GOVERNING SOCIAL SECURITY: ECONOMIC CRISIS AND REFORM IN INDONESIA, THE PHILIPPINES AND SINGAPORE

DISSERTATION

Presented in Partial Fulfillment of the Requirements for

The Degree Doctor of Philosophy in the Graduate

School of the Ohio State University

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2007

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ABSTRACT

How do newly industrializing countries in Asia reform their social security programs after the 1997 financial crisis? Going beyond previous studies whose concern were on the relative decline of the welfare state in the midst of global economic competition, this study identifies that after crisis Indonesia, the Philippines and Singapore experienced different shifts in their structure of provision of social security benefits. The shifts vary on two important dimensions of social security provisions: the benefit level and the political control of the state over the private sector.

In Indonesia there was a shift that eroded benefit level and strengthened the state's political control over the private sector. In the Philippines there was a shift that improved benefit level and weakened state control over the private sector. Meanwhile in Singapore the shift improved benefit level yet at the expense of deeper penetration of state control over the private sector.

This study asks: what explains the variation in the shifts in the dimensions of social security provisions in Indonesia, the Philippines and Singapore after the 1997 financial crisis? Such variation, I argue, cannot be explained with the usual explanatory variables: fiscal constraints at the national level, the ranking of economies in the global competition, or the intervention of international financial institutions. This economic context after financial crisis only affect the initial proposal of the reform, i.e. the degree

of dramaticness of change proposed for the social security reform. Once the reform proposal is advanced, however, it was domestic politics that matter more, reshaping the proposal and thus the reform output. The output is influenced by a process of compromise-building among employers, workers, state leaders and bureaucrats as the reform proposal affected the groups' playing fields differently. More specifically, the reform outputs differ by the variation of the expectations of employers and workers on the conduciveness of the overall economy (low or skeptical, medium or hopeful, and high or optimistic) and the degree of relative intensity of symbiosis between bureaucrats of social security agencies and state leaders (low or relatively less political in leadership and management and high or relatively highly political in leadership and management).

By focusing on the variation in the shifts on the two dimensions of social security, this study also reveals the broader reasons why the state leaders pushed toward certain direction of reform, i.e. the need to generate domestic funds that would enable them to be autonomous from outside pressure, the need to develop incentives and punishments for private sector players, and the need to secure certainty for all stakeholders. Indeed this study demonstrates the critical importance of social security reform to market governance. Beyond earlier study of market governance, which identifies the presence of initiative and active intervention of the state in leading the market, this study specifies three areas of market governance that the state leaders push through social security reform: the state autonomy vis-à-vis international pressure, the state control over worker-employer relations, and the overall sense of predictability for all stakeholders.

Dedicated to my mother

C. L. Kustati Prapto Rahardjo

ACKNOWLEDGMENTS

Praise the Lord for the completion of this dissertation and the rich journey I went through because of my pursuit for PhD in Columbus. I am deeply grateful for the blessing of support, hope and love from the people I met along this chapter of my life, in the United States, in the Philippines, in Singapore and in my own beloved country, Indonesia.

I wish to thank Prof. R. William Liddle, my advisor who is more known as Pak Bill. Thank you for giving me the freedom and trust to explore this field of research, for days of one-to-one discussions almost whenever I asked, for the marathon meetings to complete this dissertation at Caribou Coffee Shop or in your "office-on-wheel". You made learning so easy. I also thank Wanda, Pak Bill's wife, for her hospitality and understanding that there were occasions where Pak Bill and I had to have working meetings at their house.

I wish to thank Prof. Sarah M. Brooks for generating confidence and curiosity in political economy and for teaching me about the inspiring work of Gøsta Esping-Andersen. I will not forget our months of intensive discussions in the early stage of my dissertation project and I cherish the opportunity to serve as her research assistant, which allowed me to see up close how fascinating political economy is. I also wish to thank Prof. Irfan Nooruddin, Prof. Goldie Shabad, Prof. Alex Thompson, Prof. Paul Beck and

Prof. Michael Neblo for intellectual support. I especially want to thank Prof. Mary Cooper, who enthusiastically read my chapters, provided prompt input and suggestions and brought cheer through her sincere kindness. I am also very grateful to Diana Camella, the fiscal and human resource officer of Political Science Department, who loved and comforted me as a mother would.

This study benefits from the research grant of the Ohio State Chapter of Sigma Xi (Student Research Grant) and the Graduate School of the Ohio State University (Alumni Grants for Graduate Research and Scholarship), also the technical assistance from the Center for Integrative and Development Studies (CIDS) of the University of Philippines in Diliman, the Department of Political Science of the University of Philippines in Diliman, the Indonesia's Field Office of Friedrich Ebert Stiftung, the Center for Strategic International Studies (CSIS), and the Research and Development Department of the Headquarter of PT JAMSOSTEK. I especially want to thank the following individuals for their support, generous cooperation or assistance, and friendship. In Indonesia, I especially thank Dr. Hadi Soesastro, Raymond Atje, Tommy Legowo, Fifi Muhibat, Dr. Hans J. Esderts, Rina Julvianty, Mian Manurung, Dewi, Veve, Arum Rehmiyati, Teguh Purwanto, Ibu Hani, dr. Nani, Anton Supit, Djimanto, Faisal Basri and Timboel Siregar. In the Philippines, I especially thank Prof. Violeda Acosta Umali, Dr. Jonathan L. Salvacion, Joy Aparis, Prof. Noel Morada, Aries A. Arugay, Prof. Virginia Teodosio, Sonia Tiong-Aquino, Clarita Esteban, Blessilda Clerigo, Prof. Malou Rebullida, Prof. Ruth Lusterio Rico, Horacio Templo, Rizaldy Capulong, Marianita Mendoza, Rose Baculo, and Secretary Roberto M. Pagdanganan. In Singapore, I especially thank Prof. Ho Khai Leong, Prof. Mukul Asher, and Dr. Selina Lim. I also thank every informant in the three countries, whose names I cannot mention for reasons of confidentiality and space limitation, for their time, expertise, generosity and trust to share valuable information and insights.

This journey would not be as memorable and cheerful without the love, friendship and prayers of these following individuals. I thank Dr. Paul and Ellen Rundquist, Dr, Sherrie Wolff, Prof. Juwono Sudarsono, and Dr. Blair King for opening the way to study at the Ohio State University. I also thank K. Theodor Wolf, SJ, P. Gunawan Tjahja, Pr, A. Djita Pandriya, SJ, Vinny McKiernan, CSP, and Chuck Cunniff, CSP for prayers and spiritual support. I thank the especially sincere and warm friendship of Ira Sudardja, Jiwon Suh, Yasue Tada, Lina Juswara, Diana Theresia, Valentine Mukuria, Unislawa Wzolek, Dianne Bautista, Cheryl Hamblin, Anne-Marie Pouchet, Magda Mejia-Gomez, Karaniya Dharmasaputra, Yusuf Sarfati, Rustam, Herman Hakim, and friends from CFM.

Most importantly, I am very much grateful for my mother, Lidwina Kustati Prapto Rahardjo. She is a "Professor" at heart, a very smart yet humble and thoughtful lady, my biggest supporter who enthusiastically follows my journey. She always surprises me with her love: from taking the initiative to collect any news she thought would be relevant with my dissertation to allocating time and money to visit me in Columbus nearly every year in my first four year, the time when I never had the chance to go home. Her constant prayers and determination in life fueled my spirit throughout this often challenging journey. I owe my enthusiasm in studying politics, economic and social issues to her. Last but not least, I am grateful for my sisters: Helena Clara Andith and Josephine Fransisca Ditta. I thank them for encouragement, prayers, cheerful daily online conversations, and the great time together as sisters.

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PUBLICATIONS

Research Publication

1. Dinna Wisnu, "Risks and Social Protection in Indonesia, the Philippines and Singapore". In *Bridging Disciplines, Spanning the World: Institution, Identity and Inequality,* eds. Rachel Beatty Riedl, Sada Aksartova, Kristine Mitchell (Princeton, New Jersey: Princeton Institute for International and Regional Studies, 2006).

2. Dinna Wisnu, *One Step of Social Security Reform in Indonesia* (Jakarta: Friedrich Ebert Stiftung, 2006).

FIELDS OF STUDY

Major Field: Political Science

Minor Field: Political Economy

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ABBREVIATIONS

ASEAN-4	Association of Southeast Asian Nations – Four
IMF	International Monetary Fund
KLSE	Kuala Lumpur Stock Exchange
MTN	Medium Term Notes
OECD	Economic Cooperation and Development

INDONESIA

APHI	*Asosiasi Pengusaha Hutan Indonesia*, Association of Indonesian Forest Concession Holders
APINDO	*Asosiasi Pengusaha Indonesia*, Indonesian Employers' Association
ASABRI	*Asuransi Sosial Angkatan Bersenjata Republik Indonesia*, Indonesian Armed Forces' Social Insurance
ASKES	*Asuransi Kesehatan*, Health Insurance
ASKESKIN	*Asuransi Kesehatan untuk Rakyat Miskin*, Health Insurance for the Poor
BAJSN	*Badan Administrasi Jaminan Sosial Nasional*, Administrative Agency of the National Social Security
Bappenas	*Badan Perencanaan dan Pembangunan Nasional,* National Development Planning Agency
BKN	*Badan Kepegawaian Negara,* State Employment Agency
BKKBN	*Badan Koordinasi Kesehatan dan Keluarga Berencana Nasional,* Indonesian National Coordinating Agency for Health and Family Planning
BPDPK	*Badan Penyelenggara Dana Pemeliharaan Kesehatan,* Executing Agency of Health Maintenance Funds
BPK	*Badan Pemeriksa Keuangan*, National Audit Agency
BPPN	*Badan Penyehatan Perbankan Nasional,* The Indonesian Bank Restructuring Agency
BPS	*Biro Pusat Statistik,* Central Statistical Bureau
BUMN	*Badan Usaha Milik Negara,* State-Owned Corporations
CSIS	Center for Strategic and International Studies
DJSN	*Dewan Jaminan Sosial Nasional,* Indonesian National Social Security Council
DPA	*Dewan Pertimbangan Agung*, Supreme Advisory Council

DPKP	*Dana Peningkatan Kesejahteraan Peserta,* Fund to Improve Members' Prosperity
DPR	*Dewan Perwakilan Rakyat*, People's Representative Council
FKKBN	*Forum Komunikasi dan Konsultasi Bipartis Tingkat Nasional,* The Communication Forum and Natinal Bipartite Consultancy
FSBSI	*Federasi Serikat Buruh Sejahtera Indonesia*, Federation of Prosperous Labor Union Indonesia
FSPSI	*Federasi Serikat Pekerja Seluruh Indonesia*, Indonesian Federation of All Indonesia Workers Union
Gapensi	*Gabungan Pelaksana Konstruksi Nasional Indonesia,* Indonesian Association of National Construction
JAMSOSTEK	*Jaminan Sosial Tenaga Kerja*, Manpower Social Insurance
JPK	*Jaminan Perawatan Kesehatan,* Healthcare Service Benefit
HMI	*Himpunan Mahasiswa Islam*, Association of Muslim Students
KPK	*Komisi Pemberantasan Korupsi*, Indonesian Commission of Corruption Elimination
KPKPN	*Komisi Pemeriksa Kekayaan Penyelenggara Negara*, Indonesian Investigative Commission of the Wealth of State Leaders
KSO	*Kerjasama Operasional,* Operational Cooperation
KSPI	*Konfederasi Serikat Pekerja Indonesia,* The Indonesian Trade Union Congress
KSPSI union	*Konfederasi Serikat Buruh Seluruh Indonesia*, Confederation of All Indonesian Workers Union
LJSN	*Lembaga Jaminan Sosial Nasional*, Indonesian National Social Security Institution
MPR	*Majelis Permusyawaratan Rakyat*, People's Consultative Assembly
Persero or PT	*Perseroan Terbatas*, corporation or limited incorporated
Perum	*Perusahaan Umum*, public corporations
Perum ASTEK	*Perusahaan Umum Asuransi Tenaga Kerja*, Public Corporation for Manpower Insurance
PDI	*Partai Demokrasi Indonesia*, Indonesian Democratic Party
PDIP	*Partai Demokrasi Indonesia Perjuangan*, Indonesian Democratic Party of Struggle
PT ASABRI	*Perusahaan Terbatas Asuransi Sosial Angkatan Bersenjata Republik Indonesia*, Indonesian Armed Forces' Social Insurance Incorporated
PT ASKES	*Perusahaan Terbatas Asuransi Kesehatan*, Health Insurance Incorporated
PT JAMSOSTEK	*Perusahaan Terbatas Jaminan Sosial Tenaga Kerja*, Manpower Social Insurance Incorporated
PT TASPEN	*Perusahaan Terbatas Tabungan Asuransi Sosial Pegawai Negeri*, Civil Servants' Social Insurance Incorporated
Sakernas	*Survei Tenaga Kerja Nasional,* National Labor Force Survey

SBSI	*Serikat Buruh Sejahtera Indonesia,* All-Indonesia Prosperity Trade Union
SJSN	*Sistem Jaminan Sosial Nasional*, National Social Security System
SJSN Law	*Undang-undang Sistem Jaminan Sosial Nasional,* National Social Security System Law
SPT	*Surat Pemberitahuan,* Annual Letter of Announcement on Income Tax
TASPEN	*Tabungan Asuransi Sosial Pegawai Negeri*, Civil Servants' Social Insurance
WALHI	*Wahana Lingkungan Hidup Indonesia*, Indonesian Forum for Environment
YPK	*Yayasan Pemeliharaan Kesehatan*, Health Maintenance Foundation

PHILIPPINES

ASEAN-SSA	Association of South East Asian Nation – Social Security Association
CDA	Cooperative Development Authority
ECOP	Employers Confederation of the Philippines
GSIS	Government Social Insurance System
ILO	International Labor Organization
NHIP	National Health Insurance Program
PAGCOR	The Philippine Amusement and Gaming Corporation
PCSO	Philippine Charity Sweepstake Office
PHIC	Philippine Health Insurance Corporation
PITC	Philippine International Trading Company
SMED	Small and Medium Enterprise Development
SSS	Social Security System
TUCP	Trade Union Congress of the Philippines
USAID	United States Agency for International Development

SINGAPORE

CPF	Central Provident Fund
CPFIS	CPF Investment Scheme
CPFIS-OA	CPF Investment Scheme-Ordinary Account
CPFIS-SA	CPF Investment Scheme-Special Account
EDRS	Economic Downturn Relief Scheme
IRA	Inland Revenue Authority
MICA	Ministry of Information, Communication and Art
MRT	Mass Rapid Transit
NDB	Notional Defined Benefit
NDC	Notional Defined Contribution
NTUC	National Trade Union Congress

PAP	People's Action Party
SARS	Severe Acute Respiratory Syndrome
SBF	Singapore Business Federation
SMa Federation	Singapore Manufacturers' Federation
SNEF	Singapore National Employers Federation
SOTUS	Share Ownership Top-up Scheme
SRS	Supplementary Retirement Scheme

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CHAPTER 1

INTRODUCTION

1. 1. Overview

Recent global studies of the welfare state have focused on the trajectory of reform in various social security programs, namely how radical is retrenchment in countries' social security programs.[1] In advanced industrialized countries, the debate started with a broad analysis of the impact of economic openness and "race to the bottom" on the welfare state. Scholars anticipated that the increasing exposure of domestic economies to the world market would make government intervention in social security provision difficult.[2] The relative ease of capital to move out of an economy deters governments from generating revenues through taxation.[3] In tandem with the worldwide trend to evaluate the "proper" role of the state in the economy,[4] governments move away from "the nanny" state to become "the enabling" state.[5]

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[1] As described by Pierson (1996, p. 157), retrenchment in social security are indicated by (1) more reliance on means-tested benefits, (2) major transfers of responsibility to the private sector, also (3) dramatic changes in benefit and eligibility rules.
[2] McKenzie and Lee (1991), Kurzer (1993), Strange (1996).
[3] Drunberg (1998).
[4] World Bank (1997).
[5] Gilbert and Terrell (2002), Myles and Quadagno (2000).

Yet subsequent studies refuted this premise of "the race to the bottom" of the welfare state. In line with Polanyi's (1944) groundbreaking study on how markets sustain themselves through measures that mitigate human and environmental costs in the society, scholars found that exposure to global market actually increases government spending on social security, which is in order to compensate for market-generated inequalities.[6]

Although there are notes about the comparative decline of social benefits across countries,[7] the austerity enacted by post-conservative political executives like President Clinton,[8] and the different degrees of cuts in various social programs based on compensation demand and investor support,[9] the near consensus is that the welfare state is relatively resilient.[10] Pierson (1996) maintained that the negativity bias of voters, i.e. their sensitivity towards the loss (and not the gain) of social security reform, their propensity to take risks to prevent further loss, and also the presence of new and

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[6] Garrett (1995, 1998), Rodrik (1998), Iversen and Cusack (2000), Weaver (2003). Also, Katzenstein (1985), focusing on small European economies whose exposure to trade is high, found that there has been a positive relationship between trade exposure and government social spending.

[7] Among others: Allan and Scruggs (2004). Swank (2002) argues that countries with a liberal model of social security provision, i.e. those relying on market for providing welfare and social stratification, would be most likely to experience more cuts than other models of provision.

[8] Bashevkin (2000).

[9] Burgoon (2001). Burgoon argued that import competition from developing countries will tend to spark more concentrated demands for welfare compensation, that the compensation demanded would be less on healthcare, retirement or family benefits, and that investors and exposed producers will tend to oppose most expansions of the public economy but will make productivity and cost calculations that favor labor training and relocation policies and oppose passive labor-market policies such as unemployment relief.

[10] Weaver (2003). Garrett and Lange (1991) argued that although the policies in countries dominated by leftist parties allied with strong labor movements are not as expansionary as it was until early 1980s, government's supply side intervention in these countries grows fast and far from traditional Keynesian policies.

politically influential interest groups generated by past welfare state expansion have led politicians to avoid blame, hence diminishing the chance for radical welfare state retrenchment.[11]

The discourse in less-developed countries, however, has been less nuanced. Although some learn that countries with democratic regimes are less sensitive to globalization pressures than the "hard" authoritarian ones,[12] the core argument remains that welfare spending in this part of the world is likely to be disrupted and goes downward (i.e. made more efficient with less cash transfers to contributors) following the increasing pressure of globalizing market.[13] It was argued that the abundance of low-skilled and the surplus of workers tend to offset the gain of globalization and diminish the chance for workers to defend politically the existing size of social spending.[14]

This dissertation enriches the understanding of social security reform amid globalization in non- advanced industrialized countries. It diverts attention from the focus on the relative decline or resilience of the welfare state to the shifts in important dimensions of the structure of provisions in newly industrializing countries of Asia after the 1997 financial crisis. By doing so, it sheds light on the most recent forms of active governance by the state in these market economies. Indeed, I argue that social security reform in Indonesia, the Philippines and Singapore should not be isolated from the broader attempt of the state to govern these economies.

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[11] For the politics of blame avoidance, also see Weaver (1986, 2000).
[12] Rudra and Haggard (2005).
[13] Rudra (2002), Schmidt (1995), Tang (1996).
[14] Rudra (2002) demonstrates that labor in less developed countries does not usually have national labor-market institutions as in advanced industrialized countries that can strengthen workers' bargaining power and that low-skilled workers are mostly harder to mobilize. She therefore challenges the Stolper-Samuelson theorem arguing that countries with most abundant factors of production will gain from increased openness. For the proponent of Stolper-Samuelson theorem, see for instance Rogowski (1989).

The social security reform in Indonesia, the Philippines and Singapore demonstrates that the issue at hand is not as simple as "should we privatize the systems?" or "should we rollback cash transfers to participants?" In this part of the world, especially until before the global discourse of social security reform begun, social security programs were funded solely by the contributions of workers and employers. Hence social security system is technically already private. Of course what is interesting here is that the management of the collected funds has been state-controlled. Therefore although the change in cash transfer to contributors is necessary to examine in a social security reform, we cannot disregard the struggle to reorganize the social security management and its impact to the flow of funds and privileges to the stakeholders.

Drawing on general studies of Asia on market governance, social policy development, political and economic challenges post-crisis, and the specific discourse on social security reform in Indonesia, the Philippines and Singapore, I find two dimensions of social security provisions by which reform process, hence output, are anchored: the benefit level and the political control of the state over the private sector. These dimensions, respectively, shape the participation of private sector as market actor and as "follower" of state plan.

Aware that the benefits of social security programs extend beyond the immediate beneficiaries (workers), I disentangle the different elements of social security provision. I look at the contribution ratio, nominal benefit, subsidies, fees, restrictions to benefit claims, as well as the formal and informal autonomy of social security agencies and their enforcement functions, in health and pension programs. I also observe the initiative to incorporate unemployment benefits in statutory social security programs in Indonesia and the Philippines and its impact to reform in health and pension programs. The shift in benefit level dimension, which may go towards eroding or improving protection against personal and market-derived contingencies, identifies the relative degree of increasing incentives and punishments for the private sector actors, namely workers and employers. The shift in political control dimension, which may go towards weakening or strengthening contributors' ability to get the return from what they put in, identifies the relative degree of financial access and thus power of the state over the contributors, which in these countries comprised of workers and employers.

In Indonesia there was a shift that eroded benefit level and strengthened the state's political control over the private sector. In the Philippines there was a shift that improved benefit level and weakened state control over the private sector. Meanwhile in Singapore the shift improved benefit level yet at the expense of deeper penetration of state control over the private sector.

What explains variation in shifts in the dimensions of social security provisions in Indonesia, the Philippines and Singapore after the 1997 financial crisis?

While the usual suspects of global and macroeconomic influence, namely the national financial constraints, the ranking of economies in global competition or the intervention of international financial institutions, play part in the social security reform, they are by no means the main determinants of social security reform in these countries. Based on information collected from the three countries, I find that these economic contexts only influence the dramaticness of change proposed for the social security reform. Once the proposal is initiated, however, there were a series of confrontations and compromises among involved stakeholders: employers, workers, state leaders and bureaucrats, which in some cases have led to drastic reverse from what was initially proposed.

The variation is determined by the expectations of employers and workers based on the conduciveness of the economic environment as a whole for private businesses (whether employers and workers foresee more or less positive outlook for their welfare) and the degree of relative intensity of symbiosis between bureaucrats of social security agencies and state leaders. Dramatic change offered in the reform proposal, despite its necessity to solve problems within the existing social security system, could be easily derailed and emasculated when the employers and workers lack positive outlook for their wellbeing and when the state leaders and bureaucrats values the intensive symbiosis between them.

It is obvious that people's eyes were on the hidden rewards and the flow of funds from social security schemes. I find that employers and workers are concerned about the yield from the financial contribution they made into the social security system and how it will affect their survival in the economy. The less optimistic they are that the proposed reform will secure an acceptable return on their contributions in social security, the more likely they reject the reform, even when it may end up eroding the current benefit level and strengthening state's power over them.

But this is not the whole story. There are state leaders and bureaucrats who are concerned about maintaining easy access to the significant collection of domestic funds, which is important to finance state development agendas, create a certain image for the power insiders and outsiders (e.g. by boosting the stock market, providing temporary cash or service benefits, and prosecuting those who are endangering the sustainability of these practices), and secure personal employment. The more intense the symbiosis between state leaders and bureaucrats, the more likely the reform will weaken contributors' ability to get the return from what they put in, hence strengthening the political power of the state at the expense of the employers and workers. Indeed it is clear that an intensive, and typically also highly lucrative, symbiosis between state leaders and bureaucrats sacrifices the ability of bureaucrats to perform professionally and prevents them from taking necessary actions to solve problems that are embedded in the reform idea.

Most importantly, the events of social security reform in Indonesia, the Philippines and Singapore helps reveal the broader reasons why the state leaders pushed the reform into a certain direction: the need to generate domestic funds that would enable them to be autonomous from outside pressure, the need to develop incentives and punishments for private sector players, and the need to secure certainty for all stakeholders. The shifts on the two dimensions of social security are part of a bigger scheme of market governance.

Going beyond the early study of "governing the market",[15] I specify the different areas of market governance that exist today:

1. Protecting the autonomy of the state from outside pressure (i.e. by strengthening the financial autonomy of the state). In Indonesia, the state does this by tapping the profits

[15] A term borrowed from the famous work of Wade (1990).

from the investment of, and the lack of public control over, the social security funds. In the Philippines, by intensifying tax generation activities in the name of financing cushions for workers from market risks and assisting the poor. In Singapore, by further activating the Central Provident Fund (CPF) as a means to generate funds from workers and employers (including from multinational companies).

2. Maintaining or enhancing control over worker-employer relations (i.e. through incentives and punishments to private sector actors). In Indonesia, the state does this by using selective enforcement of statutory programs and rules. Those who enjoy the incentives from the state are not necessarily the ones who comply with the statutory programs and rules, especially since the rules themselves are further divided into the national level laws, which are mostly vague and contain ideals, and the implementing executive orders, which are more specific but are the prerogative of the ruling state leaders. In the Philippines, the state uses improved social security benefits and flexibility practices of employers as incentives while the punishment only applies to workers, i.e. poor working conditions. In Singapore, the state uses improved social security benefits as the incentive for workers and lowered employers' contribution as the incentive for employers. Meanwhile the punishment in Singapore also applies only to workers, i.e. higher minimum sum in workers' CPF accounts before they can withdraw any for their contingencies, which consequently forces workers to work hard beyond their old age.

3. Restoring the overall sense of predictability for all stakeholders in the midst of a more globalized market (i.e. by securing certainty). Through the social security reform we will see that the state in Indonesia establishes regulated competition with state-owned

corporations as the pillars, bureaucrats as the biggest supporters of state leaders and state leaders as the mastermind regulators. Certainty is expected through the numerous, yet poorly coordinated, regulations, which ironically would be further challenged by the intensifying political competition among state leaders. In the Philippines, the state chooses to establish more financial and service opportunities in citizens' hands through the various social security schemes. In a country where popular protests and movements have the reputation of overturning government administrations, such institutionalization of opportunities minimizes uncertainties borne from unsatisfied citizens. Meanwhile in Singapore, certainty is guarded by the state through the expanding control of the CPF (as the extension of the state) over more aspects of citizens' lives, from income and taxes to assets and spending habits. Such an expansion of the CPF's area of control strengthens and consolidates Singapore Inc. (i.e. Singapore being run not as a nation-state but as a corporation).

The theoretical contributions of this study are at least threefold. *First*, regardless of its controversies, social security reform is a critical part of the grand design of market governance in Indonesia, the Philippines and Singapore. It reapportions financial capability and flexibility to certain groups which in turn affects how the private sector and bureaucrats interact with the state leaders. This study bridges at least four camps of scholars: those who focus on the scarcity of resources, the rising importance of capital owners and multinationals, the political pressures for fuller integration to the world market and the neoliberal practices that reduce the rule of the state over the economy and private actors,[16] those who elaborates the significance and resilience of the state despite global pressure, even in developing Asia,[17] whose arguments reawakens debates on the capitalist developmental state in Asia,[18] those who discuss mainly the political changes and challenges in this region such as the series of People Power movements and the call for impeachment of President Arroyo in the Philippines, also the new leadership and party politics in Indonesia and Singapore,[19] and those who focus on recent changes in financing, benefit level, target groups, and the long-term feasibility of social security programs in an era of globalization.[20]

Second, social security reform in the three countries involves changes in two important dimensions: the level of benefit and the political control of the state over the private sector. Through the shifts in these dimensions, there is a repositioning of the power balance among groups within the society, particularly between the state leaders, bureaucrats, employers and workers. This is to say that social security reform does not just affect the extension of benefits to contributors, it also affects the channeling of financial opportunities and power to those with access to the collected funds.

Third, I reveal the importance of social security reform to understand the broader scheme of market governance that state leaders develop. Post-crisis economic condition and pressure only help shape the reform proposal. The output depends on the reform

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[16] Among others: Strange (1996), Keohane and Milner (1996), R.B. Hall (2003).
[17] For instance: Bowles (2002), Weiss (2003b, 2005), Mosley (2005).
[18] Liao (2001).
[19] For instance: Montinola (1999), Lande (2001), Rodan (2003), Thompson (2004), Liddle and Mujani (2006), Hedman (2006).
[20] For instance: Beattie (1998), H.J. Kwon (2005c), Asher and Nandy (2006).

process in which the concern of stakeholders about the yield of their financial contribution and how it would affect their operation and the degree of symbiosis between state leaders and bureaucrats matter more.

For more practical purpose, this study identifies the different emphases of social security reforms after the 1997 financial crisis in Asia. Although stakeholders value economic competitiveness, the reform is actually more political and domestic-oriented than most existing studies have indicated.[21] After knowing the details of the different ways the state, bureaucrats, employers and workers benefit from certain structure of social security provision, the public should be more aware of the overly simplistic yet catchy rhetoric that "social security provision is counterproductive to economic development".[22]

1.2. Research Method

This study has taken nearly three years of research, including literature and archival search and intensive six months of fieldwork in Indonesia, the Philippines and Singapore. During the fieldwork, I conducted in-depth interviews of business owners, workers, state leaders, bureaucrats, policy advocates and academicians, most of whom were the main players during the reform.

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[21] Most current studies highlight the administrative or economic considerations of changes in the social security system. For instance see Gillion (2000), Rosner (2004).

[22] A policymaker, who is also a prominent state leaders and often preach about the incompatibility of social security and economic development is Senior Minister Lee Kuan Yew (former Prime Minister of Singapore from 1959-1990). In a 1981 meeting of government MPs, Lee said, "Subsidies on consumption are wrong and ruinous…social and health welfare are like opium or heroin. People get addicted, and withdrawal of welfare benefits is very painful." (Barr 2001, p. 711). For more on Minister Lee's view and statements that emphasize the contradiction, see also (2000).

A total of 136 individuals were formally interviewed face-to-face with a duration ranging from 30 to 150 minutes. For some top ranking officials, I had the privilege to interview them more than once. The identification of these informants began with cross checking of my knowledge about the reform with several individuals known to be knowledgeable about the issue (e.g. academicians, politicians, activists in local non-governmental organizations, researchers in research institutes) or individuals directly involved in the reform process. What subsequently happened was a snow-ball contacting of informants.

After learning more about the importance of several individuals, I was introduced to these informants either by letter or by personal contact numbers. In most cases the scheduling of meetings went smoothly on first attempt and the meetings were satisfactorily in-depth. For reasons of passion and concern about social security, also dissatisfaction with what happened, many of these informants had little hesitation in revealing the details of what happened. Yet since the information is sensitive politically, many asked to remain anonymous. Some appeared very uneasy and expected me to simply listen and not take notes. For these individuals, I also decided to keep their identity anonymous.

To make sure that my data is representative of the situation in each country, I also arranged meetings with reform "outsiders." In Indonesia, I took the time to interview union leaders whose stands are known to be in strong opposition to the state and the government-friendly union. For every hint of new information from the interviews, I expanded my knowledge by reading hundreds of magazine and newspaper articles provided by the Center for Strategic International Studies (CSIS), *Tempo* and my own collection. I did this before interviewing the next informants.

To balance the view of Indonesia's employers association, APINDO (*Asosiasi Pengusaha Indonesia*, Indonesian Employers' Association), I also interviewed business owners or top managers who are not always in agreement with APINDO and whose sectors of production are known to either benefit and/or lose after the crisis, such as the electronic, forestry, ship and cargo, and banking companies. I also learn about the conditions in these businesses and the struggles within them from separate interviews with their workers. I am grateful to CSIS, Friedrich Ebert Stiftung, union activists and academicians for introducing me to many informative business owners/managers, union leaders, and workers. My discussion of the views of workers is also extracted from those working in other business sectors, including textile, furniture, and transportation (taxi).

In the Philippines, I benefited from being a research fellow at the Center for Integrative and Development Studies and the Department of Political Science in the University of Philippines-Diliman. In addition to getting contacts for the main players in the reform, I was also able to attend seminars attended by top-rank state leaders. Such meetings allowed me to schedule in-depth interviews with cabinet ministers and members of parliaments.

Since the employers association ECOP covers mostly big businesses, I cooperated with the Institute for Small-Scale Industries at the University of the Philippines-Diliman to interview the small, medium and micro business owners trained in networking, profit-management, marketing, and tax management. The organizers introduced me to the participants at the beginning of the training sessions, gave me a few minutes to talk about my research project and invited the participants to come to me during or after the program to voluntarily share their views and experiences. I attended all of the training sessions that are held from eight-to-five o'clock every Saturday for a period of seven weeks.

In total I spoke to the owners and representatives of 27 businesses from various sectors, sizes and locations in the Philippines. For some businesses I talked to more than one representative, so the total number of people I talked to was more than 28. To get a complete picture of workers' conditions, especially those in the informal sector, I interviewed the official in charge of the Cooperative Development Authority of the Department of Finance, and also visited a cooperative that is located in Pasig City, talked to the founders and observed how the cooperative operates.

The authoritarianism of Singapore hindered me from effectively interviewing politicians and businesses. I requested meetings with top-rank officials of CPF but they refused with a reason of busy schedule. Thus for the most part I talked to academicians, citizens who are also workers and union representatives. Despite initial hesitation, I had the privilege to interview a leader of the one and only union in Singapore, NTUC (National Trade Union Congress). I also made use of the libraries at the National University of Singapore and the Institute of Southeast Asian Studies.

In Indonesia and the Philippines, I made use of the library and other technical facilities provided by the Friedrich Ebert Stiftung field office in Jakarta, the CSIS in

Jakarta, the Research and Development Division of PT JAMSOSTEK, the libraries of the University of the Philippines-Diliman (including at the School of Labor and Industrial Relations), the Center for Integrative and Development Studies in the University of Philippines-Diliman, and the Department of Political Science in the University of Philippines-Diliman.

1.3. Plan of Dissertation

Chapter 1 provides overview and contribution of this study. Chapter 2 specifies the dependent variables for this study, which is the variation in the shifts of the two dimensions of social security provision in Indonesia, the Philippines, and Singapore. Chapter 3 provides hypotheses and the new comparative framework for analyzing social security reform and governance.

Chapters 4, 5, 6, and 7 provide in-depth case study analyses of Indonesia (Chapter 4 and 5), the Philippines and Singapore respectively. In these chapters there is more detailed presentation of the social security system before and after the reform as well as the reform process. Chapter 8 provides final remarks and covers the implications of this study for general inquiry on social security reform and market governance.

CHAPTER 2

VARIATION IN SOCIAL SECURITY REFORMS IN INDONESIA, THE PHILIPPINES AND SINGAPORE

2.1. Overview

Esping-Andersen (1990) persuasively demonstrated how social security provision goes beyond the granting of social rights as they determine the ability of individuals to maintain livelihood without reliance on the market (being decommodified) and the social relations of individuals in a society and their families. In Asia, on the contrary, social security benefits are barely viewed as the granting of social rights.

Social security is more often seen as a residual policy, a program to support economic policy that would not be prioritized unless the economic performance can afford such spillover of resources.[23] Others noted that the governments are simply not being responsive enough or that the systems are underdeveloped,[24] while others studying

[23] Krueger (1990), World Bank (1993), Booth (2001), Boix (2001). Such approach of looking at the welfare state, which is enhanced by the belief that these economies are practicing neoliberal economies, which is indeed reminiscent of one of the early studies of comparative welfare states in advanced industrialized countries where scholars argued that economic level, with its demographic and bureaucratic correlates, explains social security provision. See Cutright (1965), Wilensky (1975).
[24] Birdsall and Haggard (2000), Boix (2001), Asher (2002).

Southeast Asian countries suggested that these governments prefer to concentrate on education and public healthcare instead of social security.[25] Some others are tempted to emphasize the culture of family care, including Confucianism, in these economies.[26]

I find that although Asian countries embrace market capitalism, including the practice of liberal market, the cases of Indonesia, the Philippines and Singapore demonstrate that their social security provisions cannot be simply argued as underdeveloped or oriented toward economic efficiency that would diminish state intervention in the economy. Based on the reform in the health, pension and unemployment programs, this chapter elaborates the presence of two important dimensions of social security provision: the benefit level and the political control of the state over the private sector.

They are important because their shifts affect the playing field of stakeholders, namely the workers, employers, bureaucrats of social security agencies and state leaders, both politically and economically. Social security provides incentives or punishments for private sector players and determines the degree of financial access and thus power of the

[25] Ramesh and Asher (2000).
[26] For instance: Walker and Wong (2005), Palley (1992), Jones (1990). This cultural approach, however, is less convincing than the economic approach. First, Asia is one of the most culturally diverse continents in the world. Confucianism is not a value in the lives of citizens in all, or even the majority of, countries in the region. In most Southeast Asian countries the Chinese community, the ethnic group which most likely holds Confucianism as a belief, is a minority. See Leo Suryadinata (2002, p.11). Second, Singapore may sound like the fiercest proponent of Confucianism but it is just the surface reality thanks to the desire of then Prime Minister, now Senior Minister, Lee Kuan Yew, to deflect Western pressure for Singapore to democratize. See Zakaria (2002). Third, others find that the ostensibly most Confucian countries relative to other Asian nations, i.e. Japan, Taiwan, and South Korea, have elaborated social security programs involving long-term commitments. See Ramesh and Asher (2000, p.7), Peng (2005). Fourth, the cultural explanation disregards the penetration of the so-called modern lifestyle ("India", 2006 and "Asia and the World Economy: An Alternative Engine", 2006).

state over the contributors (employers and workers). Despite the non-universal coverage of these social programs, the size of accumulated funds is nothing short of spectacular that it could affect everyone else who is non-contributors.

In Indonesia, the value of the inflow per day to the fund reaches Rp 4 billion (about US$ 430 million) per day,[27] and that is just from the social security scheme for private sector workers (JAMSOSTEK, *Jaminan Sosial Tenaga Kerja*, Manpower Social Insurance).[28] The latest news was that JAMSOSTEK has accrued an asset value of no less than Rp 47 trillion (about US$ 5.05 billion).[29] That is nearly 20% of the size of the total domestic revenues (including grants) of the government of Indonesia in 2001.[30] The significance of the amount of funds collected by JAMSOSTEK is also acknowledged by its use to boost occasionally the performance of the Jakarta Stock Exchange.[31] Meanwhile the social security scheme for private sector workers in the Philippines (SSS, Social Security System) collected P3.6 billion in the first semester of 2006 (about US$ 69.2 million).[32] This amount is roughly as big as the total yearly budget allocated by the US Congress for the USAID mission in the Philippines in 2006.[33] Indeed what people often overlook is the potential money and power earned through the management of the funds despite the "insignificant features" that most people look at.

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[27] Rp is for rupiah, the Indonesian currency. Throughout this study the exchange rate as of 2006 US$, which is Rp 9,300 per dollar.
[28] Anonymous high-ranking official at PT JAMSOSTEK, interview, February 1, 2006.
[29] "Berebut Keringat Buruh" (2007).
[30] The recorded amount of domestic revenues for the government of Indonesia in 2001 was Rp 286.006 trillion (roughly US$ 30.75 billion). The data is from Bank of Indonesia.
[31] Anonymous insider at the Jakarta Stock Exchange, interview, February 22, 2006, and "Andi R. Alamsyah: Ini Uang Pekerja dan Gue Tetapkan *Yield*nya 17%..." (2001).
[32] SSS (2006). P is for peso, the Philippine's currency. Throughout this study the exchange rate is as of 2006 US$, which is roughly 52 per dollar.
[33] The actual amount allocated for Fiscal Year 2006 was US$ 69.9 million. See USAID (2006).

In Section 2.2 I will present measures for comparing the dimensions of social security. In Sections 2.3 I will describe the social security reform outputs in Indonesia, the Philippines and Singapore and identify the shifts in dimensions. Last, in Section 2.4 I offer conclusions concerning the comparisons.

2.2. Changes in the Dimensions of Provision

Social security provision is often associated with the improvement of the worse-off at the expense of the well-off (e.g. when one obtains more than she puts in) although it has also been argued to be as much for the rich as for the poor.[34] Indeed, social security reform involves conflicting interests among groups with different contribution and benefit rates. The question is: conflict between who? Past studies emphasize class-based conflict[35] but Baldwin (1990) convincingly challenged this. Baldwin argued that the battles behind the welfare state vary by the risk incidence and the capacity of groups' in a society to reallocate the costs of uncertainty and to face contingencies unaided. Hence it is *passé* to view social security reform as "the politics against market".[36] In line with this finding, more are written on the evidence of cross-class alliance in support of social security programs, including between labor and businesses.[37]

To capture the underlying reasons for the conflicting interests in social security reform, especially in Indonesia, the Philippines and Singapore, one must first

[34] Uusitalo (1985).
[35] This is known as the power resource theory, which claimed the importance of strong labor movements to support the welfare state, such as Korpi (1983), Esping-Andersen (1985).
[36] The term is borrowed from Esping-Andersen (1985).
[37] Mares (2003a) finds that cross-class alliances among labor movement and some sectors of the business community has played a critical role in the development of policies of social protection in France and Germany. Others who examine the role of businesses in supporting the welfare state include Swenson (2002), Thelen (1999, 2001), Estevez-Abe, Iversen and Soskice (2001).

acknowledge that social security is multidimensional. The simplest way to capture the dimension is to observe the impacts of a social security system to workers, employers and the state, although this, I will explain later, is insufficient. After all, social security intermingles with industrial peace, labor market flexibility and political stability.

To workers, social security benefit is social wage that complements performance-based salary. It puts value in the rights of workers as human and economic actors. This is why unions and worker representatives often fight tooth and nail with the employers about social wages in collective bargaining. Included here is negotiation over severance pay as compensation post-employment that helps smooth workers' transition from one employment to another.

In Asia, the lack of acceptable balance between salary and social wage has triggered industrial relations disputes and the so-called unfair termination of employment, which in turn draw public attention to employers' treatment to workers and state's mediation to mitigate the disputes.[38] To workers, social security is as much about what everybody else gets (i.e. non-workers) out of the system as it is about whether or not they receive acceptable return from the money they invested in the system. Indeed, in Asia conversation on social benefits never surface unless they are supportive of economic growth, or more specifically employment creation.[39] This I also observe personally from the series of interviews with workers in Indonesia, the Philippines and Singapore.

[38] Bitonio (2000). Chair of Philippine National Labor Relations Commission B.E.R. Bitonio, interview, November 10, 2005. Activists from various unions in Indonesia, interviews, December 2005-February 2006.
[39] Deyo (1989).

On the other end social security cannot simply award benefits to workers without providing enticement to employers to participate in its provision. Employers calculate the impact of the granting of social security benefits against their cost of workers turnover, of providing skill development, of providing plant-specific benefits, and to their overall competition strategy with other employers.[40] Indeed plenty has been written about the preferences of employers in advanced industrialized countries but little has been said about what employers in Asia are focusing on in the battle for social security reform. The recent focus on the decline of the welfare state assumes that employers in this region are simply concerned about racing to the bottom. Yet aware of the need to shed light on the issues that employers in Indonesia, the Philippines and Singapore most concerned about in social security reform, I specifically look for the incentives and punishments that employers may obtain through their participations in social security system.

And of course, one cannot isolate the provision of social security benefits from what the state does to the social security system. Scholars have observed how the system of interest group representation shapes social security reform. A lesson from advanced industrialized countries is that welfare retrenchment, for instance, has been less severe in countries practicing corporatism than in countries without one. Corporatism allows for national and sector-group coordination, which associates positively with the representation of opportunities of interest groups in shaping reform outputs.[41] As Rudra (2002) aptly pointed out, a large number of group members alone cannot push for the creation of reformed social security system given that there will always be the collective

[40] Mares (2003a).
[41] Swank (2003).

action problem.[42] Coordination provided by the state in market capitalism is recently examined as contributing positively to the resilience of social benefit provision.[43] The strength of employers' association, for instance, varies by the policymaking setting in a country (whether it is corporatist or pluralist), which in turn determines the cross-national differences in business attitudes towards the welfare state.[44]

The relationship between social security, labor market and industrial relations is fundamentally shaped by national economic development. The restructuring of social security is typically carefully crafted by the state to avoid hampering the economy, especially if it is in the process of recovering from a crisis.[45] In Asia, where labor has been long excluded from policymaking during the industrialization period[46] and certain businesses enjoyed the privilege of support for their expansion, it is only appropriate to assess social security reform by how it affects workers and employers relations to the state leaders.

The fact that the management of collected workers and employers contributions is guided, even in some instance controlled, by state leaders means that the state as non-contributor is endowed with access privilege to this funds. Depending on the degree and the kind of involvement of state leaders in social security program management,

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[42] About collective action problems that large group is prone to, see Olson (1971).

[43] This line of research examines different policies and policymaking under "varieties of capitalism": the coordinated market economy and the liberal market economy. See Hall and Soskice (2001).

