after the labour unions' reactions and demonstrations in March 2008, AKP Government decided to bargain with the labour unions (BSB, 2008: 252).

In March 2008, the Government has accepted to discuss the draft law with Labour Platform[42]. Labour Platform expressed their demands under 19 headings; eleven of them were reflected to the law, no. 5754.[43] Actually, in the formation of the law, no. 5510 and in the preparation of the new draft law, labour unions left outside the process. However, at the last instance, the law was shaped by the bargaining with the labour unions. And, it is seen that this reform process could not be ended without taking into consideration the labour rights.

For this reason, this part should identify the articles of the law, in which there emerged conflicting situations between the Labour Platform and AKP Government. And, to what extent the demands of Labour Platform have been met should be analyzed.

One of the controversial articles of the Law, no. 5510 is Article 28. It is about retirement age. It was stated in the law, no. 5510 that beginning 2036, the retirement age will rise gradually up to 65 years by 2048 for both men and women. In the Draft Law, this article was not changed. However, Labour platform objected to this article and suggested to decrease this age of retirement. AKP Government resisted to this suggestion and continued to implement the rule of gradual increase of retirement age to 65 beginning from 2036. The only different implementation that brought by the law, no 5754 is that increase in the retirement age in the period

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[41] Downloaded from http://www.bianet.org/english/kategori/english/105484/strikes-threatened-against-reform-of-social-security-law.

[42] Labour Platform includes TÜRK-İŞ, HAK-İŞ, DİSK, KESK, Türkiye Kamu-Sen, Memur-Sen, BASK Türkiye İşçİ Emeklileri Derneği, Tüm İşçİ Emeklileri Derneği, Tüm Bağ-Kur Emeklileri Derneği, TMMOB, Türkiye Barolar Birliği, Türk Tabipleri Birliği, Türk Diş Hekimleri Birliği, Türk Eczacıları Birliği, Türk Veteriner Hekimleri Birliği, TÜRMOB (TK/GG).

[43] Radikal, 26.03.2008, "Emek Platformu ve Hükümet 'Sosyal Güvenlik'te 11 maddede uzlaştı".

of 2036-2048 will affect a person who completes the condition of period of premium payment in those years, not affect a person who will retire in those years.

With the law, no. 5510 period of premium payment was gradually increased from 7000 days to 9000 days (25 years) for pensioners of SSK in order to equalize it with ES and Bağ-Kur. After the Constitutional Court abolishment of some articles of the law, no.5510, the increase in the period of premium payment from 7000 to 9000 for pensioners of SSK, Bağ-Kur and ES was maintained. According to Labour Platform, the period of premium payment should be reduced. Labour Platform became influential to amend this article. The new law, no 5754 reduces the number of days a person, insured by SSK, will have to pay premiums from 9.000 days to 7.200.

To sum up, according to the law, no 5754 that a person, who fulfils 7200 days (20 years) premium payment criteria for SSK and 9000 days (25 years) premium payment criteria for ES and Bağ-Kur until 2036, could retire at the age of 60 for men and age of 58 for women. And, the retirement age will gradually increase to 65 beginning from 2036.

Another debated topic of the law, no. 5510 is income replacement rate. According to law, no. 5510, income replacement rate will be 2.5% until 2015 and will be implemented as 2% beginning from 2016.[44] The draft law changed this article and income replacement rate was determined as % 2. Labour Platform did not accept this change and recommend implementing higher income replacement rate. According to law, no. 5754, income replacement rate will be %2; however, it will be 3% for a person who has worked fewer than 10 years in order to protect their rights until completing 10-year working days.[45] The demands of Labour Platform were partially accepted (BSB: 2008: 255).

The updating factor formed the other contested issue for the social classes. According to the law, no. 5510, updating factor, which is used for updating past earnings, will be composed of half of the CPI and the half of the average premium

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[44] Social Insurance and General Health Insurance Law, No.5510, Article 29.

[45] Law on Amendments to Social Security and General Health Insurance Law, and to Certain Laws and Decrees, no.5754.

amount increase. As a response to the Constitutional Court annulment decision, the draft law made the updating factor re-adjusted to be composed of the sum of the entire Consumer Price Index (CPI) change rate and 25 % of the real increase in Gross Domestic Product (GDP) (EGM, 2007). Labour platform criticized this article on the basis of the argument that this system prevents pensioner to get share from the national income. However, at last, 30% of the real increase in GDP was accepted by the law, no. 5754.