[44] Martin (2005).

[45] Mesa-Lago (1994) describes how Latin American countries balance compensatory measures for affected vulnerable groups (e.g. emergency employment programs, continuation of health-care coverage to the unemployed insured, expansion of coverage to lower-income groups, provision of public assistance health care and pensions for the indigents) with economic recovery after the 1980 crisis. What the states in these countries did was to cut drastically the administrative expenditures in social security agencies.

[46] Hadiz (1997).

incumbent state leaders will gain certain leverage vis-à-vis the private sector players. A change in how the system channels privileges to state leaders will therefore also changes the playing fields of other groups of stakeholders.

Finally, as mentioned earlier, it is insufficient to examine only the impacts of social security reform to workers, employers and state leaders. There are also the bureaucrats who work in social security agencies. They too are non-contributors whose choice of actions determines the output of social security reform.

Early studies of Asian economic development valued the "embedded autonomy" of insulated bureaucracy in state-led economic planning[47] and emphasized the central directive role of the state in its various degrees of "hardness" for designing industrialization strategies[48] as the bases for the widely-praised miraculous growth of these economies. Yet recent event of 1997 financial crisis pushed scholars to unravel the black-box of symbiosis between the state leaders and bureaucrats.

Indeed it was argued that it is the state leaders who may be political and thus prone to penetration of self-materially-driven-interest while the bureaucrats especially in meritocratic bureaucracies are not.[49] Case studies suggest that businesses and public in general are not always out of loop from policymaking in these state-led developments, and they penetrated through state leaders.[50] Yet the puzzle here is what secures the bureaucrats from cronyism-based activities? Such puzzle is appropriate considering the mounting number of studies on the non-transparent nature of bureaucracies and how easy

[47] Evans (1995).
[48] Johnson (1982, 1995), Amsden and Hikino (1993), Cumings (1987), Evans, Rueschemeyer and Skocpol (1985).
[49] Evans (1995), Evans and Rauch (1999).
[50] MacIntyre (1991, 1994), Liddle (1987).

it is for the components of society to rig bureaucratic procedures for favoritism, or worse corruption.[51] One needs to specify the circumstance under which the bureaucrats are more likely to perform as technocrats and as "the agents" of the state. Furthermore, since bureaucracy is after all part of the political executive, one that hierarchically help execute the mandate of elected state leaders, it is important to assess the degree of formal as well as informal autonomy of the bureaucrats in making decisions regarding social security provision. This helps further clarify the change in state's leverage vis-à-vis the private sector.

For these reasons, I argue that assessments of social security reforms in Indonesia, the Philippines, and Singapore must focus on these two important dimensions: the benefit level for the contributors and the political control earned by the state through the reform.

First, the benefit level dimension. This is most obvious dimension of reform that the public is most curious about. An improvement in the benefit level is associated with a financial cushion that aids eligible individuals in times of contingencies. With benefit improvement, politicians typically earn some credit points which help provide or improve their political capital, shielding them from public scrutiny and possibly maintain them in power.[52] Politicians may modify certain regulations, increase government spending and

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[51] I use the definition of Andrei Shleifer and Robert Vishny here for corruption that is "the sale by government officials of government property for personal gain". See Shleifer and Vishny (1993). For the cases of corrupt and easy to rig bureaucrats, see for instance: Dwivedi (1967), Bates (1981), Olowu (1988), Dininio and Orttung (2006).

[52] "Political capital" is understood here as an endowment of trust and legitimacy earned by politicians from their engaging with the public. "Political capital" is different from "social capital" as advanced by Putnam (1993). As mentioned by Sorensen and Torling (2003), political capital refers to the individual power to act politically and that power is generated through participation in interactive political processes linking civil society to the political system whereas social capital refers to trust building and networking that does not have to involve interactive participation between the public and individual politicians. A populist approach,

grant income transfers just before election time, a phenomenon known as the political business cycle.[53] Others note that when politicians are about to restructure social policy that cuts benefits, they will intentionally avoid announcing it during a certain time period or will wrap the policy in a certain way to avoid blame.[54]

In Asia however, such attempt of state leaders to gain political capital through social security benefits is often delicate. Here it is common to hear that provision of social security benefits compromises employment creation.[55] It is not surprising therefore that employment creation is one of state responsibilities typically written in the labor code or other regulations pertaining to labor.[56] In fact here employment is not only a motor for economic growth and a means for improving the purchasing power of people, it is also critical for appeasing the working people.[57] So, a change in benefit level may be

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for instance had been used to appeal to voters in an economic reform although it may end up promoting rent-seeking activities. See for instance: Kessler (1998), McCargo (2002).

[53] H.Y. Kwon (2005), Krause (2005).

[54] Beland and Marier (2005), Weaver (1986), Pierson (1996).

[55] Four workers from two electronic companies and three employers from different sectors in Indonesia, interviews, December 1, 2005 – March 4, 2006.

[56] For Indonesia, see article 41 of the Manpower Code (Law No. 13/2003). For the Philippines, see article 14 of the Labor Code (Presidential Decree 442).

[57] See for instance the discussion on the policy choice of the Indonesian government in agricultural sector. Liddle (1987) suggests that one of the reasons why the government is willing to provide favorable rate of price for agricultural commodities and reform the law regarding the management of land used for sugar cane plantation is to provide employment in rural areas and prevent farmers from urbanizing to the cities and possibly create political instability. Another example is that of South Korea where labor disputes tend to be large, high-profile and confrontational, potential to turn violent and disruptive both politically and economically. Example includes 1992 week-long occupation of Hyundai Motor that ended when 15,000 riot police stormed the factory, 1987 strikes at LG Electronics that lasted for ten days and stopped all work, 1989 strike in LG companies that lasted 39 days, and series of violent strikes against Daewoo. See Rowley (2004). More recent incidents of strike occurred in November 26, 2004. This time it was the workers of KIA and Hyundai.

designed in a certain way to enhance employment opportunities instead of directly improving income transfer through social security programs. Of course such choice would impact workers differently than a straightforward benefit improvement.

Change in benefit level also affects what employers get out of the reform. Theoretically employers will weigh the impact of the change to how it may secure industrial peace and the image of the companies,[58] minimize the risks of doing business and surviving competition thanks to pooling of costs[59] and predict the costs and availability of capital to firms.[60] Given that in Asia social security benefits are paid only by employers and workers yet managed by state-controlled social security agencies, I expect any financial liabilities of the agencies including the subsidies, taxes, and restrictions to claim benefits to affect employers, and eventually workers. This in return helps specify what the state leaders and bureaucrats earn or lose from the reform.

To assess where Indonesia, the Philippines and Singapore fall on this dimension, I look at the changes in the structure of contribution and benefit. I observe changes in the contribution ratio, nominal benefit, subsidies, fees and restrictions to benefit claims in health and pension programs. In Indonesia and the Philippines there were also initiatives to incorporate unemployment benefit in statutory social security system, which affect benefit level change in health and pension programs.

Higher contributions from workers and employers and the uncertainty of future yield offset the nominal value of the benefit. For this I look at the ratio of the contribution rate between workers and employers. When the ratio is 1, the worker is most protected.

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[58] Thelen (2001).
[59] Mares (2003a).
[60] Estevez-Abe (2001), Swenson (2002).

The bigger the deviation point from 1, the bigger the cost shouldered by workers. It is obvious that if the workers pay a higher percentage, then more cost is shouldered by the workers. But I'd like to emphasize that if workers pay a lower percentage of the contribution than employers, then most of the cost will still be shouldered by workers. Employers will either pass on the cost to workers (e.g. by cutting back salaries, imposing term-contracts, or increasing the price of goods produced in the market) or evade their responsibility altogether. The control factor here would be whether or not there are any public funds (or contributions from the state) pledged to workers' accounts. If yes, that might somewhat alleviate the burden on workers.

The nominal value of benefit also depends on whether or not the program is "defined benefit". If a program adopts the defined benefit principle, benefits are defined *ex ante,* based on a prescribed formula, providing a guaranteed replacement rate regardless of the history of contribution. Under such a system, risk is pooled in that participants contribute according to their financial ability and they are guaranteed "help" from other contributors in time of contingencies. In addition they reserve the right to claim the benefit that is determined by some indicator of entitlement. The nominal amount of benefit in such a system may exceed the total contribution one puts into the system.

Programs with the "defined benefit" principle automatically secure the benefit level. This is not to mention that since this system relies on a solvent flow of contributions and a small ratio of beneficiaries to contributors, the system might be subsidized or guaranteed by the state. This means that there are layers of protection for the benefit level, from the social security agencies through the benefit formula and from the state through the pledge of financial support for the system. Therefore unless there are means taken to modify the benefit formula, to refuse certain groups of individuals from enrolling or getting benefits, or to withdraw state support of the system, a reform in the defined benefit system would typically improve the benefit level for the contributors.

This is contrary to programs that adopt "defined contribution" principle. Such a system awards benefit based on the amount of contribution accumulated in the insured's account. Hence it resembles a compulsory savings system. Risk is mostly *not* distributed. Workers basically provide their own safety net. There is the risk for not having enough accumulated funds to withdraw when contingencies arise, the cost of administration, and the cost of additional funds (out-of-pocket cost) needed to pay for contingencies on top of the money withdrawn from the system. Indeed, this system depends a great deal on the level of contribution. A small contribution level means a smaller benefit level. Yet a high contribution does not automatically mean a high benefit level since the benefit level is the function of the management and the performance of the social security agency. In fact, a defined contribution system might claim to improve benefits but given the earning-related nature of benefit granting, it may only do so for the highest earners and at the cost of a huge risk transfer.[61]

And then there are subsidies, fees (including tax on social security benefits) and restrictions to benefit claims that affect benefit level. Subsidies may be direct, for instance when a program is created whereby the state channels financial support to a

[61] I thank Sarah Brooks for specifying this.

program or a certain group of participants. They may also be indirect that is through the adjustment or maintenance of the financing status of programs, i.e. either unfunded or fully funded. An unfunded system means that there is theoretically no pool of standing funds in the system. An unfunded system typically involves a cross-generation subsidy, especially in pension program, or also known as pay-as-you-go system. It may also involve a cross-income subsidy among the insured. In such case therefore the cost of protection is shared among the insured. This is a system adopted by the Philippines.

Meanwhile a fully funded system is theoretically self-sufficient with contributions recorded for each contributor and are used to finance her contingencies. Under this system, withdrawal of funds to face today's risk is at the expense of losing protection from future contingencies due to the depletion of one's account. This is not to mention that since the funded system assumes personal responsibility, the benefit as well as the cost of management and the risk of mismanagement or inefficient management will be shouldered by the contributors. This is a system adopted by Indonesia and Singapore.

Second, the dimension of political control. Here political control is understood as the possession of authority or influence to restrict or allow others from earning something or doing something they might otherwise not do. In this case the focus is on what the state (and state leaders) earns from the social security reform, both independently and in symbiosis with bureaucrats in social security agencies. This is the dimension of social security reform that has been poorly understood.

More generally speaking, political control may be exerted in two ways: the formal and informal autonomy of social security agencies, including their enforcement functions.

The formal autonomy of the social security agency may be eroded, so that the agency practically loses its ability to make decisions on its own or to run by its own rules and authority. Alternatively, state leaders may illegally use facilities or funds for personal or political income.

I ask questions like "What is the legal status of a social security agency? Is it a trust fund (hence funds stay solely for the contributors) or is it state-owned corporation (hence funds may be diverted to the main stakeholder, which is the state)?". "What is the connection between a social security agency and the office of the chief executive?". "Who makes the binding decisions within the agency that affects the policy of the agency?". "Who are the individuals sitting in the top-rank positions in the agency and what is their reputation in terms of dependence on the ruling state leaders?". "Who holds the authority to punish and fix violations within the system?" Without the authority to enforce the law, social security agencies are practically dependent on the state's enforcement mechanism. This affects the political leverage of different groups of stakeholders in the social security system, for instance when employers do not report the true salary rate of workers and therefore workers receive fewer benefits than they actually deserve, workers' political leverage vis-à-vis the state and employers are compromised.

Political control involves a desire to gain or retain authority over the management of the funds.[62] I argue that there are two ways of asserting political control: formally by disturbing the statutory autonomy of the social security agencies and informally by corrupting the social security agencies for personal or political income (that is whether or

[62] On the business side, Isabella Mares did a stimulating study on how businesses seek to gain and retain control over the money they invest in to the social security schemes by preferring the employer-managed schemes instead of the universal schemes managed by the state. See Mares (2001, 2003a, 2003b).

not there is statutory autonomy for the respective social security agencies). A social security agency with formal autonomy (i.e. it runs itself like a statutory board, has its own rules and enforcement mechanisms, and its officials behave according to the professional code of conduct of the agency) is expected to be more capable to resist the strengthening of state's political control during the reform.

This is possible because such an agency is not just subordinate to the state leaders, which must follow the boss like an assistant. And then there is the informal way of asserting political control, which is the occasional or permanent channeling of social security funds for purposes other than empowering the contributors, which in turn weakens the enrolled workers' (in some degree also their employers') bargaining positions vis-à-vis the state leaders who benefit from the loopholes in the social security system.

Elsewhere we learn that social security programs may indeed entail an increase of authority by one group over another. Esping-Andersen (1990) wrote that a social security system is itself a system of stratification, an active force in the ordering of social relations. In Austria, France, Germany and Italy, the systems intend to preserve status differentials to the point that the "non-preferred" group in the society (mostly non-civil servants and the less well-off) will have no option but to be subservient to the existing class structure. In that system, the state "benefits" from the lack of capability of workers to take action against it. As historically intended by Chancellor Bismarck, the system is designed to preempt the demand of workers.

Furthermore, Gerschenkron (1962) argued that newly industrializing countries, or "countries with relative backwardness", typically allow the state to rule autonomously and to enforce its authority over the public, especially workers. Special institutions that are the extensions of the hand of the state might be designed to speed industrialization. From this perspective, authoritarian governments that are identical with the ultimate possession of political control in the hands of the state are perceived as necessary for catching up.[63] The active role that the state played in Indonesia, the Philippines and Singapore in economic and social policies is also part of the attempt to assert political control over groups in order to maintain social order. In industrial policy, thanks to the adoption of import substitution industrialization, the active involvement of the state was accompanied by the penetration of certain groups by the decisions of state leaders.[64] Meanwhile the state systematically suppressed the organization and the importance of collective labor interests to prevent political instability and to attract investments.[65]

Certainly these two dimensions are not independent from one another. A reform that shifts the balance of leverage of stakeholders in the system may unintentionally affect the shift in the benefit level dimension. Money coming in to the system does not just lay sterile in the pot of the social security agency. It will be circulated and channeled to the point that it might erode the ability of the contributing workers to use their money as needed (i.e. in the expected amount at the expected time). This is not to mention that the money may end up "empowering" someone else other than workers, even when

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[63] Bhagwati (1966), Dick (1974), Oneal (1994). Along the same argument is the view on the benefit of having authoritarian government. See Huntington (1968), Wrage (1997).
[64] MacIntyre (1991, 1994), Liddle (1987, 1996), Doner (1992).
[65] Ramos (1990), Wurfel (1959), Deyo (1989), Hadiz (1997).

eventually workers can earn back their money. In other words, the money and time "borrowed" may have tipped the scale away from the workers. When this happens, benefit level ends up being eroded.

Indeed who manages the schemes and how the scheme is managed are critical in determining the yielded benefits (or the lack thereof) from the social security provision. A political control privilege does not have to come as cash; it may come in the form of authority over others that allows for more maneuverability of the earning party.

Also important to note is that reform output does not just consist of a legal product that cements new practices. The output also consists of the practices that reflect the implementation of the new legal product. In studying public policy we learn "how an idea becomes a proposal, gets on the governmental agenda and ultimately gets transformed into an action".[66] Specifically for social policy, reform typically involves changes in incentives and sanctions which may involve values,[67] certain issue that may expand the political agenda of state leaders,[68] and selective discretion from those who implement it.[69]

As will be more evident in the theory chapter and the subsequent chapters on case studies, the social security reform in Indonesia, the Philippines and Singapore is highly political.[70] A lot of compromises were made, either prior to or before the adoption of the

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[66] H.K. Leong (2003).

[67] This happens for instance in cases involving the minority and socially marginalized groups. See for example Keiser, Mueser and Choi (2004).

[68] The studies of hate crimes and the policy that governs the state and federal level regulations in the United States look closely into this issue (e.g. Haider-Markel 1998).

[69] In the case of the United States the study of selective discretion during the implementation focused on bureaucracies. See Lipsky (1980), Keiser and Soss (1998), Kerwin (1994).

[70] Such instance is not as obvious in Singapore given its authoritarian political system and the running of the state as a corporation instead of as a nation-state.

new laws. The nature of the compromises and the room for evasion from agreed pact will vary by the national political and economic condition following the adoption, also the law enforcement mechanism in a country.[71] Juxtaposing the *de jure* output of reform with the *de facto* one reveals a great deal about the reform process which later helps illuminate our search for explanations.

The findings on what changed during the reform are captured in Table 2.1. Each column under the "before reform" and "reality under the law" identifies the shifts in the three dimensions of social security provision. In Indonesia there was a shift that eroded benefit level and strengthened the state's political control over the private sector. In the Philippines there was a shift that improved benefit level and weakened state control over the private sector. Meanwhile in Singapore the shift improved benefit level yet at the expense of deeper penetration of state control over the private sector. The following section elaborates reform outputs in each country. Tables 2.2, 2.3, and 2.4 summarize the structural changes following social security reform.

	Before the Reform		Reality After the Reform	
	Benefit	**P.Control**	**Benefit**	**P.Control**
Indonesia	Low	High	Lower (-)	Higher (+)
Philippines	High	High	Higher (+)	Lower (-)
Singapore	High	High	Somewhat Higher (+)	Higher (+)

Table 2.1: Changes Following Social Security Reforms in Indonesia, the Philippines and Singapore

[71] Ho Khai Leong (2003, p.14). Ho also cited the work of Roger Hilsman (1993, p.82) who argues that there is inconsistency and diversity in the goals of national policy and that it will call the attention to and serve the strong but sometimes hidden forces through which competing goals are reconciled.

2.3. Reform Outputs From Each Country

2.3.1. The Reform in Indonesia

Social security is an alien term for most Indonesians. The most common comment people made is cynical: "Do we have social security?" People, however, are aware of the various social security carriers that manage programs for different segments of the society. Yet unfortunately they are skeptical about the efficacy of the programs managed by these carriers. The image that sticks with these carriers is negative (e.g. corruption, minimal and difficult-to-claim benefits) and many workers are left uncovered by the existing programs. Even the employers I talked to had a negative take on the statute. The deliberation over social security reform therefore was surrounded more by public skepticism than excitement.

Reform of the existing social security system has been on the agenda of every Indonesian administration since the transitional government of President B. J. Habibie. Yet the attempts only became intensive and eventually yielded laws during the administration of President Megawati Sukarnoputri. In the social security statute, the output of the reform deliberation is known as the National Social Security System law (SJSN, *Sistem Jaminan Sosial Nasional*, National Social Security System) No. 40/2004, which was signed into law on October 19, 2004 by President Megawati.

Prior to this law, the statutory social security programs in Indonesia covers pension, healthcare (inpatient and outpatient), work-injury-related disability, death and in-kind service for work-injury. Cash benefits are provided separately for different occupational groups. Private sector workers participate in JAMSOSTEK (*Jaminan Sosial Tenaga Kerja,* Manpower Social Insurance) managed by PT JAMSOSTEK (*Perusahaan Terbatas Jaminan Sosial Tenaga Kerja,* Manpower Social Insurance Incorporated). Civil servants and military personnel obtain their healthcare benefits from ASKES (*Asuransi Kesehatan*, Health Insurance) managed by PT ASKES (*Perusahaan Terbatas Asuransi Kesehatan*, Health Insurance Incorporated). For pension, civil servants participate in TASPEN (*Tabungan Asuransi Sosial Pegawai Negeri,* Civil Servants' Social Insurance) managed by PT TASPEN (*Perusahaan Terbatas Tabungan Asuransi Sosial Pegawai Negeri,* Civil Servants' Social Insurance Incorporated) while military personnel participate in ASABRI (*Asuransi Sosial Angkatan Bersenjata Republik Indonesia,* Indonesian Armed Forces' Social Insurance) managed by PT ASABRI (*Perusahaan Terbatas Asuransi Sosial Angkatan Bersenjata Republik Indonesia*, Indonesian Armed Forces' Social Insurance Incorporated).

The SJSN law is the product of nearly four years of work. The idea for social security reform was voiced as early as 1999 but the effort to begin formulating a law only started in 2000. After a few years of brainstorming, President Megawati promoted the idea as one of the policy projects of her administration. On April 10, 2002 she officially formed a team, called the SJSN team, whose task was to conceptualize the design of the new social security system and write the accompanying academic papers. As noted by the chair of the SJSN team, the late Dr. Yaumil Ch. Agoes Achir, the team consisted of experts, government representatives, workers and employers who collected views from unions and employer associations.[72] Team members did study trips to a number of countries and received financial and technical assistance from several international funding agencies including the European Union and the World Bank.

The SJSN law, as reflected in its name, is supposed to specify a new system of social security for Indonesia. Unfortunately, although there are those who applaud the passing of this law, many are not impressed with its substance. Worse, there are serious doubts over its implementation. Interviewed employers and workers were especially frank in their pessimism. They doubted the law would actually bring any changes into the existing provision of social protection benefits. To date, the implementing regulations of the law are yet to be made and there is practically no agreed technical guidance on what the implementing regulations will say.[73]

In particular, the formation of the DJSN (*Dewan Jaminan Sosial Nasional*, Indonesian National Social Security Council) that is supposed to coordinate the execution of the SJSN law is stalled. Informants from various groups suggest that there is disagreement over the candidates for the DJSN, particularly on who should represent workers and who should head the DJSN.[74] Negative impressions of the SJSN law linger. The most that people can agree on is that it is "an umbrella law" – a law that shelters or

[72] Achir (2002).

[73] Some involved individuals, such as the physician Sulastomo (Chair of the SJSN team) and Tjarda Muchtar (former member of Commission VII of the lower legislative chamber DPR and current Operational Director of PT Jamsostek), insisted that there is technical guidance for implementing the law. Yet unfortunately no one else is aware of it. I suspect there may be such technical guidance but the political compromise that affects the final version of the law has eroded the relevance of this guide.

[74] Interviews on December 2005, January 2006, and February 2006 in Jakarta, Indonesia.

provides an outer frame to other laws and regulations pertaining to social protection provision for workers. For this reason, we could say that stakeholders agree that this is the first, baby, step toward social security reform in Indonesia.

The SJSN law was redrafted numerous times.[75] The final substance of the law can be summarized as follows. *First,* there would be the DJSN, whose job is to conduct studies on social security provision, initiate the investment policy for the SJSN funds, and initiate the fund appropriation to subsidize the accounts for the poor along with their operational costs. The DJSN will consist of 15 individuals from the government (5), labor unions (2), employer associations (2) and social figures or experts on social security (6). Article 8 (3) states that the chair will be a government representative. The DJSN members are appointed and will be held accountable by the President.

Second, the DJSN formulates general policy on social security and synchronizes the provision of social security benefits. As stipulated in Articles 5, 6 and 7, the DJSN is supposed to coordinate the existing four carriers of social security: PT JAMSOSTEK that manages programs for formal private sector workers, PT TASPEN that manages pension for civil servants, PT ASABRI that manages pensions for military personnel and PT ASKES that manages healthcare for civil servants and military personnel and makes sure that the policies and practices of these state-owned corporations are in compliance with the national policy on social security. The operational issues of benefit provision, however, remain the responsibility of these carriers. To date, JAMSOSTEK is a defined contribution system that is funded where accumulation of one's funds in one's account is

[75] The chair of the SJSN team, Sulastomo, said that this could be the most-revised law ever made in Indonesia. He revealed that there were about fifty-six drafts made. Interview on January 13, 2006. This statement was also captured in several local mass-media.

not monitored individually (as in Singapore) whereas ASKES, TASPEN and ASABRI are partially defined benefit systems managed using the social insurance principle of pay-as-you-go that is supported by occasional lump-sum injections of funds from the state.

Third, all citizens are guaranteed social protection. The government is responsible to ensure this by subsidizing (read: fully paying) the insurance premiums of the poor. This is mentioned in Article 17 (4). Also, in Article 21 (2 and 3), it is stated that the government will pay the health insurance premiums of the poor, the poor with permanent total disability, and the poor who have been laid off for over six months.

Fourth, with the SJSN there will be a national standard of social security provision that does not deny benefits to any citizens. *Fifth,* the SJSN will be managed as a trust fund (Article 4 (h)), which means that the collected social security funds will be used solely for the participants' sake. This would end the current legal status of social security agencies as state-owned corporations whose profits are partly channeled to the state budget.

The reform in the healthcare benefit provision was the first to be implemented. Following the signing of this law, in January 2005, the government through the Department of Health assigned PT ASKES, the public social security carrier that handles healthcare for civil servants and military, to manage the provision of healthcare insurance for the poor. The assignment was written in the Decision of Minister of Health No. 1241/MENKES/SK/XI/2004 and No. 56/MENKES/SK/I/2005. The program is known as the Healthcare Insurance Program for the Poor, ASKESKIN (*Asuransi Kesehatan untuk*

Rakyat Miskin, Health Insurance for the Poor). The total amount of money the government pledged to finance this insurance program was Rp 3.7 trillion (about US$ 397 million).

Since the enactment of this reform in Indonesia is still controversial, more about the controversies will be elaborated in the case study chapters. After all social security reform cannot be isolated from other policies that are still effective, especially the Manpower Law (Law No. 13/2003) that regulates the minimum wage, the making of employment contracts and the provision and amount of compensation that employers must provide upon termination of employment, and also the sets of regulations issued by the Minister of Manpower on minimum wage. One thing for sure, the SJSN law is a marking point that one can use in the future to trace back signs of the legacy of the reform. For easier comprehension of the specific changes under the recent social security reform process, I summarize them in Table 2.2.

	Before Reform	Expectation of the Laws	Reality under the Laws
The Dimension of <u>Benefit Level</u>	Low	Higher/Improved benefit	Lower
- Contribution rate	For JAMSOSTEK : Workers: 2% payroll, Employer: 7.24-11.74% payroll, zero contribution from the state (only occasional lump sums for civil servants/military schemes) thus the	- No change for JAMSOSTEK, TASPEN, ASABRI or ASKES (see Table 4.1). -Premium subsidy paid by the government for the poor citizens through ASKES.	-For ASKES, TASPEN and ASABRI: there have been billions of rupiah of state liability – unpaid promised capital injection to the fund.

Continued

Table 2.2: Shifts in the Dimensions of Social Security Provision in Indonesia

Table 2.2 continued

	worker:employer ratio contribution: 0.28-0.17, and the deviation from 1 is: 0.72-0.83.		-For JAMSOSTEK: practices of companies evading contribution responsibility, corrupting workers' contributions, or lying about the actual salary rate & number of workers working in their establishments. -For the poor: uncertain long-term feasibility, very few poor are reached and the program has not really reached the needy ones (misuse of funds issue, problematic procedures), and the subsidy is injected through ASKES which itself needs money to revive its function.
- Benefit level	Benefit is an accumulation of total contributions coming in, minus administrative cost & tax, plus profit of investments that is already largely deducted for dividend sharing with the state, and minus some fees that are often needed to claim benefits	- Standardized and improved healthcare benefits. - A trust-fund system with no requirement to pay dividends to the state	-The trust-fund system is yet to take effect & is actually stuck. The social security agencies remain as state-owned corporations. - Healthcare coverage is still optional and poor for private workers thus no meaningful impact - Hospitals are seeking profits & taking steps toward privatization

Continued

Table 2.2 continued

The Dimension of Political Control	High	Lowered	Appointed and only from the acknowledged Higher
- Formal autonomy of the social security agency	- Appointed directors who can cooperate with state leaders - Appointed worker representatives from FSPSI (*Federasi Serikat Pekerja Seluruh Indonesia*, Indonesian Federation of All Indonesia Workers Union), the only worker union federation allowed in the country. - Law enforcement function is attached with the Department of Manpower - Policies and decisions on investment are guided by the Minister of Manpower and the President. -The state as the main stakeholder in the agencies because the agencies are state corporations.	- New unified system under DJSN (*Dewan Jaminan Sosial Nasional*, Indonesian National Social Security Council) will consist of tripartite representation with experts. - DJSN as trust fund, replacing the existing status of the agencies as state corporations	- DJSN formation is stuck. - Worker representatives remain FSPSI. -Rejection to attach law enforcement function with agencies, so complaints, problem management, punishment or dispute settlement still depends on the Department of Manpower. - Policies and decisions on investment are guided by the Minister of State-Owned Corporations, who is known to come always from the ruling party. - The state remains the main stakeholder in the agencies because the state refuses to loose dividends from the agencies.
- Corrupt use of social security office for personal income whether or not there is statutory autonomy	- Acknowledged instruction and "suggestions" from the palace on the decisions of agencies. - The alleged involvement of palace cronies and family members in agencies' investments that are yet to be investigated	- A unified system that is led and run by professionals at DJSN whose office would be directly responsible to the President. - DJSN as trust fund so that no more funds will be leaked under the radar.	- DJSN will be officially headed by a government representative. -The majority of DJSN members will be government reps and government approved figures or experts.

Continued

Table 2.2 continued

	- The ties of the director of agencies (esp. JAMSOSTEK) to the Palace or the Minister of Manpower.		-DJSN formation halted, trust-fund formation is yet to materialize allegedly due to disagreement over the leadership of DJSN and the remaining opposition of PT JAMSOSTEK and members to the merger of social security agencies under the DJSN. - The ties of the Director of agencies to the state leaders continue. -JAMSOSTEK management remains opaque. Under the new democracy, this has been allegedly used by the state leadership to create "instant good news" to sell to the constituents, and as a source of political party financing.

Changes in the dimension of social security provision in Indonesia revolve around the strengthening of the state's political control over workers and employers. The law may say that they are intended to increase the security of workers and to create more certainty in industrial relations for the sake of both employers and workers, but it is too vague. This vagueness, and the (at best) delayed improvements from the *de jure* outputs cancel any evidence or expectation that the reform is targeted towards improving the benefit level for workers or inducing let alone enhancing the creation of employment.

The indicators of change in the benefit level suggest that the new law has degraded, not improved, the benefit level. The contribution rate has remained skewed towards putting the cost of the burden on the workers. As a funded system, workers not only are *not* guaranteed the level of benefits they would receive upon contingencies, their pool of accumulated funds is subject to tax, fees, and dividend payments to the state as stakeholder.[76] The fact that the social security agencies are growing fiscally unhealthy adds to the burden. ASKES, TASPEN, ASABRI and JAMSOSTEK may record an increase in participation but their debts are significant too. This erodes the fiscal health of these state-owned corporations. Comparing the period 1997 to 2001, a study showed that the ratio of debts to assets of state insurance agencies has increased from 84.36% in 1997 to 90.51% in 2001 while the ratio of debt to capital was 539.40% in 1997 and increased to 939.55% in 2001. The same study also suggests that the net profit of these agencies also dropped drastically as reflected in the decrease of ROA (Return on Asset) and ROE (Return on Equity).[77] The unhealthiness of these agencies was also confirmed by several insiders and policymakers who prefer to remain anonymous.

A second indication of the deterioration of benefit level is the problem of enforcement of employers' contributions to JAMSOSTEK. At least since the era of more open media after the fall of President Suharto, there have been a series of reports of

[76] On taxes and fees that workers must pay to claim benefits, see for instance Leechor (1996). The need to pay certain fees were also found in the testimony of several interviewed workers, for instance they revealed that since the rule only allows them to withdraw their funds as pension after 6 months of being laid off, those who need money immediately must pay a certain fee ranging from thousands to a few hundred thousand rupiah. For more on the dividend payment to the state, see Chapter 4 and 5.
[77] Makmun (2002).

companies evading the responsibility of enrolling workers, lying about the actual number of workers they hire, lying about the actual salary rate of enrolled workers, or not submitting the contributions of workers to the social security agencies.[78]

Third, the benefit for the poor (ASKESKIN) as declared in the SJSN law remains badly implemented. The funds to finance the program are pledged on an availability basis that depends on the fiscal health of the state budget. In fact, when this program started, the state's funds are yet to be disbursed to PT ASKES. PT ASKES revealed that they had

[78] Such instance is typically revealed once workers are laid off, die, or are about to claim their benefits. They are surprised to find out that JAMSOSTEK either pays them much less than what they expected or that they are not registered even though they paid regularly through payroll tax submitted to employers. See for instance the case of private TV company ANTV not remitting Rp 2.4 billion of workers' JAMSOSTEK funds; a case reported by the chair of the ANTV union Tian Bahtiar (Enam Bulan Mengendap", 2005; "Tian Menghilang Hindari Ancaman", 2005). Another example would be that of PT Texmaco that failed to pay over Rp 8.5 billion of JAMSOSTEK contribution for its 25,000 workers, an instance which was only revealed after the company filed bankruptcy and sought a bail-out from BPPN (*Badan Penyehatan Perbankan Nasional,* The Indonesian Bank Restructuring Agency). See "Nasib Pesangon Karyawan Texmaco Tak Jelas" (2004). Meanwhile the Office of the Attorney General posted on their web (www.kejaksaan.go.id) a new finding about the immensity of such violations as revealed by the president of the KSPI (*Kongres Serikat Pekerja Indonesia,* Congress of Indonesian Labor Union) Bambang Wirayosa during the signing of memorandum of understanding on operational cooperation (KSO, *Kerjasama Operasional*). Bambang said that in the period 2004-2006, there has been about Rp 9 billion of JAMSOSTEK contribution that has not been remitted by employers to PT JAMSOSTEK. That is about US$1 million! He blamed the weak law enforcement mechanism of the Department of Manpower for this. See "Rp. 9 miliar Iuran Jamsostek tidak disetorkan perusahaan" (2006). More evidence on this was also revealed by several interviewee but they prefer to keep the names of the companies off the record. Notable here is KSO (*Kerjasama Operasional,* Operational Cooperation). KSO is a program created by PT JAMSOSTEK to use the workers funds in their hands for the works of unions. Basically PT JAMSOSTEK does the KSO by providing a lump sum fund over a certain time period; the amount is calculated by a certain fixed subsidy per member times the total members of the union. This program is offered to all unions but it is optional and does not appeal to all unions as they do not perceive it as a good way of distributing JAMSOSTEK funds to workers. Some unions are suspicious that such signing of KSO might get them a legal problem in the future if the KSO is suddenly evaluated as corrupt. The source of my statement is interviews with union workers. As of 2005, the fixed subsidy from the KSO scheme is Rp 1,000 per member in the union).

to lend a sum of Rp 390 billion from their own funds for the said program.[79] There are also numerous reports on the limited reach of this program. The government simply fixes the number of people per province that the state can fund.[80]

Consequently poor people fight tooth and nail to get their funds. They were upset when money reportedly reached the wrong people (people having a decent housing and a car) provoking mass anger. One head of a neighborhood or RT (*Rukun Tetangga* is the smallest administrative unit of governance that typically organizes 10-15 houses or households in a community) in one of the Outer Islands was allegedly killed in a fight stemming from ineffective distribution. The Department of Health reports that until early November 2006, there were villages that haven't been granted access to the ASKESKIN fund and that provoked quarrels between the villagers and physicians.[81]

Hence the laws have become mere statements of good intention that the state wants to express to the public. The opposing reactions from both workers and employers post reform further cancel out the claim of the state that the laws were made for the good of the people. The reform actually eliminated the sense of security for both workers and employers.

Employers failed to see any improvement of benefit for them in the reform. They were specifically concerned about the likelihood that the source of financing for the

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[79] This was a statement of the CEO of PT ASKES, Orie Andari Sutadji as written in "PT ASKES Akui Penyelenggaraan Askeskin perlu disempurnakan" (2006).
[80] "Distribusi Kartu Askes belum Merata" (2005).
[81] The villages are located in the *kecamatan* (sub-district) Gunung Purel of *kabupaten* (district) Barito Utara in the province of Central Kalimantan. People thought they are just being disrespected for not getting the healthcare subsidy. See Department of Health (2006).

expansion of health benefits to all citizens would come primarily from their taxes.[82] Employers argued that a majority of government income currently comes from employers' tax payment anyway, so the idea of paying a premium for the poor through the DJSN-managed social security system was perceived as a greater tax in the future.[83]

This concern surfaced especially because lately, due to the decentralization of government to the district level and the need of heads of districts to raise money for their projects, there has been a tendency for every district to impose new taxes.[84] Sometimes there is even overlap of taxes because a business establishment may be located at the border of two districts.[85] This is a sign that the reform is not pro-employment. The state leaders may contend that it is their responsibility to create employment and they try to do it by initiating laws. But since the intervention represented more the idea of an ideal condition (of what should happen) instead of what could happen under the current imperfect situation, it did not win the support of employers. There is a common

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[82] Top-ranking official of APINDO (*Asosiasi Pengusaha Indonesia*, Indonesian Employers' Association), interview.

[83] Sofjan Wanandi, the executive chair of APINDO, once revealed that 60% of government income comes from taxes paid by businesses or employers. See "Belum ada visi untuk Indonesia Inkorporasi" (2006).

[84] Employers do complain about the burden of taxes. Thomas Darmawan, head of the APINDO wing for food and drinks, says that the high cost includes both legal and illegal retribution that eats up 15-17% of total production cost. The tax includes, among others, the value added tax, duty for imported goods, tax for advertising on billboards, tax for (physical) security, tax from the city, etc. See "Buruh Jakarta Tuntut Upah Minimum 1.2 juta" (2005). The owner of the bankrupt rattan business CV Inter Tena Mandiri complained about tax manipulation, citing that the tax collector claimed the company has not paid its income tax (PPh) and value added tax (PPN) and had earned Rp 14 billion of profit while their actual profit was just Rp 7.7 billion. See "Pengusaha Rotan Keluhkan Petugas Pemeriksa Pajak" (2006).

[85] Employer, interview.

agreement among employers that the state, especially after the financial crisis, has not been in their favor.[86] If anything, one said, there are more uncertainties now than under the corrupt regime of President Suharto.[87]

The social security reform in Indonesia actually weakened the bargaining leverage of workers vis-à-vis the state. Instead of decommodifying workers, the reform pulled out the rug from under the workers' feet. By initiating the formation of the DJSN whose majority would be government representatives and government-friendly individuals and whose job is to coordinate any social security policy from under the office of the President, clearly the state attempted to create a meta-institution that would secure (if not improve) its ability to have the final say. But the reality with a combination of a state-led social security council and competing unions[88] means that tripartism in the DJSN is mere rhetoric or formality.

The fact that the operation of the new system, once implemented, would mean the co-existence of the DJSN and the existing four social security agencies also eroded workers' leverage. So far there has not been any sign of the existing social security agencies changing their legal status from profit-oriented state-owned enterprises to trust funds. Interviewed bureaucrats from the agencies said that there is still plenty of time to adjust to the new laws. A bureaucrat said that they prefer a "wait-and-see" attitude in case the SJSN law is revised again.

These instances weaken the chance for workers to push for more security from the money they contribute each month into the system. In a system where benefits are funded

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[86] Concluded from various interviews with employers.
[87] A leading figure in the Indonesian Forestry Community, interview.
[88] Representative of FSPSI, interview.

from the accumulation of funds from workers and employers, like Indonesia, the extra layer of administration by DJSN would mean more administrative costs, more complex procedures for decision-making, thus more cuts to workers' accumulated funds and more risks shouldered independently by workers upon life contingencies.

This is not to mention that unlike other social security systems in the region, the enforcement of the system in Indonesia is not assigned to the operating social security agencies. Since the agencies hold legal status as state-owned corporations whose goal is to earn as much profit as possible from the investment and management of the contributions (not necessarily for the workers and the employers who enrolled) and the state as the highest stakeholder, the enforcement authority is with the Department of Manpower.

This means that any problem with the remittance of contributions or evasion of responsibilities by employers could only be reported by the social security agencies or the workers to the Department of Manpower. With the high level of violation, as mentioned earlier, and a big gap between workers and employers contributions, workers' benefits become a function of the ability (or more precisely the willingness) of the state to push employers to abide by the law. Coupled with the increasing closing of companies, retrenchment and lower employment security, workers lose their option to demand more generous wage packages that would cover their social security needs.[89]

Meanwhile, other form of government effort to assist workers who chose to start new small and micro business is also short of expected output. The assistance that

[89] Just within the manufacturing sector, the share of labor intensive export had fallen from about one-half in 1995 to a third in 2002. This affects significantly the availability of jobs in the formal sector. See for instance Ray (2003).

provides credits for small and micro businesses through the Ministry of Cooperatives and Small and Medium Enterprises only reaches a limited number of people. Most applicants were either not approved or considered non-bankable for they either do not have a business permit or additional asset guarantees. Although the Ministry of Finance issued a decree that should exempt small and micro businesses from having additional asset guarantees, in practice banks hold to the Central Bank's prudential rule. Consequently until the end of 2004, only about 40% of the allotted Rp 3.1 billion was used and only about half of that 40% went to small and micro businesses.[90]

Technically workers have become very dependent on the state. The state has gained a new ability to push workers to do what they otherwise might not do. On the other hand, the fact that the state continues to reap a 20% dividend from the social security agencies at least suggests that the state's fiscal status is rejuvenated.

In terms of the increased political control of the state, employers are in a more advantageous position than workers. Employers in general may feel weakened by the reform but for sure the state depends on them. This is due to the need for employment and also the taxes that employers (and their workers) must pay through social security or other programs. In a way, through the reform, the state is nailing down a certain level of comfortable submission from the employers through which businesses inject the "necessary financial support" to the state but with a minimum chance for them to have the final say in any policy.

[90] Ministry of Cooperative, Small and Medium Enterprises (2005).

2.3.2. The Reform in the Philippines

The most recent reform to the existing statutory social security provision in the Philippines happened in 1995 but was not operationalized until around 1997. The reform produced two laws: the National Health Insurance Act of 1995 (Republic Act No. 7875) and the Social Security Act of 1997 (Republic Act No. 8282). With the new National Health Insurance (NHI), Medicare program for hospitalization and other medical needs of workers is now taken care of by the Philippine Health Insurance Corporation (PhilHealth). Starting October 1, 1997, all Medicare claims and contributions of public sector workers, which were previously managed by the GSIS (Government Sector Insurance System) were filed to PhilHealth.[91]

Effective July 1999, the social security carriers for formal private sector workers SSS (Social Security System) fully transferred the administration of Medicare to PhilHealth. The NHI Act stipulates that all citizens of the Philippines shall be covered by the NHI (Section 6) and the benefits shall be uniform (Section 10). Indigents need not pay the monthly contributions to be entitled to the programs' benefits (Section 12). Currently both the national and local government units appropriated certain premium subsidies for the poor while PhilHealth also searched for additional grants from other agencies (such as the PCSO, Philippine Charity and Sweepstake Office) and international donor.[92]

Meanwhile on May 1, 1997, President Fidel V. Ramos signed the new Social Security Act that provides better benefit packages, expansion of coverage, flexibility of

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[91] *Asia Pulse*, "Philippines' GSIS turns over Medicare Role to PhilHealth", 5 September 1997.
[92] Interview, PhilHealth high ranking officials. Also in the PhilHealth Act.

investments, stiffer penalties for violators of the law, condonation of penalties of delinquent employers and the establishment of a voluntary provident fund for members.[93] The act regulates the provision of social security program (sickness, maternity, disability, retirement, death and funeral) and employees' compensation program (disability, death, medical, rehabilitation. This law applies to private sector workers. In addition to these, there was also the Paternity Leave Act of 1997 (Republic Act No. 8187) that grants 7 days full pay to all married male employees in private and public sectors for the first 4 deliveries or miscarriage of legitimate spouses.

Like Indonesia, social security does not have a good image in the Philippines. Nonetheless, people have a relatively more positive reaction to it and are more familiar with what it is and what it does. Though yet to be proven, allegations of the meddling of the presidential palace (typically referred to in the Philippines as *Malacañang*) loomed large in almost every administration and were especially problematic during the administration of President Joseph Estrada.

These are the issues that badly tarnished the image of social security in this country. Several people I interviewed, both employers and workers, thought that there is reason to believe these allegations despite the counterarguments made by the social security carriers and the administration. What is interesting is the fact that the negative perception was mostly held as a suspicion and apparently did not discourage people from

[93] SSS (2005a).

enrolling in the SSS, GSIS or PhilHealth. Ironically, negative news about the agencies increased the degree of public understanding. As elaborated in Chapter 6, the agencies had an interest in fixing their image through media and public-relations activities.[94]

Nearly every one I met during my stay in the Philippines, both employers and workers from various sizes of establishments and sectors, were enrolled in the SSS (or if civil servants in the GSIS), and PhilHealth. Those who did not participate in the programs were mostly from micro, small, and new businesses. Their reason for not participating is mostly practical: either their businesses were not registered yet or they still run them as family businesses. In that case workers are treated as family members, with food prepared for them, lodging in their backyard or the owner digging in her own pocket to take a sick worker to the physician.

The adoption of the social security reform was relatively uncontroversial. Not long after the 1997 financial crisis hit the region, studies were released saying that the Philippine SSS will become insolvent in the year 2015, much earlier than the previous 1995 actuarial study predicted. Higher and prolonged unemployment, fewer people contributing to the system, and longer life expectancy put the SSS under fiscal pressure as benefits continue but the contribution rate was stagnant.[95] Meanwhile the adoption of PhilHealth was part of the broader effort to create an integrated and comprehensive

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[94] GSIS for instance reportedly spends a huge sum of money every year for public relations. The *Inquirer* reports that the GSIS spent P 144.23 million in 2003 and a whapping P 151.9 in 2004, a number that is estimated to exceed the public relations costs of the competitive private insurance companies (34 life and 94 non-life insurance). See “GSIS: Huge Sums for Public Relations” (2006). An academician, who is also a civil servant, observes that GSIS only start doing the public campaign following bad publication of its alleged corruption scandal in 2004. Meanwhile the SSS under the leadership of current President Corazon de la Paz also has been quite aggressive in boosting its image by putting ads on print media and radio, and by holding public events on the various projects they have or recently developed and have these events covered by the media.

[95] Serrano and Marasigan (2002). For more on this proposal, see Chapter 6.

approach to health management at prices that are affordable to everyone. Prior to this adoption, medical care was critiqued as unfair for not covering those working outside the formal sector and those who cannot afford to pay.[96] As part of the government campaign for health sector reform, state leaders in the cabinet highlighted the fact that one third of Filipinos live with P12,670 pesos per year or P33.61 per day (roughly US$ 0.60 per day) and 40% of Filipinos died without being attended by doctors.[97] The reform was seen as necessary.

Employers pay the increase in the SSS benefit level. The good public-relations campaign of the SSS under Corazon de la Paz played some role in educating employers on ways to fix the problem at the SSS. The employers in the Philippines, as elaborated in Chapter 6, value the provision of benefits through SSS (and PhilHealth). They command the affordability of SSS and PhilHealth schemes and their relative reliability.

Parallel with the reform of the statutory provision was what happened with workers' income and employment security. Employers, through the umbrella ECOP (Employers Confederation of the Philippines), thwarted attempts at wage indexation, refused wage increases and instead sought tax exemptions to increase their take home pay. Employers wanted more liberal labor laws and advocated the concept of self-policing, flexible work arrangements, less regulation, and proposed an education program for contractors to ensure fair employment practices.[98]

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[96] SSS Deputy-Chief Actuarian Rizaldy Capulong, interview.
[97] Speech of Secretary Roberto Pagdanganan, the President of the Philippine International Trading Corporation at a seminar organized by the Department of Political Science and the School of Labor and Industrial Relations of the University of the Philippines Diliman on October 14, 2005 and personal interview on November 3, 2005.
[98] Teodosio (2001, p.172).

Technically nothing has changed in the Filipino labor code (Presidential Decree 442). The law, which was enacted on May 1, 1974 and whose omnibus rule of implementation was adopted on May 27, 1989, remained intact. Yet how it is practiced changed somewhat given the circumstance revealed by employers, especially after the 1997 financial crisis. The practice of subcontracting jobs and subcontracting recruitment became more common.[99] Part of this is because the labor code only deals with formal employment and there is a loophole about subcontracting. Such practices push down wages, diminish employment security and open room for employers not to comply with the minimum wage requirement. Although subcontractors are technically employers and thus bear the responsibility to enroll their workers in the SSS programs, in reality this has not materialized.

Employers are rather aggressive in stopping any efforts to eliminate such common practices. According to an employer representative, there was once a pending bill in Congress that would criminalize labor subcontracting but this had been halted. Back in 2001, there were attempts to regulate (or as workers read it "allow") subcontracting activities by issuing Labor Department Order No. 10, but the Order was then scrapped by *Malacañang*. In response to that, ECOP argued that subcontracting should *not* be outlawed altogether as it is often a means to help create jobs.

ECOP's President Donald G. Dee points out that what should be outlawed is *labor-only* contracting and not the practice of *service-only* contracting through a third party or agency. Dee also cited the preference of big companies to hire the services of a

[99] Dr. Virginia Teodosio of the School of Labor and Industrial Relations at the University of Philippines Diliman, interview, October 3, 2005; and academicians, workers, employers, interviews.

cleaning company rather than to hire individuals to work as janitors, for instance, due to the quality of value-added services offered.[100] More employers I talked to, especially from the big companies, expressed the mentioned preference, not just for janitorial services but also for security services and general unskilled workers, for example in restaurants and hotels. Table 2.3 summarizes the changes under the reform.

	Before Reform	Expectation of the Laws	Reality under the Laws
The Dimension of <u>Benefit Level</u>	High	Higher	As expected
-Contribution rate	For SSS: Workers: 3.33% payroll, Employer: 5.07% payroll, zero contribution from the state thus the worker:employer ratio contribution: 0.65, and the deviation from 1 is: 0.35. Also, according to the law, the state will pay any deficit of the system.	-For SSS: Workers: 3.33% payroll, Employer: 6.07% payroll, zero contribution from the state thus the worker:employer ratio contribution: 0.55, and the deviation from 1 is: 0.45. Also, according to the law, the state will pay any deficit of the system. -For the poor: PhilHealth card paid for by the central and local government.	- Enrolled employers pay a percent point increase in SSS contribution. - PhilHealth cards are distributed and financed continuously since the program was launched. - Local government units are pushed for more contribution level and in the meantime the PhilHealth Office and the Philippine Charity Sweepstakes Office (PCSO) took the initiative to rally for funds to finance the PhilHealth Cards.

Continued

Table 2.3: Shifts in the Dimensions of Social Security Provision in the Philippines

[100] *Business World,* “Labor order repeal worries ECOP”, May 3, 2001.

Table 2.3 continued

- Benefit level	For SSS: -Minimum monthly pension P1,000 (roughly US$ 33.3) and P1,200 for those who had rendered service for 10 and 20 years respectively -Benefit for disability and death pension is P800 -High cost of medicines makes people dig deeper into their own pockets	-For SSS: lowering the minimum income requirement to P1,000 so that low-income and domestic workers can enroll and benefit from the system - Minimum monthly pension increased to P1,200 and P1,500 for those who had rendered service for 10 and 20 years respectively - Across the board 8% raise in pension benefit for the earning-related portion. - Minimum monthly disability and death pension is increased to P1,000 - New and improved healthcare benefits through PhilHealth for paying and subsidized members (see table 6.6)	-More people, including those low-income workers in the domestic sectors and the indigents, are covered through SSS and PhilHealth -The price of medicine is lowered through Botika Ng Bayan program
The Dimension of <u>Political Control</u> -Formal autonomy of the social security agency	High - Appointed presidents of the agencies who can cooperate with state leaders. - The tripartite representation in the carriers' Board of Commissioners is mere formality.	Lowered -No particular change in the procedure of appointment -The new division of work: the transferring of authority on healthcare benefit provision from the usually notorious SSS and GSIS to PhilHealth.	Lowered -The new President of SSS, Corazon de La Paz has the reputation of being professional and has been widely praised for demonstrating that professionalism. -The top officials at PhilHealth include physicians. -The authority on social security provision is no longer the sole monopoly of SSS and GSIS

Continued

Table 2.3 continued

-Corrupt use of social security office for personal income whether or not there is statutory autonomy	-The appointed individuals in SS carriers have the reputation of personal connection with ruling state leaders. - Allegations of instruction and "suggestions" from the Palace on the decisions of agencies.	-No particular change in the laws but there had been speeches intended at dealing with this issue.	-The flat benefit formula and the program of paying the indigents pushes PhilHealth to find more fund instead of becoming an agency that attracts politicians to take advantage of their collected money. -There was internal fight to stand by the professionalism of SSS and reject the leadership of one crony.

In the Philippines, the reform emphasized change primarily in benefit level. They do this in five ways: 1) reaching out to people with lower income and those outside formal employment contracts; 2) increasing the flat rate benefit formula as well as the earning-related benefit formula; 3) retaining the defined-benefit principle and social insurance system for all social security schemes; 4) improving the purchasing power of citizens in buying medicines through the *Botika ng Bayan* program;[101] and 5) increasing the contribution rate for employers along with providing condonation for late payments and more serious enforcement for violations by employers.

By lowering the minimum income requirement (now P1,000 or roughly US$19), more people with lower wages and domestic workers (including those working abroad) are enrolled. By distributing PhilHealth cards, over 30 million poor Filipinos now have health insurance. PhilHealth itself now covers 78% of the Filipino population.[102] The PhilHealth-card holders and family members who get sick can go to public hospitals to avail themselves of free medical service. The coverage for domestic workers who work locally in the Philippines may in reality still be low since most people still practice the "familial approach" to their maids and pay their maids lower than P1,000 per month[103] but the coverage for domestic workers who work abroad, as well as the coverage for overseas workers in general, has improved significantly.[104]

The reform also brought an increase in the flat rate and earning-related rate of the SSS benefit. Philippine President Fidel Ramos approved an 8-percent across-the-board rise in the monthly pension of SSS pensioners and the improvement of the flat rate

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[101] *Botika Ng Bayan* is a program initiated by the administration of President Arroyo, which helps citizens open government-subsidized pharmacies in which the drugs are off-patent, generic or produced by local pharmaceuticals.

[102] "Duque named to cabinet as PhilHealth chief" (2004). Also see *PhilHealth online* (2006).

[103] Nomer Macalalad of ECOP, interview, October 5, 2005 and Dr. Jonathan Salvacion of CIDS, University of Philippines Diliman, interview, October 4, 2005.

[104] Philippine overseas workers are about 8 million, or roughly 20% of the total productive workforce. In this country, the overseas workers are considered heroes for they bring home dough by billions of pesos each year. Since 1998 the SSS initiated dozens of bilateral agreements with the hosting countries to develop an understanding for employers to remit contributions for social security for their workers. In 1998 SSS opened its office in Hong Kong and since then has opened offices in 12 countries worldwide: from Riyadh to Milan and the San Francisco to Sydney. In July 2001, the SSS developed a top-up scheme that is supposed to provide additional benefits on top of the mandatory defined-benefit schemes. The top up scheme is called the Flexi-Fund; it is voluntary, defined-contribution and provident-fund. See SSS (2005b).

minimum benefit for pensioners, widows and the disabled. In his statement Ramos said that these benefits "are integral to a vision that we hold of social security for the Filipino" and that he vowed to keep working for increased benefits for SSS members as government resources would allow.[105]

Such an increase in the level of benefits intends to reach people from the lower-income group. This is possible only because the reform did not actually bring any change in the distribution system. The SSS continues to adopt the social insurance system with a defined-benefit principle. This retains the cross-subsidy practice of the previously reportedly "in crisis" pay-as-you-go system with its defined and flat rate basic benefits. Despite reports on the future insolvency of the system and the complaints of SSS officials about the stagnant contribution rate with fewer people contributing because of unemployment and informal employment, it was decided that a private account for each individual enrollee is not an option. True, that reform once included an effort to establish private accounts for workers who chose a funded provident fund system. Yet, it was acknowledged that such initiative to enact a private provident fund account as an option for enrollees was imposed on the SSS by the legislators and is not likely to be implemented anytime soon.[106]

SSS Vice President Horacio Templo argued that a provident fund would only work in an economy where the poor do not outnumber the rich. Interestingly, despite competing views within SSS, others highly respect Templo's stand. Based on the

[105] "Ramos increases benefits for pensioners" (1997).
[106] Horacio Templo (Vice President and Chief Actuary of SSS), interview, October 20, 2005; Rizaldy Capulong (Deputy Chief Actuary of SSS), interview, October 20, 2005; Mabini Juan (a senior observer of social security affairs in the Philippines from the Actuarial Society of the Philippines), interview, October 28, 2005.

observations of insiders at SSS, the social insurance system at SSS is not likely to be replaced or even complemented by private accounts anytime soon. The concern was the fact that the majority of Filipinos are poor and cross-subsidization through a social insurance mechanism is still very much needed. Thus the reform produced strong security for Filipinos. Even the non-contributing poor benefit from this, thanks to the PhilHealth scheme.

At the SSS, the increase in the contribution rate of employers on January 1, 2003, which is the first increase in twenty years, allowed for better benefit packages for participants. At the same time the contribution hike did not overwhelm employers due to the relatively small increase (1%). The law also allows more flexibility of investments, enabling the SSS to invest the reserve funds in private securities and foreign currency denominated investments. This helps the SSS to improve the solvency of the system through the diversity of prudent investments. There are also measures taken to protect workers' funds from violators. Under the reform, delinquent employers are persuaded to remit their contributions by condoning their late payment over a certain time period. Also, the Social Security Act 1997 stipulates that violators will be severely punished.[107] Although there are differing views on the seriousness of the implementation of the punishment, at least the condonation opens the opportunity to settle disputes over evasion.

[107] The penal clause in the Social Security Act 1997 is in Section 28. For those who fails or refuses to comply with the provision of the Act or the rules promulgated by the SSS, for instance, shall be punished by a fine not less than P 5,000 pesos nor more than P 20,000 or imprisonment for not less than six years and one day nor more than twelve years or both.

If social security provision typically leaves a gap between the benefit rate and the actual purchasing power of workers to buy medicine, the Philippines tackles this issue too. They are aware that the price of medicine is outrageously expensive especially when compared to neighboring developing countries like India or Bangladesh.[108] The market is dominated by brand name medicines whose selling and distribution is cartelized. Over 97% of medicines sold in the Philippines are brand name medicines, sold in drugstore chains. This prevents most Filipinos from buying the needed medicines, which due to high price are often not covered through PhilHealth (or in the past also SSS). For instance, a 20 milligram tablet of a particular anti-hypertension drug currently sells for P39.75 (US$0.71) in the Philippines, but the same drug sells for P4.40 (US$0.08) in India.

To solve this problem, Secretary Roberto Pagdanganan initiated the establishment of the *Botika ng Bayan* program, a new chain of drug stores run by the Philippine International Trading Company (PITC) that will operate as a franchise for even the smallest entrepreneurs. The stores were opened at the neighborhood level and sell mostly generic drugs and drugs that are just off-patent, drugs from India and China, as well as some local Filipino drug companies, at a set low price as designated by the PITC. The PITC expects the *Botika ng Bayan* program to be the way to empower the small entrepreneurs and the poor vis-à-vis the still powerful cartel of foreign and political elite.[109] In my travels to meet informants across various *barangays* (the smallest

[108] Pacific Bridge Medical (2005).
[109] Secretary Roberto Pagdanganan of PITC, interview, October 14, 2005.

administrative unit in the Philippines) in Metro Manila, I came across a handful of *Botika ng Bayan***,** which are mostly small (if not tiny) in size, located in modest residential areas or by the market, yet had eye-catching big banners saying: "*Botika ng Bayan"*.

I have to admit that the social security reform in the Philippines appears rather ambiguous on the political control dimension. The trend, however, is towards the weakening of the state's political control over workers and employers. One sign is the splitting of healthcare provision from the established SSS and GSIS. This suggests that less political pressure could now be imposed on SSS and GSIS. Since healthcare has been taking a majority of SSS and GSIS expenditures and is a program whose benefits were largely availed by the enrollees,[110] its shift to the newly formed PhilHealth should divert the attention of state leaders away from politicizing workers' funds placed in the SSS and GSIS. Hearing the stories about the inside clash among SSS officers over the policy to invest the SSS reserve fund in certain stocks during the administration of President Estrada and the SSS President Vitaliano Nañagas, a clash that resulted in the temporary suspension of some high-ranking bureaucrats at the SSS, I came to believe that the SSS fought to be independent from *Malacañang*.

In the GSIS practically nothing has changed (both in leadership and the grim evaluation of the agency) but many agree that in the SSS, the current leadership of President Corazon de la Paz is professional.[111] Second, the placement of professional medical doctors and health experts in the PhilHealth top administration signaled an effort

[110] In 1993, the largest share of short-term insurance benefits (which includes healthcare, sickness, funeral, maternity, and rehabilitation service), 46%, was captured by healthcare. It also has the largest proportion of total claims, 54 percent. This also happened in 1994 and 1995. See SSS (1993, 1994, 1995).
[111] Anonymous high ranking officials, academicians, journalist, interviews.

to truly cater to people's healthcare needs. From this side the reform appeared as a policy to increase social capital; empowering workers and citizens by maintaining cross-subsidies, reaching out to the poor, securing workers' funds, improving benefits and cracking down on violators.

On the other hand, the separation of PhilHealth might actually draw more financial resources to the ruling state leaders. PhilHealth is a state-owned corporation attached to the Department of Health. Since the program of PhilHealth cards was launched, there have been allegations of the misuse of card distribution to canvass votes during election campaign time. Several officials and observers I interviewed said that the distribution of PhilHealth cards has not been continuous. It only happens during campaign time, and has been concentrated in certain provinces.[112]

Just recently there was an acknowledgement of the misuse of the card program by a former cabinet member and activist.[113] At a hearing of the Citizen's Congress for Truth and Accountability, former Welfare Secretary Maria Corazon "Dinky" Soliman testified that her distributing PhilHealth cards in Pangasinan (the home province of the strongest opponent of President Gloria Macapagal-Arroyo in 2004 election) was a strategy to use government resources to win for Arroyo. On the same occasion, Maita Santiago, secretary general of Migrante, said that some P530 million funds of the Overseas Workers' Welfare Administration (about US$ 9.6 million) was used to finance the distribution of PhilHealth cards to indigents during the campaign period.

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[112] An academician at the University of Philippines in Diliman working on a paper about "the political poor", which partly talks about the politicization of the distribution of PhilHealth cards, interview.
[113] Antiporda (2006).

What undermines the expectation of an increase in the political control dimension is the fact that it is a program that provides flat yet quite comprehensive benefits in a country where healthcare problems and illness are rampant. With the relatively low contribution rate for paying enrollees,[114] the high cost of healthcare, the inability of a number of local government units to provide matching funds for the national government's subsidy for the poor, PhilHealth as an institution is facing a challenge of its own to make sure it is not going bankrupt.

Some officials in PhilHealth who preferred to remain anonymous said that those issues, topped by PhilHealth's impracticable rules and regulations, are putting a lot of financial pressure on PhilHealth. This suggests that PhilHealth as an institution is a bit too sensitive for political meddling. After all very few public officials understand the complexity of healthcare.[115] Even if the indigent program at PhilHealth is being used to canvass votes, the impact of this is still an empowerment of the poor and the promotion of support for certain state leader(s) and PhilHealth. Since its implementation, the PhilHealth card program for the poor continues to expand and reach the poor across the country.

Technically there has not been any concession made to entice employers. The big businesses, as told by their representatives at ECOP and SSS, may have taken the reform positively and participated in the statutory programs but they were cautious about the

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[114] With 22 salary brackets, the total contribution rate for employed member ranges from 2% to 2.5% of monthly wage. The actual contribution ranges from P100.00/ month for those with monthly income of at least P4,999 to P625.00/month for those with monthly income of P25,000 and above. The sum contribution is divided equally between employer and worker. Meanwhile, the contribution rate of self-employed workers (including self-practicing doctors, lawyers, jockeys, etc.) is fixed at P100.00/month.
[115] An academician and a former local official, interviews.

direction of reform. They acknowledged the importance of reaching out to the poor and paying more contributions for their workers' sake. They called it part of their corporate social responsibility. But they expressed caution about going in the direction of more "rigid" requirements for doing this through SSS or PhilHealth.[116]

The fact that employers insist on outsourcing, subcontracting and practicing temporary contractual employment, supports this too. The employers I talked to expressed genuine interest in giving decent social protection for their workers but the small, micro and new businesses think they can provide such protection through informal channels (i.e. not by enrolling in SSS or PhilHealth). The means by which they choose to do it vary, for instance by securing a trust fund for workers, inviting a family-member-physician to take care of sick workers, forming worker cooperatives that provide loans for emergency needs, and treating workers like family. In short, the reform was relatively acceptable to employers but not to the degree that they could be really excited about it.

2.3.3. The Reform in Singapore

To Singaporeans, social security reform was nothing spectacular. This is mainly because they are still seeing the same Central Provident Fund (CPF) as their social security carrier. They are still cautious, if not skeptical, about the security they will earn from the system. Moreover, the public may be having a hard time following the changes, which happened incrementally. To me, the subtlety of the reform is an interesting fact on its own.

[116] Fe Tibayan Palileo SSS Commissioner representing employers, interview, October 26, 2005.

Maria Amparo Cruz-Saco (1998, p. 4-5) said that structural reforms imply: 1) a parallel change with broader economic restructuring, 2) separation of risk coverage under different institutional management, 3) new procedures, participants and products, and 4) an end to the public monopoly of social security. Social security reform in Singapore met these characteristics. The reform was along the broader economic restructuring towards technology and a knowledge-based economy.[117] It involves a separation of risks for different societal groups within the CPF, new procedures and products of social security and new forms of government intervention.

Singapore relies on one scheme, the CPF, to serve a variety of social security needs. Participation is compulsory except for foreign workers (who comprise almost a quarter of the labor force), casual, part-time and certain contractual workers. CPF is a fully-funded scheme in which members' entitlements to benefits are the sum of the contribution of worker and employers, incomes from the investment of the pooled fund and/or their own account, and any *ad hoc* contributions from the government.

Contributions are distributed into three separate sub-accounts. 1) About 75% of the total is channeled to the Ordinary Account, usable for housing, approved investments, tertiary education, mortgage insurance and other approved purposes. Included here is the Dependents' Protection Scheme which provides optional term-life insurance against death or permanent incapacity before the age of 55. 2) The Medisave Account, where 15% of total contribution is channeled, is usable for hospitalization and other approved health care services. 3) The Special Account, where 10% of total contribution is channeled, is reserved for old age and contingencies.

[117] Low (2001).

Since 1997, several changes have happened within the CPF:

1) More and higher requirements to maintain a certain minimum balance in the CPF accounts were added. This change was introduced in 1987 mainly to ensure that people withdraw from their accounts more wisely for the sake of maintaining enough funds for future use. Gradual increase of the minimum balance has since then been imposed. Since July 1, 2003 the requirement touched another area of protection: healthcare. Members are now required to maintain up to S$30,000 in their Medisave. Those who withdraw their savings at the age of 55 need to set aside S$25,000 or the actual Medisave balance, whichever is lower, in their Medisave Account. After July 1997, it is even harder to withdraw money from the CPF. CPF members must have more than the minimum sum (S$50,000 then) before they can use their CPF account for investment and education, of which at least S$12,000 must be in cash in the Ordinary and Special Accounts. Those who reach 55 must set aside S$50,000 in their Retirement Account. These minimum sums continue to increase over the years.

2) The self-employed are now required to contribute a certain amount to Medisave. Effective January 1, 2002 the minimum income criterion for the compulsory Medisave contribution was raised from S$2,400 to S$6,000.

3) The contribution rate of employers continued to be cut. On January 1, 1999 the rate was reduced from 20% to 10%. The rate became 12% and 13% in 2000 and 2003 respectively. Meanwhile the contribution rate of workers remains the same 20% of payroll.

4) CPF members are now allowed to invest the whole CPF saving in approved financial securities and instruments. So since January 2001 technically the CPF investment scheme is liberalized.[118]

5) There have been more cash and tax benefits provided on an *ad hoc* basis for various purposes. The examples include: suspension of the 4% workers' contribution to the Special Account, the introduction of a Government Bridging Loan Scheme, the provision of Economic Restructuring Shares as part of an assistance package to defray the goods and services tax increase after 2003, and the provision of an S$100 - S$350 incentive from the government to the top-up scheme for Singaporeans aged 63 and above. The assistance would only be given under certain requirements such as a co-payment for the top-up schemes and a matching minimum contribution to workers' CPF accounts during a qualifying period to receive share ownership.

Singapore's shifts in the three dimensions of social security provision are summarized in Table 2.4.

[118] Low (2001, 2004).

	Before Reform	Expectation of the Laws	Reality under the Laws
The Dimension of <u>Benefit Level</u>	High	Higher	Somewhat higher
-Contribution rate	-Workers: 20% payroll, Employer: 20% payroll, zero contribution from the state thus the worker:employer ratio contribution: 1, and the deviation from 1 is: 0 -Back in the 1986-early 1990s, the contribution rate has always been skewed towards employers, meaning the employers always pay less percentage than workers. See more in Chapter 7.	Workers: 20% payroll, Employer: 10-13% payroll, zero contribution from the state thus the worker:employer ratio contribution: 2%-1.5%, and the deviation from 1 is: 1-0.5 -There is newer and lower rate of contribution for those aged 50-60 and over 60. Those aged 55-60 pay a contribution of 7.5% from employer and 12.5% from worker. Those aged over 60 pay a contribution of 7.5% from employer and 7.5% from worker. - Contribution for healthcare program Medisave for the self-employed was increased - New higher tax-exemption limit for CPF contributions by self-employed persons	- Granted it is expected that higher contribution leads to higher benefit given CPF is a provident fund but since the contribution rate for employers is cut significantly and kept low, the burden of financing the CPF is actually shifted to workers - the elderly aged 55-60 are also disadvantaged since their rate of contribution is 5% higher than what their employers must pay.
- Benefit level	- Benefit is financed by the accumulation of lifetime contribution, with a secured level of interest rate. - The level of interest rate used to be much higher than bank's interest rate and is fixed for a long time period (over a year). The highest rate was in	- No change in the source of financing, but there are more options by which members can withdraw their fund. For example: the chance to buy shares of government-linked companies with discounted price, the chance to buy annuities from their CPF money,	- Despite the new schemes with government subsidies, there have been requirements to maintain an increasingly high minimum balance in CPF accounts. - There is also new legal retirement age, from 55 to 60 and then 62 years old.

Continued

Table 2.4: Shifts in the Dimensions of Social Security Provision in Singapore

Table 2.4 continued

	1960s-mid 80s. Per July 1, 1999 a new more generous computation for CPF interest rate is applied but with more frequent adjustments per year (now per quarter instead of per 6 months). See Chapter 7 for more.	supplementary retirement scheme. - The government provided top-up Scheme programs to entice people to contribute to CPF, that is by providing matching government contribution up to a certain limit. - Per July 1, 1995 savings in the Special and Retirement Accounts receive an additional interest of 1.25% points above the normal CPF interest rate.	- The elderly, including those in retirement, are encouraged (if not forced) to work given the new rule on minimum balance at CPF.
The Dimension of <u>Political Control</u> -Formal autonomy of the social security agency	High - CPF is technically the arm of the state that is carefully engineered by state leaders, from its programs to its investment choice.	Higher - CPF remains the arm of the state and now it extends even further also to secure the "responsible" behavior of individual Singaporeans.	As expected - the state penetrates deeper into CPF as it now controls the decisions of individual Singaporeans in terms of investment choice of their Ordinary Account and the minimum balance of money in their accounts (e.g. the max money they can withdraw from their own savings at CPF).
-Corrupt use of social security office for personal income whether or not there is statutory autonomy	- Relatively professional management. -The appointed individuals in SS carriers have the reputation of being "friendly" or connected to the ruling state leaders, including the academicians who serve as experts. -The tripartite representation in the carriers' Board of Commissioners is mere formality (esp. since the trade union is formed and closely monitored by the state)	- Relatively professional management. - No particular change in the procedure of appointment.	- Relatively professional management. -The fact that more and more aspects of choice of individual Singaporeans are regulated and closely monitored by the state suggests that the CPF is not just dependent on state/state leaders, it is the arm of the state/state leaders.

In Singapore, the reform shifts the two dimensions of provision: benefit level and political control. The reform within the CPF favors businesses or employers and was in turn expected to improve the creation of employment in this city-state. The cut in the employers' contribution rate is the most obvious. Such a cut had been done before (in 1986) but this time it was deeper and stayed longer. While there was recognition of the potential strain at the workers' end, the measures to alleviate the burden of workers were temporary, *ad hoc*, and minor.

These temporary measures included the suspension of the 4% contribution to the Special Account (the account with the smallest reserve that is intended for old age and other miscellaneous needs outside of healthcare, hospitalization, education, housing, investment), the permit to use the Special Account to service housing loans and also the introduction of the Government Bridging Loan Scheme. The Government Bridging Loan Scheme is a loan provided to members who use CPF services to pay their credit to buy public flats, private residential property or non residential property but had exhausted their Ordinary and Special Accounts.

The use of such measures actually simply shows that certain accounts are considered more important than others in terms of the time urgency of the contingency. Put differently, the implementation of such measures simply helps put off the obligation of workers to save for contingencies that might happen far in the future. Such measures at best provide a mere delay for workers to fulfill their responsibilities instead of cutting them back. The Government Bridging Loan Scheme, which was introduced on October

15, 2003, will have to be paid back by January 1, 2008 or by the time the debtor reaches 63 years old, whichever comes first, and with an interest rate 0.1% above the prevailing CPF interest rate.

There were worries that workers would take advantage of a "carrot" approach, but such methods were never doubted as the best way to approach employers. Cutting the contribution rate of employers was argued as the way to maintain the competitiveness of the economy.[119] Even before the reform, the ratio of worker-employer contributions in Singapore was 1, which means that workers and employers have the same level of responsibility in sustaining social protection. Where employers typically pay less into the statutory social security scheme, such a balance of responsibility clearly works in favor of employers.

Another way to enhance employment creation was the enactment of measures to ensure "responsible" behavior by CPF participants in withdrawing their funds. The reform suggests that Singapore wants to enhance the capacity of every Singaporean as a potential employment creator. The allocation of funds into tertiary education, the distribution of shares in currently booming technology and communication companies, and the preservation of a very general labor and employment code (leaving much discussion on the terms of employment, wages and benefits at the personal bipartite level between employer and individual worker) are indicators. Withdrawal of money from the CPF is tightly monitored and must meet stringent guidelines.

Second, thinking about CPF as a joint account of workers and employers, the reform enacted more limitations by which individual workers are free to use the fund. In

[119] Statement of CPF Chairman Moses Lee in CPF (2003).

fact workers must work extra hard to be able to meet the minimum balance requirement and withdraw the difference for their needs. The elderly, low-income workers, and workers with (especially ailing) parents are most affected.

The assumption that social security benefits employers as well as workers fits perfectly here. Assuming that employers want to make the most out of every dollar they spend on workers, CPF plays seriously the role of making sure that every dollar that comes into the CPF will be spent productively by workers. The CPF minimum sum was raised from S$80,000 in 2003 to S$120,000 by 2013. This amount has been increasing since the mid 1990s. For Medisave alone, since April 1, 1995 members have been required to set aside up to S$ 18,000 while those aged more than 55 have to set aside S$13,000. This Medisave limit is raised by S$1,000 every April until it reaches S$20,000 and S$15,000 respectively. This minimum balance requirement forces workers to increase their productivity, to work until their old age and this in turn benefits businesses.

The social security reform in Singapore also supported the expansion of government-linked companies abroad; again here, the reform enhances employment creation. Government-linked companies are companies a portion of whose shares is owned by the government of Singapore (either through Temasek Holding Limited or the Government of Singapore Investment Corporation). In Singapore, being a government-linked company means that your company will in one way or another be influenced by the state, e.g. from having the broad strategy of the company shaped by the government of Singapore to having the chairs appointed by the state leaders of Singapore.

Although there is yet no study or data on the impact of the expansion of government-linked companies on the employment of Singaporeans, we can suspect that the presence of Singaporean transnational companies increases the attractiveness of Singapore to global capital owners, which in turn brings more employment (and money) into the country. And of course to us what is interesting is the path taken to support the performance of these transnational government-linked companies, which was through selling shares with various incentives (at discounted price, with top-up funds, etc.) to CPF participants. The government-linked companies whose shares were offered to CPF participants include Singapore Telecom and Singapore Bus Service.

From this discussion of employment creation, it becomes clear that the employers are not the only ones who benefit from the reform. Clearly the state is taking over more and more responsibility for the provision of social security in Singapore, not necessarily financially but by closely regulating the details. The state strengthened its grip over workers by tightening the room for freedom by workers in using their money at the CPF, inducing people to buy government-linked companies' shares, and weakening the bargaining leverage of workers vis-à-vis employers in time of economic competition.

My impression from interviews in Singapore is that the reform actually induced feelings of insecurity among workers since now more than ever the CPF, which is still notoriously government-linked, holds detailed personal information on nearly every citizen of Singapore. The CPF doesn't just know how much one earns but also the spending pattern, the personal needs and the assets owned. A prominent academician and several Singaporean citizens refused to say anything about this out of the feeling of helplessness in voicing anything that challenges the state's power.[120] Since the transparency of the CPF is still an issue and many are simply reluctant to say anything pertaining to government intervention, I conclude that the playing field is not even between workers and the ruling state leaders.

The CPF is also successful in regulating the spending pattern and productivity of Singaporeans, that is by imposing the minimum sum requirement on CPF accounts, providing incentives (like top-ups) for those who put more into their accounts, helping but at the same time punishing people who failed to pay their housing debt through the Government Bridging Loan Scheme with a higher interest rate and of course depleted Ordinary and Special Accounts, and pushing people to work until their old age. The smart thing about the pacing of this increase in political control was that it was being done gradually and by simultaneously offering incentives to compliant workers.

The change in the dimension of benefit level is rather minor but it is enough to soften the feeling of the strengthening of political control over workers. This is the incentive that helps mask the hightened political control dimension. First, the improvement in benefit level is reflected in the various *ad hoc* measures of burden alleviation applied in tandem with other changes. For instance, in tandem with a cut in the employers' contribution (which actually caused a lower amount of accumulated savings), the CPF suspended the 4% contribution to the Special Account, allowing the Special Account saving to service the housing loans and opening the chance for workers to apply for loans to pay their housing debts from the government. To lay people such changes may appear like the state giving discretion to people, but as I said earlier, the

[120] Interview, February 7, 2006.

workers are not actually advantaged from this. Not only are the measures temporarily applied, if one takes the loan, she actually increases the amount to be paid back to her own account.

Second, the improvement of benefit level is also asserted through the opportunity to invest money in stocks. The CPF calls this the opportunity "to benefit from the fruits of economic growth".[121] On the one hand it promises higher returns to participating members. The irony here, however, is that by investing, people put their money into the growth of government-linked companies, which in turn further increases the political control of the state over workers.

Third, another way to improve the benefit level is by providing top-ups into CPF accounts. Basically the government provides a limited chance for members to get an additional amount of money in their account, either in Medisave or Special Account (S$200 in 1995). The catch here is that the money can only be claimed when they reach retirement age and the top-up will be provided with a matching contribution from eligible members.

Fourth, the CPF introduces the Supplementary Retirement Scheme (SRS), which is a voluntary scheme that complements the CPF and is aimed at addressing the financial needs of a graying population. The incentives from SRS include: personal choice of contribution amount (subject to a cap), the possibility of using the contributions to purchase various investment instruments, and the attractive tax benefits (i.e. the SRS contribution is eligible for tax relief, investment returns are accumulated tax-free (with

[121] CPF (1995).

the exception of Singapore dividends), and only 50% of the withdrawals from SRS are taxable at retirement). SRS is an attractive choice but technically only for those with extra money to set aside.

Fifth, the self-employed are offered a new and higher tax-exemption limit for their CPF contributions but on the other hand their contribution rate for Medisave was increased. In July 1995, the contribution rate was increased from 4% to 5% of the self-employed's annual net trade income (issued by the Inland Revenue Authority of Singapore). In January 1998, the contribution rate was increased to 6% for people below 35 years, 7% for people 35 to below 45 years old, and 8% for people aged 45 years old and above.

2.4. Conclusion

I find that although Indonesia, the Philippines and Singapore embrace market capitalism, their social security provisions cannot be simply argued as underdeveloped or oriented toward economic efficiency that would diminish state intervention in the economy. The structural adjustments of the reform are not just about how much workers would get directly from the system but also about their political bargaining leverage vis-à-vis the state and employers.

Looking at the different emphases on the dimensions of social security reform, Indonesia and Singapore share a similarity in the effort to increase the political control of the state over workers. Steps are taken to weaken the workers by invoking uncertainty and their vulnerability vis-à-vis their employers and minimizing their room to maneuver independently as individuals in the market economy. The difference between the two countries is in the consistency and carefulness of the state in inserting the grip of political control over workers.

In Singapore, the institution of statutory social security provision is much more established than in Indonesia. Thus the expansion of political control could be carefully crafted internally or from within the institution of CPF. Since the institution of CPF in reality is still relatively opaque to the public,[122] changes made from within the CPF did not draw much attention. The adoption of the reform idea flowed like a natural process from an institution trying to improve its performance for the betterment of its members. And the CPF is relatively professional in terms of making sure members obtain what they put in. The presence of *ad hoc* assistance is interesting as they helped distract the public's attention from the increasing social *in*security imposed through the CPF programs.

The effort to create employment also feeds in to the importance of the CPF in enhancing the state's control over workers in Singapore. With more flexibility for employers (e.g. to pay less contribution, to set up their own style of employment contract and remuneration package), there would be more reasons for businesses to cooperate with the state and to provide social protection for workers through the CPF. Consequently in the longer run more money should flow into the CPF and thus more working people would be regulated through the CPF. Such a condition increases the opportunity for the state to influence the decision-making of the private sectors, if not to limit and orchestrate them.

[122] Academicians, interviews. Others say that the CPF may be accountable but it does mean that CPF is transparent. See Low (2004).

With the CPF, workers are happy enough to be productive. This is despite the no obligation for employers to observe the minimum wage standard. Yet with CPF, there is a clear minimum cost of labor that secures workers' productivity. The percent payroll tax that must be remitted to the CPF set the standard of the cost of labor while at the same time all the rules and incentives within the CPF are specifically designed to induce, if not shape, workers' productivity. With CPF, workers also have less and less reason to unionize independently from the government-friendly National Trade Union Congress (NTUC) and to bargain beyond the state's mediated schemes.

The CPF also structures the relationship between employers and workers by supporting government-linked companies. By participating in the CPF, both employers and workers indirectly support the government-linked companies and therefore retain Singapore Inc, the nation-state as a business enterprise. With government-linked companies still holding important sectors of business,[123] business competition in Singapore could be made more predictable. Technically the moves of foreign companies, which often need to establish joint ventures with government-linked companies, become less of a surprise to Singapore's government. And since recently there have been steps taken to engage new local entrepreneurs in certain strategic sectors with the established government-linked companies, e.g. the telecommunication technology industry, more and more private sector players come under the radar of the state. This means less surprise about hiring-firing decisions and a better view of available business opportunities. All of these developments are not just important to employers but also to workers.

[123] Ramirez and Tan (2003).

In short, we are seeing carefully engineered steps for minimizing any economic and political uncertainty in Singapore. Economically, the new system allows the state to monitor the development of businesses as well as the spending behavior of workers. The opening for CPF members' participation in government-linked companies further secures the sustainability of Singapore Inc. Politically the new system offers incentives to both employers and workers that soften the craftiness of the state's paternalism. This should help secure the supply of political capital for the ruling state leaders. As a regime known for its mobilization of political support through vibrant economic performance and a high standard of living, Singapore's state leaders further cement the policy in the recent social security reform.

The story is different with Indonesia. Social security reform in Indonesia appears less neatly planned than in Singapore. The output of the reform appears as a product of the discrepancy between ambitious ideals and weak institutional support to achieve the ideals. The expectation of the laws was to improve the existing system but the reality is worse than it was.

Unlike Singapore under the unified CPF, Indonesia's management of statutory social security programs is fragmented under four different agencies. The reform intends to end this fragmentation by forming a unified system run by professionals whose institution would be directly responsible to the President of the Republic. Unfortunately the plan must be modified here and there along the way and by the time it was enacted, it was practically emasculated. Standing side by side with the Manpower Law, the new SJSN law puts workers in a lower bargaining leverage vis-à-vis the state and employers.

There is a serious discrepancy between the expectation for the laws adopted and the reality of practice once the law is adopted. First, The SJSN was quite ambitious in promising healthcare premium subsidies for all poor people but not only is there no realistic continuous source of money for such a program, the state already owes the social security agencies billions of rupiah (that is of promised capital injections to ASKES, TASPEN and ASABRI). Second, the fact that JAMSOSTEK was and still is meddled in by the state leaders - as reflected in their reckless investment choices and the many politically chosen officials - further complicates the unification. We cannot forget that JAMSOSTEK is an important source of cash for the state budget given its status as a state-owned corporation that must render dividends to the state as its main stakeholder. Third, the system still suffers from reliable enforcement that it is actually more sensible for employers to evade the responsibility of securing social protection benefits for their workers. Indeed it is an irony that workers put money into the system but they are weakened by the system that they finance simply because the main stakeholder in the social security agencies is the state.

The reform in the Philippines, on the other hand, put emphasis on improving the benefit level and rolling back the state's political control over workers. They did it by changing the management of healthcare benefit provision, forming PhilHealth as a separate agency, revitalizing the SSS, securing the life of the pay-as-you-go non-funded social security schemes by lowering the salary-credit to include more participants and by increasing the contribution rate and salary-credit ceiling. The reform was tailored to fix the identified problem of unfairness in the system, the financial strain in the unfunded system, and the negative public perception of the social security carriers. The focus was to dissolve any uncertainty derived from the state's meddling in the management of the SSS and rebuild public support for the system.

The creation of PhilHealth as a social security carrier added clarity to how healthcare benefit provision is managed and what is so complex about it. The various administrative problems of PhilHealth (further explained in Chapter 6) and the flat rate benefits for all participants actually pooled the risk of not getting healthcare upon contingencies at PhilHealth instead of at the level of individual workers and employers. Since the state, through national and local government units, must contribute financially to pay for the poor and secure affordable healthcare for all, healthcare provision through PhilHealth becomes a public good provision.

The relatively low level of contribution for PhilHealth is actually regarded positively by employers. PhilHealth becomes a program that removes the headache of providing affordable healthcare benefits for workers.[124] The reform also provides concession to employers by failing to criminalize the practice of subcontracting and outsourcing so businesses that decide to do such practices can evade the responsibility of enrolling workers in social security programs, but they did manage to admit low-wage domestic and informal workers in to the SSS and PhilHealth.

Workers' productivity per se is not addressed in the social security system in the Philippines but a fruitful yield from their invested payroll taxes is secured. On the other hand, the new system also expands the financial bases for social spending by requiring

[124] Nearly all employers interviewed raised this point when asked about why they enroll their workers in SSS and PhilHealth.

local government units to take part in financing the healthcare subsidies of the poor and facilitating the formation of *Botika ng Bayan* across the country. The formation of PhilHealth with authority to make deals with other state-owned corporations (such as the PCSO) and international funding agencies helps collect more funding for healthcare too.

Clearly social security reform in these countries has to do with politics as much as economics. Each of the countries builds and shapes reform based on more complex concerns than just economic competitiveness.

CHAPTER 3

HYPOTHESES AND THEORETICAL FRAMEWORK

3.1. Overview

With the increasing transnational business activities and capital mobility across countries, the practicing of liberal market economy is nearly impossible to avoid. And following the rapid growth of the volume of world trade, thanks to deregulation, privatization, technological advances in communication, and the removal of capital controls, economic competition had intensified. The amount of investment capital seeking places with higher returns has grown enormously, ten times the 1980 figure totaling US$ 20 trillion by mid 1990s.[125] International financial institutions such as the World Bank and the International Monetary Fund (IMF) develop annual reports such as *Doing Business,* which evaluates the competitiveness of economies by comparing the easiness of starting and closing business in countries, including the rigidity in employment laws and the cost for enforcing contract. The prominence of capital and its easy mobility across borders triggered the discussion on "the retreat of the state", from

[125] Gilpin (2000, p.22).

the extinction of the nation-state as sovereign power,[126] the virtual retreat of state's policymaking capacities,[127] to the new form of nation-statehood (as in Europe) that are not genuinely sovereign but effective and legitimate.[128]

Indeed economic openness comes with significant risks. While trade openness may threaten the exposed sectors and potentially also the provision of social compensation to citizens,[129] financial openness exposes economies to highly volatile financial flows and economic shocks. The events of financial crisis alerted countries of the vulnerabilities of economies, regardless of whether they are actually healthy and performing well. Developing countries are observed to move only hesitantly and inconsistently towards liberalizing their capital markets, weighing the need to win the confidence of market actors and domestic constituencies.[130] An analysis of the trigger of the 1997 financial crisis shows that rumors or concerns unrelated to the release of information in the media affected strongly both foreign and domestic financial markets, invoking the herding instinct of investors to simply follow the market rather than take the time and expense to make their own assessments about market fundamentals.[131] An economy can be easily crippled in an instant by the domino outflow of capital.[132]

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[126] Ohmae (1995).
[127] Strange (1996).
[128] Leibfried and Wolf (2005) called this new model of state: "TRUDI", the nation-state that has become territorial, rule-of-law, and democratic interventionist.
[129] Those who assessed this include Adsera and Boix (2002), Burgoon (2001), Edwards (1997), Hicks and Zorn (2005).
[130] Brooks (2003).
[131] Kaminsky and Schmukler (1999).
[132] In addition to the example of the contagious 1997 Asian financial crisis, there was also discussion over the contagion effect of the tequila crisis in 1995 that crippled Argentina's economy. See Anne Krueger (2002), Kaminsky and Reinhart (1998).