Table 3-10 - Some Essential Adjustments in Pension System After 2006

	The Law, no.5510	**Draft Law**	**The Law, no. 5754**
Retirement Age	Rising gradually up to 65 years by 2048	No change	Increase in the pension age in the period of 2036-2048 affect a person who completes the condition of period of premium payment in those years.
Period of Premium Payment	Increasing from 7000 days to 9000 for SSK, ES and Bağ-Kur	No change	For SSK insured, decrease from 9000 to 7200
Income Replacement Rate	Until 2015: 2.5% Beginning from 2016: 2%	It will be 2%.	It will be % 2; but it will be 3% for a person who has worked fewer than 10 years.
Uptading Factor	Half of the CPI and the half of the average premium amount increase	The sum of the entire CPI change rate and 25 % of the real increase in GDP	30% of the real increase in GDP

As it is indicated above, "The Law on Amendments to Social Security and General Health Insurance Law and to Certain Laws and Decrees" has become effective. As a consequence of Labour Platform opposition, AKP Government made some concessions. However, these concessions were not substantial. That is to say, the amendments done by the law, no. 5754 did not bring considerable changes in accordance with the expectations of the Labour Platform. Labour unions have expressed their discontent about the law. For instance, Süleyman Çelebi, president of DİSK, argued that the demands of Labour Platform have not met completely by these adjustments and they will struggle for this.[46] And, he (2008) stated that they would attempt to apply to the Constitutional Court for safeguarding the principle of social state.

3.4.Conclusion

Since the mid-1990s, pension system, one of the pillars of social security system, has been restructured in Turkey. This chapter attempted to analyze the outcomes of the pension reform in Turkey.

The main argument of this chapter is that Turkish pension system has been restructured on the basis of neo-liberal policies. In general, the outcomes of the pension reform process could be characterized as the change from PAYGO pension scheme to funded scheme, the reduction of the scope and coverage of public pension scheme and the shifting of risks from public to individuals.

In this part, the reform process was analysed as a two-stage process. For the first stage, the thesis examined short-term measures such as "Unemployment Insurance Law", no. 4447 and "Law of Individual Pension Savings and Investment System", no. 4632. The essential outcomes of these measures were the increase in the pension age and the introduction of private pension scheme as complementary and voluntary to public pension schemes. Thesis also indicated that the second stage of the pension reform process includes administrative measures and establishment of a new system (Yakut-Çakar, 2007: 120). In this context, five different pension regimes, including civil servants, workers, self-employers, agricultural workers and self-employers in agriculture, were transformed into single

[46] Radikal, 26.03.2008, "Emek Platformu ve Hükümet 'Sosyal Güvenlik'te 11 maddede uzlaştı".

retirement insurance regime. With the constitution of Social Security Institution, the three main social security institutions: the State Retirement Fund (ES); the Social Insurance Institution (SSK); and the Insuranced Self-employed Institution (Bağ-Kur) were unified under the roof of the Ministry of Labour and Social Security. For eliminating the differences between the social security institutions, retirement age and period of premium payment were increased and income replacement rate was decreased.

This chapter also attempted to emphasize the role of international and supranational institutions, IMF, WB and EU in the pension reform process. It is argued that pension reform has been put as a conditionality by IMF and World Bank to Turkey for the release of a considerable part of the loan credits. In the same way, by the EU this reform has been presented as an inevitability to be a member of the Union.

Furthermore, this chapter tried to analyze the engagement of the Turkish capital and labour to the pension reform laws through a scrutiny of texts of the laws and draft laws, reports, press statements and newspaper reports. It was emphasized that while TUSIAD and TISK see the pension reform as a necessity, DISK, KESK and TURK-IS criticize the pension reform within the framework of different arguments.

CHAPTER 4

CONCLUSION

This thesis attempted to analyze the common characteristics and outcomes of pension reform in Turkey in the light of the pension reforms, realized in the European countries. This conclusion part intends to compare the reform processes across Europe and in Turkey in order to analyze the similarities and differences in the outcomes of the pension reform. European context is chosen as a point of comparison since this comparison provides an explanatory tool in examining the pension reform process in Turkey. Turkey is an EU candidate country and is conducting membership negotiations with the EU. Reform of pension system has been presented as a requirement to obtain EU membership by the EU. Besides, Turkey has been in a constant contact with the European countries economically, historically and culturally.

In the European countries, pension reform has been put on the agenda with the claims of aging of population, financial constraints on public budget and technological changes. Although the features of the pension reform in the European countries differ in terms of financial, administrative and social rights issues, the common characteristics of the reforms across Europe could be highlighted. In the European countries, some measures have been taken in order to decrease the public pension expenditures since the mid-1990s. First of all, expansion of funded financing and reduction in PAYGO public pension schemes has been realized. Besides, development of multi-tiered pension system has come to the agenda. Introduction of third pillar (individual private pension) by the pension reform is brought as a supplementary to first and second pillar of the pension scheme. This means the reduction of the scope and coverage of public pension scheme and shifting of social risks from public to individuals.