Indeed the focus on how state coped with the global economic pressure is timely and yet to be thoroughly explored. As Linda Weiss (2003b, p.4) convincingly argued, while valid, "constrained state" thesis often fail to recognize fully what is going on *inside* nation-states, that is what national authorities do to respond to the global economy. Weiss suggested that globalization has an enabling face, one that does not *in principle* prevent the state from pursuing desired economic and social objectives. Others found that state in open economy is not rolling-back its spending on social protection[133] but rather finds the expansion and maintenance of the public sector and state's supply-side intervention as the means to garner the competitiveness of its private sector.[134] And most importantly, the ways in which the state asserts its enabling action are rather discrete and often unconventional,[135] varying by which group of stakeholders it relies more for support of its plan of action to garner market competitiveness.

This study explicates further the enabling argument by focusing on the activity of the state to lead the market in newly industrializing countries of Asia, specifically in Indonesia, the Philippines and Singapore. It specifies the areas of market governance that the state are dealing with and demonstrates the different means by which the state in these countries chooses to cope with the global pressure following the 1997 financial crisis.

By knowing the details of social security and how it recently changed in Indonesia, the Philippines, and Singapore, it becomes clear that social security is the crucial piece of policy that defines market governance in these countries. As mentioned

[133] Rodrik (1997, 1998).
[134] Katzenstein (1985).
[135] Hacker (2002), Jacobs (2000), Ramesh and Asher (2000).

earlier, the social security system in Indonesia, the Philippines and Singapore may appear insignificant given the relatively meager benefits, the relatively low level of aggregate public social welfare spending (on average less than 1.5% of GDP)[136], and the relatively small population covered (only about 25% of paid workers in Indonesia, 65% of the labor force in the Philippines, and 66% of the labor force in Singapore).[137] Yet its impact, both economically and politically, is far from insignificant.

This chapter is organized as follows. In Section 3.2 I summarize the background theories and empirical evidence that this dissertation is built on. Here I also provide the hypotheses that guided my fieldwork. In Section 3.3 I explain my new theoretical framework, a theory on how social security and its reform were used to govern the economies in Indonesia, the Philippines and Singapore after the 1997 financial crisis.

3.2. Post Financial Crisis in Indonesia, the Philippines and Singapore

The 1997 crisis shook East and Southeast Asian economies in a domino fashion. Following the announcement of the Thai government on July 2, 1997 to float the previously fixed baht (the Thai currency), the value of the baht fell, investments on the Thai stock exchange and bank accounts held in baht lost value while the cost of repaying loans of government and private companies in dollars climbed precipitously. As

[136] Wisnu (2003). On the small public spending involved in Asia's social security system, also see Boix (2001).
[137] Ramesh and Asher (2000, p. 40, 51,55).

confidence in the baht declined, Thai and foreign investors began to unload their stocks from the Bangkok market and sell other liquid securities.[138] Capital owners escaped as quickly as they could.

The collapse of the Thai economy quickly spread to the neighboring countries. First the Indonesian rupiah, then the Malaysian ringgit, Philippine peso and South Korean won lost their value significantly (the so-called 'Tom Yum effect').[139] Thailand, Indonesia and South Korea were the countries hardest hit by the crisis.[140] Singapore was among the countries hit in the second round. After the currencies of Thailand, Indonesia, Malaysia and the Philippines stabilized, downward pressures hit the Taiwan dollar, Korean won, Brazilian real, Singapore dollar, and Hong Kong dollar.[141]

The collapse of Asian economies had severe ramifications.[142] Investment and capital inflow and financial reserves decreased significantly (see Table 3.1). This affected the fiscal health of states in the region, pushing the implementation of austerity measures over government spending. Local businesses struggled to remain above the troubled waters. Many retrenched, laid off workers, or moved out of the troubled countries in search of better operating conditions. With weak purchasing power, the regional economy faced a hard time to bounce back through increasing consumption alone.

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[138] Handelman (2000, p. 231-232).

[139] According to the "wake-up call argument", when an entire region is looked upon as an investment class rather than individual/country-specific emerging markets, a weakness or attack on one country's currency leads to a reassessment of fundamentals and the probability of similar fate in countries with broadly similar (actual or perceived) macroeconomic stances. See Lin and Rajan (1999).

[140] By 1998, the Indonesian *rupiah* had lost roughly 80% of its value.

[141] For the chronology of the Asian financial crisis, see for instance Nanto (1998).

[142] Jin (2000), Birdsall and Haggard (2000), Chu and Hill (2001).

Type of capital flow	1995	1996	1997	1998a	1999b
Current account balance	-40.6	-54.8	-26.1	69.2	44.6
External financing	83.0	99.0	28.3	-4.2	7.8
Private flows	80.4	102.3	0.2	-27.6	0.3
Equity investment	15.3	18.6	4.4	13.7	18.5
Direct	4.2	4.7	5.9	9.5	12.5
Portfolio	11.0	13.9	-1.5	4.3	6.0
Private creditors	65.1	83.7	-4.2	-41.3	-18.2
Commercial banks	53.2	62.7	-21.2	-36.1	-16.0
Non banks	12.0	21.0	17.1	-5.3	-2.3
Official flows	2.6	-5.3	28.1	23.4	7.6
Resident lending/others (c)	-28.3	-27.3	-33.7	-22.9	-21.0
Reserves (excluding gold) (c,d)	-14.1	-16.9	31.5	-42.1	-31.4

a. estimates
b. forecast
c. minus denotes increase
d. including resident net lending, monetary gold and errors & omissions

Source: Institutional Institute of Finance as calculated by Lin and Rajan (1999, p. 263).

Table 3.1: Net Capital Flows to East Asia (Indonesia, Malaysia, South Korea, Thailand and Philippines *in aggregate*), 1995-1999 (US$ billions)

In short, the crisis created strong financial pressures. This event was marked as one of the devastating impact of globalization.[143] Ironically, despite earlier finding that the fall of these economies were caused by contagion effect,[144] the financial crisis later generated a discourse over the needs of newly industrializing countries to maintain the confidence of financial investors and lenders. Indeed the discussion shifted to countries' various failures to respond, economic inefficiencies, careless foreign borrowing by

[143] Herman and Sharma (1998). China reportedly reevaluated its policies on market openness following the 1997 financial crisis. See B. Garrett (2001).
[144] Baig and Goldfajn (1999).

domestic banks and therefore their needs to adjust to prevent future crisis. The Asian state-led style of market management came under scrutiny. The testimony of Alan Greenspan before the Senate Foreign Relations Committee implied that the so-called Asian model of market capitalism is responsible for the crisis.[145]

Indeed most eyes were on the adjustments of these countries' macroeconomic policy. Especially for Indonesia, the Philippines and Singapore, few noticed the changes that these countries adopted in their social security system. In fact, most attention was on the responsiveness (or the lack thereof) of the states in preventing the citizens from falling further beyond the poverty line or on the social impacts of the crisis.[146] Elsewhere it has been argued that nowadays the focus of social security reform is on "enabling" workers instead of serving as "nanny" and promoting the supply-side economy that focuses on improving the commodity value of workers.[147] Therefore there are reasons to expect that market-based newly industrializing economies, especially those suffering from financial crisis and limited financial resources, would adjust their measures of social security provision downwards. One expects that the severe ramification of the financial crisis was the factor that pushed these countries to touch this policy area.

But the reform is a process. A proposal for reform will be initiated, deliberated, and in some instances modified significantly before it is finally adopted. Following such troubling crisis, the proposal is expected to be aimed at solving problems, taking

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[145] As quoted by Singh (1998). He also said similar argument was made by Larry Summers, the Under Secretary of US Treasury, and Michael Camdessus, the Managing Director of the International Monetary Fund.
[146] Birdsall and Haggard (2000), Chu and Hill (2001).
[147] Mishra (1999). On the term "enabling" instead of "nanny", please refer to Gilbert and Terrell (2002). On the discussion of the new "commodifying agent" of the state, see: Holden (2003).

immediate action that is dramatic.[148] Grindle and Thomas (1991) said that when the political elites perceive a crisis, their decisions are likely to be more radical or innovative. In our case, we may expect that the deeper the sense of crisis among politicians, the more dramatic the reform proposal is. Dramatic here is understood in the sense of being in far different to what one initially had and involving fast change.

Hypothesis 1: the deeper the sense of crisis among politicians, the more dramatic the reform proposal is.

The direction wanted in the reform proposal should be driven, at least mostly, by the objective conditions on the field. There are at least three factors that are expected to play a role in the downward adjustment of social security provision in Indonesia, the Philippines and Singapore: countries' national current account deficit, global ranking of competitiveness, and size of multilateral loans. These operationalize the political economic context after crisis that shaped the reform. One expects that given the severity of crisis in these countries, especially in Indonesia and the Philippines, as well as their concerns for getting back on their feet and being competitive again, these countries would base the social security reform on these factors. After all, some scholars have argued that countries in Asia share a developmental ideology for their social security provision.[149] They call it "welfare developmentalism", a development ideology that subordinates welfare to economic efficiency, discourages dependence on the state, promotes private financing of welfare and diverts the financial resources from social insurance to

[148] Grindle and Thomas (1991).
[149] Aspalter (2006).

investment in infrastructure.[150] Others call it a "productivist" welfare regime because they argued the programs are focused on productive investment such as education or employment.[151]

Meanwhile having foreign debts or multilateral loans especially from prominent international financial institutions as the World Bank has been argued elsewhere to create pressure for social security readjustment towards retrenched benefits, individual responsibilities and fully-funded individual accounts, and selective assistance for those who failed in the market.[152] Structural adjustment to improve economic efficiency and discard any factors that create a "bad economic environment" for economic growth, namely state intervention, has always been the orthodox dogma of the "unholy trinity" (the World Bank, the International Monetary Fund and the World Trade Organization).[153]

In this study national financial condition is measured by national fiscal condition immediately after the crisis, namely the size of the current account deficit and the national government budget deficit. Meanwhile the extent of global pressure for reform is measured by the country's position in the global ranking of competitiveness (based on the survey done by the World Economic Forum titled "The Global Competitiveness Report") and the size of multilateral loans.

[150] H.J. Kwon (2005a), Goodman and White (1998), Bidet (2004).
[151] Holliday (2000).
[152] Müller (1999).
[153] Peet (2003).

I therefore hypothesize the following.

Hypothesis 2: the bigger the size of the current account deficit and the national government budget deficit, the greater the likelihood of the proposal goes dramatic to cut benefits.

Hypothesis 3: the lower the ranking of the economy in the global competition, the greater the likelihood of the proposal goes dramatic to cut benefit in order to promote the commodity value of workers, i.e. to secure incentives for employers for the sake of creating employment..

The importance of hypothesis 3 goes back to Chapter 2 where I mentioned the importance of providing enticement to employers to participate in social security. Employers' support to social security provision cannot be expected as altruism.[154] Given the insightful studies of the different preferences of businesses in social security provision,[155] it may be too strong to say that employers are merely interested in collecting the most profit at the cost of the labor, but they are certainly interested in maintaining, if not strengthening, their business. And since in Asia employment creation is part of the responsibility of the state, the well-being of businesses as job creators is expected to play a part in the social security reform.

Hypothesis 4: the bigger the size of foreign multilateral loans, the greater the likelihood for the proposal goes dramatic to cut any form of state intervention in the

[154] I argue that Baldwin's analysis on the cross-class support for the welfare state would imply that the employers are not altruists. See Baldwin (1990).
[155] For instance: Estevez-Abe, Iversen and Soskice (2001), Mares (2003a, 2003b)Swenson (2002), Thelen (1999, 2001).

economy, in our cases transforming the state-controlled social security system by weakening the state's political control over social security.

Aware that the states in these countries have been known to be active in leading the market through mobilization of capital, controlling certain strategic sectors by placing state-owned enterprises in those sectors and expanding government-linked companies, doing strategic investment, price setting, and incentive provision that are not necessarily based on resource scarcity consideration, and keeping state-mediated industrial relations,[156] I expected the active role of the state leaders in the social security reform.

The preference of state leaders in the reform, I expect, will vary by their views on how to deal with market actors and the intensity of their symbiosis with the bureaucrats of social security agencies. Indeed I expect the reform process to be dynamic, comprising of exchange of words and demands between the state leaders and private sector actors (employers and workers).

As described elsewhere, despite the suggested stern authority of the state leaders in Asia in managing the market, one must be aware of the room for penetration of influence from the private sector.[157] Students of capitalist developmental state are reviewing the strong assumption of the separation of domain between the state and the market players and advocating the presence of struggles and compromises made between these groups of stakeholders.[158]

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[156] Mehmet (1982), Lim (1983), Wade (1989), Amsden (1989), Onis (1991), Hutchcroft (1994), Low (2001).
[157] Kang (2002a), Liddle (1987), MacIntyre (1991, 1994), McVey (1992).
[158] Underhill and Zhang (2005).

However, I do not expect the state leaders to conform to the needs or demands of employers and workers. As Linda Weiss (2003b, Ch. 14) said, the nexus between the state and market under globalization is that of “governed interdependence”, where the state-market relations become closer and more negotiated as the state seek to achieve their goals. In line with previous studies of the leadership of the state in the market, which described the selective discretionary incentives and punishments to businesses[159] and the skillful and strategic motives and actions of state leaders in dealing with business,[160] there are reasons to expect that the state leaders will continue to envision themselves as the leader that governs the market.

Indeed the evidence of continued market governance by the state is obvious. Today, studies show, despite international pressure for economic deregulation and trade liberalization and the surfacing allegations (and evidence) of corruption, states in Asia still intervene in the economy.[161] In Singapore and Indonesia, for instance, there may be a series of privatizations of state-owned corporations but the state continues to either keep a majority of the shares, control the decision making of these corporations, or take paradoxical steps such as encouraging certain private sector actors to take over what otherwise would be state-run enterprises.[162] Deregulation packages were launched only to be matched with new regulations in other “safe” areas or to simply satisfy creditors and

[159] Wade (1990).
[160] Hawes (1987, 1992), Liddle (1996).
[161] Bowen and Leinbach (1995), Low (2001), Ray (2003).
[162] Low (2001), McLeod (2005).

investors.[163] In fact, under the mandate to fight for the interests of the people in the increasingly global economy, the issue is not about pulling back public intervention but rather readjusting the form of public intervention.

Therefore I expect the event of social security reform as an opportunity for the state to adjust its playing field vis-à-vis the private sector, both domestically and internationally. This is possible first because, as mentioned earlier, social security entails a giant sum of funds with potentials to empower anyone who has access to it. When the circumstance post-crisis sent the signal of economic certainty (which have generated public unrests and questioning of state's capability in responding to market actors), state leaders seek for more autonomy from global pressure. Domestic-generated funds promise that potential to address domestic needs that would help enhance state's political autonomy and also the political capital of state leaders.

The political capital is again necessary to rejuvenate the practice of market governance in these countries. Governance is understood as activities to regulate, administer, advocate, coordinate, secure or provide things for the greater good that otherwise would not be provided.[164] Inherent in governance is the use of institutions, structures of authority and collaboration to allocate resources and coordinate or control activity in a society, a firm or an economy. The importance of governance can perhaps be

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[163] Mallarangeng and Liddle (1996), Robison and Hadiz (2004).

[164] In the study of international relations, governance is associated with the management of conflict and cooperation. International order is expected as the outcome of effective governance. Hegemony may be the (notorious) manifestation of the capability to govern the international relations. See for instance: Gilpin (1981, 1987), Keohane (1984), Puchala (2005).

best understood using the analogy of governance in a firm, which is also known as corporate governance. As succinctly stated by Peter A. Gourevitch and James J. Shinn (2005), corporate governance is about power and responsibility.

> "…The authority structure decides who has claim to the cash flow of the firms, who has a say in its strategy and its allocation of resources. As such, corporate governance affects the creation of wealth and its distribution into different pockets. It shapes the efficiency of firms, the stability of employment, the fortunes of suppliers and distributors, the portfolios of pensioners and retirees, the endowments of orphanages and hospitals, the claims of the rich and the poor. It creates the temptations for cheating and the rewards for honesty….It is no wonder, then, that corporate governance provokes conflict…Anything that shapes wealth, opportunities, stability, and corruption is sure to attract the concerns of the powerful and provoke the anxiety of the weak…Everyone has an interest in how it is structured."[165]

Governance therefore anticipates and responds to the concerns of both the powerful and the weak stakeholders. As a system, governance may be relatively self-maintained or heavily-regulated depending on the structure of ties among stakeholders and the enforcement of incentives and sanctions.

Indeed, governance pertains to the distribution of privileges among various groups in society. Governance affects the creation and distribution of wealth. In politics, the distribution of wealth in turn affects the power and influence of groups in the policy-making process. In a broader sense, governance affects the level of the playing field of

[165] Gourevitch and Shinn (2005, p. 3).

involved stakeholders. It also sustains the running and performance of the country. It determines whether the country would thrive or wither. How privileges are distributed among the stakeholders, who gets what and how much, affects the output of governance. One can therefore imagine the central importance of governance after a financial or economic crisis in bringing the country back to its feet. As studies suggest, where perquisites are concentrated during a transition period may determine the level of economic performance of the country.[166]

With the state having access of authority over social security funds, it can change its playing field vis-à-vis the private sector and the sense of certainty for all stakeholders. The social security reform allows for the evaluation and change in the incentives and punishment for the private sector. The financial investment and information that the social security agencies collected helps secure a certain peace in industrial relations, which is not only important to restore the sense of predictability post-crisis but also to rejuvenate the practice of market governance by the state.

This scheme for rejuvenating market governance, however, hinges on the symbiosis between the state leaders and bureaucrats. We indeed need to unravel the black-box of interaction between these two groups of stakeholders. Although the studies of bureaucracies mostly talked about bureaucrats as the agents of the state,[167] hence assuming the compatibility of goals between the two, the literature of economic development in newly industrializing countries suggested a different thing.

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[166] Hellman (1998).

[167] Waterman and Meier (1998), "Principal-Agent Models of Political Control of Bureaucracy" (1989). For studies on bureaucrats and their works with other groups of elected officials (legislators), see for instance Lupia and McCubbins (1994).

In its task to govern a nation, the state develops different degrees of symbiosis with the bureaucracies. Even at the time newly industrializing countries were characterized by authoritarianism, there were indications of competition and pluralism within the entity of state-bureaucracy. Donald Emmerson (1983, p. 1221) found that “Suharto’s bureaucracy [in Indonesia] *had grown* significantly more streamlined, monolithic and active in dynamizing the economy and controlling the polity than had been the case under Sukarno” but at the same time there was interagency rivalries on policy issues.[168] William Liddle (1973) noted the increase in the power of individuals and cliques within the New Order state in Indonesia that may undermine the ability of central government to implement national development. However, given the limited political pluralism under authoritarianism, others prefer to emphasize the ultimate strength of the state in excluding opposing power groups that is by creating a state-controlled corporatist system of interest representation.[169]

Today, with more political pluralism (except in Singapore) and an increase in media exposure, the previously seemingly neat engagement between the state leaders and bureaucrats is no more. As will be clear in the case study chapters, bureaucrats are often at odds with the state leaders. The position of executive director at the social security agencies in Indonesia is contested by political parties and their associated incumbent state leaders. In the Philippines, the career bureaucrats fiercely opposed the appointed executive director whose policy was in line with *Malacañang* (the palace).

[168] This line of research is known for their label “bureaucratic pluralism”.
[169] This line of research is known for their label “bureaucratic authoritarianism”. See Canak (1984), Im (1989), King (1982), Linz (1970), O’Donnell (1978).

In line with the expectation that the state is interested in employing the social security reform to maintain or rejuvenate the practice of market governance, I expect the degree of intensity of symbiosis between the state leaders and bureaucrats to shape the reform output. I assess the intensity of the symbiosis from the leadership and management of social security agencies. The more incidents of sharing of perquisites and the use of social security funds and offices for political (non-member-related) activities, the higher the intensity of symbiosis between state leaders and bureaucrats is. Therefore I hypothesize the following.

Hypothesis 5: the bigger the financial need of the state in order to govern the market effectively, the stronger the symbiosis between state leaders and bureaucrats, and therefore the more likely the reform to strengthen the political control of the state.

However, given the fact that bureaucrats may stand in opposition to the state leaders, it is appropriate also to assess the initiative of bureaucrats in the social security reform process and how it affects the reform output.

Hypothesis 6: the bitter the opposition of bureaucrats against state leaders, the higher the incentives for bureaucrats to enhance their professionalism, and therefore the more likely the reform to increase benefit level.

From the private sector side, social security reform is never viewed in isolation from how their businesses are doing. The uncertainty of competitive market heightened the risk of market actors, not only that they may not be able to deal with their contingencies unaided,[170] but also that they may lose their business (for employers) and employment (for workers) altogether. Preliminary studies suggest that nowadays even

[170] Baldwin (1990).

companies operating in the same environmental condition have become more divergent in its strategies and structures.[171] Indeed in liberal market economy, i.e. ones that lack coordination and collective regulations among market actors and between market actors and the state, companies rely on segmentalist strategy.[172] Individual employers shield themselves from competition by enacting barriers to the outside labor market (for example by enacting their own compensation and bonus system, internal career ladder, seniority system, etc.).[173] They easily withdraw from collective commitment in labor market (including in social security) in order to maintain their business and to remain competitive. In short, in countries where downward wage flexibility is the means of competition among companies, as in Indonesia, the Philippines, and Singapore, the economic overlook of employers will affect their stand in the social security reform.

While the study on the impact of companies' strategies on workers' views of social policy in today's companies is mostly absent, there is an increasing awareness from unions that workers are willing to sacrifice negotiation over salary and benefits (and their generous level) in return for employment security. In a competitive market economy, employers are resistant towards union and can easily expel those who speak against corporate management.[174] This is *not* to say that employers and workers are not interested in having a social security reform that will improve benefit level, because they

[171] Duysters and Hagerdoorn (2001) who studied the computer industry in Europe, Asia and US between 1986 and 1993,
[172] Hall and Soskice (2001).
[173] Thelen (2001).
[174] Ramos (1990), Deyo (1987). Also, workers representatives in Indonesia, interviews.

are. They however pay close attention to what they earn in return from the investments they make into the social security system and what impact the proposed change will have on their wellbeing.

I specifically see that there are at least three levels of expectation of the conduciveness of the economic environment for private sector actors: low, medium and high. If the economic environment is conducive, both employers and workers can foresee a more positive outlook for their wellbeing as individuals and units. The low expectation implies skepticism. In this category there is a deep sense of distrust, hesitation and doubt over how the new proposed system will do them good. The medium expectation implies some hopefulness. In this category there is a sense of doubt but also a sense of trust that the reform will bring some advantages or that the reformers know how to make things work better for them. The high expectation implies optimism. In this category what I saw was a sense of confidence and certainty that the steps taken in the reform would somehow assist or benefit them.

Hypothesis 7: the higher the expectation of private sector actors on the conduciveness of economic environment and the more satisfied they are with the existing return from social security, the more likely the reform to increase benefit level.

1. Deeper sense of crisis among state leaders → the more dramatic the reform proposal is.
2. Bigger size of current account deficit and national government deficit →greater likelihood of the proposal goes dramatic to cut benefits.
3. Lower ranking of the economy in the global competition → greater likelihood of the proposal goes dramatic to cut benefits (securing incentives for employers to create employment).
4. Bigger size of foreign multilateral loans → greater likelihood of the proposal goes dramatic to cut down state intervention in the economy (weakening state political control over social security provision).
5. Bigger financial need of the state to govern market effectively → stronger symbiosis between state leaders and bureaucrats, therefore more likelihood that the reform will strengthen the political control of the state.
6. Bitter opposition of bureaucrats against the state leaders → higher incentives for bureaucrats to enhance their professionalism, therefore more likelihood to increase benefit level.
7. Higher expectation of private sector actors on the conduciveness of economic environment and the more satisfied they are with the existing return from social security → more likelihood to increase benefit level.

Figure 3.1: The Hypotheses

3.3. Theoretical Framework

Indeed social security reform is a process. First a proposal is advanced then deliberated and modified before finally being adopted as reform output. The crisis may plummeted an economy and triggered a reform proposal that is aimed at making dramatic change, but the reform output itself vary by the reactions of employers, workers, state leaders, and bureaucrats. Therefore, I found that the political economic context after crisis, which affects the size of current account and national government deficits as well as the size of multilateral loans and the global ranking of the economy, is only influential to the point of shaping the dramaticness of change that the reform proposal initiated.

More importantly, the severity of economic condition post-crisis by no means led automatically to proposals for benefit retrenchment or the weakening of state political control over social security provision. If anything, the proposal actually reflects the ideal social security system, one that the proposers think would serve the domestic needs in the new era of economic (and political) uncertainty. Indeed the variation cannot be explained using the “external” factors and economic concerns. Even though there were some external influence that accommodate the initiation of reform, thanks to countries’ multilateral loans (in Indonesia and the Philippines) and the concern over restoring economic competitiveness, it is by no means restraining the groups of stakeholders from advancing what they think work best for them.

Based on empirical evidence, the following Figure 3.2 captures the model of social security reform in Indonesia, the Philippines and Singapore.

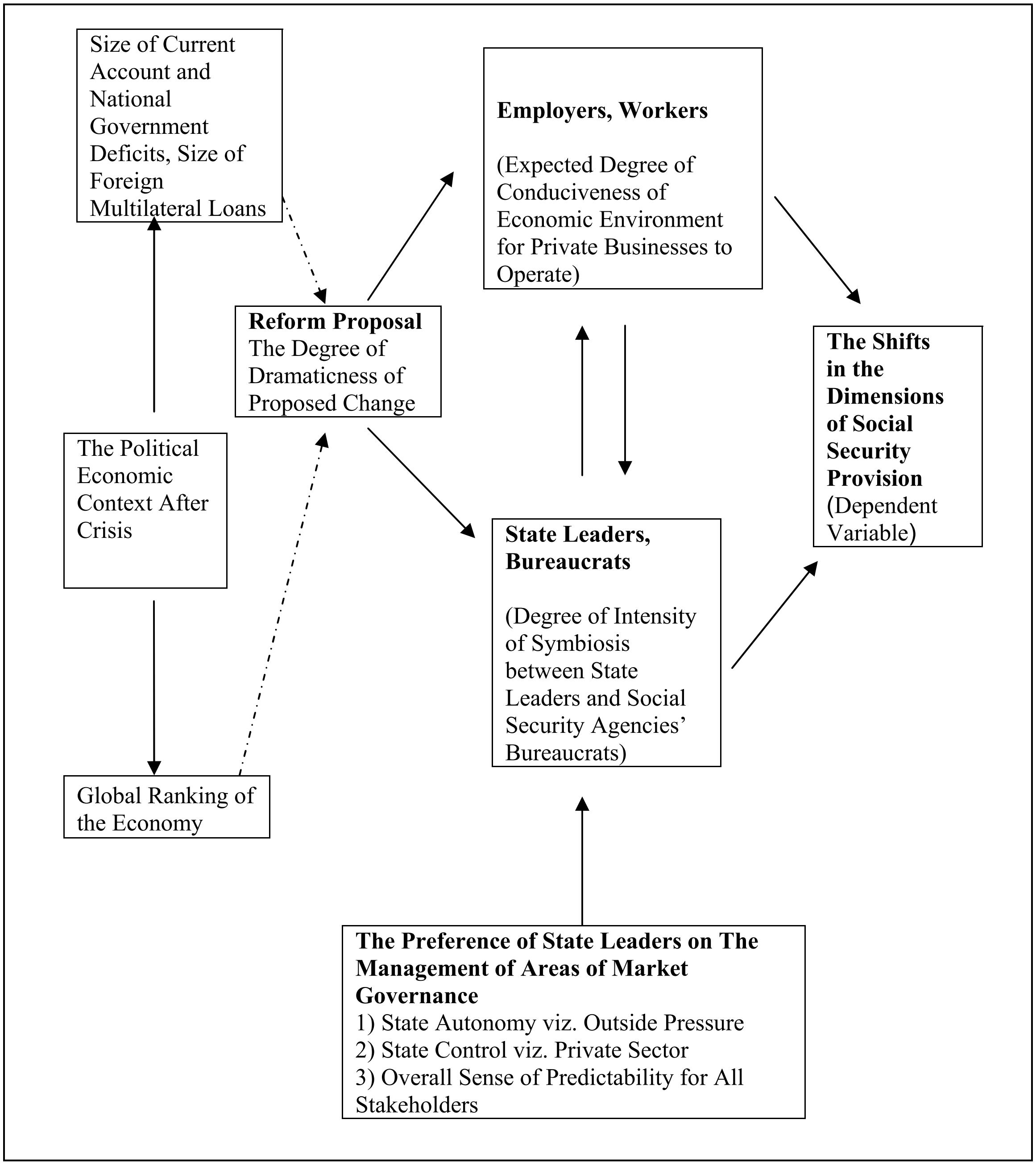

Figure 2.1: The Model of the Theoretical Framework

There are four reasons why the hypotheses on the importance of political economic context post-crisis were not confirmed. *First*, the reform within social security systems was the second layer of reform post-crisis. It was not discussed until other monetary and fiscal measures were in place. Instead of looking at the social security system as a policy subject to austerity measures, the major consideration was how to tap the funds collected through the social security system to help the country recover from the crisis. If anything, the funds were actually seen as potential means to gather domestic resources that could balance the flow of loans (with all the attendant political controversies) from abroad.

In Indonesia the biggest challenge at that time was not just the collapsed banking sector and the significant currency devaluation. The credibility of the state as well as the choices it made to handle the crisis were also questioned. The administration of President Suharto and the regime of cronyism that he built including the banking sector started to crumble. It became obvious that the mushrooming of banks after the deregulation package of 1988, which softened the requirements to establish new banks and branches, have encouraged the ownership of banks by nearly every business mogul who was either a family member of President Suharto or one of his cronies.[175] The Central Bank (Bank

[175] For instance Bambang Trihatmodjo and Siti Hardijanti Rukmana (the children of President Suharto) with their Bank Andromeda, Bank Alfa, Bank Yama or the Ciputra Group with the Bank Ciputra or the Tirtamas Group of Hasjim Djojohadikusumo with Bank Pelita, Bank Kredit Asia and Bank Niaga. These banks then conducted short-term and unhedged off-shore borrowing and invested the capital into many domestic long-term projects like toll-roads, property, cement, automobiles, and petrochemicals. The crisis revealed how poor the structure of the Indonesian banking sector is because most of these banks did not anticipate non-performing loans, they have concentrated credit disbursement to certain business groups with political connections and allowed public intervention in extending credit without proper evaluation. See Suta and Musa (2004)

Indonesia) recorded 91 private domestic banks in January 1990; by January 1995 there were 166 banks. By 1999 there were 40 foreign and joint venture banks, from zero in the 1980s (see Table 3.2 for the breakdown.)

With the crisis, Indonesia's currency declined significantly in value, from Rp 2,500 per US$ to over Rp 15,000, economic growth plunged from 7.8 percent in 1996/1997 to negative 10-15 percent in 1997/1998, capital massively flew out of the country, and the price of Indonesia's key export (oil) fell significantly to US$13 per barrel (the lowest in real terms in 30 years).[176] The stock market collapsed, an increasing number of local companies faced bankruptcy and workers were being laid off in large numbers.[177]

	1996	1997	1998	1999	2000	2001	2002	*2003*
State Banks	7	7	7	5	5	5	5	5
Regional Banks	27	27	27	27	26	26	26	26
Private National Banks	164	144	130	92	81	80	77	73
Foreign and Joint Venture Banks	41	44	44	40	39	34	34	34
Total	239	222	208	164	151	145	142	138

Source: Suta and Musa (2004, p. 201) as based on data from Bank Indonesia (on end year data except for 2003).

Table 3.2: Number of Banks in Indonesia, 1996-2003

By the end of September 1997 there were increasing reports that private companies were having problems meeting their external debt service obligations. The rupiah had already depreciated 35%. The cabinet decided to seek help from the

176 The World Bank (1998).

177 The sectors badly hit by the crisis include construction and textiles. The Department of Manpower estimated that by the end of 1997 about 950,000 construction workers were out of work while the association of construction companies (Gapensi, *Gabungan Pelaksana Konstruksi Nasional Indonesia,* Indonesian Association of National Construction) came up with a much larger figure of 3-4 million workers. According to the 1996 National Labor Force Survey (Sakernas, *Survei Tenaga Kerja Nasional*), 4.4 million people were out of work that year. See Soesastro and Basri (1998, p.32).

International Monetary Fund (IMF), first to get technical assistance and then for financial assistance to restore confidence.[178] This step was encouraged by the donor countries, like the United States and Japan, who urged President Suharto to take the IMF offer in order to secure help from other countries.[179] Unfortunately, it triggered widespread domestic protests against the IMF and the US especially given the obvious tension over the implementation of the prescribed policies. It also intensified the controversy over the inability of the state leaders to manage the problem.[180]

The size of the current account deficit and the national government budget deficit in Indonesia were indeed troubling. The negative growth was 13.6% and inflation rate was a whopping 65%. The current account deficit was not that bad relative to the Philippines, especially since international financial institutions immediately jumped in to "save" Indonesia by disbursing loans while imports shrank due to depreciating currency and shrinking domestic demand. Yet the government deficit was among the highest in Southeast Asia. (See Tables 3.3 and 3.4 for more on the government budget situation in 1995/96-1998/99. Also see Tables 3.5 and 3.6 respectively for comparative global ranking of competitiveness and comparative size of multilateral loans). Fiscally, as required by the IMF, the government took steps to keep the budget in balance by increasing revenues through extending the coverage of luxury sales, cutting the

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[178] Ibid.

[179] Not long after this an Australian publication captured the picture of President Suharto signing an IMF agreement in front of IMF Director Michel Camdessus who stood with arms folded colonial style. See Chomsky (1998).

[180] On the relations of IMF and Indonesia during the crisis, see Colin Johnson (1998).

development budget by 8.4% and cancelling or postponing a number of infrastructure investments. The government on the other hand also used off-budget funds (e.g. investment funds and reforestation funds).

	Ind	Phil	Sing	Thai	Mal	Viet
GDP growth:						
1991-95	7.8	2.2	8.5	8.6	8.7	8.2
1996	8.0	5.5	6.9	5.5	8.6	9.4
1997	4.7	5.1	7.8	-0.4	8.0	9.0
1998	-13.6	0	1.3	-6.5	-6.7	5.0
Inflation:						
1991-95	8.9	10.5	2.6	4.8	3.6	23.4
1996	6.5	8.4	1.4	5.8	3.5	4.5
1997	11.6	5.1	2.0	5.6	2.6	4.0
1998	65.0	9.0	-0.2	8.1	5.4	5.0
Current account/GDP						
1991-95	-2.4	-3.6	12.9	-6.2	-7.0	-5.5
1996	-3.3	-4.5	15.0	-7.9	-4.9	-16.2
1997	-2.9	-5.2	15.4	-2.0	-5.2	-8.6
1998	5.4	1.2	17.8	8.1	7.5	
Government balance/GDP						
1991-95	-0.2	-1.6	12.4	2.8	0.3	-3.5
1996	1.2	-0.4	13.9	2.4	1.1	-0.4
1997	1.2	-1.8	6.0	-0.9	5.5	
1998	-5.5	-3.6	-1.0	-4.5	-1.0	

Source: Table 4.1. Chu and Hill (2001, p. 135).

Table 3.3: Southeast Asian Economic Indicators Before and Soon After 1997 Crisis, 1991-1998 (%)

	Budget 1995/96	Budget 1996/97	Draft Budget 1997/98	Draft Budget 1998/99	Revised Draft Budget 1998/99
Domestic Revenue	71.6	78.2	88.1	107.7	115.0
Routine Expenditure	36.7	56.1	62.2	92.4	97.8
Government Savings	24.3	22.1	25.9	15.3	17.1
Development expenditure	30.8	34.5	38.9	41.1	49.4
Domestic deficit (government savings minus development expenditures)	-6.5	-12.4	-13.0	-25.8	-32.3
Financed by foreign borrowing	11.8	12.4	13.0	25.8	32.3
Net domestic impact	-2.5	-6.6	-5.4	2.4	3.5
Total	83.3	90.6	101.1	133.5	147.2
Memo items:					
Oil price ($/barrel)	16.5	16.5	16.5	17.0	17.0
% development expenditure financed by foreign aid	38.2	36.0	33.4	62.8	65.3
Net capital inflow (disbursement minus amortization)	-7.9	-7.5	-6.2	-4.4	-5.5

Source: Soesastro and Basri (1998, p.44-45, excerpt of Table 7).

Table 3.4: Government Budget, Indonesia 1995/96-1998-99 (Rp trillion)

JAMSOSTEK (*Jaminan Sosial Tenaga Kerja*, Manpower Social Insurance) funds were reportedly made available for allocation through state banks to finance public housing and to provide working capital for small and medium enterprises at subsidized interest rates. JAMSOSTEK funds were also controversially used by President Suharto to bail out ailing banks (e.g. Bank Central Asia, Bank Dagang Bali, Bank Victoria, Bank

Artha Graha, Bank Bumi Putera). Way beyond the critical few months after the crisis, JAMSOSTEK funds were tapped to support ailing state-owned corporations like Jasa Marga, Pupuk Kaltim, and Garuda Indonesian Airways.[181]

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[181] Issues related to Jasa Marga, Pupuk Kaltim and Garuda Indonesian Airways surfaced following recent state policy to increase the privatization of state-owned corporations in order to reduce the number of state-owned corporations and earn revenues from the sales. According to Vice President Jusuf Kalla in February 19, 2007, the state is looking forward to reducing the number of state-owned companies from 139 to 69 by 2009, and to 25 by 2015, and the state might do it through mergers, privatization or liquidation. For the year 2007, there will be the privatization of 15 state-owned corporations including Garuda Indonesian Airways (a state-owned airline) and Jasa Marga (a state-owned corporation responsible to manage, improve and build highways and roadways as well as other infrastructure construction in Indonesia). In Garuda Indonesian Airways, the state will sell up to 49% of its shares. Prior to this news, Garuda Indonesian Airways suffered years of losses, reaching up to Rp191.9 billion in January 2006 and it continued to increase to Rp688.5 billion by the end of 2006. Meanwhile in Jasa Marga, the government plans to gradually sell up to 49% of its 100% stake. To Jasa Marga, the sales will help expand the corporation and support a massive state five-year infrastructure investment program to build new toll roads. Interestingly, three days after the announcement to privatize these state-owned corporations, PT JAMSOSTEK revealed its interest to increase its investments in bonds and equities as an alternative to the declining interest rate for its investment in time deposits. When I was still doing the fieldwork, I personally already heard about the potential of such moves of the state and PT JAMSOSTEK, hence it is indeed interesting to see it unfolded as expected in my theory. For news about the privatization announcement and JAMSOSTEK's intention to buy equities, see "Government to Halve Number of SOEs by 2009" (2007), and "JAMSOSTEK to Boost Bonds, Equities Investments" (2007). Meanwhile Pupuk Kaltim, the world's largest state-owned fertilizer corporation, is among state-owned corporations whose privatization is delayed. One of the reasons for the delay is corruption investigation within Pupuk Kaltim involving a number of its former and current top-ranking officials, including Executive Director Omay K. Wiraatmadja, and the family members of former state leaders (e.g. Emil Abeng, the son of the Minister of State-Owned Corporation Tanri Abeng, Thareq Habibie, the son of President Habibie, and one of the children of former Attorney General Andi Ghalib). See, among others "Diusut Dugaan Korupsi di PT PKT" (2005), "Dirut Pupuk Kaltim Diperiksa Delapan Jam" (2006).

Countries	1999	2000	2001	2002	2003	2004	2005	Weighted Change
Indonesia	37	44	64	69	72	69	74	-37
Philippines	33	37	48	63	66	76	77	-44
Singapore	1	2	4	7	6	7	6	-5
Thailand	30	31	33	37	32	34	36	-6
Malaysia	16	25	30	30	29	31	24	-8
Vietnam	48	53	60	62	60	77	81	-33
China	32	41	39	38	44	46	49	-17
S.Korea	22	29	23	25	18	29	17	+5

Note: Data is taken from various report on the Growth Competitiveness Index rankings issued by World Economic Forum in their Global Competitiveness Report. In this report competitiveness is defined as “the collection of factors, policies and institutions which determine the level of prosperity”. The Index is based on both hard data and survey on three pillars: the quality of macroeconomic environment, the state of the country’s public institutions and the level of its technological readiness.

Table 3.5: Comparative Global Ranking of Competitiveness

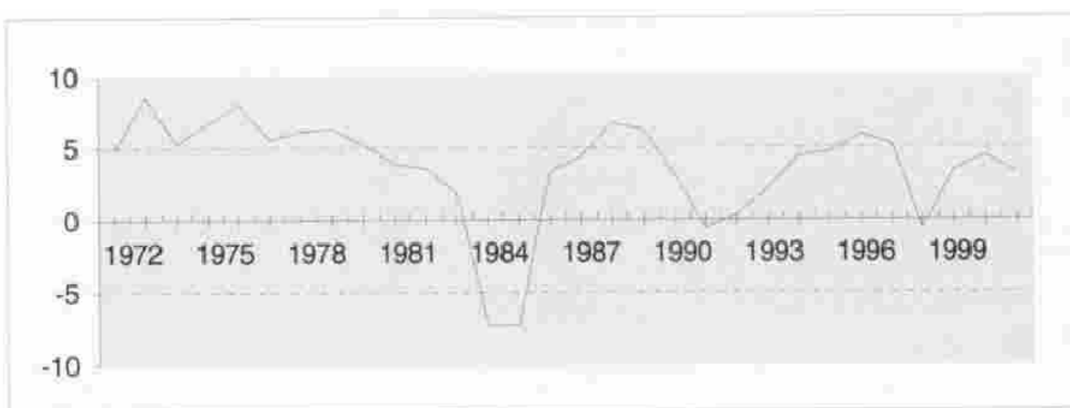
Country	Indonesia	Philippines	Singapore	Thailand	Malaysia	Vietnam	China	South Korea
1996	16,950	8,301	-	2,820	1,388	1,046	17,603	2,364
1997	18,482	8,222	-	5,824	1,215	1,249	18,907	17,987
1998	26,611	9,510	-	7,572	1,476	1,623	22,010	28,492
1999	29,937	9,592	-	8,761	1,428	1,934	23,789	18,559
2000	30,862	9,180	-	8,150	1,310	2,183	24,914	17,892
2001	29,326	8,686	-	6,880	1,265	2,659	26,188	11,833
2002	29,007	8,510	-	3,658	1,170	3,276	26,818	11,715
2003	29,567	8,265	-	2,842	1,111	4,221	25,506	7,380
2004	29,567	7,639	-	1,143	1,001	4,902	26,545	5,553
Average Loans	26,701	8,656	-	5,294	1,262	2,565	23,586	13,530

Source: JEDH (Joint External Debt Hub) dataset – World Bank, 2006. Data is based on the fourth quarter figure of each year.

Table 3.6: Comparative Size of Multilateral Loans (in million US$)

In addition, the first proposers of social security reform, Sulastomo, Hattari, and Simuardjo, considered it critical to develop a pooling of risk through a pooling of funds that would help develop the potential to finance various social welfare needs. Sulastomo, who later became chair of the committee that helped develop the national social security law, was a staunch advocate of a social security system in which the state could borrow money from the accumulated funds. He contended that this is why developed countries managed to meet the needs of their people and grow remarkably.

The Philippines did relatively better than the neighboring countries during the crisis.[182] But the crisis intensified domestic debate about the role of the SSS (Social Security System) and GSIS (Government Social Insurance System) in recovery from the crisis. More specifically, the talk over the financial pressure on the SSS and GSIS as well as the insufficiency of the healthcare insurance coverage was used as a means to get economic relief. (For the impact of the crisis on the budget and current account deficit, also its global ranking of competitiveness and multilateral loans see Tables 3.3, 3.5 and 3.6 respectively. For the trend of annual growth in the Philippines see Figure 3.3).



Source: Ringuet and Estrada (2003, p. 241).

Figure 3.3: Annual GDP Growth in the Philippines 1972-2001 (in percent)

[182] Noland (2000).

Soon after the crisis hit the region, studies were released saying that the Philippine SSS will become insolvent in the year 2015, much earlier than the previous 1995 actuarial study had predicted. With more people out of formal sector employment, plus a higher and prolonged period of unemployment, there were fewer people contributing to the SSS. Such an imbalance between contributions and benefit payments had been putting pressure on the non-funded social insurance system. Speaker of the House Jose De Venecia Jr. once said that he would speak to the IMF or the World Bank to try to get some debt reduction and some money from the Bank that then partly could be used to save the SSS. SSS Executive Vice President Horacio Templo said that that was the first time the Philippines had come up with the idea of finding separate money from the government or international agencies to finance the SSS.[183]

In contrast to Indonesia and the Philippines, Singapore was more bruised than wounded by the financial crisis. Singapore was and is better-off economically, but it nonetheless did not get out of the crisis unscathed. Ngiam Kee Jin (2000, p. 5) summarizes the effects.

> "First, Singapore's exports to the crisis-hit economies were badly affected as a result of severely diminished regional demand, due in part to the collapse of their currencies. Indonesia, Malaysia, Thailand and Philippines (the so-called ASEAN-4, the four largest members of the Association of Southeast Asian Nations) accounted for nearly a third of Singapore's exports. Second, Singapore's exports became less competitive against these economies in third-country markets. Third, Singapore's banks were weakened by their sizeable lending exposure to these

[183] Interview, October 20, 2005.

countries. Fourth, the large outflow of Singapore's investment to the region in the early 1990s suffered a severe setback. Fifth, Singapore's brokerage firms were hurt when the Kuala Lumpur Stock Exchange (KLSE) imposed a new rule on August 31, 1998 requiring all trading in Malaysian shares to be done on the KLSE. The new KLSE rule, together with the imposition of exchange controls by Malaysia, effectively shut down the trading of Malaysian shares on Singapore's Club International."

Following the crisis, the focus of Singapore was to get back on its feet. The main policy choice was to mobilize off budget, including CPF, funds. With an understanding that their economy relies heavily on the global and regional market, especially given that the volume of its international trade was about three times its GDP, the initiative was to cut business costs and stimulate the economy.[184] Minister of Finance Richard Hu emphasized wage restraint and a flexible wage system but since unemployment rose to 3.2% in 1998, Prime Minister Goh Chok Tong took swift action to cut employers' contribution rate to the CPF by 10 percentage points.

The *second* reason why the impact of economic context post-crisis were limited is that the agenda of social security reform in the three countries aimed at securing the needs of citizens as well as the pre-existing system of benefit among state leaders, employers, workers and bureaucrats. In other words, these countries were not adjusting their social security system to alleviate financial pressure but rather to meet domestic needs. The outcome of the reform changed the level of the playing field for state leaders, bureaucrats, employers and workers.

[184] To (1999).

In Indonesia employers' concern over the policy of non-sharing of costs by the state, especially on top of the already bleak economic environment, led the reform to be in effect anti-employment creation. Worse, both workers and employers argue that it is better for them to defy rules on social security. With the low statutory autonomy of bureaucrats from state leaders and the alleged use of social security funds for political needs,[185] the weakening of workers' leverage and the pressures on employers, clearly the employers and workers are losing some ground vis-à-vis the state leaders, which in this case not only maintain control over social security funds, they also maintain the flow of the funds and symbiosis with bureaucrats for national and personal agenda.

In the Philippines there was a shift that improved the benefit level. Such an increase improves the wellbeing of social security enrollees as well as people from lower-income groups to a certain extent. This is an important political gesture to address the widening income gap in this society. Meanwhile employment creation *per se* was abandoned as the cost of benefit improvement was borne by the employers through the one percentage point increase in their contribution rate. Although they have taken the reform positively and participated in the statutory programs, they were cautious about doing the same in the future. The failure of rules that regulate outsourcing, subcontracting and contractual employment is the compromise the state made in favor of the employers. Meanwhile the weakening of the state's political control over workers and employers is

[185] The newest information was that prior to 2004 presidential election the Minister of State-Owned Corporations Laksamana Sukardi issued a suggestive letter to 80 CEOs of SOEs to submit a total of 200 billion rupiah to Bank Mandiri and Bank Artha Graha so that it could be channeled as credits for micro businesses. JAMSOSTEK in particular was asked to submit Rp 4.2 billion. Later on the National Audit Agency stated that such intervention violated the law on state-owned corporations and might benefit one presidential candidate. See "Berebut Keringat Buruh" (2007).
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reflected in the shifting of the healthcare provision to PhilHealth (making it harder for the state to pressure SSS and GSIS), the relatively more professional management of the SSS and the placement of professional medical doctors and health experts in the PhilHealth top administration. This is to address critics over the past inefficient meddling-in of the state in the management of these agencies.

In Singapore the reform within the CPF favored businesses or employers, granting them preference, which in turn was expected to improve employment creation. The cut in the employers' contribution rate is the most obvious. Such a cut had been done before, in 1986, but this time the cut is deeper and stays longer. Indeed, the rising unemployment after crisis drove Singapore to emphasize employment creation.

Another way to enhance employment creation was the enactment of measures to ensure the "responsible" behavior of CPF participants in withdrawing their funds. Withdrawal of CPF funds is tightly monitored and regulated with the goal of motivating people to work, get higher education, and get training in strategic areas as suggested by the state leaders (e.g. now in the booming international technology and communication areas). The social security reform also supported the expansion of government-linked companies abroad, e.g. by selling shares with various incentives to CPF participants.

It is obvious that the changes proposed through CPF were aimed at maintaining industrial peace and keeping employment relatively more predictable. The CPF possession of personal information of Singaporeans (on how much one earns, spends, needs and the assets owned) and the centrality of the CPF in industrial relations in Singapore increases state's control over the private sector. The minor improvement of benefit level addresses potential post-crisis complaints from workers.

The *third* reason for the limited impact of post-crisis economic context is that the social security reform process evolved independently from the macroeconomy. In fact, once the reform gained speed, it did not really matter what the outside pressure was saying. In the case of Indonesia, some international agencies might have provided some technical assistance for the reform but at the end of the day what mattered were the concerns of state leaders and bureaucrats that the reform might challenge their existing symbiotic relationship and the outright refusal of employers and workers to support any idea endorsed by the former groups of stakeholders. The dramaticness of the change proposed through the reform sent jitters to the stakeholders hence it was adjusted to the point that it was basically emasculated.

In the Philippines the issue was also between state leaders and bureaucrats as well as among the bureaucrats of the SSS, which ended up creating a more professional SSS with less dependence on state leaders. The professionalism of the SSS enhanced the search for an effective solution for the financial problem in the agency and convinced the employers to be part of the solution hence improving the benefit level for workers. The creation of PhilHealth reflected the desire of administrations since President Estrada to enhance the wellbeing of lower income citizens. One thing for sure, the financial limitation of the central government did not directly affect the social security provision in the Philippines. If anything it actually enhanced their commitment to the "costly" social insurance system.

The case is rather different in Singapore where decision-making is heavily centralized in the hands of state leaders, who consistently guard the record of economic achievements as the measure of administration success. In this case therefore the reform within the CPF is in tandem and harmony with the overall macroeconomic plan to garner its economic competitiveness in order to recover and come out strong from the crisis.

The *fourth* and final reason for the limited influence of the post-crisis economic context is that policy instruments differed in each of the three cases of reform. All of these countries share concerns over economic position, loans and competitiveness in the world market, but such concern did not lead to the same means for dealing with it. Indeed the answer here lies at the different ways the state in these countries govern the market. After crisis it becomes clear that it is relatively easy to liberalize a capital account or an economy but getting people up to speed in the new competitive environment with all the attendant opportunities and risks is not easy. Instances such as overlending by local banks are prominent examples.[186]

Also, the emergence of China as an aggressive trade and industrial competitor intensifies the difficulties. Suddenly the "race to the bottom" becomes so much faster and closer to home. While workers in the developing countries are paid around US$ 30-50 a month, the Chinese city with the highest minimum wage (Shenzhen) only pays roughly

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[186] Furman, Stiglitz, Bosworth, and Radelet (1998), Makin (1999), Sharma (2001).

US$ 42. Most companies in China pay only 40 percent of that minimum wage.[187] Businesses start to weigh the relative ease of operating in different countries, sending the message that unless their needs are met, they have more appealing options abroad. A survey ranking businesses from *Doing Business* became public discourse in Indonesia, the Philippines and Singapore (Table 3.7).

Country	Starting a business		Rigidity in Employment laws		Closing a Business		Enforcing a contract
	Time (days)	Cost (% of income per capita)	Flexibility of hiring index (global ranking)	Flexibility of firing index (global ranking)	Time (years)	Cost (% estate)	Cost (% of income per capita)
Indonesia	168	14.5	76	43	6.0	18	269
Philippines	59	24.4	58	50	5.7	38	103.7
Singapore	8	1.2	33	1	0.7	1	14.4
China	46	14.3	17	57	2.6	18	8.5
Vietnam	63	29.9	43	48	No practice	No practice	33
Malaysia	31	27.1	33	15	2.2	18	19.4
Thailand	42	7.3	78	30	2.6	38	29.6
S Korea	33	17.9	33	32	1.5	4	1
Hong Kong	11	2.3	58	1	1.0	18	6.9
Taiwan	48	6.1	81	32	0.8	4	0.5
Japan	31	10.5	39	9	0.6	4	6.4

Source: The World Bank & International Finance Corporation (2004).
Note:

- Flexibility of hiring index includes hiring by means of part-time and fixed-term contracts, flexibility in working time requirements, mandatory payment for non-working days, and minimum-wage legislation.
- Flexibility of firing index encompasses grounds for dismissal, procedures for dismissal, notice periods, and severance payments.

Table 3.7: Comparing the Relative Ease of Doing Business in Countries

Since sociopolitical issues played a part in the crisis, the sources of insecurities post-crisis are not restricted to economic ones such as fiscal pressure, a volatile exchange

[187] For a practical perspective of what the employment system and the situation have been for workers in China, see for instance Anita Chan. 2003. A Race to the Bottom. *China Perspectives* 46: March-April.

rate and rising unemployment. The terrible social impact of the financial crisis—rising prices of food, insufficient wages, insecurity of employment, people lining up for kerosene, people dying without ever seeing physicians, people having difficulties affording medicines, and the high cost of healthcare—highlighted the need to focus on social security provision.[188] It becomes clear that such insecurities need to be addressed by the state leaders, and when it does it can actually be useful to enhance the broader goal of governing the market.

"Governing the market" a la Robert Wade (1990), by industrializing and nurturing local entrepreneurship, is rejuvenated through social security reform. State leaders are employing social security agencies and their programs to deal with the following areas of market governance: state autonomy vis-à-vis international pressure, the state control vis-à-vis the private sector, and the overall sense of predictability for all stakeholders.

More specifically, social security system is first and foremost a giant fund-generating machine that could help finance various economic development and political agenda, both at the level of the state and the level of specific individual state leaders. Such financial discretion is useful to protect the autonomy of the state from outside pressure. At the very least social security funds provide financial resources to tackle social agenda, including the concern over the poor.

Yet the financial benefit of having the funds does not stop there. It may directly provide funding for state budget (as in Indonesia), generate awareness on supporting state

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[188] *Bernama,* April 20, 1999, After crisis, critics pointed to the insufficiency of existing social security benefits, linking the problem to the lack of professionalism, insufficiency of funds in individual accounts, and the lack of responsiveness of the state to people's need. See Chu and Hill (2001), Asher (2002), Haggard and Birdsall (2000), Barr (2001).

earning from tax revenues (as in the Philippines) and entice the private sector to set aside funds that in the long term will be useful for their contingencies while in the short term will be useful for state's contingencies (as in Singapore). In countries where foreign presence, be it as economic or political pressure, is highly controversial and can easily question the autonomy of the ruling power, such domestic source of funds is welcomed. Depending on the level of independence of social security agencies and bureaucrats from the state, the funds also provide financial flexibilities to those who have relatively direct access to the funds. The funds may be used to support political party and electoral campaign activities as well as the career of certain individuals. Therefore any reform on social security system will impact this aspect of market governance.

Social security reform is also a potent tool to maintain or enhance the control of the state over worker-employer relations. In practice, in order for market governance to work, the bargaining leverage of the state leaders should not be less than those of employers and workers. An incorporation of incentives and punishments in the social security helps meet this need. Unlike past practice, as captured by Wade (1990), the "carrot" and "stick" approach of market governance now is aimed to be more subtle. Incentives and sanctions are often products of compromise and selective enforcement. Depending on how secure state leaders' goal are in protecting their financial autonomy and how independent the social security agencies and bureaucrats are from the state, the kinds of incentives and sanctions as well as who gets more incentives than sanctions will vary.

Last, social security reform is helpful to restore the overall sense of predictability for all stakeholders in the midst of a more globalized market. As a system that penetrates and influences employment relations (employer-worker), industrial relations (state-employer and state-worker), and labor market (business-consumers), "a proper" intervention of the state in the system sets the rule of the game and expectations in that particular market, which in turn should mitigate any sense of uncertainty, especially following a devastating financial crisis.

More specifically, these are the summary of attempts of state leaders to address the three areas of market governance after crisis in each country. In Indonesia when the financial crisis hit, it became obvious that Suharto's family had been taking financial advantage from public positions (like cabinet members and top-rank generals in the military) and business deals involving public funds while violence and political repression threatened opposition forces. It became clear that President Suharto had prepared the way to keep his presidency for yet another round.[189] The announcement that Suharto had won the March 1997 presidential election quickly triggered political unrest leading to days of rioting and student demonstrations ending in his resignation and the installation of his "apprentice," Vice President Habibie, as President.[190]

The political uncertainty in Indonesia did not subside even in the years after free elections (the first since 1955) were held in 1999. The start of democracy was shaky following the impulsive style of President Abdurrahman Wahid and the rocky

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[189] Bertrand (1997).

[190] For some chronology of event leading to President Suharto's resignation, see for instance Colin Johnson (1998), Robison and Hadiz (2004, p.164-183).

relationship he had with Vice President Megawati Sukarnoputri.[191] The transition towards understanding what it means to be an opposition, the looming charges of corruption which allegedly involved even President Abdurrahman Wahid, and the so-called *tebang pilih* (selective) prosecution over corruption allegations generated an uneasy feeling about the prospects for democracy. People became open in longing for the period of social order under President Suharto where there is a sense of a leader with more ability to handle problems.[192] Hearing what people say, there was a sense of frustration and concern about the level of corruption in policymaking. There was greater understanding both about how poor the existing system is in handling corruption and how controversial it would be to develop a new system and practices.

The social security reform reveals that the toughest challenge to creating cleaner governance is, ironically, the search of the ruling state leaders to protect the autonomy of the state from outside pressure. Seeing the crisis as a failure to contain the negative impact of market pressure, Indonesians become increasingly critical of the inability of the state to provide a social cushion. At the time when the newly democratic party system is fragmented, elections are expensive and yet there is no source of campaign income for parties or candidates, illegal funding such as that from JAMSOSTEK allegedly became the alternative.[193] As political competition intensified, so did the competition to secure

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[191] Liddle (2000).

[192] The survey from LSI (Indonesian Survey Institute) as cited by Qodari (2005).

[193] The rules outlaw political parties from receiving funding from foreign sources, anonymous sources, state owned corporations at national and local levels (including JAMSOSTEK, which is a national level state-owned corporations). Parties are also not allowed to own businesses or shares of businesses and the maximum contribution is Rp 200 million per year per individual or Rp 800 million per year per business unit (roughlyUS$22,000 and US$88,000 respectively). The rules and requirements for political parties concerning financing of election activities are available through the Election Commission (KPU), retrieved January 18, 2007 from http://www.kpu.go.id/wacana/lihat-dalam.php?ID=14&cat=Wacana.

"alternative funding" for political purposes.[194] When the economy was down and a president needed to deliver an upbeat state of the union address, money from JAMSOSTEK was reportedly used to boost the stock market and created a sense of market confidence in the administration.

The greatest cynicism was toward the lucrative symbiosis between state leaders, especially the incumbents, and bureaucrats. While at the beginning of the reform these two groups of stakeholders did not appear to be directly affected by the reform, it became obvious that the funds collected through social security schemes and the agencies that do the collecting meant a great deal to them. The funds are important source of the state budget as a portion of the dividends from social security investments would automatically go to it.

For a country highly critical of "neocolonialism" imposed through foreign loans and accommodation of multinational capital, such an instant domestic source of revenue is relied upon. By the way the board of commissioners at JAMSOSTEK is appointed, how the career bureaucrats are promoted or excluded, and how JAMSOSTEK is positioned in the power hierarchy, the social security scheme provides easy access to liquid funds for political parties and their affiliated state leaders as well as a potential source of credibility to state leaders. In short, in Indonesia the step taken to protect the autonomy of the state was the tapping of profits from the investment of, and the lack of public control over, the social security funds.

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[194] Indeed such danger for corruption is predicted by Samuel Huntington (1968, p. 59) who said that "corruption is…one measure of the absence of effective political institutionalization" and that in such cases public officials "subordinate their institutional roles to exogenous demands".

Concerning worker-employer relations, the state leaders in Indonesia chose to enhance control. The market governance mechanism for providing incentives and punishment is rather messy, however. These policy items are only partly intended and the benefits could barely be felt unless one evades the responsibility to participate in an honest way in the statutory social security schemes. With the goal of giving workers more generous benefits such as severance pay and paid leave and deterring employers from laying off workers, the state leaders ended up putting more financial burden on employers which in turn became an excuse to violate those regulations.

In fact, with the resistance of the state to enforce social security collection, state leaders ended up giving incentives to employers to evade responsibility or to cheat. The minimum social security benefit became a punishment instead of an incentive because both workers and employers ended up not counting on getting any return from their contribution. There were consistent comments that the social security contribution is mere taxation. Other punishment mechanisms also targeted primarily the workers, seriously hindering employment creation thanks to the high cost of businesses operating in Indonesia. As a result, many businesses, especially small ones, went bankrupt.

All of these effects are the consequence of the ignorance of certain cabinet members about the policy terrain. With the "tradition" of picking political party representatives as cabinet ministers, it is quite common to see ministers competing for public attention or the attention of the President at the expense of producing workable policy. This is possible because there is practically no coherent development policy in any of the post-Suharto administrations. All presidents have basically asked newly-appointed cabinet members, without practical experience, to come up with new policies in their areas. The result has been "*tambal sulam*" policies or policies that patch but do not fix problems.

It is obvious that market governance in Indonesia is aimed to restore certainty for all stakeholders. The state leaders attempt to do this by establishing regulated competition with state-owned corporations as the pillars, bureaucrats as the biggest supporters (if not cronies) of state leaders and state leaders as the mastermind regulators. State leaders initiate various laws or amendments and issue executive orders or ministerial decrees.

Indeed during the democratization period, laws were still mostly initiated by state leaders including cabinet members while keeping the laws general (if not vague). A law therefore cannot take effect until subsequent executive orders are issued to detail the implementation process. Amendments to the law that draw public controversy, such as the amendment to Law No.13/2003, also end up withdrawn and substituted by the releasing of new executive orders. The state leaders clearly want to make sure that their hands are the only ones on policymaking and that creation of the regulations secures certainty in economic and political activities.

In the Philippines, when the financial crisis hit, the country had just recovered economically from years of financial draining due to the rampant corruption of former dictator President Ferdinand Marcos. During the administration of President Fidel Ramos, the Philippine economy grew 5.1% annually, which is high relative to the average 4.2% growth in the past three decades.[195] His was the time period when a

[195] On the achievements and policies under President Ramos, see for instance Institute for Popular Democracy (1998).

development agenda could gain attention again after six tumultuous years under President Corazon Aquino. There was a lot of hope under President Ramos including continuous political stability.[196]

With President Ramos' goal to achieve "total human development" for every Filipino, including poverty alleviation and social reform, the public eye was on the problems within the existing social security systems and agencies. As specified in Chapter 6, there was an understanding that the life of the SSS fund was in danger and yet with economic growth the commitment was to give more to the people, hence the SSS benefits were improved. Indeed the public eye then was on the increasing poverty and helplessness due to economic limitations.

The rise of Joseph Estrada, a movie star who often plays a version of Robin Hood, gave hope that after years of lucrative practices of oligarchic business families, a President would pay sincere attention to the poor. His campaign message was "*Erap para sa mahirap"* (Erap [his nickname] for the poor). This hope crumbled quickly following numerous reports of corrupt activities in *Malacañang*.[197] The impeachment of President Estrada was followed by the People Power II movement that ended up "escorting him" out of office.[198] Vice President Gloria Macapagal-Arroyo was then sworn into office but she too was caught in problems, especially following her controversial election victory in 2004. Attempts to oust her from office have been halted thanks to her majority support in

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[196] Thompson (1996).
[197] See for instance Coronel (2000, 2001), Tordesillas (1999).
[198] Lande (2001).

Parliament and her various policies to suppress protests. Dislike toward her administration, however, is a common subject among Filipinos and in newspaper columns.

Social security reform in the Philippines is one policy that has generated leeway for the state leaders. It is the policy that balanced the increasing liberalization and deregulation of the Philippine economy after President Ramos. It sends the message that the Philippines is retaining its autonomy from the global market. Social security programs are offered as programs that will cushion workers from the market. Overseas workers, for instance, have recently been enrolled to protect them while working abroad. Practically speaking, the expansion of social security coverage and benefits allows the Philippine state leaders to intensify the activities of tax generation that among others takes advantage of the appeal of gambling activities.

PAGCOR (Philippine Amusement and Gambling Corporation) and the PCSO (Philippine Charity Sweepstake Office), two corporations under the Office of the President of the Republic, helped the government generate money for the financing of free health cards from PhilHealth and to develop a raffle program that induces businesses as well as consumers to ask for purchase receipts so that sales taxes will be paid. The inclusion of more workers, including lower income ones, in the social security program is also another way of generating revenues which in this case are used to extend the life of the SSS and generate funding for various social protection schemes within the SSS. As specified in Chapter 6, the intensification of tax collection for social security needs also allows for the intensification of tax generation for state budget needs. In a country where the budget deficit reaches no less than 175%, the ability to generate revenues helps restore the credibility of the state.

To maintain worker-employer relations, the Philippine state leaders apply incentives and punishments to private sector actors. For both workers and employers, the incentive is the improved social security benefits (both from the SSS and PhilHealth), hence a better return for their financial contribution. The specific incentive for employers also includes the agreement of the state to postpone any move that would limit or eliminate flexibility practices of employers operating in the Philippines. There are also measures to catch the workers who are outside formal employment, for instance the members of cooperatives, and if they are poor, the free PhilHealth cards. This is important in an economy facing continuous political turmoil and with a deep income gap. By allowing contractual employment to grow, the state prevents and reduces unemployment. Meanwhile the punishment mechanism used in market governance is poor working conditions, which especially puts pressure on workers. This negligence on employment security makes it more difficult for workers to oppose other stakeholders

It is obvious that market governance in the Philippines is aimed at putting more financial and service opportunities in citizens' hands, that is through the various social security schemes. This is their way of restoring certainty for all stakeholders. Such an expansion of opportunities simultaneously generates revenues for the state's social project, which is critical in a country where no less than 40% of the population lives below the poverty line, and secures a predictable yield from employers' and workers' contributions to the social security schemes. The tumultuous political arena in the Philippines, which almost always involves popular protests and movements, suggests that state leaders can no longer afford abandoning people's need for social cushioning from the market. This is the form of certainty that both workers and employers can count on.

In Singapore political stability was not an issue but the negative consequences of economic downturn post-crisis, such as the increase in the unemployment rate (from 2.4% in 1997 to 3.2% in 1998, the highest since 1989) and the troubled service industries of wholesale and retail trade, hotels and restaurants, and financial services, invoked an uneasy feeling in the ruling state leaders. Public relations were launched to assure people that the ruling Political Action Party (PAP) is doing everything it can to take care of the problem. Singapore was also badly affected by the mysterious Severe Acute Respiratory Syndrome (SARS). SARS kept 2003 GDP growth in Singapore to just 1.1%, much lower than the predicted 3-5%.[199]

Social security reform in Singapore reveals that its market governance is based on the anchoring of workers' economic insecurity and employers' decisions on the labor market to the state-controlled CPF. CPF, the social security agency, is the tool to secure Singapore's autonomy in the global market. It helps the state stand tall vis-à-vis the multinational corporations operating in the country. With Singapore Inc. still active in leading the economic development effort in Singapore and with the same state leaders leading the political arena, Singapore finds it useful to employ a seemingly non-political agency like the CPF in its effort to strengthen the basis of market governance.

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[199] Rodan (2005).

With its high enrollment rate, its knowledge about the spending (withdrawal) habits of Singaporeans, its record-keeping on savings and assets of Singaporeans, CPF becomes a giant regulator of every action taken by individuals operating in the country. The access to people's funds and information is an everlasting source to secure compliance, for better or for worse. Therefore in Singapore the autonomy of the state is protected by further activating the CPF as a means to generate funds from workers and employers (including from multinational companies).

To maintain or enhance control over worker-employer relations, the state in Singapore provides incentives for both workers and employers. Social security benefits are improved. The introduction of a choice for workers to invest in shares enhanced the exposure of Singapore's businesses abroad and allowed workers to increase their return outside the guaranteed interest rate of the CPF. Specifically for workers there are schemes designed by the state to distribute "the fruit of economic growth" that provide cash or shares to members who agree to pay a certain amount of matching contribution to their CPF Accounts. For employers, there is an additional incentive that is the lowered contribution rate to the SSS. The cut in the employer contribution rate was among the first immediate reactions to the economic downturn. The contribution rate of employers was cut from 20:20 ratio contribution of employer and worker to 10:20 on January 1, 1999. The rate of employer contributions to the CPF became 12% and 13% in 2000 and 2003 respectively, while the worker contribution remained intact at 20%. With the cut, employers were reportedly saving billions of dollars and were able to keep jobs in Singapore.

The punishment mechanism for market governance through CPF is especially tough on workers. Argued as a necessary step to nurture people's sense of responsibility, workers now need to secure an increasingly high amount of money in their CPF accounts before they can withdraw any for contingencies. For this reason workers need to work and work, even to their old age. It was even discussed in Parliament that probably Singapore needs to scrap the notion of retirement age altogether since most Singaporeans cannot afford to relax in their "golden age" due to insufficient savings in their CPF accounts.[200] In short, the certainty in economic and political activities in Singapore is secured through the improvement of Singapore Inc where companies are enticed to keep operating within its boundaries, the government-linked companies profit and expand, the workers are productive, motivated and have little room to do otherwise.

From the variations in the social security reform process in Indonesia, the Philippines and Singapore, there are at least two additional lessons to mention. First, in order for a reform to work and be endorsed by the stakeholder, any change must not forget the compensation for all the stakeholders, especially those whose financial situation would be compromised. The reform in Indonesia is a case in point where the incentive part is so weak that the outcome of the reform idea can barely sustain the compromises during the reform process. With the economy under pressure post-crisis, no one wants to risk losing jobs, losing their source of income and losing the chance to enjoy the fruit of their savings. Second, the symbiosis between the state leaders and bureaucrats mostly does damage to the private sector. Probably Singapore is an exception simply

[200] *Straits Times,* March 12, 2003.

because the fate of the state leaders turns on the success of the economy. Like a CEO, the Prime Minister relies heavily on the positive performance of Singapore Inc. The leaders therefore stake their power (and the associated privileges) on the symbiosis.

To sum, the correlation between the explanatory variables, see Table 3.8. It is necessary to note here that the two-by-three table is made to help make the theory more clear-cut. What happens in reality is of course more dynamic than this. As reflected in Figure 3.2 and even more clearly in the case study chapters, the stakeholders have their eyes on the flow of money and who benefits from it. The employers and workers are critical about how much they earn in return of their investment in social security and how is that return affected by the degree of symbiosis between the bureaucrats and the state leaders. Meanwhile the state leaders and bureaucrats too are critical about how much they “earn” from the social security and how to maintain, if not enhance, “the earning” given the implementation of certain policy to employers and workers.

Intensity of Symbiosis between SS Agencies' Bureaucrats And State Leaders / Expectation of Conduciveness Of Econ. Environment	Low (Relatively Independent Leadership & Management)	High (Relatively Dependent Leadership & Management)
Low (skeptical)	Somewhat higher benefit, weaker state's political control (possibly Thailand)	Lower benefit, stronger state's political control (Indonesia)
Medium (hopeful)	Higher benefit, weaker state's political control (Philippines)	Somewhat higher benefit, stronger state's political control (possibly South Korea)
High (optimistic)	Higher benefit, weaker state's political control (possibly Japan)	Higher benefit, stronger state's political control (Singapore)

Table 3.8: The Impact of Reactions from Stakeholders to Reform Output

The correlation between the variables could actually work for other cases like South Korea, Japan and Thailand. These countries also have undergone social security reform after the 1997 financial crisis. Obviously closer attention to the political economy of social security reform in these countries, with interviews of stakeholders, would be needed to confirm this hypothesis. Yet at least existing research on these countries suggests a pattern of similar findings.

Thailand's earliest attempt to establish social insurance can be traced back to 1932. But the plan never materialized until the Thai government adopted the revision of the 1954 Social Security Act in 1990, which was put into effect in March 1991. Since then the schemes have expanded from only sickness, maternity, disability and death benefits[201] to include a pension and child allowance program (in 1998) that is partially defined-benefit and partly provident fund, the famous low-cost healthcare program called “the 30 baht Health Program” (in 2001) and the unemployment benefit program (in 2004) which allows laid-off workers to receive an allowance of 50% of wages for a maximum of 180 days within 1 year.

With the reform, the actual contribution rate for the pension program has increased from 2% (employer 1% and worker 1%) to 4% (employer 2% and worker 2%) in 2000 and 6% (employer 3% and worker 3%) in 2003. The benefit formula has been improved[202] and with the 30 baht healthcare now almost 80% of Thailand’s population of 62 million benefit from affordable healthcare.[203] Some scholars have argued that the piecemeal approach was a reason for success.[204] With limited writing on social security reform in Thailand, so far there is hardly any indication of low independence of social security agencies in Thailand from the state. The expectations of employers and workers would be subject to how badly the economy was hit by the financial crisis (and Thailand was among the hardest hit).

In South Korea, the social security reform started as early as 1988 with the adoption of the National Health Insurance system. After being hard hit during the Asian financial crisis, Koreans realized that their existing system did not help those who lost jobs and work in the non-formal sector. The government then launched several temporary public works projects, extended the Employment Insurance Program, created a new

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201 Ramesh and Asher (2000, p. 60).
202 Kanjanaphoomin (2004).
203 Corben (2006).
204 Tangcharoensathien, Wibulpholprasert, and Nitayaramphong (2004).

public assistance program called "the Minimum Living Standard Guarantee" for the elderly living below the poverty line. The reform has been viewed as biased towards economic development,[205] suggesting that some concessions might have been made to appease employers in order to secure employment creation. Being one of the most competitive economies in the world, having clawed its way up to become a member of the prestigious Organization for Economic Cooperation and Development (OECD), in an environment where corruption has arguably been rampant, I expect South Korean employers and workers to have a hopeful attitude on the economic environment. Although little has been written about any lucrative ties between social security agencies and the state, one might expect the corrupt economic environment to spill over to the social security provision arena.

Japan is the case in Asia that has long puzzled scholars. Students of comparative welfare states view Japan as an advanced industrialized country and therefore study it using the tools of analysis used to study the advanced industrialized countries in the West.[206] But that approach has not yielded a satisfactory result, so students of the region have attempted to develop an analysis based on comparison with Asian countries.[207] With my theory, one can see that unless an economy in Asia generates optimism from employers as Japan does, with social security agencies managed professionally (i.e. with high independence from the state), it would be difficult to have a social security system with higher benefits, higher employment creation and weaker state political control over the private sector actors.

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[205] H. J. Kwon (2005b).
[206] Esping-Andersen (1990).
[207] Goodman, White and Kwon (1998).

CHAPTER 4

INDONESIA I: PROPOSING REFORM

4.1. Overview

Few might consider Indonesia a proper case for a comparative study of social security reform. Indonesian intellectuals have had little interest in it and there is virtually no academic research. Exploring it, other scholars often refer to the relative size of public spending and population coverage, the public's skepticism and the negative labeling as a turn-off for intellectual exchange. This is unfortunate.

After the 1997 crisis, Indonesia opted for a social security reform that erodes the benefit level of workers and employers and at the same time strengthens the political power of the state leaders over workers and employers. Under the pressures of the increasingly uncertain and competitive market economy, Indonesia opted to use the social security system and its agencies as a secure source of extra finance for the state budget and state leaders.

By introducing a highly dramatic change, i.e. the merger of all social security agencies under the one roof of DJSN (*Dewan Jaminan Sosial Nasional,* Indonesian National Social Security Council), the transformation of the legal status of the agencies that would stop the flow of agents' dividend-sharing with the state, and the inclusion of the poor as additional beneficiaries of the system without a clear mechanism of financing it, the Indonesian government adopted a reform that created severe resistance and skepticism from the stakeholders. The reform consequently goes half-way only but it already erodes the benefit level of workers and employers, which in turn strengthens the political power of the state.

The reform also introduced some measures that jeopardize employment, e.g. the rigid rule for hiring and firing but with poor enforcement, which further deteriorates the bargaining power of workers and employers vis-à-vis the state leaders. With the reform half-way implemented, low benefits and poor employment conditions, the social security reform allows for the securing of the system as the cash-cow for the state and the few state leaders who know how to benefit from the situation.

Discussion of the Indonesian case is divided into two parts. This chapter describes the existing social security system, the reform idea and the introduction of the idea post-crisis. The subsequent Chapter 5 elaborates the reform proposal, the reactions from the stakeholders, and the unfolding of the reform process.

4.2. Introduction

Indonesia is the world's largest archipelago with the world's fourth largest population of 220 million. After its independence from the Dutch and Japan on August 17, 1945, it experienced a turbulent period of revolution, a brief period of parliamentary democracy in 1955 to 1959 and then six years of dictatorship under the first president, Sukarno, and another thirty-two years under President Suharto. The tumultuous years of

1996-1997, which challenged the country's economy and politics, were followed by demonstrations and violence that led to the ousting of President Suharto and his New Order authoritarian regime.

Since 1999, Indonesia has been a liberal democracy. In 2004 Indonesians for the first time elected their chief executive and a vice president in a direct election. Democracy, however, is still in its infant stage. The first elected president after the 1999 election, Abdurrahman Wahid, had to cling to power and was eventually ousted through impeachment due to allegations of misuse of funds but most importantly due to his failure to satisfy the political parties that brought him into power. The rise of Vice President Megawati Sukarnoputri as his replacement received close public scrutiny; she too had to struggle to keep her head above water. Her capability as a leader was questioned most of the time and she had to fight for popularity during the 2004 presidential campaign. Megawati lost her bid for the presidency to Susilo Bambang Yudhoyono, a retired army general with a reformist record in the military.

The social security system in Indonesia is almost as old as the republic itself but its development was very slow in its early years. Historically the social security system in Indonesia began as healthcare protection for labor (blue-collar workers or *buruh*) under Regulation of the Labor Minister No. 48/1952,[208] amended to Regulation of the Labor

[208] I need to note that in Indonesia the word "labor" is literally translated as *buruh,* which specifically refers to blue-collar workers. The use of certain term such as "labor" suggests lenience towards a certain ideology. This is especially true in the period before 1999. Earlier in the history of Indonesia workers movement was associated with the working class movement, which would mainly consist of people working in factories, mines or other manufacturing industries who were symphatizers of the Leftist (namely Communist) ideology. In general, politicians and analysts do not use the term "labor" interchangeably with "worker" as they suggest different groups of workers with different degrees of militancy. This is why for the case of Indonesia I choose the word "worker" *(pekerja)* or "manpower" *(tenaga kerja*) instead of

Minister No. 57/1957. This regulation specifies the benefits provided to labor, which include services in polyclinics and assistance during illness, pregnancy, baby delivery and death.

In 1964, healthcare protection for workers was revised as Regulation of the Labor Minister No. 3/1964. This time the changes were threefold. The target of the program now includes the workers in general (not just the blue-collar workers) and their dependents (spouse and children). Second, a social insurance principle is adopted to run the program, which includes insurance against illness, pregnancy, baby delivery and death. Third, a social security institution, the Social Security Fund Foundation, was formed through the Decision Letter of the Labor Minister No. 5/1964.

Soon after Indonesia's second president, Suharto, stepped into power, the Labor Ministry underwent some changes and became the Department of Manpower. The previous regulations on social security were revised as the Regulation of the Manpower Minister No. 3/1967; on 19 November 1969, a manpower code, Law No. 14/1969 was adopted.[209] This law mentions the responsibility of the state to enhance efficient, effective, productive manpower and the rights of workers, from physical security in the workplace, strikes and lock-outs to social security and assistance for workers and dependents. In 1977 a state-owned corporation, Perum ASTEK (*Perusahaan Umum*

"labor". After all, in the period after 1999, workers movement includes both the blue and the white collar workers.

[209] This law defines manpower or worker as "every one who is capable of working, both in and out of employment relations, in order to produce goods or services to meet the demand of the society".

Asuransi Tenaga Kerja, Public Corporation for Manpower Insurance), was formed as a social security carrier for programs that target non-civil servants and non-military workers. This became the initial foundation for the current social security system.

In 1984, as stipulated in Presidential Decree No. 21/1984, ASTEK expanded its membership and its programs to also include healthcare insurance, old-age insurance and severance-pay security. The contribution rate and types of benefits were adjusted in the Regulation of the Manpower Minister No.Per.02/Men/1984. With regard to the provision of healthcare benefits for workers, the collection and allocation of funds was regulated in a Joint Letter of Decision between the manpower minister and the health minister, No. KEP-235/MEN/1985 and 114.MENKES/SKB/III/1985. This letter stated that the manpower minister is responsible for organizing the flow of funds while the health minister is responsible for the types and quality of healthcare services. By 1992, Perum ASTEK became PT JAMSOSTEK (*Perusahaan Terbatas Jaminan Sosial Tenaga Kerja*, Manpower Social Insurance Incorporated).

As for the workers in government offices and in the military, the first scheme of social protection was in the form of old-age insurance TASPEN (*Tabungan Asuransi Sosial Pegawai Negeri*, Civil Servants' Social Insurance) for civil servants and ASABRI (*Asuransi Sosial Angkatan Bersenjata Republik Indonesia*, Indonesian Armed Forces' Social Insurance) for military officers. TASPEN was officially formed on 17 April 1963 in Bandung, a city about 116 km south of the capital city Jakarta.

ASABRI was formed in Jakarta in 1971. Meanwhile the healthcare insurance program for civil servants and military officers began with the formation of BPDPK

(*Badan Penyelenggara Dana Pemeliharaan Kesehatan* – Executing Agency of Health Maintenance Funds) headed by Professor Siwabessy in 1968 as stipulated in Presidential Instruction No. 230/1968. The BPDPK was then transformed into Perum Husada Bhakti (State Corporation Husada Bhakti) in 1984 according to Government Regulation No. 23/1984. In 1991, Perum Husada Bhakti enhanced its membership to include veterans and pioneers of Indonesia's independence. In 1992, this agency was transformed into PT ASKES (*Perusahaan Terbatas Asuransi Kesehatan*, Health Insurance Incorporated).

Therefore in terms of the statutory social security programs, Indonesia currently provides cash for pension, work-injury-related disability, death and in-kind service for work-injury and healthcare (inpatient and outpatient). Employers in the private sector may opt out of the state-managed JAMSOSTEK healthcare scheme if their companies enroll workers in a private insurance program that provides better benefits.[210] The country's management of social security is divided into four agencies: JAMSOSTEK for private sector workers (which until 1992 was known as ASTEK), ASKES for the healthcare program of civil servants and military, TASPEN for the pension program of civil servants and ASABRI which is responsible for the pension program of the military.[211]

These agencies have always been state-owned corporations (*Badan Usaha Milik Negara,* BUMN), but in the past each was a Perum (*Perusahaan Umum,* public

[210] This is captured in the Regulation of Manpower Minister Permenaker No. 01/1998 on the Provision of JPK (*Jaminan Pemeliharaan Kesehatan*, Healthcare Service Benefit) with Better Benefits.

[211] In addition to these four schemes, there is also another publicly managed insurance program for the general public named Jasa Raharja. PT Jasa Raharja, the state-owned corporation that runs the program, collects public funds from passenger tickets or highway users that will finance hospitalization, disability and death benefits upon passenger accidents or road traffic accidents. The execution of this is regulated through Law No. 33 and No. 34 of 1974 respectively. Since this scheme targets specific users and is not related to employment or industrial relations, I exclude this from my analysis.

corporation) meaning that they did not seek profit, solely served public needs and whose capital was 100% state-owned. As of 1992, the legal status of these agencies became PT (*Perseroan Terbatas,* corporation) which means that now the capital is divided into shares and the majority belongs to the state, they seek profit and channel a portion of the profit to the national state budget while still serving the public needs.[212] Table 4.1 provides a summary of the available programs, administrators, contributions and benefits of the statutory social security system in Indonesia.

Participants	Scheme/ Adminis-trator/Current Law	Program	Contribution rate			Benefits
			Worker	Emplo-yer	Govern-ment	
Private sector workers	JAMSOSTEK /PT JAMSOSTEK / Gov.Reg. No. 33/1977 enacted into Law No.3/1992	Old-age insurance	2%	3.7%	-	A lump sum benefit based on accumulated savings of w & e with interest minus costs (operational including fees, dividend to the state, tax)
		Work injury, disability and death caused by work accident	-	0.24%to 1.74% depen-ding on sector of work	-	In kind transportation, medical service, medicines, hospitalization, and cash benefit for disability and death allowance
		Death before retirement	-	0.3%	-	A fixed lump sum cash of Rp 6 million or roughly US$ 645 (Rp 5 million for allowance, Rp 1 million for funeral)
		Healthcare	2% only for SOCs workers, or else 0%	3% (single) or 6% (with family)	-	A fixed value of in kind ambulatory care, maternity, hospitalization, emergency care

Source: Tambunan and Purwoko (2002, p. 31-32) – modified, PT JAMSOSTEK (2004), PT TASPEN website (http://members.bumn-ri.com/TASPEN/index.html), PT ASABRI website (http://members.bumn-ri.com/ASABRI/), PT ASKES website (http://members.bumn-ri.com/ASKES/).

Continued

Table 4.1: The Statutory Social Security System in Indonesia

[212] For more about the definition and tasks of State-Owned Corporations in Indonesia, see Law No. 19/2003.

Table 4.1 continued

Civil servants or government employees	TASPEN/ PT TASPEN/ Gov.Reg. No.10/1963 revised into Gov.Reg. No. 25/1981 Also Civilian Presidential Decree No. 8/1977	Old-age insurance	3.25%	-	-	A lump sum cash at retirement age, also term insurance and cash surrender value before retirement (in time of death or laid off before reaching retirement age)
		Pension	4.75%	-	State budget	A monthly cash pension, widow pension, orphan pension
Military officers	ASABRI/PT ASABRI/ Gov.Reg.No. 44.1971 revised into Gov. Reg.No.67/ 1991 Also Civilian Presidential Decree No. 8/1977	Old-age insurance	3.25%	-	-	A lump sum cash at retirement age, also term insurance and cash surrender value before retirement (in time of death or laid off before reaching retirement age)
		Pension	4.75%	-	State budget	A monthly cash pension, widow pension, orphan pension
Civil servants and military officers	ASKES/ PT ASKES/Presidential Decree No. 230/1968 revised into Gov.Reg.No. 69/1991also the Decree from the Ministry of Defense and Security	Heathcare	2%	-	-	Comprehensive Healthcare (including lab tests, major surgeries and dialysis)

Specifically for the JAMSOSTEK programs for private sector workers, contributions are first collected by the employers; employers then remit to PT JAMSOSTEK. According to a manager at PT JAMSOSTEK, upon receiving the fund PT JAMSOSTEK will collect all in one account and then divide it into two: 1) the old-age account and 2) the non-old age account that is comprised of the work injury, death and healthcare programs. Each of these accounts is managed separately.