This thesis particularly focused on the transformation process in Swedish and German pension systems to explain how despite their substantial differences in terms of their organisation and financing, these two pension schemes were reshaped along with neoliberal principles. Reforms in Sweden introduced a compulsory private component into the pension system by including a so called "premium reserve system". At the same time, Germany has introduced new strategies in the pension policy. In the German context, private pension scheme has been introduced as a supplementary and voluntarily-based funded system by the reform. In brief, these reforms imply the transition from PAYGO schemes to funded mechanisms, introduction of multi-pillar approach and so the reduction of the scope of public pension schemes in the European context.

Now, it is essential to assess the features of pension reform in Turkey and to indicate the similarities and differences between the reform process across Europe and in Turkey in terms of outputs of the reform.

Pension reform has been justified by the same arguments and had similar goals across Europe and in Turkey. Aging of the population and financial budgetary constraints have been indicated as the reasons of the pension system crisis. Between two reasons, public budget deficits and resulting financial instability has been presented as the most important issue, leading to pension reform in both European countries and Turkey.

There is a similarity in the outcomes of pension reform in the European countries and Turkey. Particularly, in Sweden and Germany, the scope and coverage of public pension scheme has been reduced through increasing the contribution period and pension age and multi-pillar pension system has been encouraged. In the same way, in Turkey, transition from PAYGO to funded schemes, reduction of the scope and coverage of public pension scheme and shifting of social risks from public to individuals have formed the outputs of pension reform. Introduction of private elements into the pension system was also another characteristic of the reform of the pension systems across Europe. In Sweden this took the form of compulsory individual private pension system, known as the "premium reserve". In Germany this was achieved by complementary and voluntarily-based funded mechanisms. In Turkey we see a similar attempt in the pension policy making process. However, in Turkey the introduction of this private element is voluntary as in the case of Germany rather than compulsory as in the case of Sweden. Although there are some differences in their pension reform practices, all these countries' pension systems have been restructured in line with the neo-liberal principles.

Another difference, related to the pension reforms across Europe and in Turkey, concerns the reform process itself. In Turkey, pension reform has been put as a conditionality by IMF and World Bank for the release of a considerable part of the loan credits. Besides, the EU policy towards pension system restructuring process in Turkey overlaps with policies of IMF and WB. 'Success' of Turkey in reforming pension system has been presented as a necessity to get EU membership by the EU. However, the point to be highlighted is that the impacts of IMF and WB on the determination of pension policy in Turkey have been stronger than the EU. This is declared by the IMF and WB that the structural reforms are inevitable in Turkey as a result of the public budget deficits. On the other hand, Economic and Monetary Union (EMU), related Stability and Growth Pact (SGP) and Broad Economic Policy Guidelines (BEPG), play a role in determining the pension policy of the European countries. Since pensions are one of the costliest topics of social expenditure, the pressure to stabilise or to decrease such costs is highlighted by pension reform in accordance with the aim of maintaining the sustainability of EMU and realizing the objectives of SGP and BEPG. In fact, these goals establish the motives behind the implementation of OMC to the area of pension policy. European Commission has created Open Method of Coordination as a tool of convergence among the policies of nation states. However, it is essential to emphasize that pension policy is still considered in the national competence of member states. Furthermore, some EU countries such as the United Kingdom, Greece, France, Germany, Italy, and Denmark, have been violating the EMU restrictions for many years (Elveren, 2007: 14). It is one of the crucial differences that European countries have much room for manoeuvre in determining their pension policy as opposed to Turkey.

Pension reforms in European countries and Turkey also differs on the basis of the politics of the pension reform process. The deep changes revealed in the current pension systems have been accompanied by severe political and societal conflicts in the EU member states, such as Germany, France and Austria. In brief, pension reform has been characterised by the long ending struggles and extensive reactions was highly contentious. However, opposition to the pension reforms in the Turkish case has been less visible due to some reasons such as weaknesses of trade union movement and disorganization of labour, de-politicization process after 1980s and limited coverage of social security system. Most of the time trade unions were not even included in the pension policy-making process and their opposition in the process has been repressed. When the growing public criticism actually threatened the viability of the pension reform in Turkey, the concessions were acquired by the belated bargaining. Even though the final stages of the pension reform had to include this bargaining between the Labour Platform and the AKP Government, the amendments introduced by the law, no. 5754 did not bring considerable changes in accordance with the expectations of the Labour Platform.

To conclude, the pension systems both across Europe and in Turkey have been restructured since 1990s in accordance with the neo-liberal policies although they have diverse pension systems. That is, in European and Turkish contexts, the target of the reform is to privatize and individualize the pension systems. Transition from PAYGO to funded schemes, shift towards multi-tiered pension model, reduction of the scope and coverage of public pension scheme and shifting of social risks from public to individuals are the outcomes of the pension reform process. The outcomes of this reform processes in Europe and Turkey and the liberalization of pension systems in general may also be seen as a reflection of changing the role of the state. In other words, transformation of pension systems is related with the shift in the role of the state in providing and regulating the pension system. By the pension reform, the role of public pension scheme in the social insurance system has been reduced.

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