The total from both accounts will be deducted for operational cost, tax, and a reserve that will be invested. A portion of the profit of the investment will first be allocated for the dividend payment to the government and the rest for the improvement of programs (it might be for beefing up the interest or benefit level or to finance various other programs as PT JAMSOSTEK sees necessary). The old-age account is basically a provident fund where the lump sum benefit is an accumulation of workers' and employers' contributions until the retirement age of 55 plus some interest.[213]

There are two differences between JAMSOSTEK's provident fund and its Singapore counterpart, which is the more typical arrangement. The linkage between individual contribution and benefit is less direct because of an absence of individual accounts for workers. Workers consequently cannot withdraw their money according to their own timetable. Second, the state is the major shareholder in PT JAMSOSTEK despite its lack of financial contribution. This makes the state the primary beneficiary. Dividends will first be channeled to the state and only the remainder goes to workers. In Singapore the state has a history of providing trust funds to be developed by the CPF (the social security agency).

Meanwhile the benefits for civil servants and military officers are managed using the social insurance principle of pay-as-you-go. Yet unlike the typical public social insurance where benefits include a matching contribution from the state for every worker, in ASKES, TASPEN and ASABRI the contribution from the state comes in the form of a certain fixed amount of capital investment like the last injection of Rp 2.5 billion

[213] The regulation does not specify the rate of interest; it just says that some of the profit earned from fund investment will be added into the accumulation of contributions. See article 18 of Government Regulation No. 22/2004 on "The Management and Investment of JAMSOSTEK Program Fund".

(roughly US$ 268,000) to PT TASPEN.[214] In ASABRI, the state through the Department of Defense and Security in 1971 provided Rp 253 million as a start-up fund (for the development of the office, operational cost, and paying the first claims). In December 1992 the state through Government Regulation PP No. 68/1991 promised another Rp 125 billion, but until March 1998 only Rp 90 billion was received by PT ASABRI.

The social security statute stands together with the minimum wage policy, the government's effort to provide income security. In Indonesia the minimum wage refers to the lowest basic wage plus permanent allowances, where the basic wage must be at least 75% of the minimum wage. Until the reform in 2003, the minimum wage was fixed based on the calculation of total minimum physical need (*kebutuhan fisik minimum*), cost of living and labor market condition of a single (non-married) worker.[215] Every region and sector has its own minimum wage. The practice began in the early 1970s where the minimum wage level was determined separately at the regional level.

On 29 May 1989 the Minister of Manpower issued a regulation Per05/Men/1989 which divided the minimum wage into three criteria: the regional minimum wage (*upah minimum regional*), the regional sector minimum wage and the regional subsector minimum wage. In its development, these wage standards are further divided into the provincial minimum wage (*upah minimum propinsi*) and the city/sub-district minimum wage (*upah minimum kota*) which are determined once a year through a decision of the

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[214] This is captured in the Government Regulation No. 5/2000 that was signed on February 21, 2000 by President Abdurrahman Wahid.
[215] For a good introduction of labor market policy in Indonesia, including wage, see Agrawal (1995).

governor at the provincial level. The 1989 regulation also requires the minimum wages to be reviewed at least every two years. A 1990 decree requires the minimum wages to be adjusted once a year in proportion to the consumer price index.

In 2003 the regulation on the minimum wage was modified. The new manpower code, Law No. 13/2003, mentioned the need for all employers to abide by the minimum wage requirement. The changes are twofold. First, the standardization is now done at the national level through the National Wage Council *(Dewan Pengupahan Nasional)*.[216] Second, the minimum wage standard is enhanced based on the total cost of the Components of Minimum Decent Life Needs (*Komponen Kebutuhan Hidup Layak)*, which is based on price surveys of the physical, non-physical and social needs of a single (non-married) worker for a month.[217]

In addition to this measure to secure income, there is also a measure that is intended to secure employment. It is supported (or eroded) by the manpower code. Although employment security depends somewhat on wage compensation, meaning that the more expensive the labor cost the less secure employment becomes, the critical component of employment security is actually not the cost of labor *per se*. Instead, what matters is the flexibility for operating in a market, i.e. the flexibility to enter, exit, hire,

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[216] The formation of the National Wage Council is stipulated in Presidential Instruction No. 107/2004 signed by President Megawati Sukarnoputri and the Regulation of Manpower Minister PER-03/MEN/I/2005 signed by Minister Fahmi Idris. The Council consists of 23 people (10 representing the government, 5 representing workers, 5 representing employers, 3 representing experts or academics).

[217] See the Regulation of Manpower Minister PER-17/MEN/VIII/2005. The social needs here include the ability to set aside a portion of the wage for saving.

fire, and to provide wages and benefits as the employers see appropriate. Employers argue that inflexibility in business operations reduces the conduciveness of the business environment.[218]

Before the adoption of Law No. 13/2003, employment was not necessarily secure but it was relatively more secure than after the law was enacted. Indonesia is infamous for long inefficient procedures for setting up businesses, for firing workers and exiting the market upon bankruptcy or business rationalization. With this new manpower law, the inflexibility for business is not alleviated yet the restriction on firing was tightened. The toll of this, unfortunately, is employment security. Employers choose to hire workers based on short-term contracts which could be renewed depending on workers' or company's performance.[219]

With this combination of measures, the social security system has a lesser reputation among Indonesians. The statutory schemes cover only a fraction of people working in the formal sector (see Table 4.2) and are known for their unreliable and small benefits. There are documented cases of people trying to use their JAMSOSTEK or ASKES card in public hospitals who were denied, delayed or received less than

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[218] This viewpoint is confirmed in the report issued by the World Bank, the International Finance Corporation and Oxford University Press, see The World Bank and International Finance Corporation (2004, 2006).

[219] Two top-managers of private banks and a worker and unionist from the banking sector, interviews.

satisfactory service.[220] Others learn that their benefits are less than what they are supposed to be because their payroll taxes are not remitted by the employers or their employers underreport their salary rate.[221]

The fact that benefits are not carried over through the unemployment period and to the new job caused workers to simply lose the money they have saved. The mounting allegations of misuses of social security funds, especially that of PT JAMSOSTEK, as elaborated in Section 5.3 of Chapter 5 add public skepticism. The system reform was pleaded for years but when it was finally launched and produced an output, enthusiasm is still absent. The more ironic part is that less than two years after the reform, there are demands for another reform; demands that in the past had been contested.

The brief summary of the reform process is this. The idea for social security reform was first welcomed by businesses and workers. Yet as the reform unfolded, the discrepancy of expectations among stakeholders on what the social security reform would achieve and the disagreement over the measures taken in the reform deepened. The ruling state leaders had agendas of their own which included the maintenance of the state's financial resources from the private sector and the capturing of certain strategic non-departmental posts to support the activities of certain political groups or individual politicians.

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[220] For instance: 200 workers of Perum PPD (a state-owned bus company for Jakarta) demonstrated in front of PT JAMSOSTEK because there were workers going to listed hospital with the JAMSOSTEK health card and were denied ("Awak Bus PPD Mogok Kerja", 2005). Earlier in 2002, workers from the textile, clothing and leather union federation expressed disappointment over what they called terrible healthcare service of PT JAMSOSTEK and rated it as the worst service of PT JAMSOSTEK ("SP-TSK kecewa pada JAMSOSTEK", 2002).

[221] The most recent case includes the allegation of the non-submission of workers' Jamsostek contribution by their employer PT Cakrawala Andalas Televisi (Antv) for six months. The value of the workers' contribution was 2.4 billion rupiah. Antv is a private TV station. See among others "Enam Bulan Mengendap: Dugaan Penggelapan Dana Jamsostek Antv" (2005).

This agenda blinded the state leaders to the problems that businesses and workers had to deal with in their sectors and their expectations to stay in business. Meanwhile the bureaucrats in the social security agencies, especially those managing the private sector workers' fund, could not foresee themselves benefiting in the proposed new system where the agencies will be merged and their legal statuses become non-profit-oriented trust fund. They feared losing jobs, which actually means more than just losing an income. Losing jobs also implies losing the political protection from past mishaps and also losing the potential channel of influence in the government, which would be catastrophic not only for the individual bureaucrats but also for individual state leaders. Indeed there has been a "tradition" of sharing of safe haven between bureaucrats and state leaders through social security provision, which distorted the reform proposal significantly.

On the other end, businesses and workers clamored to improve or at least maintain their ability to meet their needs through financial certainty. Businesses that for the past five to six years have been suffering from lack of competitiveness in the global market, heavy government regulation and feeble domestic market environment following changes in the country's leadership were simply not interested in allowing for another *"x"* factor to jump into their equation of profit and survivability. The component of tax alone has eaten up at least 38.8% of business' gross profit. The recent increase in the price of electricity and fuel took more of the cost of production than businesses can handle.

This is not to mention the relatively high price to pay to the customs office every time businesses unload their trailers at the port, the long time needed to commute from one place to another and the relatively high cost of international phone calls. The refusal was based on an expectation that they will get nothing, or less than they are promised, and at the expense of their already stringent budget. Thus although the component of workers' wage only involved around 10%-11% of their expenditures and they want to provide social protection benefits for workers, businesses were not attracted to the idea of doing the reform according to the state's will.

The same concern was shared by workers. They regard the reform proposal as another way to collect more of their money without any clear return. Since the pressures upon businesses were also felt by workers through lay-offs, salary cuts and the increasingly common practice of temporary contractual-based hiring and the rising price of electricity and fuel have also eaten up a significant portion of their income,[222] workers were suspicious and skeptical towards the reform proposal. There was a clear sign of frustration among workers. Regardless of how they perform in the workplace and how good the level of demands for the product or service that their companies receive, they still need to struggle just to have ends meet. Their employers always have reasons to pass on more of the companies' burdens to them.[223]

The environment for private business in Indonesia is therefore troublesome. Even with a lot of spending, work, performance and compliance to state regulations, companies and workers still have to dig hard just to survive. This shaped the viewpoint of businesses

[222] There are roughly 60% of workers in the formal sector that are hired by contract, receive wages based on daily work and not eligible for severance pay or any enrollment in the Jamsostek. See Siregar (2006).
[223] Anonymous workers, interviews.

and workers on the kind of social security reform that is acceptable. As revealed by APINDO (*Asosiasi Pengusaha Indonesia*, Indonesian Employers' Association), the national association of employers in Indonesia, the employers want a separate contribution scheme and management of the basic needs of all citizens (that provides minimum wage, basic healthcare, basic education) and the other necessary social protection of interested members of the society (e.g. healthcare, work-injury, old-age and death, etc.). The provision of basic needs of all citizens should be compulsory, paid through the state budget, whereas the provision of other necessary social protections should be voluntary and managed as a trust fund of employers and workers (thus non-profit). They want PT JAMSOSTEK to be reformed into a trust fund.

Workers also want PT JAMSOSTEK to be reformed as a trust fund so that all profits will be channeled to improve benefits instead of improving the financial condition of the state or a few state leaders and bureaucrats. They also want employers to be more serious in enrolling workers in the JAMSOSTEK programs, and for the bureaucrats to stand up for workers when employers violate social security rules. Yet ironically the existing environment for private business and the tradition of sharing of haven between state leaders and bureaucrats places employers and workers in a disadvantaged position, allowing the reform to skew towards what the state wanted instead of what they wanted. The combination of the non-conducive economic environment and the relatively low independence of social security agencies from the state paralyzed both workers and employers, sucking financial resources from them at negative, often “deadly” rates of return. Such poor leverage puts them in a difficult position to initiate meaningful opposition, i.e. the opposition that could actually lead to better lives.

4.3. The Stages of Social Security Reform

On October 19, 2004, President Megawati Sukarnoputri signed Law No. 40/2004, the SJSN Law (*Undang-undang Sistem Jaminan Sosial Nasional*, National Social Security System Law). Under the law, health care, work accident, old age and death benefits are guaranteed for all Indonesian citizens. Social insurance and compulsory savings are the funding mechanism. By law the government is obliged to pay the premiums for those unable to pay, starting with the provision of healthcare benefits for the poor through PT ASKES. The law also states that the existing SSS carriers, PT JAMSOSTEK, PT ASKES, PT TASPEN and PT ASABRI will operate under the coordination of DJSN.

This law does not stand on its own. Earlier in 2003 a new manpower code was adopted: Law No. 13/2003. This law redefines employment relations for workers and their employers in the formal sector. It requires employers to abide by the minimum wage standard, regulates contracts and subcontracting, the various rights and benefits workers must get in the workplace, also the provision and amount of compensation that employers must provide upon any termination of employment. Among employers, this law is especially known for its rigid stipulation on the expensive severance pay.

Together these laws were supposed to cover all the ground for securing the rights of workers in Indonesia: statutory social security provision, income security and employment security. However, there are more disappointments and political compromises than agreements in these laws. The absence of a sanction clause in the SJSN law, the lack of seriousness in enforcing the manpower law and, most importantly, the heavy political compromise within each law has led to immobility.

To date, the implementing regulations of the SJSN law (i.e. the government regulations or the ministerial decrees) are not yet written. There is practically no agreed technical guidance on what the implementing regulations will say, which means that the formation of the DJSN is stalled. A politician, several union activists, and several government officials said that the formation of the DJSN as well as the implementation of the SJSN law is halted at the office of the vice president. Nobody knows why. Some suspect that the current administration, especially Vice President Jusuf Kalla, has an agenda of its own.

A different story was offered by another government official. He said that the problem is a disagreement over the candidates for the DJSN especially who would head it. He went on to pinpoint section 8 (6e) of the SJSN law where it is stated that a DJSN member must be at least 40 years old but no more than 60 years old. This clause automatically excludes the over-60 Sulastomo, the former Chair of the SJSN team who was the architect of the reform proposal. There is no other option yet for who might lead the DJSN. This exclusion is not an innocent one; there was talk about the personal motives of Sulastomo, namely his personal ambition to occupy an important political position.[224]

Meanwhile the presence of the manpower law and what led to its enactment are also factors in why the SJSN law is immobile. This law is infamous among employers as another law that makes running businesses so expensive and unattractive in Indonesia. Employers are especially critical about the requirement to provide 1 to 9 months severance pay plus an additional 2 to 10 months pay as "appreciation money" for laid-off workers. Anton Supit, an employer, vice chairman of PT Sierad Produce Tbk.,[225] and the head of the Association of Indonesian Shoe Manufacturers firmly says it is not sensible for employers to become the culprit for closing out business. In his words,

> "If we (employers) want a golden handshake, closing out businesses without negative fanfare, how much money should we spare? At least Rp 100 billion! Now a practical question, if a company wants to come to Indonesia, let's do a free entry and free exit. If a business is going down and must close but it needs 100

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[224] Anonymous analysts, government officials, and employers, interviews. On a separate occasion, Sulastomo revealed on his own that he was aware of people's dislike of him (Sulastomo, interview, January 13, 2006.

[225] PT Sierad Produce Tbk, which was founded in 6 September 1985 and was named PT Betara Darma Ekspor Impor, is a merger of four businesses of the Sierad Group: PT Anwar Sierad Tbk, PT Sierad Produce Tbk, PT Sierad Fedmill and PT Sierad Grains. Its main line of business includes the cultivation of food for livestock, poultry breeder and the processing of livestock.

billion just to close it down, who wants to come here? I have not earned profit yet but I must spare that much in case I close out the business. That is not attractive."[226]

A similar comment is also made by several other employers who prefer to remain anonymous. They say even if the business is doing well, for book keeping purposes and for their own sense of security, they still need to set aside billions of rupiah in case the business is going down. They called this ridiculous. They are simply appalled by the size of the required severance pay and appreciation money. They also complained about the clause that requires employers to pay a certain portion of workers' salary (up to 50% wage for 4 dependents or more) if the workers are detained for criminal charges not filed by the employers.

Workers argue that this law encourages companies to subcontract jobs thus leaving room for employers to escape formal employment contracts, which also means no benefits and no severance pay.[227] Even in the case where workers are listed as permanent employees, their rights for getting social benefits as stipulated by law are not immune from violation. There are numerous cases in which employers have not reported the actual salary of workers or the actual number of workers working in their establishments or not remitting workers' contributions to PT JAMSOSTEK. Workers also complain

[226] Interview, December 5, 2005.
[227] Anonymous union activists, interviews.

about companies trying to find ways to pay them cheaper either by giving them less than the minimum wage standard, holding them to work more hours without overtime pay or threatening to discharge them unless they work as the companies want.[228]

The effectiveness of the provision of healthcare insurance benefits for the poor (ASKESKIN, *Asuransi Kesehatan untuk Rakyat Miskin*, Health Insurance for the Poor) also remains questionable. The Department of Health and PT ASKES might have issued statements about the achievements of the programs. However based on the data from the Central Statistical Bureau, in 2004 there were only 36,140,700 out of about 60 million poor covered through the program. Since the announcement of the implementation of this program, technically there was only a one time disbursement of a total Rp 3.7 trillion; money that used to be allocated to subsidize fuel.

In February 2006 the Minister of Health, Siti Fadillah Supari, mentioned that another Rp 3.2 trillion will be allocated for ASKESKIN in the 2006 state budget, which if true will be less than the amount allocated in 2005. There were also reports of the wrong handing of the health-card. According to a government official, in West Sumatra about 400,000 poor did not get the ASKESKIN benefit because there are different indicators of poverty for every region. Indeed, although the SJSN law requires the state to provide social security benefits for all citizens and to pay for the health insurance premium of the

[228] Anonymous workers from various work establishments, union activists and policy advocates in the area of labor, interviews.

poor, the poor with permanent total disability, and the poor who have been laid off for over six months, there are vague criteria and a limited number of poor to be covered through ASKESKIN.[229]

What was actually adopted in the social security reform was indeed far from what was initially proposed. Political compromise was thick throughout the process, as is well acknowledged even by the involved politicians. Even if the idea were about finding better ways to provide social benefits, the lack of independence of social security agencies from the state left this as mere rhetoric. The motive of securing PT JAMSOSTEK as a financial resource and a strategic institution in which bureaucrats and state leaders could benefit distorted the reform towards maintaining the existing structure of operation.

The unfavorable environment for private businesses "united" employers and workers in blocking attempts to merge all social security schemes under the DJSN and to increase the contribution rate as well as the structure of contribution (i.e. to have a 50:50 contribution ratio for employers and workers). Allegations of huge state liabilities in the schemes for civil servants and military officers and the ailing PT ASKES further increase the reluctance of employers and workers to allow for a merging of all schemes as initially proposed. Together this lack of confidence of the stakeholders stripped off almost every aspect of the initial reform proposal and left only some written intent to secure the

[229] The criteria of poverty that is used by the government is the one issued by the Central Statistical Bureau (*Biro Pusat Statistik*, BPS), which people have criticized as inaccurate for it continues to produce figures that are significantly lower than the international standard. Back when ASKESKIN wanted to identify the total number of poor people as the target group, the BPS estimated that until 2005 the percentage of population living under poverty line is 35.1 million (15.7% of total population) whereas the international standard, like the one issued by the World Bank, indicated that the number is at least twice as much. Despite the defense from the BPS that their measure of poverty is accurate, the disagreement over the inaccuracy remains. See for instance: "Politisasi Kemiskinan dan Aksi Publik" (2000), "Angka Kemiskinan BPS Terlalu Rendah" (2006).

benefits for all citizens, especially the poor. The combination of the SJSN law and the manpower law creates an even more dire level of social security protection for formal sector workers where not only their social security benefits remain small and unreliable, their income and employment security are also challenged.

4.4. The Reform Idea

The idea to reform the social security system in Indonesia emerged as early as 1999 during the transitional administration of President B. J. Habibie. This was a president who struggled to convince the public about his capability and his genuine desire to install democracy. He reigned during a difficult time after the currency attacks. The state was in deficit, capital fled and there was no inflow of investment.[230]

The outlook of the economy in 1998/1999 was bleak. The depreciation of Indonesia's currency increased the value of external debt repayments sharply while taxation revenue was expected to collapse in real terms. The projection from the department of finance then was a decrease in the ratio of tax revenue to GDP, from

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[230] As someone who wants to ensure his political survival and run again in the future, President Habibie had to allow for new forces and actors to enter into politics and to garner trust and cooperation with other countries for the sake of attracting aids and investments. He revoked laws that restricted the freedom of expression and the freedom of press. Censorship over the media was alleviated. He accepted the separation of powers between the executive, legislative and judiciary. He issued Law No. 22 and No. 25 of 1999 that grant more autonomy to district government units and bigger proportion of the national income to district government units. Another issue that defined Habibie's leadership was also East Timor, where he allowed a referendum that led to independence from Indonesia. East Timor is a province few hundred miles of Australia's coast that for over twenty years had caught the world attention for being annexed from the Portuguese, for its lack of development relative to other provinces and for the allegations of human right abuses due to presence of the Indonesian military in the province. This referendum policy was especially controversial within the Indonesian military as it was rejected by General Wiranto, the commander-in-chief. See Kingsbury (2005). The failure to gain support from East Timorese figures to remain part of Indonesia in exchange for a special regional autonomy status within the Republic and the desperate need to remove any obstacle to foreign aid that Indonesia needs had led Habibie to offer a full independence to East Timor in 1999. See "An Offer East Timor Can't Refuse?" (1999).

11.2% in 1997/1998 (April-March) to 7.7% in 1998/1999.[231] For those with employment, their buying power had fallen by roughly 80% in foreign exchange terms. Real wages fell sharply. Between 1996 and 1998 the number of poor in Indonesia had increased by around 11.5-12 million people. Compared to 1997, urban unemployment had risen from 8 to 9.3% and rural unemployment from 2.8 to 3.3%.[232] Economic recovery and the prevention of permanent economic meltdown were the topic of public policy that year.

Members of the now abolished DPA (*Dewan Pertimbangan Agung*, Supreme Advisory Council) were among those trying to formulate ways to overcome the crisis.[233] The chair of the DPA during the Habibie, Abdurrahman Wahid and Megawati Sukarnoputri administrations, Achmad Tirtosudiro, called on three people who for a long time have worked in the area of social security provision: Sulastomo, Hattari and Simuardjo. Sulastomo was a former operational director of PT ASKES (1986-2000) while Hattari and Simuardjo were retired high-ranking officials and actuaries of PT JAMSOSTEK. Sulastomo is a medical doctor specializing in lungs who currently has an office at the YPK (*Yayasan Pemeliharaan Kesehatan*, Health Maintenance Foundation) Labor and Delivery Hospital in Menteng, Jakarta. Sulastomo was also a Member of

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[231] Evans (1998).
[232] Booth (1999).
[233] DPA is an agency whose task was to provide policy advice to the president and that was mostly comprised of elderly politicians and military generals, DPA was technically a ceremonial agent during the reign of Suharto. The anecdotal name of DPA was *Dewan Pensiunan Agung* (the Supreme Pensioners Council) or *Dewan Paling Anteng* (the Most Quiet Council). It was only after the fall of Suharto's regime that members of this council started to speak up although this did not alleviate the cynicism over the relevance of this agency in a democracy and whether it could actually provide impartial advice for the good of all Indonesians. The desire to dissolve this agency was voiced during the process of amendment of the 1945 Constitution in 1999-2000 yet there were still a desire to own an agency that will act as an impartial third party and a clear brain in policymaking process. See meeting minute of Ad-Hoc Committee 1 of *Badan Pekerja MPR,* 9 December 1999. DPA was still in office until 2003. An article about the skepticism about DPA or any agency of that sort is "RUU Badan Penasihat Presiden: Mengharap Kresna, Khawatirkan Sengkuni" (2004).

Parliament (DPR, *Dewan Perwakilan Rakyat)* in 1968-1971 and People's Consultative Assembly (MPR, *Majelis Permusyawaratan Rakyat)* in 1988-1998. The talk then was over the nation's budget crisis, its mounting foreign debt and the need to organize self-help before asking for more money from other countries.

Sulastomo argued that one way to overcome the crisis in the medium and long term is by developing a national social security system. He was confident about the feasibility of the idea considering that even if only 15-20% of the Indonesian population is covered, that would mean 30-40 million people, roughly equal to the whole population of Malaysia. Sulastomo, Hattari and Simuardjo considered it critical to develop a pooling of risk through a pooling of funds which would help develop the potential of fund accumulation to finance various social welfare needs.[234] In his words Sulastomo says,

> "In every social security system, there will be an element of mobilization of people's funds and indeed it is the most remarkable means to mobilize funds. Look at the United States, European countries, Japan, Malaysia and Singapore. With funds, the nation could be independent in developing its economy. You see, the funds will not remain idle in the bank; instead they will roll as investments…..When Roosevelt introduced the New Deal in 1935, the fruit could not be enjoyed immediately in 1935, 1937, 1938 or 1940, but after at least 5 years, the impact was great. If the United States has a deficit of 100, 200 million,

[234] To date the portion of social security fund only constitutes a fraction of the total GDP so the system cannot improve economic growth and steer the macroeconomy. See Purwoko (2001).

that would be no problem because they have billions of dollars in reserve, thanks to the social security fund."[235]

Indeed, Sulastomo was a staunch advocate of the development of a social security system in which the state could borrow money from the accumulated funds. He contended that this is why developed countries manage to meet the needs of their people and grow remarkably fast. He told a story about his experience of taking a training program in Japan while he was the director of PT ASKES to make this point. He said he asked an official at the social security office in Japan about what they do with the reserved insurance fund and they said with the potential savings of US$ 5,000 per year per capita, Japan could afford to lend the money to other countries as soft loans and earn about 1% more interest than the regular interest rate from banks. "Imagine earning without doing anything!" he added.

With this idea in mind, the three met other members of the DPA on several occasions. According to Sulastomo, in addition to Chair Achmad Tirtosudiro, other DPA members like Azwar Anas, the former coordinating minister of welfare under President Suharto, and Yusuf Syakir, the former chair of KPKPN (*Komisi Pemeriksa Kekayaan Penyelenggara Negara*, Indonesian Investigative Commission of the Wealth of State Leaders), an agency that has now become KPK (*Komisi Pemberantasan Korupsi*, Indonesian Commission of Corruption Elimination), were also very responsive to this idea. They approached Habibie's coordinating minister for welfare. The DPA then approached President Habibie, submitting an endorsement letter for the formation of a national social security system team (SJSN team). Sulastomo was not sure why the letter

[235] Interview, January 13, 2006.

was not responded to before Habibie's administration ended. When Habibie failed to contest in the 1999 election, the reform idea stalled. The next step was to approach the new President.

The DPA continued to endorse the idea. Sulastomo jokingly said that the DPA was captivated by it. Since President Abdurrahman Wahid dissolved the Ministry of Social Affairs and the Coordinating Ministry of Welfare, they must now deal directly with the vice president. Sulastomo and Hattari took the idea to Vice President Megawati Sukarnoputri. According to Sulastomo, Megawati was enthusiastic. By then the amendment of the 1945 Constitution had taken place. In the amended Constitution it was mentioned that "social security is the right of every citizen" (Article 28 H (3)) and that "the state develops a social security system for all and empower the poor and the disadvantaged" (Article 34 (2)). The People's Consultative Assembly, which at that time was responsible for executive branch guidelines, issued Decree MPR-RI No.X/MPR-RI 2001, requiring the president to form a national social security system that will provide a unified and comprehensive system of social protection.

On 21 March 2001, a working committee of the SJSN (*Sistem Jaminan Sosial Nasional,* National Social Security System) was formed.[236] Professor Yaumil Agoes Achir, then chief of the National Coordinating Agency for Health and Family Planning (*Badan Koordinasi Kesehatan dan Keluarga Berencana Nasional*, BKKBN) and deputy secretary of the vice president, was appointed chair. The task of the working committee

[236] The formation was documented on the Decision of the Secretary of Vice President No. 7/2001 signed by Bambang Kesowo. In this first Decision, there were one chair, Prof. Yaumil Achir, one deputy Dr. Martiono Hadianto and 11 members. An additional 5 members were added according to the Decision of the Secretary of Vice President No. 8/2001. Professor Yaumil was the Dean and tenured Professor at the Faculty of Psychology of the University of Indonesia.

was to analyze and formulate the SJSN concept, including benefits, contribution, implementation, carriers, relation to other policies, and time plan for organization and socialization to the public. Sulastomo and Hattari were members of this team.

On July 2001 Megawati Sukarnoputri was sworn in as the fifth president of the Republic of Indonesia, replacing the dismissed Abdurrahman Wahid. On 10 April 2002, the actual SJSN team was formed. This time the task was not only to analyze and formulate a concept but also to draft the SJSN bill and report to the President. Professor Yaumil continued to head the team.[237] After Professor Yaumil passed away in July 2003, the leadership was transferred to Sulastomo on 17 December 2003.[238]

The SJSN team received some technical and financial assistance from the European Union, the Asian Development Bank, the International Labor Organization and the government of Australia. They organized a series of seminars, workshops and field trips to several countries including Australia, the Philippines, Thailand, South Korea, France, Germany and a seminar on social security in China. They invited Members of Parliament, members of the association of employers, academics, NGOs, and labor activists from selected unions such as the FSPSI (*Federasi Serikat Pekerja Seluruh Indonesia,* Federation of All Indonesia Workers Union), the only existing union under the repressive authoritarian regime of President Suharto, and the FSPSI-Reform (the part of FSPSI that distances itself from the old regime).

[237] The deputy chair became Professor Erman Rajagukguk, a legal expert and tenured professor from the Faculty of Law of the University of Indonesia who was also a deputy cabinet secretary. The membership of the SJSN team grew to include experts from various fields (including social healthcare) and representatives from Ministerial Departments (Department of Health, Department of Manpower, Department of Finance) as well as from the existing social security carriers. The formation of the SJSN team was contained in the Presidential Decreee Keppres No.20/2002.

[238] Presidential Decree Keppress No. 101/2003.

The SJSN team recognized the difficulty of balancing inputs with interests. The team had to go through a grueling process of introducing the reform idea and convincing people about the medium and long-term benefits. The toughest time was to convince high-ranking government officials, both ministers or high-ranking ministerial officials and officials from the existing social security carriers. What they debated depended on their expectations of what the reform would do to their existing condition and future practices of governance. For that reason I will first elaborate the initial plan of the social security reform as envisioned by the SJSN team.

The concept of the SJSN was driven by the following concerns:

1. The existing social security system (with separated managements and policies within each carrier) will add too much financial pressure to the state. For civil servants and military officers, the state will not be able to pay its liability to the pensioners in 2015. That would be the time when the number of pensioners would be as many as the active workers and the state as employer must pay all of their salaries, old-age insurance benefits and healthcare benefits. According to Sulastomo, the state currently already owes over Rp 300 trillion (roughly US$ 32 billion) to PT TASPEN.
2. The number of people not covered through JAMSOSTEK remains very large. When the reform deliberation took place, their data from the year 2000 showed that only about 18 million workers were covered (see Table 4.2). Among the SJSN team members there was a concern over the possibility of social unrest when all of these uncovered people become old and have no healthcare. According to Sulastomo, by

2015 there will be about 23-25 million elderly age 60 and above without pension fund and healthcare.

3. The existing system is defined contribution instead of defined benefit. This will yield only an insignificant benefit for the contributors. People can only contribute a little and they will receive even less than they put in. Sulastomo said that if we want workers to actually benefit from the system, the system should be changed into a defined benefit. There should be a pooling of funds from the government, workers and employers. Assuming only 30% of the population participate, Hattari and Sulastomo estimated an accumulation of Rp 1,000 trillion within 10 years, Rp 50 trillion of which would be for healthcare. With such a magnitude, the funds could finance various healthcare developments and other social development of the nation.

Year	Total	
	Companies	Workers
1978	3,263	874,847
1980	5,243	1,252,805
1990	29,562	3,929,307
1995	60,409	9,171,090
1996	69,366	11,329,704
1997	77,772	13,388,056
1998	82,632	14,959,138
1999	87,703	16,424,128
2000	93,470	18,155,576
2001	100,005	20,007,254
2002	107,308	21,668,106
2003	114,325	23,260,3306

Source: JAMSOSTEK

Table 4.2 The Membership of JAMSOSTEK (selected years)

For these reasons, the SJSN was designed, at least initially, to meet the following goals:

1. Social solidarity (or mutual help, *gotong royong*). This would be done through the social insurance mechanism where everyone contributes a certain percentage of their salary and there will be a subsidy across people with different income, ages, and health risk.
2. To take advantage of the law of large numbers. The more participants, the less the operational cost for managing the funds.
3. Compulsory participation, starting with those working in the formal sector.
4. A decent level of benefit, i.e. not so small that people can barely feel the advantage of participating and not so big that people can barely pay for the contribution.
5. A contribution level proportional to one's salary level.
6. A joint contribution of employers and workers.
7. A not-for-profit management, meaning the documented profit at the end of every fiscal year will not be divided as dividends and will not be taxed.
8. A trust fund, meaning the collected fund is not an asset of the carrier but instead money entrusted by the participants to the carrier. To do this, the management of the fund must be controlled by the representatives of the contributors (workers, employers and the state) totaling 15-21 people for 5 to 7 person per group.
9. Management according to the principles of solubility (there will always be sufficient funds to meet the long-term financing of the benefits), liquidity (there

will always be enough cash to finance the short term liabilities to participants), transparency (regular publication of financial condition and policy), prudence (selective choice of investment to avoid loss), accountability (responsibility and avoidance of investment where conflict of interest may interfere), efficiency (limiting the size of operational cost, that is a maximum 5% of total collected funds per fiscal year), and effectiveness (providing benefits or services that are tested effective scientifically).

10. Portability of benefits, meaning the social security benefit could travel across the country and will not be lost just because of job change or residing in a new area.
11. The final responsibility of the management is with the government. This means the government must bear the responsibility over the security of the fund, especially upon *force majeure* such as fluctuating exchange rate or financial crisis.

The SJSN team planned to develop 6 programs: healthcare (with the benefit of comprehensive healthcare service), work-injury insurance (benefit of healthcare rehabilitation and cash – lump sum or regular installment), laid-off insurance (benefit of 6 month cash support – in lump sum or regular installment – for workers who had been employed and paying contribution for at least 6 months prior to being laid off), old-age insurance (with lump-sum cash benefit for those retiring – money that could be used to buy a house or be used to start up business), pension benefit (with cash benefit paid as regular installment until the beneficiary died), and the death benefit (with cash benefit for the heir).

The very first option proposed for the organizational structure of the new system was the following Chart 4.1. The idea was to establish a single trust fund that is directly responsible to the President of the Republic of Indonesia, is supported by a tripartite council of advisors and is supervised by government representatives and social security experts sitting on a council of supervisors. The trust fund will be called the LJSN (*Lembaga Jaminan Sosial Nasional*, National Social Security Institution). The chair of the LJSN would coordinate all operational programs and activities – from accounting, finance to administration – and would be assisted by directors from each program. The board of investment would consist of representatives of workers, employers, government and investment experts. The internal audit agency would oversee the internal financial and administration of the LJSN. Other assistance from actuaries, legal experts or financial experts might be sought after as seen necessary and their involvement would be *ad hoc*.

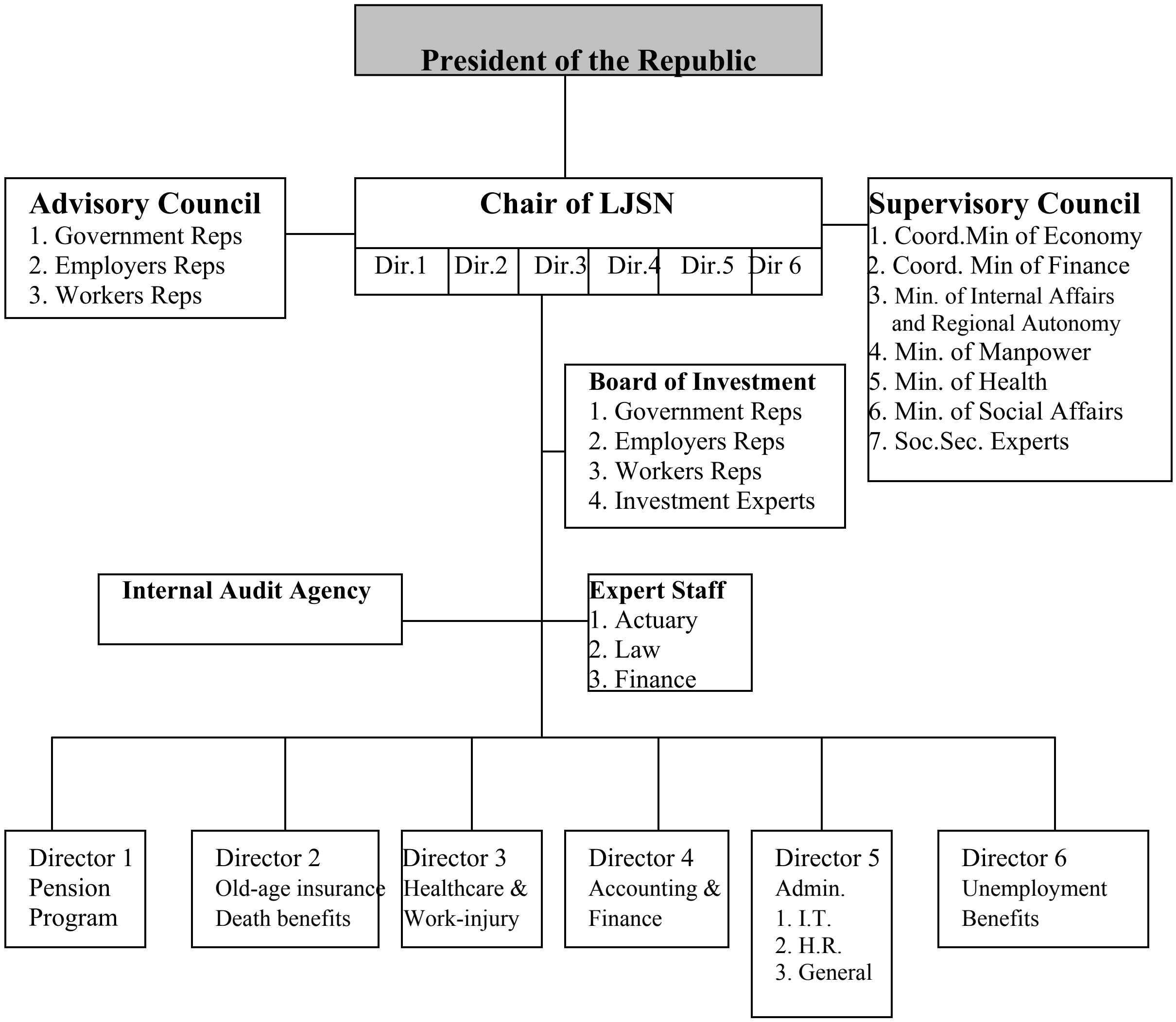

Chart 4.1: The Proposed Concept of the Organizational Structure of the SJSN

Contrasting this model with the existing organizational structure of the social security system as contained in Law No. 3/1992 (see Chart 4.2), the differences are fourfold. The existing system separates authority and management of benefits. In the proposed model, everything is managed by LJSN. Second, the line of responsibility of the existing system ends at the minister who represents the state as the major shareholder, i.e. the minister of state-owned corporations. In the proposed model, the President holds the ultimate responsibility over the system. Third, in the existing system the use of the accumulated funds including the risk of failure or mishap will be borne individually by each social security carrier and without any state support. In the proposed model, any potential failure in one program will be shared by other programs in LJSN. Fourth, today the carriers are profit-oriented state corporations instead of a non-profit oriented trust fund as proposed in the reform model.

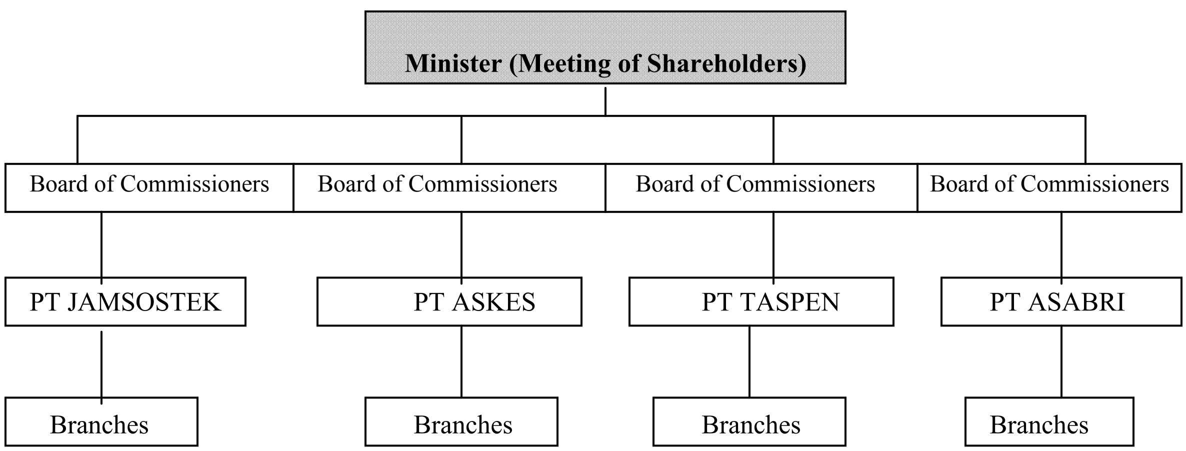

Chart 4.2 The Organizational Structure of the existing Social Security System

Healthcare and unemployment benefits provision were two important programs deliberated. Healthcare provision was the most complicated as it is about providing quality service at the most efficient cost. JAMSOSTEK acknowledged that their existing provision of healthcare could be much improved both from its population coverage to its benefits.

On the participation side, the current regulation is ambiguous. On the one hand the healthcare service benefit program (*Program Jaminan Perawatan Kesehatan*, Program JPK) is compulsory but on the other employers may opt out of JAMSOSTEK's healthcare program if they can provide better healthcare benefits.[239] In reality not all companies that chose to opt out have better healthcare benefits; this regulation has been used as a means to avoid the responsibility of providing benefits.[240] On the benefits side, JAMSOSTEK struggles to provide from the current level of contribution and because of the plan of hospitals to become profit-oriented.[241] People from ASKES said that JAMSOSTEK has yet to know the most efficient way to save costs. Sulastomo, for instance, said that with a contribution of only Rp 6,500 per person and no contribution from the state, ASKES managed to provide service for bypass surgery and kidney dialysis. These benefits are not provided to members of JAMSOSTEK despite its contribution of at least Rp 15,000 per person.

The SJSN team proposed that benefits be provided considering the total contribution (not person per person or by group). Their program would emphasize quality control, optimal financing and benefit provision according to medical needs. The benefit package would be reviewed every two years. Service would be provided by accredited health centers and if there is an absence of service in a particular area, the participants

[239] Regulation of Manpower Minister No. 01/1998.
[240] PT JAMSOSTEK (2005).
[241] Anonymous government officials, interviews.

will be given cash compensation instead. For inpatient service, eventually everyone would receive the level of service equivalent to the second class (*kelas II*)[242] but during the transition period the benefits may vary depending on income level and whether one's premium is paid by the government or by oneself.

To pay for the service, the program carrier will apply the principle of indemnity (i.e. the total reimbursement of healthcare service will not exceed the total incurred cost, calculated based on agreed cost of service, at the healthcare units). The payment to the healthcare units is done upfront (the package of service and cost per package is settled upfront too). Participants in this program may be required to pay a fraction of the cost (co-payment) in order to prevent excessive or abusive use of the service.

If today the JAMSOSTEK's healthcare is only funded by the contribution of the employers, the SJSN team proposed the future healthcare program to be funded equally by employers and workers (with 50:50 contribution). The idea here is that workers and dependents also have the responsibility to take care of their health. In addition, other countries allow such equal sharing of contribution. For those who are just laid-off, they would be freed from payments for a maximum of 6 months. If after 6 months they still cannot remit contribution, they will be classified as poor (thus qualified to receive a premium from the government). In terms of the collected funds, during the transition period at least 85% of the total contribution should be returned to workers. This percentage would progress to 95% over time. At least 80% of funding collected from a

[242] Typically a class II hospital service would include an air-conditioned room with 2-5 beds and a bathroom.

certain region should stay within the region while the rest could be used to pay for referencing of service to other regions, for reserve, for operational cost or to stimulate the improvement of medical facilities in that region.

Meanwhile on unemployment benefit, the idea was to provide a temporary income replacement program for those temporarily unemployed workers who show documentation of efforts to work again. Only those who had been SJSN participants for at least one year (52 weeks) would qualify for this benefit. The waiting period (before one can claim her benefit) is one month. The period in which someone can receive benefits should be a maximum of 3 – 6 months. The amount of benefits will decrease proportionately to the length of unemployment (as proposed in Table 4.3). The benefits would be paid from employer-worker direct contributions and government indirect contributions. The government's contribution will be indirect because every worker's contribution will reduce her taxable income rate. The idea is to have a total contribution of 5% of the payroll each month: 3% paid by the employers and 2% by the workers.

Month	Class A (income less than 1 million rupiah/mo)	Class B (income between 1-3 million rupiah/mo)	Class C (income above 3 million rupiah/mo)
First	75	65	60
Second	65	65	60
Third	65	65	60
Fourth	55	50	45
Fifth	55	50	45
Sixth	55	50	45

Table 4.3 Proposed Formula of Unemployment Benefit (% last income)

The SJSN reform proposal was closely scrutinized in public and in closed fora. The proposed concept was discussed in two limited cabinet meetings *(sidang kabinet terbatas*) led by President Megawati, in a meeting convened by the coordinating minister of welfare (*rakor Menko Kesra*), and in informal dialogues of the SJSN team with Commission VII of Parliament (specializing in welfare issues) and various other relevant venues including the Ministry of Internal Affairs, Indonesian National Coordinating Agency for Health and Family Planning, Ministry of National Apparatus, State Employment Agency (*Badan Kepegawaian Negara,* BKN), PT ASKES, PT JAMSOSTEK, PT TASPEN, PT ASABRI, and among social security experts as well as representatives of workers. As reported by Sulastomo, the draft bill was revised 56 times before finally being submitted to Parliament on January 26, 2004.[243]

[243] Sulastomo (2005).

CHAPTER 5

INDONESIA II: REALIZING REFORM

5.1. Overview

Social security reform in Indonesia demonstrates how the combination of a highly dramatic change, the intense symbiosis of bureaucrats and state leaders and the high negative expectation of employers and workers on the conduciveness of the economy leads to a reform that debilitates the existing social security agencies, eroding the benefit level for workers and employers but keeping a few state leaders financially satisfied given the un-checked management of the system. In other words, Indonesia's reform weakened the private sector by giving the state more discretionary power. What the state wants to do with such massive power remains unclear other than to build political power for certain individual state leaders.

5.2. State Leaders and Bureaucrats

The issue of social security reform was not high profile until the draft of the SJSN (*Sistem Jaminan Sosial Nasional*, National Social Security System) bill was submitted to Parliament. It was only then that more people, namely workers and employers, become more aware of the reform idea. The time span between bill submission and adoption was relatively short however. Everyone but the state leaders thought that the law making was rushed. The bill was submitted on January 26, 2004 and by late September 2004 the last version of the bill was approved. It was adopted as a law signed by President Megawati on October 29, 2004.

An important portion of the reform process, however, happened before the bill even reached Parliament. This was when the reform idea was negotiated by the SJSN team with relevant state leaders and its original intention started to be stripped away. When the bill reached Parliament, still more of the proposal was stripped away due to reactions from other stakeholders, namely the bureaucrats, employers, workers, and again state leaders.

There were many government officials involved during the reform process. After all this was an idea that spans a broad spectrum of authorities, from the Department of Manpower and the State Ministry of State-Owned Corporations to the Department of Health and Department of Finance (especially the directorate general of taxation). The idea of the state providing social security for its citizens was acknowledged by state leaders as a constitutional necessity. Yet, one should not just take the acknowledgement for granted. Their proposed changes, their behavior and inconsistent statements, and their stakes in accepting the reform idea helped reveal their stand.

In response to the idea of forming a national level LJSN (*Lembaga Jaminan Sosial Nasional*, Indonesian National Social Security Institution) directly under the President, the SJSN team had to develop a new organizational structure.

First was the idea to separate short- and long-term SJSN account management and also to form regional LJSNs. The LJSN, which consists of chair, vice chair, experts, representatives of carriers and of the government, employers and workers, would oversee, monitor and formulate policy for the management of these two separate accounts. There would be a trust fund council for each of the accounts. These councils would oversee the management of the fund as run by the carriers' executive director.

The idea was to simply transplant the trust fund body (*wali amanah*) into the existing management. The social security provision would become the responsibility of the President (instead of the Minister of State-Owned Corporations, the Minister of Manpower and other relevant ministries) and there will be a concentrated authority of policy-making and management oversight. Unlike the initial reform proposal, this version further divides the monitoring and oversight of short-term and long-term funds into two different LSJN councils. The same structure would be repeated at the regional level. The purpose, so it was argued, was to accommodate regional aspirations. See Chart 5.1.

Second was an idea to have just one LJSN at the national level but with numerous social security carriers at the regional levels. The purpose, it was argued, was to keep the principle of the law of large numbers intact (through national collection and management). The organizational structure of this version is similar to the one depicted in Chart 4.1 but without the regional LJSN and with external auditing for the long-term management of the fund.

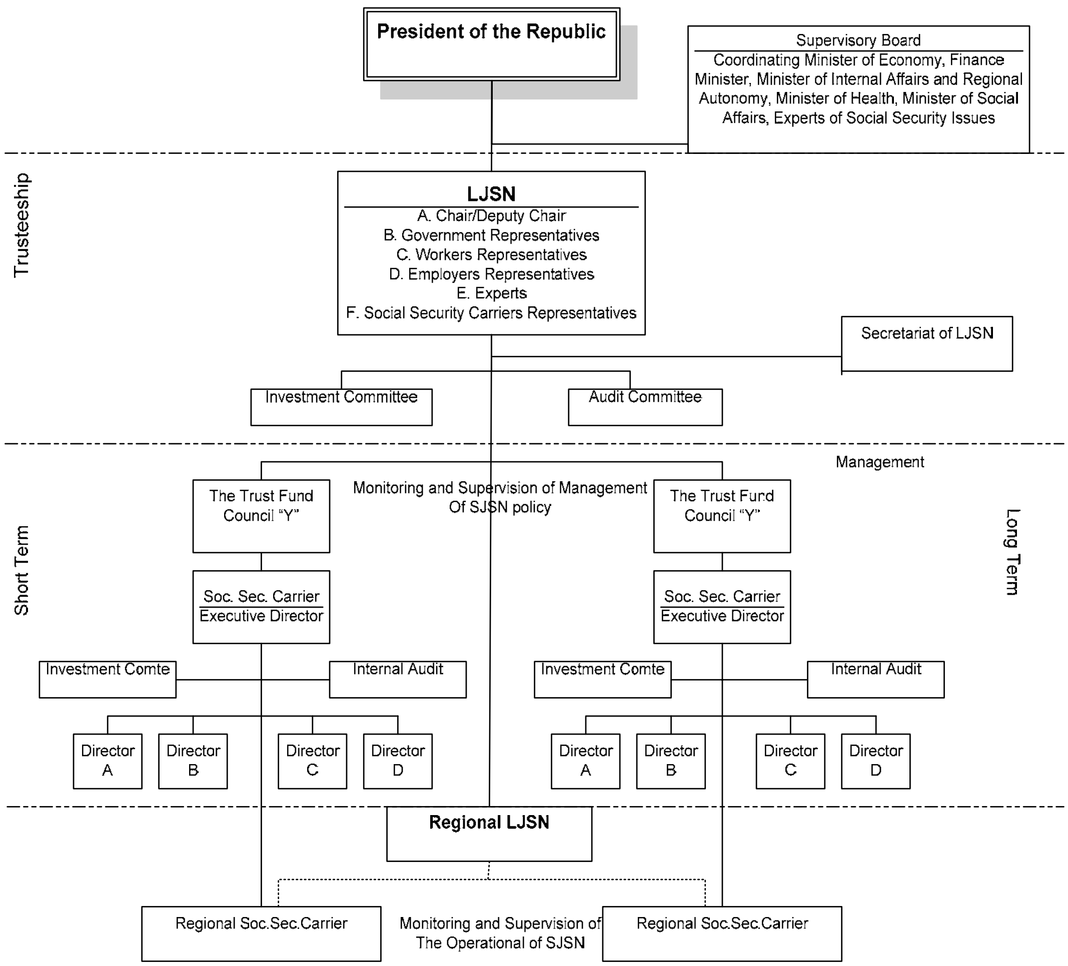

Chart 5.1: The Second Version of Change in the Social Security Reform Proposal

Third was an idea to break down the LJSN into several components: the DJSN (*Dewan Jaminan Sosial Nasional,* Indonesian National Social Security Council), the BAJSN (*Badan Administrasi Jaminan Sosial Nasional*, Administrative Agency of the National Social Security), the carrier of National Healthcare Security Program, and the carrier of National Old-Age Security Program. According to this version, BAJSN would stand right under the DJSN in the hierarchy of social security management.

The deputies of BAJSN (of membership, finance and investment and internal audit) would then coordinate the executive director of the national healthcare security program and the executive director of national old-age security program. The same structure would be created at the regional level. Unlike the earlier versions, in this model obviously the elected members of DJSN would not necessarily have direct influence on the policies for either healthcare or old-age programs. The executive directors for the healthcare and old-age programs are under the supervision of the BAJSN.

Fourth was an idea to split the LJSN into two separate entities: the LJSN council as the formulator of social security policy; and the executive director of LJSN who would execute the policy and be responsible for registration of members and investments. The organizational model in this fourth version is much simpler, focusing more on division of work within the LJSN instead of creating new agencies on top of the LJSN.

Fifth, after a presentation before the President and in the limited cabinet meeting on 24 December 2003, it became clear that a single LSJN at the national level was desired more than the idea of having multiple LJSNs. Yet the SJSN team was asked to anticipate a transition period of 10-15 years until the existing social security carriers could merge into one management under the LJSN (or at this point it was called DJSN). On the administrative issue of creating a single social security identity and payroll tax payment for every citizen, the SJSN team was asked to approach the Ministry of Internal Affairs. Since Indonesia has never had any trust fund before, there is not yet any legal basis (*badan hukum*) for the future DJSN. The idea was to use "a special corporation status" as the legal basis – special because it would be a corporation that is not taxed, freed from the responsibility to pay dividends to the state, and non-profit in orientation.

The final product, however, still shifts away from the desire to have all existing social security carriers merge under the management of the DJSN. After the proposal was released to the public, PT JAMSOSTEK and the Minister of Manpower again showed their resistance to this idea. As revealed by a government official, such resistance was then incorporated in Article 5 of the SJSN law where it is specifically mentioned that there will be four social security carriers under the new system: PT JAMSOSTEK, PT TASPEN, PT ASABRI, and PT ASKES. As this government official said, "It was a compromise! A political compromise because they were worried that if the law does not mention them, they (the existing agencies) would vanish."[244]

The series of revisions to the initial reform proposal help illustrate the presence of the following views among state leaders. First, that a social security system is a bureaucratic-heavy system where all elements with stakes and interests in the provision of social benefits and the management of the fund should be involved in the organizational structure of the SJSN. We can see this in how complex and multi-tiered the desired structures of management of the system are. The suggestion for a supervisory council that consists of various ministers on top of the idea of making the DJSN (or LJSN) responsible to the President creates ambiguous responsibility. In fact, this is only one of many indications of how state leaders compete among themselves to earn authority (and its associated side payments, financial or political).

[244] Interview, February 1, 2006.

The consequence of this is the dragging of the reform closer to what the state needs and wants instead of what the people (workers and employers) want. At the very least, the compromises that state leaders made among themselves allowed for the incorporation of more state (as opposed to other stakeholder) elements within the system This is reflected in the proposed membership of the DJSN, the supervisory council, the advisory council, the board of investment and the regional DJSNs.

Even if we assume that there is going to be only one representative for every government agency represented in the structure, over 80% of the total representation would come from the state. The fact that many agencies were involved during the reform deliberation enhances the complexity and the bureaucratic-heavy yet state-oriented organizational structure.

No one could explain how these proposals would improve the efficiency and effectiveness of social security provision. On the one hand they expect to achieve those goals through concentrated policy making within the DJSN, which is right under the nose of the President of the Republic. Yet it is not clear why the DJSN would not be overwhelmed with the complex structure of command and the presence of multi-interested actors just among the 80% of government representatives. After all it is obvious that there is a potential limitation of the LJSN's authority over the policy formulation and implementation given the role played by various external committees, councils and carriers.

The *second* indication of how state leaders use the reform to compete for authority and the associated side payments was the persistence of state leaders in maintaining the existing social carriers and as much as possible dragging them closer within their line of control. The idea of merging the existing social security carriers under one DJSN management was accepted reluctantly and regarded as troublesome by many state leaders.

Notice how the alternatives actually promoted independent authority for social security carriers over the management of their funds from the DJSN. Even when there was already agreement at the cabinet level that the DJSN should be the body responsible for formulating policy and managing the funds of the merged social security carriers, the one thing they still worried about was the potential disappearance of the existing social security carriers and the need to guarantee the existence of these carriers.

The intense conflict among the state leaders was most obvious between Minister of Manpower Jacob Nuwa Wea and Minister of State-Owned Corporations Laksamana Sukardi. These two ministers came from the same political party as President Megawati, the PDIP (*Partai Demokrasi Indonesia Perjuangan*, Indonesian Democratic Party of Struggle), but apparently party affiliation did not imply a single interest between them. In fact, this shows how social security provision divides the two ministries. These ministers fought over their relationship with the executive director of PT Jamsostek. What had happened was the lenience of PT Jamsostek towards the Minister of State-Owned Corporations.

On the surface the feud appeared to be the Minister of Manpower (wanting to provide better benefits for workers) vs. the Minister of State-Owned Corporations (wanting to maintain the flow of dividends from PT JAMSOSTEK to the state). This is only partially true. The state, namely the President and the Minister of State-Owned Corporations, actually did not want to leave the management to DJSN whereas the Minister of Manpower was on the other side, wanting PT JAMSOSTEK transformed into a trust fund.

The President and the Minister of State-Owned Corporations viewed such a transfer of management not only as a loss of authority over a rich agency, but also as a loss of potential "side income" for individuals who run the programs (especially those in the top positions) as well as for the political parties tied to these individuals. An anonymous politician from PDIP unintentionally confirmed that in his party the sharing of financial privileges from various sources, including from such giant yet weakly monitored state-owned corporation (PT JAMSOSTEK), has been very common and that he himself was involved in it.

> "Why do you think recently there had been internal complaints, say in the DPR (Parliament) about the practice of *percaloan* (brokers)? Because now politicians no longer share the side payments with fellow politicians! In the past although there were those who practiced an independent *percaloan,* they usually work together to earn those privileges."[245]

Another politician, this time from Golkar, argued that the money in PT JAMSOSTEK is simply too great to be relinquished to a new agency like DJSN. "This size of money determines the fate of the state! This is why political party people, forgive me for saying this, always compete over the social security management."[246]

[245] Interview, December 3, 2005.
[246] Interview, February 22, 2006.

Several anonymous observers and government officials said that the President herself did not have a strong opinion about keeping PT JAMSOSTEK under control, but but her husband Taufik Kiemas did, at least in order to keep their political party funded. The importance of Taufik Kiemas in the decisions made by President Megawati has been suspected elsewhere. He embraced people coming from his province, South Sumatra, and recruited people to cooperate with him in supporting the administration of his wife.

The then executive director of PT JAMSOSTEK, Achmad Djunaidi, a native of South Sumatra's capital city, Palembang, allegedly had a close relationship with Taufik. This closeness may have been the reason why he was successfully convicted and imprisoned for at least 8 years for misinvestment of JAMSOSTEK funds. As observers and officials at JAMSOSTEK said, Achmad Djunaidi "was sacrificed" (*dijadikan tumbal*) because he lost the protection from his patron and/or in order to protect his patron.

According to a Jakarta Stock Exchange insider, there has been a deliberate effort to maintain the shadiness of JAMSOSTEK management and to keep the public in the dark about the money market and the potential corrupt intervention within it. He specifically said that the most outrageous manipulation of the money market with JAMSOSTEK money happened during the period of President Megawati and Minister Laksamana Sukardi (of the State Ministry of State-Owned Corporations).

The insider argued that it is in fact very easy to intervene in Indonesia's money market and that this way of earning extra income had been systematically practiced by nearly everyone. What you need to do is to become a client of say J. P. Morgan or Merrill

Lynch in Hong Kong so that they represent you anonymously in the intervention. How JAMSOSTEK money is used is for instance to falsely discount the value of shares of listed companies. For instance if the actual value of a share is 100, a shady broker offers a reduced value of 50 with a note that the buyer would provide a commission of 20 to the broker. How can they reduce the value of the share? They use JAMSOSTEK money. This insider also said that Danpac Securities had been notorious as the puppet of the government; whenever it makes a move, everyone knows that that is the government demanding something.

Clearly JAMSOSTEK money has been used for various purposes other than those directly relevant to enrolled workers and their employers. Investments are made in the name of yielding profits for the enrollees but the carelessness of the implementation of procedures, which the National Audit Agency (*Badan Pemeriksa Keuangan,* BPK) says includes deviation from the rules, the forcing of initiatives to invest, the lack of analysis on prudence, the lack of authorization and the over-authorization of actions, proved counterproductive to what the enrollees need.

In 2005, for instance, the former investment director Andi Alamsyah and the former executive director of PT JAMSOSTEK Achmad Djunaidi were convicted of Rp 250 billion corruption involving the investment of JAMSOSTEK funds at irregular rates to four big companies: PT Sapta Prana Jaya, PT Volgreen, PT Harry Prima Pradana dan PT Surya Indo Pratama.[247] And this is just one of the cases in which JAMSOSTEK

[247] "Tersangka Korupsi Jamsostek pindah Tahanan" (2005). The investments were as medium term notes (MTN) with the total value of transaction in 2001 of Rp 311,085 billion. The breakdown of the MTN was: PT Dhanatunggal Binasatya (Rp 97.835 billion), PT Sapta Prana Jaya (Rp 100 billion), PT Suryaindo Pradana (Rp 80 billion), dan PT Volgren (Rp 33.25 billion). See "Korupsi bermula dari Investasi" (2006).

money has been redirected at the expense of the enrolled members. JAMSOSTEK's money has also been used to buy the majority of shares in several "privatized" state-owned corporations like the cement company PT Semen Gresik Tbk, Permata Bank, and Telkom. Thus the issue is actually more than the state wanting to preserve its portion of dividends from PT JAMSOSTEK (see Table 5.1), it is also about preserving the flow of dividends from divested state-owned corporations and not wanting to disrupt the convenient alliance with the bureaucrats in PT JAMSOSTEK, which allows for the reaping of more financial rewards for political parties or personal needs.

Meanwhile we are assuming too much when we say that the Minister of Manpower had been wanting to provide better benefits for workers and that that had made him stand fiercely against other state leaders to block the merger of social security agencies. The specific role of Minister of Manpower Jacob Nuwa Wea should not be overlooked. Also we should not disregard the relationship of PT JAMSOSTEK with certain labor unions.

Year	Dividend from PT JAMSOSTEK (in billion rupiah)	Dividend As % Profit after Tax of PT JAMSOSTEK	Dividend As % Government Domestic Revenues – Profit Transfers from State-Owned Corporations	Dividend As % Total Government Revenues & Grant
1982	3.06	55	N/A	N/A
1989	31.61	55	N/A	N/A
1990	21.07	52	N/A	N/A
1995	30.53	37	N/A	N/A
1996	50.00	35	N/A	N/A
1997	78.61	40	N/A	N/A
1998	44.69	20	1.30	N/A
1999	44.28	13	0.82	N/A
2000	101.79	50	2.53	0.06
2001	64.71	20	0.73	0.02
2002	336.53	34	3.45	0.08

Calculated from data from PT JAMSOSTEK and the Government of Indonesia
N/A= data not available

Table 5.1: The Dividend from PT JAMSOSTEK and Government Revenues

Jacob Nuwa Wea is a very outspoken person born in Flores. He had long been a labor activist in what is now the FSPSI (*Federasi Serikat Pekerja Seluruh Indonesia*, Indonesian Federation of All Indonesia Workers Union), the only union allowed during the repressive regime of President Suharto. It is still the only union whose offices and operational costs are funded by the state and by PT JAMSOSTEK and whose representatives are the only ones sitting as labor representatives on the board of commissioners of PT JAMSOSTEK. As an activist, Jacob is a well-respected person in FSPSI. Other union leaders said that unlike their own organizations, which are still struggling with internal conflicts, FSPSI is solidly under Jacob's leadership. "When Jacob says something, everyone (the union officials and members) will follow", said an anonymous labor activist.

Jacob is an individual known to have the courage to make bold statements. Throughout his career as Minister of Manpower, Jacob had been very outspoken about reforming PT JAMSOSTEK, independently of the idea proposed by the SJSN team. He wanted to transform PT JAMSOSTEK into a trust fund under the sole management of the Department of Manpower.[248] He critiqued PT JAMSOSTEK for not prioritizing the welfare of workers. From the time he came to office, Jacob wanted to transform the legal status of PT JAMSOSTEK through a revision of the existing JAMSOSTEK law or the Law No. 3/1992.[249]

More controversially, he did not want to consult or involve the Minister of State-Owned Corporations on this although the existing law states that both ministries are in charge of PT JAMSOSTEK. As a state-owned corporation, any change in the legal status of PT JAMSOSTEK would be of interest to the Minister of State-Owned Corporations. He particularly resented the requirement for PT JAMSOSTEK as a state-owned corporation to channel dividends to the state.[250]

In response to poor quality of service for workers, Jacob proposed that PT JAMSOSTEK buy a bank, build a hospital and housing facilities and supermarkets just for workers. Back in May 2002 he and the executive director of PT JAMSOSTEK Achmad Djunaidi already considered allocating Rp 150 billion to realize the bank-buying plan.[251] By August 2002, Lukmanul Hakim, the finance director of PT JAMSOSTEK had

[248] "Menakertrans akan ubah status Jamsostek" (2002).
[249] The plan to revise Law No.3/1992 on JAMSOSTEK with a specific focus on changing the legal status of PT JAMSOSTEK had been made public as early as 2001. They wanted a tripartite oversight management of JAMSOSTEK. See "JAMSOSTEK Akan Diubah Jadi Badan" (2001).
[250] "JAMSOSTEK Agar di Bawah Depnakertrans" (2002).
[251] "JAMSOSTEK Incar Bank Bumiputera" (2002).

reportedly conducted due diligence on three banks, Bank Bumiputera, Bank Harmoni and Bank Halim Internasional.

Earlier, there were two other banks of interest to PT JAMSOSTEK, Bank Central Asia (BCA) and Bank Niaga. The amount of money allegedly apportioned to buy the shares of these two banks was much larger: up to Rp 3 trillion. Yet the plan stirred a lot of negative reaction from the public and was withdrawn. BCA was the largest private bank in Indonesia. It belongs to Lim Sioe Liong, head of a conglomerate notorious for being the closest crony of President Suharto. In fact, 30% of BCA shares belong to two children of President Suharto: Siti Hardiyanti Rukmana and Sigit Harjojudanto. Both BCA and Bank Niaga were among the ailing banks that borrowed money without proper supervision from abroad not long before the financial crisis and later needed to be bailed out by the government through the bank restructuring program.

In addition, during Jacob's administration, there were five labor laws adopted: Law No. 13 (on manpower), No. 2 (on industrial dispute court settlement), No. 39 (on placement and protection of Indonesian workers abroad) and later No. 40 (on SJSN). This is more than any Manpower Minister in a post-Suharto regime ever produced. He did leave some legacy for the industrial relations after all.

This analysis of Jacob's initiative allows us to see his political moves in the social security reform. As a labor activist and an idealist at heart, Jacob had the ambition to produce pro-worker initiatives.[252] After all, Jacob is the only Minister of Manpower

[252] Labor activists including from FSPSI and observers, interviews.

coming from the labor group FSPSI. Previous Manpower Ministers had been employers and business figures. However, other observers claim that Jacob's pro-worker stand is also political and not a mere reflection of being an idealist.

Jacob is regarded by employers, especially high-ranking officials at the employers association APINDO, as inconsistent. As a respondent confided: what Jacob said publicly was different from what he said afterwards to them. He tended to make big pro-worker statements that APINDO called unrealistic and without even common sense.[253] An example is the making of the manpower law, Law No. 13/2003. For the article on severance pay, the discussion was so tough that it had to be brought outside Parliament. A PDIP politician, Herman Rekso, facilitated the months of meetings in various hotels. Eventually everyone agreed on the amount of seven-times salary as the severance pay rate.

When the agreement was about to be brought back to the chamber and adopted, the speaker of Parliament, Akbar Tandjung, asked once more if everyone unanimously agreed. Everyone said yes. Jacob came in late, expressed disagreement and proposed a new rate of twelve-times salary. Since they could not ignore his proposal, another round of compromises was made until a new rate of nine-times salary was agreed. Despite the fact that the amount was a compromise, APINDO was dissatisfied. They appeared to regret Jacob's inconsistency and "big-bang" statements.

[253] Interview, December 5, 2005.

Clearly Jacob's position in the FSPSI played a part in his pro-worker rhetoric. Yet workers also saw other motives. A high-ranking official of FSPSI saw Jacob as part of the game of power seeking within FSPSI. Others view Jacob's interest in PT JAMSOSTEK as a move to secure a future position in it.

Still others stressed Jacob's personality: emotional and blunt. During a TV interview he walked out, allegedly made an unpleasant statement and pushed the shoulder of another participant with whom he disagreed while the interview was still on air.[254] Others recalled him making cynical comments about the SJSN team's reform proposal. While they wanted Jacob's actual comments to stay off the record, they wondered about whether Jacob assessed things first before opposing anything that was not his. A politician from PDIP, Jacob's own political party, who was involved in the SJSN law deliberation, said that Jacob was one of the reasons why it became a mere umbrella law, a law without any sanction and without detailed steps of execution.

> "It (the deliberation) was stuck in June-July of 2004 because of the government. For instance, the Minister of Manpower did not want to participate in the deliberation anymore because we are going to do something to JAMSOSTEK. That is the story. Consequently the script of the law becomes a very much compromised script."[255]

Clearly it was very tough to stand in opposition to Jacob. He did not budge at all. Politicians in Parliament thought that it is simply impossible to create a national social security system without forming a DJSN and transforming the legal status of the existing

[254] Presiden diminta tegur Jacob Nuwa Wea" (2003).
[255] Interview, December 3, 2005.

social security carriers. Yet even his political party colleagues could only murmur about his stubbornness. The plan to have an unemployment benefit had to be scrapped too because Jacob's law on manpower (with the severance pay package) had just been adopted. Sulastomo revealed that he defended to the last minute the inclusion of the unemployment benefit in the future SJSN, but he gave up when "politics" started to kick in. The president, Sulastomo said, was on Jacob's side so Law No. 13/2003 should stay as it is while the unemployment benefit plan in the SJSN was left out.

Another resistance from the state, which was not known to the public, was about the reluctance to transform the funding of PT TASPEN and PT ASABRI from pay-as-you-go to the fully funded system. These agencies were actually financially in trouble because of billions of liabilities that the state yet to pay.[256] Only later it became clear that such allegations might have a basis. Sulastomo said that he was asked by the Management Institute of the University of Indonesia, which he believed might have been asked by the Minister of Finance, about how the state should handle its debt to the schemes if the schemes were to be merged and transformed. Sulastomo tried to convince them that the state could pay its debt gradually and that wouldn't burden the state budget as much. Delaying, he said, is what would imply a big financial burden to the state.

This suggests that the state leaders, i.e. the Minister of Finance and possibly the President, had a concern over paying money instead of earning money. I also suspect that the state was reluctant to open up the actual financial condition of PT TASPEN, PT ASABRI or even PT ASKES and stir up public anxiety. Thus far there has not been any transparency on this. What the public knows, for instance, was that PT ASKES was very

[256] Official from PT ASKES, interview.

healthy financially. Yet in reality sources said that PT ASKES is in financial trouble and actually benefited from the injection of fresh funds from the state following the mandate to execute the health insurance program for the poor.[257]

In short, there were three underlying points of view of state leaders. The transformation of the statuses of social security agencies under the management of DJSN was perceived to be a disruption of the flow of funds to the state budget and other projects of the state leaders (either for political party or personal goals). As a non-profit agent, the funds collected from workers and employers would no longer be open for access by the state. A loss of dividend implies a loss of income for the state.[258] The potential implication of the state paying a significant amount of debt to social security agencies is part of this concern too.

Second, the formation of DJSN whose authority would stand above the existing social security carriers including PT JAMSOSTEK was perceived to be a challenge to the state's social security dirigisme, which is much easier when PT JAMSOSTEK is still under the control of the State Ministry of State-Owned Corporations. The fear here stems from the new and more transparent style of management of the social security fund under DJSN. I believe the "unfinished business" with numerous cronies, many of whom are still around and are critical allies of convenience to the president, was part of the story. The

[257] Official from JAMSOSTEK, interview.

[258] In fact, just recently when the new executive director of PT JAMSOSTEK Iwan Pontjowinoto proposed for a zero dividend-sharing policy with the state, the State Ministry of State-Owned Corporations bitterly rejected it saying that anyone proposing such policy should just resign from the job and said any discretion for no dividend sharing would only be given to insolvent state-owned corporations. See "Usulan Dividen Nol Persen Ditolak" (2006).

ruling politicians were simply not ready to unravel the shady ties between the state and PT JAMSOSTEK. (Please refer to Section 5.3 for more elaborate explanation of the shady ties.)

The presidency of Megawati Sukarnoputri, for instance, was not equipped to deal with the potential big blow to her administration if she challenged openly the many political figures of the past. One should not forget that Megawati's path to office was not an easy one. Her leadership relied a lot on support from other political parties and the non-combative attitude of many, including those who had "stabbed her in the back", such as the military who allegedly were involved in staging the bloody July 1996 coup against her leadership in PDI (*Partai Demokrasi Indonesia*, Indonesian Democratic Party), the predecessor to PDIP, and the long-time cronies of the government in power.

As of now there are few hard proofs of the milking of the public-funded system or projects for the running of political parties in Indonesia's new democracy, but the facts that some aspects of that democracy do not add up provides some hints. Politicians need billions of rupiah to run for office and even more to lobby and secure positions.[259] How do politicians finance the billion rupiah cost? After all the public financial support for political parties (e.g. dues, widespread campaign contribution) is practically non-existent. How do politicians market themselves as the best candidates? The opaque management of JAMSOSTEK fund provides room for maneuver for the ruling political party. The potential of losing this facility understandably invoked a jittery reaction from state leaders.

[259] The estimation of billions of warchest was revealed by several politicians, including one who is a gubernatorial hopeful, and their friends.

Third, there is the perception that at some point state leaders must express their concern over what the working citizens care about. The administration should speak loudly of its concern and leave a legacy as a mark that might draw political support. This was where the character of Jacob Nuwa Wea fits in. His tough character and fearless demeanor ironically allowed the other state leaders to compromise the social security reform proposal to their advantage, not that of the workers.

5.3. The (Lack of) Independence of Social Security Carriers from the State

The bureaucratic factor in social security reform in Indonesia enhanced the skewing of the reform proposal in favor of the state leaders. The relative independence of the social security carriers, which in the case of Indonesia is low, is an important part of why such skewing of reform was possible. In this section, I will especially focus on the dependence of PT JAMSOSTEK on the state. This is appropriate considering that this particular social security carrier has been at the center of the reform process and had been in the public eye for its controversial decisions for years. How the agency stood during the reform matters a great deal in the output of the reform.

Two things shaped the dependency of PT JAMSOSTEK on the state. First, there has been a symbiotic relationship or cooperation with mutual benefits between bureaucrats working at PT JAMSOSTEK, especially the high-ranking ones, with ruling state leaders. Various factors triggered such cooperation, from regional sentiment, political party affiliation, personal political connection, to a search for financial advantages. It is certainly not easy to spot instances of the symbiosis. After all, this is a shady relationship. What I can do is to track events that caused public anxiety and sketch the connections among involved individuals or groups. This will be done below.

But before I reach that point, we should also be aware of the second factor that preserves the dependence of social security carriers on state leaders: the law enforcement function. To date PT JAMSOSTEK cannot take any legal punitive action against violators of the system because the law enforcement function lies in the Department of Manpower. Officials of PT JAMSOSTEK are frustrated with the ineffective division of work with the Department. What they can do upon complaints of violation (e.g. a company underreports the salary rate of workers, or big companies – including state-owned corporations – do not enroll their workers in JAMSOSTEK) is simply to file a complaint with the Department of Manpower and wait for action. The likelihood of action, however, is small.

These officials identified three common forms of violation: companies underreporting the salary rate of their workers, companies underreporting the number of workers in their establishments, and companies not remitting workers' contribution to PT JAMSOSTEK. One of PT JAMSOSTEK's officials, who prefers to remain anonymous, said that they actually have tried a couple of times to propose that the law enforcement function be attached to PT JAMSOSTEK (the latest attempt was in the early 2000s) so that they could be the one initiating the prosecution of violators. Yet what happened was more rejection.

Now there is a rule saying that all law enforcement functions can only be done by civil servants (note that the status of officials at PT JAMSOSTEK is as employees of state-owned corporations, which means that they are private workers instead of civil servants). Refusing to give up, this official proposed that PT JAMSOSTEK open one division to recruit civil servants specifically hired to run the law enforcement function within PT JAMSOSTEK. The idea was also bitterly opposed by the government, especially officials at the Department of Manpower. This implies that the performance of PT JAMSOSTEK is also somewhat dependent on the performance of the bureaucrats at the Department of Manpower.

This dependence shows how weak PT JAMSOSTEK is when it comes to defending its professionalism. This takes us back to point one above on how PT JAMSOSTEK has been a haven for shady symbiotic relations between bureaucrats and ruling state leaders. All of this starts with the people appointed at the top-rank positions of PT JAMSOSTEK. The executive director is typically someone preferred by the ruling political party who could cooperate with the minister of state-owned corporations. The position of the executive director of PT JAMSOSTEK may not be a post officially contested by political parties during the cabinet formation negotiation but it is strongly desired by the largest party.[260] Before President Megawati, the State Ministry of State-

[260] The eagerness of competing groups to cement their nominees is mentioned among others in "Dana Jamsostek Hasil Keringat Pekerja Lho…." (2003). Back in 2003, the Minister of Manpower Jacob Nuwa Wea insisted on the appointment of Amrinal, a top-rank official, Inspectorate General, at the Department of Manpower as the new executive director of PT JAMSOSTEK. Other groups nominated some other names including Syukur Sarto, a worker representative at PT JAMSOSTEK and a secretary general of KSPSI union (*Konfederasi Serikat Buruh Seluruh Indonesia*, Confederation of All Indonesian Workers Union), Suparwanto (a Commissioner of PT Jamsostek), Tjarda Mochtar (a Member of Parliament from the Golkar Party), Joko Sungkono (the director of service at PT JAMSOSTEK) dan Achmad Djunaidi (the existing executive director of PT JAMSOSTEK). Reportedly Minister Jacob Nuwa Wea wanted to make sure that

Owned Corporations was yet to be formed and thus the position of executive director was usually controlled by the Minister of Manpower. This is why past scandals always allegedly involved individuals like Abdul Latief or Bomer Pasaribu, who had served as Ministers of Manpower.

The closeness of the executive director of PT JAMSOSTEK to those in power limits the organization's ability to take decisions independent of the state or based on professional calculations. As mentioned above, the dependence is both structural and personal. Structurally, PT JAMSOSTEK depends on the State Ministry of State-Owned Corporations and the Department of Manpower to perform, from investment decisions to law enforcement.

In terms of investment decisions, there are indeed rules on where to invest and how much,[261] also on the procedure for investment (which includes consultation with representatives of workers and employers in PT JAMSOSTEK), audits from the National Audit Agency and even questioning by Parliament, but there were still controversies over the use of JAMSOSTEK funds. Most of the time they either happened with money not specifically allocated for investment or because the procedure was shortened or skipped altogether. Prudential investment was compromised.

The person who knew best about such instances would be the executive director of PT JAMSOSTEK. As an anonymous observer says, anyone may apply for the job of

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the new director of PT JAMSOSTEK would support his idea to develop workers' banks, hospitals, supermarkets and housing. As a start-up, the minister had already spent Rp 10 billion to start up the development of hospitals in Aceh, Sorong, Cirebon, Medan, and Riau. See "Pekerja inginkan pemilihan Dirut JAMSOSTEK lewat fit and proper test" (2003); "Irjen Depnakertrans calon Dirut JAMSOSTEK" (2003). On the Ministry spending money for workers' hospitals see "Menteri Tenaga Kerja tandatangani MOU RS Pekerja" (2004).

[261] The most recent one is the Government Regulation PP No. 22/2004 titled The Management and investment of Workers Social Security Fund Programs.

executive director, but not everyone can end up winning the appointment. One may lobby and even pay to be considered but in the end only the one desired by the ruling power will get the job. Other important positions at PT JAMSOSTEK are operational director and director of investment. Their triangle of cooperation with the executive director is critical for the occurrence of collective submission to what the state wants. The officials and staff at PT JAMSOSTEK spoke privately - some just murmured their thoughts - that those sitting in the directorship positions are actually not skilled at their positions. One official boldly said that as long as one is skilled at playing politics, then he or she will get and maintain the directorship positions.

Few people would disagree that at PT JAMSOSTEK there has been a relative closeness of the top-rank individuals to those in power. Some names of the top-rank bureaucrats are more notorious than others. One of them is Achmad Djunaidi. He is an actuary by profession and not a political party activist. He is a longtime JAMSOSTEK person. He was the director of finance and investment from 1983-1994 who returned as the first man of PT JAMSOSTEK in 2000.

Djunaidi's record as the director of finance and investment was far from positive; in the 1992-1993 fiscal year the BPKP (*Badan Pengawas Keuangan dan Pembangunan,* The Financial and Development Supervisory Board) rated him negatively; to date he is not acceptable among shareholders. The officials at PT JAMSOSTEK, however, considered him skillful in developing relations with those in power. He managed to appear skillful too in directing PT JAMSOSTEK, at least until more scandals involving

PT JAMSOSTEK were revealed and he was prosecuted and imprisoned in 2005.[262] Meanwhile back during the rule of President Suharto, the names that surfaced in JAMSOSTEK's scandals were names of the Minister of Manpower. Then the executive director of PT JAMSOSTEK was mostly a puppet. Their names include Akmal Husein, Horas Simatupang, Suma'mur PK and Abdillah Nusi.

The relatively low independence of PT JAMSOSTEK is best illustrated through the cases that drew public attention. *First,* the instances of alleged JAMSOSTEK funds channeled to certain companies or individuals by sacrificing proper procedures of assessment. In some cases it is still unclear how each involved individual connects to the state leaders, but the nature of the channeling of funds (whose amount is significant), raises strong suspicion over worked out deals with someone "higher up". The difficulty of attempts to reveal the shadiness of the channeling of funds raised public frustration which in turn affirms the lack of independence of PT JAMSOSTEK. A list of such controversial cases involving PT JAMSOSTEK is contained in Table 5.2.

[262] Achmad Djunaidi was detained since July 11, 2005 soon after he returned from his pilgrimage in Mecca but then he was released for some time due to hospitalization for his prostate problem. See "Mantan Dirut JAMSOSTEK Dikeluarkan dari Tahanan" (2005), and "Mantan Dirut JAMSOSTEK Ditahan" (2005).

Date Revealed	Case	Amount of fund	Note on problem
Jan 2000	Abdul Latief as the minister of manpower allegedly colluded with JAMSOSTEK to provide credit to a project of Siti Hardijanti Rukmana (President Suharto's eldest daughter) to build Wisma Graha Garuda Tiara Indah at Cileungsi, Bogor. This building was supposed to be like a convention center with rooms for rent equal to a three-star hotel.	Rp 75 billion	The credit is insolvent and a huge amount of money from JAMSOSTEK is the toll.
May 2000	Abdul Latief as the minister of manpower allegedly use JAMSOSTEK funds to finance the cost of the making of the manpower law (from buying computers to meeting expenses). The minister denied using Rp 7.1 billion and instead acknowledged the use of 2.3 billion. His excuse was because the state did not budget for this expenditure.[263]	Rp 7.1 billion	JAMSOSTEK fund is not supposed to be used for such expenditure.
April 2002	The buying of promissory notes made by PT Ramako Gerbang Mas (the franchise owner of McDonalds in Indonesia) by PT JAMSOSTEK. The case allegedly involved Akmal Husein and Horas Simatupang, both directors of PT JAMSOSTEK.	Rp 50 billion	It is a violation of Government Regulation PP 28/1996 (on the use of JAMSOSTEK fund) for there was no proper assessment of the buying (the Board of Commissioners did not know about it).

Continued

Table 5.2: The Controversial Cases Involving PT JAMSOSTEK

[263] "Latief "Cuma" pakai Rp. 2.3 M" (2000).

Table 5.2 continued

April 2002	PT JAMSOSTEK faced trouble from the illiquid bond of PT Pakuwon Jati Tbk, which offered to pay back with its asset of land instead (in Laguna Indah, Surabaya). In reply to this, PT Jamsostek asked PT Pakuwon Jati to buy back the bond with nominal price.	Rp 23 billion	The land asset offered is dry and unmarketable but PT Pakuwon is only willing to buy back with 70% of the price of bond.
April 2002	PT JAMSOSTEK has another illiquid bond problem from PT Indah Kiat Pulp & Paper, Tbk and PT Purinusa Holding Indah Kiat (Asia Pulp and Paper Limited). These are the subcompanies of the Sinar Mas Group, a giant conglomerate group owned by Lim Soei Liong – notorious for being the long time crony of President Suharto.	Rp 96 billion with PT Indah Kiat Pulp & Paper Tbk; Rp 128 billion with PT Purinusa Holding Indah Kiat	It is a high risk transaction with companies having notorious connection with someone "higher up"
September 2002	A problem with the development of *Menara Jamsostek*, a Rp 300-400 billion building development, revealed. The case allegedly involved Suma'mur PK and Abdillah Nusi (both were Executive Directors of PT JAMSOSTEK), Abdul Latif (minister of manpower and an entrepreneur who owns a big retail store Pasaraya and a TV station Lativi) and President Habibie. Abdul Latif acknowledged that President Habibie "gave instruction" over the development of the building although he did not determine the detailed value of the project.[264]	Rp 300-400 billion	The audit agency found a mark-up during the period of 1992-1998 of over 40 billion in the project and less-than-expected quality of building. The project also did not finish on time. When finished, the luxurious building remained mostly empty until it started to crumble. The building was initially intended to be rented by space for the public.

Continued

[264] "Kasus Menara Jamsostek Diusut Lagi" (2002).

Table 5.2 continued

November 2002	A number of illiquid deposits with notorious cronies of the state leaders revealed. Among others with: Bambang Trihatmojo (the son of President Suharto) who owned shares of Bank Andromeda, Prajogo Pangestu (the head of the giant forestry conglomerate Barito Pacific in which two children of President Suharto (Tutut and Bambang) and a son in-law of President Suharto (Indra Rukmana) and two younger brothers of Mrs. Suharto (Ibnu Sutowo and Bernard Ibnu Hardoyo) have shares and positions in), and Henry Pribadi (whom together with Prajogo owned shares of PT Chandra Asri Petrochemical Center and PT Try Polyta Indonesia – two companies whom Bambang Trihatmojo is key partner and had hundred billions debt to Japanese lenders and state-owned corporations)	More than Rp 17.5 billion with Bambang Trihatmojo	The lender cannot afford to pay the loans. Bambang Trihatmojo, for instance, was just willing to pay Rp 12.5 billion of its over 30 billion loans.
September 2002	JAMSOSTEK's money deposited in *Bank Tabungan Nasional* (BTN, National Savings Bank). BTN was taken over by President Suharto.	Rp 2 trillion	The interest rate of time deposit reached 60% but in BTN, JAMSOSTEK only get 14% interest.
September 2002	JAMSOSTEK suffered loss from buying the shares of PT Bumi Resources, PT Lapindo Packaging, and PT Kopitime Dot Com. These companies are partly or fully owned by the Bakrie Group, a conglomerate group owned by the PT Bakrie and brothers that is also known as one of the cronies of Suharto. Even when the Bakrie Group	Rp 200 billion	The National Audit Agency reported that PT Bumi Resources has clear high risk and yet PT JAMSOSTEK still issued a recommendation to buy shares from them. Meanwhile there was zero analysis on PT Kopitime. Kopitime is a company that had recorded loss of over 10 billion rupiah in 2001 and 69 billion rupiah

Continued

Table 5.2 continued

	holds only a minority share in these companies, these companies are known to be used as the vehicle of the Group to acquire shares of other companies. Aburizal Bakrie is one of the business moguls in this group who since the post-Suharto era had skyrocketed as an active politician and cabinet minister.		in 2002 and which by 2003 was suspended by the Jakarta Stock Exchange (BEJ) for its poor performance and prospect.
2003	The buying of Medium Term Notes of PT Haji Kalla	Rp 200 billion	The procedure of the MTN buying was not followed. PT Haji Kalla is owned by Jusuf Kalla, a big businessman who then was also the coordinating minister of welfare. More awkward is the fact that on 7 September 2004 PT Haji Kalla paid 100 billion of its loan despite its actual due on 17 April 2006. In 2004 Jusuf Kalla ran as one of the presidential candidates. Today Jusuf Kalla is the Vice President of the Republic of Indonesia.
Late 2003	The buying of Medium Term Notes of Bank Global, which later filed bankruptcy. Also the buying of MTN from PT Suryaindo Pradhana, PT Sapta Prana Jaya, PT Volgren Indonesia and PT Dahana. In 2005, the former director of investment of PT JAMSOSTEK Andi Alamsyah was charged with a misuse of authority and corruption for these cases.	Rp 100 billion	The procedure of the MTN buying was not followed and the buying had yielded loss.

Over time the JAMSOSTEK fund has served as a giant piggy bank for the state leaders. During the reigns of Suharto and Habibie, the connection to state leaders is obvious. Dirigism from the palace was quite direct and straightforward. In more recent times, the connection becomes less obvious, hidden behind the mask of insufficient or erroneous assessment. With the recently more democratic political system, the line of command for the channeling of funds becomes more subtle as there are more politicians in power, each with his or her line of power support.

One thing remains obvious that the groups related to those in power still get their share of opportunities and that along the way "refreshments" are provided for the bureaucrats who made it all happen or sustained it. Indeed this symbiotic exchange is at both personal and institutional levels. Institutionally, the way PT JAMSOSTEK is run, i.e. with a weak law enforcement mechanism, weak commitment on decisionmaking for investment, also, as will be elaborated later, weak internal control from the employers and workers group, allows for easier diversion of JAMSOSTEK funds and authority. And then there are personal relationships on which such diversion is anchored. As anonymous officials from PT JAMSOSTEK and observers say: there are layers of silent mutual agreements to keep the shady exchange going hence the bureaucrats who agree to cooperate will get some portion of the perquisites (including a secure position with good salary).[265]

[265] One official of PT JAMSOSTEK disclosed the fact that when one refused to release a report on the prudence of certain investment demand from the top-rank JAMSOSTEK official, she would be immediately mutated to a less-paid position or worse threatened to lose the job. Few dares to test that but this official and another determined colleague did and hence now serve in low-ranking positions with less strategic decision-making opportunities. My observation of the dynamic of staff interaction at PT JAMSOSTEK is that PT JAMSOSTEK does try to put competent people in the top-ranking positions and they'd be willing to even send them off abroad for higher education. These people usually have stayed

The *second* instance that indicates the lack of independence of PT JAMSOSTEK from the state leaders is the creation of projects or programs that have no direct effect on the deliverance of better benefits for workers and the contributing employers and yet involve millions of rupiah being taken out of the JAMSOSTEK pool. An example is the development of *ad hoc* programs in the name of providing more facilities for workers. Unfortunately they do not consider the limited reach of those programs (the program may have nothing to do with improving the needs of the contributing workers and employers) or the fact that the provision of such programs would diminish the total accumulation that workers could take out from the statutory programs.

Such *ad hoc* limited-reach programs are interestingly known as DPKP (*Dana Peningkatan Kesejahteraan Peserta,* Fund to Improve Members' Prosperity), which, according to the letter from the Minister of Finance No. S-521/MK.01/2000 dated 27 October 2000 on the Guidelines of DPKP, would be taken from a portion of JAMSOSTEK's profit and could be dispensed as grants or loans. So far the programs include among others: Rp 3.82 billion loan to 75 groups of cattle-raisers in Yogyakarta and Rp 1.019 billion grant for the victims of earthquake in Yogyakarta,[266] Rp 15.196 billion project of the development of 345 flat housing, the provision of loans to buy housing for 8,484 workers in 2002, the provision of Rp 2.816 billion loans to the cooperation of JAMSOSTEK's employees, and the Rp 11.458 billion grant to renovate

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there for quite a long-time period although at the same time these people don't really have the freedom to voice their critical analysis. Given the administrative consequences, they choose to remain silent and appear not quite excited about their jobs or the choices that PT JAMSOSTEK has made. On the other hand PT JAMSOSTEK also hires new graduates who are still very excited about the job and yet have little clue on how things actually work.

[266] It is reported that the loan is charged with an annual 6% interest rate payable every semester for up to four years. See "JAMSOSTEK Salurkan Dana Bergulir 3.82 Miliar Rupiah" (2006).

hospitals, buy ambulances, provide scholarships, help the laid-off.[267] Sometimes PT JAMSOSTEK does a pilot project, but without a clear report on why the project was stopped or why it was started in the first place. There are also complaints that PT JAMSOSTEK is rather sloppy when it comes to separating the various sources of investments, which have created a tremendous amount of loss to certain programs from which the investment money was drawn. For instance, the use of yield from the investment of healthcare money valued at Rp 441.42 million for non-healthcare programs.[268]

This is also an area where state leaders give "suggestions" or ask for attention from JAMSOSTEK to disburse money to certain projects or companies and then JAMSOSTEK officials follow with an argument that the money is for the greater good. Apparently since PT JAMSOSTEK is a state-owned corporation, the yielded profit of PT JAMSOSTEK is automatically considered a purse for state leaders' projects.[269] Such high risk involvement has resulted in billions of rupiah losses for either unreturned loans or not getting the proper interest rate return on the bonds (which could have been obtained had the investment been done in healthy companies or banks).[270]

Other instances of such lack of independence of PT JAMSOSTEK from the state also include the demand of Minister of Manpower Jacob Nuwa Wea to develop JAMSOSTEK's own banks, hospitals, supermarkets and housing for workers and his way

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[267] See "Dana Jamsostek Hasil Keringat Pekerja Lho…" (2003).

[268] See the report from State Audit Agency (BPK) on fiscal year that ends on December 31, 2004. BPK (2005).

[269] The examples include the effort to advance money to ailing banks (e.g. Bank Central Asia, Bank Dagang Bali, Bank Victoria, Bank Artha Graha, Bank Bumi Putera) and ailing state-owned corporations (like the Jasa Marga, Pupuk Kaltim, Garuda Indonesian Airways). See fn. 12 in Chapter 4.

[270] An example of this was the loss of potential yield of 2.86 billion rupiah from Bank Dagang Bali. Ibid.

of insisting to have his nominee Amrinal as the new executive director. And then in early January 2006, Vice President Jusuf Kalla asked PT JAMSOSTEK to develop a public housing area complete with credit facilities, busway, canteen, laundry business, childcare, etc. PT JAMSOSTEK spent Rp 5 trillion for this. Jusuf Kalla said that this project is tied to the government's project of the development of one million houses.[271]

The low level of independence of PT JAMSOSTEK from the state is also apparent from the suspicion of bureaucrats towards Sulastomo, the chair of the SJSN team. Officials at PT JAMSOSTEK regarded the social security proposal of the SJSN team as a mere attempt by Sulastomo to advance his agenda to earn a top-rank position in the government, to capture PT JAMSOSTEK for his own personal interest, and possibly earn political support to someday reach the Number One position in the Republic. Indeed this further strengthens the conclusion that PT JAMSOSTEK is porous, prone to manipulation and a haven for mutual symbiosis of politicians and bureaucrats.

Sulastomo's previous link to PT ASKES was the first factor that triggered such suspicion. A physician who manages the healthcare program of JAMSOSTEK said that Sulastomo simply wanted to do things his way and put everything under PT ASKES. Most meetings on the social security reform were held at the Department of Health, which this official thought was not neutral. PT JAMSOSTEK somehow felt that PT ASKES was trying to take over JAMSOSTEK. The fact that Sulastomo was the director of PT ASKES and, as Sulastomo himself said, he is still being treated like a director at PT ASKES made the "plot" seem very obvious to the bureaucrats at PT JAMSOSTEK. Of course the plan of the SJSN team to merge all social security carriers under the

[271] "JAMSOSTEK Siapkan 5 triliun" (2006).

leadership of the DJSN confirmed their fear. A high-ranking official at PT JAMSOSTEK reasoned that the cash flow of PT ASKES is unhealthy and that was why PT ASKES is pushing hard to get the "project" (i.e. the opportunity to get financial perks). The SJSN project was expected to inject fresh money into PT ASKES.

Bureaucrats were also cynical about Sulastomo going places abroad for the SJSN project, thinking that Sulastomo is using public money for those trips. Sulastomo was very much aware of such criticism. He mentioned many people not liking him and having to defend himself and the project continuously. He insisted that he got all the money from foreign sponsors. Sulastomo also explained that he had the experience of being asked to be a consultant to foreign agencies such as the World Bank and the Asian Development Bank, a fact that according to him demonstrates this credibility.

Nevertheless, bureaucrats did feel uneasy about Sulastomo. Looking closely at who Sulastomo is, as an individual, adds to the uneasiness. Sulastomo is part of the so-called *Angkatan 66* or Generation 66, the generation of youth and college students who marched in the streets in 1966 and brought down the Old Order regime of President Sukarno. He was also an activist and former head of HMI (*Himpunan Mahasiswa Islam*, Association of Muslim Students), a student group that recruits Muslim students and has been known as a stepping stone to reach strategic leadership positions in the Republic.[272]

All his friends have at one point or another become high-ranking officials or influential people, e.g. Achmad Tirtosudiro as minister and then chief of DPA, Akbar Tandjung as chair of Golkar Party, minister and then speaker of Parliament, also Cosmas Batubara and Fahmi Idris as ministers. Indeed this explains his connection with Achmad

[272] Sulastomo was the chair of HMI in 1963-1966.

Tirtosudiro, who allowed the SJSN project to surface. Since Sulastomo is technically the only *Angkatan 66* member who has not had any political fame, his move through SJSN is perceived as a move toward power too.

Sulastomo also initiated and led a movement called *Gerakan Jalan Lurus* (Straight Way Movement) in 2003 with people from Generation 66, HMI, and many more political figures.[273] This Movement developed a manifesto for the development of the Indonesian economy, politics, culture, and welfare after the amendment of the 1945 Constitution.[274]

The Movement's agenda could be summarized in the words of Djisman Simandjuntak: it is a movement that promotes an economic system that is both market friendly and protective of workers and the SJSN. So SJSN has been seen as the pet project of Sulastomo. Later on it was used as a political vehicle for Sulastomo to be nominated as an independent candidate (a.k.a. no political party affiliation) in the presidential election of 2004. It became clear that although the explicit goal of the Movement was to develop the condition of the nation, the implicit goal is to develop mass support for new leadership. The idea then was to nominate Nurcholish Madjid[275] (also known as Cak Nur) as the presidential candidate and Sulastomo as the vice president.

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[273] The core and active members of the Movement include Sulastomo, Syafrial Djalil, Soemarno Diposastro, Adham Arsyad, Listianto (all Generation 66), also Salahuddin Wahid, Syafii Maarif, Djisman Simandjuntak, Hari Tjan Silalahi, Solichin, Soejiman, Darmansyah, Winarno Zein, Rosita Noer, Soenarso and Tommy Legowo. The non-active members and symphatizers include Jakob Oetomo, Nurcholish Madjid, Roeslan Abdulgani, Kiki Sjahnakri, B.S. Mardiatmadja, Anton J. Supit, Amin Aryoso, etc.
[274] See Gerakan Jalan Lurus (2003).
[275] Nurcholish Madjid was also an activist and chair of HMI in 1966-1971.

Tommy Legowo, a political analyst at the Jakarta-based Center for Strategic and International Studies (CSIS), an active member of the Movement, explained that this use of the Movement was not agreed to by most members. He said that as time went by some of the members diverged from the early intention to be involved in just soft politics (i.e. just contributing ideas at the discourse level) to be involved in practical politics.[276] Tommy refused to say anything about Sulastomo's personal motive in the Movement and said that Sulastomo's attempt to run for office failed anyway.[277]

At any rate, the suspicion towards Sulastomo widened the distance between JAMSOSTEK and the reform. This allowed the bureaucrats to again step in to the safe zone of the status quo. In addition, bureaucrats at PT JAMSOSTEK were not comfortable with the idea of reform that might imply lay-offs of JAMSOSTEK's employees who cannot perform productively nor adjust their skills as needed. Once again this also blocks the social security reform and again affirms the clinging of PT JAMSOSTEK to the state.

As of today the productivity and skill of PT JAMSOSTEK's employees are low. A study, which an official at PT JAMSOSTEK wanted me to read and quote from, shows that PT JAMSOSTEK is having difficulty managing its core business efficiently and recruiting staff of sufficient caliber to process claims, etc. accurately and on time.[278] For example, a top official in the healthcare division said that there are only a few physicians

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[276] The main proponent of such divergence include Soemarno Diposastro, an ex official of Pertamina (state-owned oil company) and member of Generation 66, also Syafrial Djalil of Generation 66, Darmansyah and of course Sulastomo.

[277] The Movement ended up expecting Salahuddin Wahid, also a member of the Movement, to be the carrier of the Manifesto of the Movement following the official announcement of the duet of General Wiranto-Salahuddin Wahid as presidential and vice presidential candidates from the Golkar Party. This attempt to insert the message of the Movement through Salahuddin Wahid was not successful either because the Movement members were not happy about Salahuddin dueting with General Wiranto and that Salahuddin also failed to win the race.

[278] ILO (2003).

in JAMSOSTEK and the director of the program is young and not respected by the staff. Compared to the activities of officials at the social security offices in the Philippines or Singapore, the working environment at PT JAMSOSTEK headquarters is quite relaxed. Activities happen at a slower pace and the administrative staff is comfortable doing things manually without electronic technology.

Clearly the low degree of independence of the social security agencies from the state affects the positions of bureaucrats and the state leaders in Indonesia. It led to the advancement of a reform proposal that was pretty much emasculated by the time other stakeholders, namely the employers and workers, had the chance to assess it.

5.4. The Conduciveness of the Economic Environment in Indonesia

5.4.1. The Expectation of Employers

As one of the countries hardest hit by the financial crisis, Indonesia is slow to recover. The value and stability of Indonesia's currency improved during the administration of President Megawati Sukarnoputri, a condition which in turn improved the macroeconomic condition.[279] The GDP growth rate gradually increased from -13% in 1998 to around 4% in 2004-2005. By 2003, gross capital formation had improved from

[279] After the deep plunge of the value of rupiah against US dollar in 1998, the rupiah suffered another blow during the administration of President Abdurrahman Wahid. His erratic policy, inconsistent statements and later the allegation of charity money embezzlement have created public jitter of whether the administration would last and whether the economy would suffer again if another political brouhaha erupted. An example of the issue that affected the stability of rupiah during the administration of President Abdurrahman Wahid was the crisis at Bank Indonesia (the Central Bank) due to the President insisting on replacing the governor of the bank Syahril Sabirin (who reportedly had personal political tension with the President) with Anwar Nasution, which led to the resigning of 5 senior deputy governors of the bank. See "Isu Penggantian Direksi BI dan Perseteruan Abdurrahman Wahid-Syahril Sabirin" (2000). Market analysts said that the improved value of rupiah and its stability should be credited to the rise of the presidents after Abdurrahman Wahid and not to the improvement of the macroeconomic condition *per se.*

11% to around 16% of GDP. Yet this is not enough to improve the overall condition of industries and employment. Putting these numbers in perspective, in the early 1990s, total investment was around 30% of GDP while the economic growth was 7-8%.

The economic condition is still considered non-conducive for employers. It is much worse now than in the period before the crisis and under the previous administration of President Suharto. Employers have a low expectation that any additional regulations on social security will yield any positive return. Their past relationship with the state leaders, which yielded a much better economic return, is still in their minds. Arguing that employers spend much more today to make their businesses work, they have become risk-averse on the proposed social security system.

A reputable Indonesian economist, Faisal Basri, argues that although the macroeconomic variables are showing some improvement, the real sector that absorbs employment, especially the manufacturing sector, continues to decline.[280] According to his note, by October 2002 the production capacity of the manufacturing industry was only 51% and by January 2003 it dropped to 41%. He added that the growth of new businesses has also dropped significantly; from 6% in 2000 to 4% in 2001 and 1% in 2002. Within the same years, the number of companies retrenching increased (from 1% in 2000 and 2001 to 3% in 2002) and worse, so did the number of companies closing down (from 2% in 2000-2001 to 3% in 2002). Consequently, unemployment also continues to increase and as the World Bank records it had reached over 9% in 2002 from 4% in 1996.[281]

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[280] "Merombak Kadin menyelamatkan sektor riil" (2004).
[281] World Development Indicator, CD-ROM 2005.

Freer movements of capital and goods across borders, global pressure for deregulation and economic restructurization, also the rise of China and Vietnam as competitors in low-skilled labor intensive production and absorber of raw materials – from oil and coal to logs and rattan - complicates the recovery process of the Indonesian economy. At least 40% of total orders of rattan furniture from Indonesia were allegedly lost to China and Vietnam.[282] Even domestic entrepreneurs such as the giant Rajawali Group and also two anonymous entrepreneurs who own a clothing line in America have moved some of their business or subcontracted the sewing jobs to China. The associations for employers have been doing a series of seminars and trips to explore business conditions and opportunities in China.

On top of that, international institutions like the World Bank, the International Monetary Fund and the World Economic Forum produce comparative reports on what it takes to invest and operate businesses in countries across the world. There are for instance the *Doing Business* series, the *Global Competitiveness Report,* and the *World Business Environment Survey.* The ranking for Indonesia in these reports is not something to be proud of. According to the *Global Competitiveness Report,* Indonesia ranks 74 of 117 countries in its competitiveness in 2005, which is 10 ranks lower than it was in 2001. This is much lower than China for instance whom in 2005 was ranked 49. Their advice is crystal clear and is often re-voiced by employers operating in Indonesia in that economies must accommodate the needs of capital owners or else they would flee for better yields from their investments.

[282] "40% Pesanan Mebel RI Pindah ke China dan Vietnam" (2005).

Indonesia is obviously uncomfortable with the new realities and the fact that they can no longer survive in the global competition with heavily regulated markets. On the one end the state claims to provide incentives to investors such as tax holidays, the elimination of customs fees for capital goods, and the development of a one-stop policy to ease business start-up. Yet on the other end it cannot bear the idea of not tapping the potential of tax collection from the capitalists operating in the country. In response to the issuance of Presidential Instruction No. 3/2006 titled *Paket Kebijakan Perbaikan Iklim Investasi* (The Package to Improve the Investment Climate) by President Susilo Bambang Yudhoyono on February 27, 2006, government officials at the relevant ministries such as the Ministry of Internal Affairs, Ministry of Industry and the Ministry of Finance (specifically the Tax Bureau) were very reluctant to adopt the promised changes.[283]

The director general of the Tax Bureau, Darmin Nasution, stated that he needs to secure the revenue of the state from taxes hence the bureau should be selective in granting tax incentives. He insisted that tax incentive is not the main factor that helps the investment climate. Other contributing factors are the lack of coordination among government ministries and agencies as well as the slow deliberation process in Parliament. As reported by *Kompas,* so far of the 85 policies in the policy package, only 26 are deliberated. The policy proposals that are slowly (read: reluctantly) responded to include the 130 local rules on fees and taxes, the facilitation of income taxes for investment in certain sectors, the evaluation of fees on weighing stations, taxes for street lighting, and taxes for traffic of goods around the nation.

[283] “Penyelesaian 14 Kebijakan Lambat” (2006).

Tax is indeed one of the serious complaints employers voice. In comparison with neighboring countries, the number of taxes that a business must pay while operating in Indonesia is nearly double the average tax payments made in all East Asia and Pacific countries. In general, there are 52 tax items imposed in Indonesia. Only the Philippines beats Indonesia in this regard, with 62 tax items. In addition, bureaucrats have been very slow in adjusting to the demand for more high-tech, time and money efficient services. It takes 560 hours just to manage taxes in Indonesia (see Table5.3).

Region/Economy	Payments (number)	Time (hours)	Total tax payable (% gross profit)
East Asia & Pacific	28	251	31.2
Indonesia	52	560	38.8
Singapore	16	30	19.5
Malaysia	28	..	11.6
Thailand	44	52	29.2
Cambodia	27	97	31.1
Lao, PDR	31	180	24.7
Philippines	62	94	46.4
China	34	584	46.9
Vietnam	44	1,050	31.5

Source: Faisal Basri's presentation on tax reform.

Table 5.3: Paying Taxes: Indonesia in Comparison

An employer from the forestry sector who is also a top-rank official at APHI (*Asosiasi Pengusaha Hutan Indonesia*, Association of Indonesian Forest Concession Holders) argues that the tax policy has been skewed towards simply milking employers and existing tax payers.[284] For this sector, this employer notes, there are an increasing number of official and non-official fees imposed upon entrepreneurs by national as well

[284] Interview, January 24, 2006.

as local government units that have led to a high cost economy. APHI lists 13 kinds of taxes and fees for every cubic meter of logs.[285] Altogether the cost for these rents, APHI says, reaches between 30 to 45% of the price of every cubic meter of logs.[286] The employer also complains about the tendency of government and tax officials to poke in to their business by searching for mistakes for the sake of getting punishment fees that then

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[285] The taxes and fees include: the *Iuran Hasil Pengusahaan Hutan* (Dues from the Revenue of Forest Exploitation), *Provisi Sumber Daya Hutan* (Provision from Forest Resources), *Dana Reboisasi* (Reforestation Fund), *Pajak Bumi dan Bangunan* (Land and Building Tax), *Iuran Pembinaan Masyarakat Desa Hutan* (Dues for Developing the Forest Village Society), *Iuran Tata Batas* (Dues of Border Order), *Pajak Kendaraan Bermotor/Bea Balik Nama Kendaraan Bermotor* (Tax of Motor Vehicle/Fee for Transferring the Title of Motor Vehicle Ownership), *Pajak Pertambahan Nilai* (VAT), *Dana Jaminan Kinerja* (Fund to Secure Performance), *Dana Investasi Pelestarian Hutan* (Investment Fund for Forest Conservation), *Iuran Levy and Grant* (Levy and Grant Dues) , *Retribusi Daerah* (local retribution) and *Iuran Koperasi* (Cooperative Dues).

[286] The forestry sector was one of Indonesia's biggest contributors of foreign exchange before the 1997 Financial Crisis. Timber exports used to contribute as much as US$8 billion annually to the economy thus the biggest non-oil export commodity for Indonesia. With Indonesia's tropical rain forest, rain and humidity, it takes significantly less time to grow big trees like acacia in Indonesia; six years instead of 20 years in America or 40 years in Finland. This comparative advantage allowed Indonesia to export plywood, sawn timber and paper products to over one hundred countries including 80% of the plywood used in the United States home construction industry. In its heyday this sector absorbed up to 2.5 million laborers especially in the rural remote areas. The forest exploitation had opened isolated areas while the roads made by entrepreneurs for log transportation have now become important intercity roads. APHI estimated that their members have spent over 1.9 trillion rupiah (roughly US$ 2 billion) for various infrastructure development projects including 46,000 kilometers of road, schools, worship places and village community centers.

Today the forestry sector along with its linked industries (plywood, sawmill, furniture, etc.) is going bankrupt. In addition to the hardship in dealing with tax policy, APHI recorded at least another five problems in this sector. First, the devastating practice of illegal logging that eliminated hectares of not only the production forests but also the conserved forests and the national parks. As reported by WALHI (*Wahana Lingkungan Hidup Indonesia*, Indonesian Forum for Environment), the largest forum of non-government and community-based organization in Indonesia, Indonesia is losing an area of forest close to the size of Switzerland every year or about 3.8 million hectares per year or more than the size of 7 football fields every minute, double the rate of five years ago. APHI estimated that there are three times more illegal logs than the legal ones in the market. Second, there is a problem of log smuggling especially to Malaysia and China, both trough land and the sea. The problem is revealed because while the Indonesian government recorded no export for round logs to Malaysia in 2000, the Malaysian government recorded 623,000 cubic meters of imports. Meanwhile China's import figures for Indonesian timber are 103 times the Indonesian export figures. Third, there are conflicts over the right of forest exploitation between the concession holders and the members of local community. The local community claims that the exploited area is the area that they inherited from past generations (*hak ulayat*) and thus nobody else but them could take advantage of the forests. Fourth, there is a problem of deforestation done by individuals, usually local people, who simply want to get quick money for their needs by selling logs. Fifth, there is the problem of mismatched government regulations especially with regard to the policies adopted by the national and local government units. Employers in this sector argue that all of these problems would not have happened had the state not been too involved in the development of this sector.

opens room for negotiation on the rate of the fees. The employer also argues that several tax requirements, like the requirement to write a manual, the SPT (*Surat Pemberitahuan,* Annual Letter of Announcement on Income Tax) every March 30, are just a waste of money. He says:

> "Don't we (employers) already report our income tax monthly to the company? How much money did they spend for printing such a thick document? How many people do they have to hire to process that? After all we already have all in electronic documents. That is just a waste of money".

According to this employer, the entrepreneurs of the forestry sector spend at least 40% of the total production cost for taxes and fees alone. With other costs of production, employers who play by the rules end up having only about 10% profit whereas those who perform illegal business earn at least 50% profit.

Meanwhile other employers, especially from manufacturing sectors like electronics, complain about the variety of taxes imposed on companies. They refer to the impact of the decentralization of power to the local government in 1999 which ended up creating more charges imposed by local governments on top of the already high national taxes. The sharing of public expenditure function with local governments forced local governments to generate own-income from both tax and non-tax sources.[287] Speaking on behalf of one of the biggest multinational electronic manufacturers in Indonesia, a chief

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[287] The biggest sources of tax revenue for the provincial government include taxes on motor vehicles, on vehicle title change and on vehicles operating on water. For the municipal government, it may include among others tax for local development (especially in big cities and touristic areas), tax for lighting public roads, tax on billboards, tax on shows and entertainments and tax for company registration. With Law No. 34/2000, these local taxes have been increased in number over time with the goal to meet the revenue needs of local government. Today there are reportedly no less than 40 kinds of taxes and 180 kinds of fees imposed by governments at the local level. See Simanjuntak (2001).

human resource official disclosed that the fact that a certain company may be located between two municipalities puts them in a difficult position since they are charged with different sets of taxes and fees from two different municipal authorities.[288] The secretary general of APINDO, Djimanto, criticizes the government for being a ruler when it comes to taxes instead of a facilitator hence increasing the cost of the economy instead of improving the competitiveness of business.[289]

Asked about how the tax problem compares to earlier years, especially before the financial crisis or under the administration of President Suharto, all employers argue that the problem is worsening today. Not only are there more varieties of taxes and fees, both legal and illegal, the payment of those taxes and fees has no immediate positive impact on their businesses and yet there are more people at national and local levels that businesses have to "satisfy". The employers insisted that members of political parties know about this and understand that employers simply want to avoid hassles and bad publicity even if they have to pay the sidepayments. Unfortunately the government, they say, takes advantage of this.

> "Oh yes, yes it is still happening (the need to pay sidepayments). Today is worse. The difference between now and Suharto's time is that then the opportunity was clear…there was a clearer return. Nowadays it's harder…The cost has probably

[288] Interview, January 27, 2006.

[289] "Urusan Pajak Mengapa Harus Rumit dan Lama" (2006). In this article, it was also mentioned that corruption of taxation is a big problem. The LPEM UI in a joint cooperation with the World Bank and the Government of Netherlands surveyed 600 small and large companies in 2005 and found that the illegal taxations at the Tax Bureau and the Custom Directory reached up to 2.3% of import or around 7 trillion rupiah per year (800 million US dollar).

doubled or tripled. The cost of "being nice" to *bupati* (head of district) is the same with that of "being nice" to ministers."[290]

The concern of employers over the conduciveness of the business environment is also reflected in the inconsistency of policies across different government administrations. New policies are often based on political compromise instead of the actual needs of employers. Employers from the sector of forestry and furniture, for instance, pinpointed the trouble of constantly having new Ministers of Forestry. They have had 7 ministers within a 6 year period who unfortunately, they argue, have limited knowhow on the forestry business.

> "One (minister) was just text-book, maybe because he was an academician, some too political, and there are those with combined capability but for the most part they don't have real field experience…All of these means time for them to learn what is going on while in reality we need immediate actions, immediate solutions…Today partisan politics dominates the recruitment of ministers, and the recruitment pattern of these political parties are poor, which honestly, have led to patching-up policies (*kebijakan tambal sulam*)."

An employer from the banking sector argues that the problem is the discrimination against employers: money discrimination (hence those with money can get what they

[290] An employer, interview, January 24, 2006.

want); ethnic and religious discrimination; and “like and dislike” discrimination, based on personal revenge. In other words, what is written in the rules may be different from what employers must practice or face in reality.[291]

Policies taken against the business sector can be seen in shipping. Although this is one of the sectors that have fared relatively well in the past several years, mainly because few entrepreneurs venture into this business[292] and they usually earn income in US dollars, employers in this sector are also facing challenges that emanate from state policy. Until President Susilo Bambang Yudhoyono issued Presidential Instruction No. 5/2005 on March 28, 2005 on the Empowerment of the National Shipping Industry, 95% of shipping service for export and import as well as 50% of domestic shipping service (including the service to transport passengers and goods across islands) had been done by foreign companies.[293] This practice not only limited the transportation of goods and people especially to the remote areas, it also jacked up the price of goods transported

[291] Interview, December 16, 2005. This employer cited what happened personally to him, which involves an allegation of money embezzlement and a pressure to admit doing it in return for Rp 1 billion; a case which revealed to him how certain individuals in power dare to employ unconventional measures to exclude others.

[292] This is mainly due to the very high capital one must own to even start-up a business of few ships. The price of one small ship of 7,000 deadweight ton is about US$ 12 – 15 million. Even a seven-year old ship of that size from Japan would cost US$ 3 million. See “Memberdayakan Industri Pelayaran Nasional Apa Susahnya” (2004). The reluctance of banks to provide credits to this industry further curtailed the domestic private initiative to venture in this industry. According to the Senior Deputy of the Central Bank Miranda Gultom, in 2004 alone the shipping industry only gets 0.04% of the total credits from banks or Rp 246.4 billion. See “Industri Pelayaran Terkendala Pembiayaan” (2006).

[293] “Inpres pemberdayaan industri pelayaran, mengikis dominasi kapal asing dan membangun citra armada nasional” (2005).

since the foreign companies imposed very high handling charges.[294] As an archipelagic country, this has obstructed the supply of wood from Irian for the furniture industry in Java or of sugar from Java to remote areas in Indonesia.

The new regulation introduces the *cabotage* principle, which is basically a protection for the domestic shipping industry. It requires 1) all shipping within Indonesian territory to be done by ships operated by national shipping companies, and 2) all imports whose purchase or shipping are paid from the national or local government budget must be transported on ships operated by national shipping companies. The problem with this policy, however, has been enforcement and implementation.

There are many layers and forms of laws and regulations that simply don't work for lack of implementation "teeth" or for applying unnecessary pressure to businesses in the sector. They pointed to the newly released Presidential Instruction No. 5/2005 as an old rule wrapped in a new package; the law has been there since the 1960s but has never been implemented despite the issuance of numerous government regulations and ministerial decrees. Even now they are still waiting for the implementing regulations for the Presidential Instruction from the Ministry of Transportation. For the obstructive

[294] The foreign dominance over the national shipping industry began in 1984 when the state prohibited the operation of ships that are 25 years old and above. Since most ships were old, the policy stripped off many Indonesian-flagged ships and consequently allowed foreign companies to thrive. Trikora Lloyd, Sriwijaya Lines and Admiral Lines were among the companies losing many of their ships. Admiral Lines for instance which used to operate 11 ships now can only operate with 2 ships. Now following the implementation of the Presidential Instruction No. 5/2005, as of December 2005 there are 6.689 units of ships or an increase of 10.7%.

policy, they refer to the requirement to scrap ships that are 25 years old or older despite the fact that the ships are well-maintained[295] and it is very expensive to keep buying new ships.

One policy that all employers resent is the employment policy. Not a single employer that I interviewed, including the employer representatives, praises the employment policy. They especially refer to Law No. 13/2003 or the Labor Code, which an employer calls a "euphoria law" that denies the fact that the philosophies of workers and employers are like heaven and earth. The employers especially resent the rigidity of the rule of severance pay to workers, the fact that even workers found guilty of wrongdoing still need to get severance pay,[296] and that the required amount is considered too expensive. Anton Supit, a prominent employer and representative of employers in APINDO, argues that he understands the need of the government to have a certain responsibility to workers which is related to elimination of unemployment. He says:

> "Government's responsibility to the people is not our (employer) responsibility, right? I have responsibility for my workers, honestly it's not that I don't have any concern for the people….but unemployment is government's responsibility. I think about it as an individual, not as a company."[297]

Indeed the severance pay clause in Law No. 13/2003 was intended to deter employers from firing workers, hence creating unemployment. Yet the employers resent

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[295] According to a senior captain from one prominent shipping company, every ship has to undergo routine maintenance and check-up. The big ships must be docked every 30 months. On top of that, each company must abide by the international ISO standard, which means no ship could sail without meeting quality check.
[296] The reasons for why it was designed this way will be clear later in the section on the expectation of workers.
[297] Interview, December 5, 2005.

how they are pushed to care about the unemployment issue while their businesses are on the brink of collapse. According to them the law brings more hardship as they must set aside a huge sum of money in case they fail to sustain the business.

Employers argue that decisions on employment relations should be decentralized to companies; hence the state should only provide general guidance. They gave examples of different approaches to keep their workers productive that is through incentives, allowances and benefits that, they argue, are better than those promised through JAMSOSTEK.[298] They strongly argue that the government's approach on the labor code does not suit the need of employment relations as it sucks more capital out of employers without clear return. An employer cynically argues that government officials don't even agree among themselves on where to go hence they keep coming up with new ideas and inviting employers to attend seminars yet with no policy that actually supports the business environment.

With regard to the social security reform proposal advanced by the SJSN team, employers argue that although the idea was good, it has been politicized. APINDO suspects ASKES through Sulastomo was simply interested in extracting fresh funds from the giant pot of money at JAMSOSTEK. Political parties took advantage of the proposal to divert people's attention from the inability of the government to keep the prices of fuel and electricity low. They pinpoint the fact that the SJSN law has no sanction written in it.

[298] For the most part employers in Indonesia reveal that they only use JAMSOSTEK to abide by the law, not because they actually see it as beneficial. They argue that they typically use JAMSOSTEK only to provide the minimum retirement and work-injury insurance and buy more comprehensive coverage from private schemes. Three employers were open to say that JAMSOSTEK is just pay-pay-pay and no return. Worse, one Human Resource official argues that JAMSOSTEK almost always manage to argue that there is insufficient contribution from employers from the fund transfer the company made.

It’s a toothless law. They argue that President Megawati at that time was simply interested in adopting a new regulation that implied caring for the people and she wanted it quick. The employers, however, disagreed with the proposal until the very end and actually marched together with workers against it. They also lobbied the chair of Parliamentary Special Committee Surya Chandra but it did not work.

According to Djimanto, the secretary general of the National Committee of APINDO, employers have met to discuss their alternative idea of a new social security reform. They want to create two separate social security systems: one publicly funded system that covers all citizens and pays for basic necessities like primary healthcare, compulsory education up to high school, and minimum living standard, and one privately funded system that would partly include a contribution from the state, employers and workers. The provider for this privately funded system, APINDO argues, could be chosen through a fit and proper test as stipulated in a law. They insist that the government must pay a share of contribution for this new system because that is only fair since they already pay taxes.

Convinced that the deliberation on the SJSN is a good time to renew discussion of social security, they presented the idea to various parties including the World Bank, the UNDP and the National Development Planning Agency (*Badan Perencanaan dan Pembangunan Nasional,* Bappenas). They also mentioned talking strongly to JAMSOSTEK about their concerns over the management of their contributions and suggested certain actions to improve the efficiency of the agency such as through computerization. Unfortunately their idea did not go far. As Djimanto says:

> "Eventually the decision was made between the government and Parliament. Employers and workers' views were only heard during the hearing."[299]

In short, when it comes to the social security reform proposal, employers are skeptical that the reform will bring any positive return to them. All interviewed employers insisted that they understand the need to provide social security for workers and that a reform of social security is needed but they see the reform idea as a mere political vehicle to put more pressure on those who are already members of JAMSOSTEK. They see much politicking in the management of the economy and the social security reform itself, which they argue is not right and timely. They seriously doubt that the reform is advanced to improve employment relations.[300] For this reason, to them what is at stake today is the survival of various sectors of the economy hence the focus should be on cutting the already very expensive costs of running businesses in Indonesia. Again, it is expensive because despite the money put down, the rate of return is uncertain and minuscule.

5.4.2. The Expectation of Workers

Workers in Indonesia argue that they have not been much involved in the social security reform process. As told by a worker and union activist, few were invited to be

[299] Interview, January 6, 2006.

[300] In the word of Anton Supit, a well known figure at APINDO and a successful employer, "It is much better to have one substantial law that works than to make a hundred and only have one works. I learned that from the late economic lawyer Charles Himawan….That's the "disease" in Indonesia, we want all but no capability". Interview, December 5, 2005.

involved in the exploration study for a new social security system. Invited to the early seminars and study trips were the FSPSI and the FSPSI-Reform.[301] They observe that the proposal was heavily influenced by the government. Workers were only eventually involved, during the so-called "socialization" of the pre-formed reform initiative (i.e. pre-formed by the SJSN team, the state leaders and bureaucrats).

Other unions such as the SBSI (*Serikat Buruh Sejahtera Indonesia*, All-Indonesia Prosperity Trade Union), KSPI (*Konfederasi Serikat Pekerja Indonesia,* The Indonesian Trade Union Congress) were invited to workshops and seminars. Once the bill reached Parliament, various labor groups were also invited to the hearing session. Nevertheless, there are still workers' groups that were not invited to the events and continued to feel excluded, especially the unions that cover white collar workers, e.g. in the banking, property, media and entertainment, retail and telecommunication sectors.

It is important to know that labor unions in Indonesia are fragmented. It is not uncommon to find several unions representing workers from the same sector. As a union activist says, unions in Indonesia often fight against one another; not necessarily for the sake of the workers they represent but to undermine other unions or to secure leadership positions in the union for certain labor activists. This is not to mention that unions typically also have a hard time coordinating with other unions under one federation or that the federation is very passive in coordinating collective actions among its union

[301] FSPSI is the only workers union allowed under the New Order regime of President Suharto and to date it is unofficially still the preferred union that holds privilege to represent workers in JAMSOSTEK and other national tripartite agency. Meanwhile FSPSI-Reform is the splinter of FSPSI that claims fresher approach and more independence from the government. According to activists from several unions, FSPSI often receives favor (including financial one) from the state and JAMSOSTEK. The SPSI's office in Pasar Minggu, Jakarta is reportedly also paid for by the state.

members. The consequence of this is that in the policymaking process, unions and workers in general are more effective as a pressure group to say "no" to certain policy proposals. In practice, for instance, there are unions that often just say "no" without fully understanding why. Their fragmentation would not allow them to formulate an alternative proposal let alone advance it collectively.

In the case of the social security reform proposal, workers welcomed the idea of reforming the existing system but they were not happy about the idea of having the DJSN and the SJSN. *First*, they reject the idea of merging the existing social security agencies under the DJSN as it would mean JAMSOSTEK's giant assets and funds (notably from workers' contribution) would be used to finance the free healthcare program for the poor. Their concern was not just over the lack of state initiative in generating sufficient funds to finance the ambitious healthcare program, but also over the fact that the state is not going to pay a rupiah for the new program. The workers say that in principle they agree to the idea of extending quality healthcare to all citizens but they resent the fact that the financial burden would be on the enrolled JAMSOSTEK members and not guaranteed by the state through the state budget.[302]

Second, workers suspect that there is thick politicization in the reform idea that has nothing to do with improving workers' or citizens' social security benefits. The various workers I talked to especially have strong opinions against the Minister of Manpower Jacob Nuwa Wea and the political parties in power. They argue that there are individuals, like Jacob, who always seek ways to become political elites. *Third*, they

[302] They say: "Our monthly income is deducted (for JAMSOSTEK), so if we cry out out of disagreement, we have the right!". Interview, workers, December 4, 2005.

don't like the existing Law No.13/2003 which they believe has increased the desire of companies to subcontract workers or hire on a contractual instead of regular employment basis. The co-existence of this law with the idea for the new social security system, they believe, is simply incompatible.

Fourth, workers suspect that the management of PT JAMSOSTEK is problematic and corrupt, hence any new system based on PT JAMSOSTEK will still suffer from the problem. As examples they refer to cases in which employers do not enroll their workers in JAMSOSTEK, do not remit the contribution of workers to JAMSOSTEK, fail to remit all contributions of workers to JAMSOSTEK, and the simply poor law enforcement at PT JAMSOSTEK. They see the government, as represented by the Minister of Manpower, is in favor of employers instead of workers.[303]

Workers from non-SPSI unions argue that the workers representatives at PT JAMSOSTEK are merely symbolic. More specifically they said:

> "Even if there are commissioners from workers (group), they are mere displays and they are always taken from the FSPSI. In reality, how many are FSPSI members now? There are many other unions outside FSPSI whose members are more than that of FSPSI but the assignment for representatives' position at PT JAMSOSTEK is not transparent….I once came to them to get help for one of our members but they can do nothing."[304]

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[303] A worker refers to the case on which a worker who had worked in a company for five years finally realized that his company fails to remit his contribution and the employer's contribution to PT JAMSOSTEK. Upon reporting it, the company agrees to pay for it but afterwards he was fired for tarnishing the company's image. Workers also refer to the cases of mismanagement of funds at PT JAMSOSTEK and how easy it is for billions of rupiah to disappear from JAMSOSTEK's pool of funds.

[304] Interview, February 17, 2006.

In other words, during the deliberation of the social security reform, workers in general are either unaware of what the proposal is, resentful of whatever proposal is advanced by the state leaders, and highly suspicious about the motive and efficacy of the reform deliberation and effort.

Some worker activists who are often vocal in the media acknowledge having talks with the Minister and top-rank bureaucrats at PT JAMSOSTEK. They remember complaining about the lack of quality service and return from their monthly contributions. Unfortunately, they say, the meetings stand more as hearing rather than lobbying to get things done.

It is important to know that state leaders and bureaucrats too find it useful to invite a few worker activists individually to discuss their plans. They usually use the individual meetings with worker activists to test the water for their plans, to "convince" certain worker activists to support the plan by providing side payments and incentives, and to avoid getting negative reactions from workers. Indeed workers in Indonesia, given their fragmentation, have extraordinary power to reject certain plans through paralyzing mass demonstrations. Hence once a plan is controversial to workers, typically there would be a series of invitations for personal talks with worker activists. Such talk, again, is not a dialogue searching for input. It is more of an announcement of the ranges of things that might happen or that the state leaders and bureaucrats are considering.

In the case of SJSN, workers ended up demonstrating their rejection together with employers in front of Parliament. It was September 3, 2004, when both workers and employers felt that Parliament was going to pass the SJSN bill anyway despite their disagreements. Sofyan Wanandi, a leading figure in APINDO and FKKBN (*Forum Komunikasi dan Konsultasi Bipartis Tingkat Nasional,* Communication Forum and National Bipartite Consultancy) then released a statement strongly demanding that Parliament postpone the passing of the SJSN bill or both employers and workers are going to demonstrate in the streets. Knowing that the bill was going to pass anyway, they ended up going down the road to express their disagreements.

Despite the joining forces of workers and employers, workers insist that the street demonstrations did not indicate any agreement. Workers have their own resentments against the employers and they often refer to the state leaders as more in favor of the employers. Several workers argue that the state leaders do have a serious lack of capability to recognize the root of the employment problems hence non-satisfactory economic growth in Indonesia. One says that the state leaders respond relatively more quickly to employers' demands and always at the expense of workers' rights and working standards. Even more strongly one says that whatever PT JAMSOSTEK is arguing for improving benefit levels or diversifying investments is nonsense. While some workers simply distrust PT JAMSOSTEK because of its lack of independence from state leaders and their bad choices, others more bluntly say that there is a systematic effort to keep people stupid and uneducated about social security provisions so that certain groups of people can continue reaping workers' money according to their whim.

5.5. Conclusion

Social security reform in Indonesia hinged on the intensive symbiosis of bureaucrats and state leaders and the not-favorable environment for private businesses (both the employers and the workers) to operate. Combined with the dramatic reform proposal, it created severe resistance and skepticism from the stakeholders. What the workers and employers were concerned about was the yield from financial investments. Too often, they argued, they spend way too much money on schemes or projects with promises of decent return but end up with nothing satisfactory.

With the skepticism over the conduciveness of the economic environment, they became less interested in putting their money down for promises of social security benefits. The numerous indications of the lucrative and shady symbiosis between the state leaders and bureaucrats in the social security agencies added to their low expectation that the reform would go in their favor. Both workers and employers spotted the lack of genuine motive to improve the social security system, which in turn pushes them more into serious opposition to the reform idea.

Indeed the reform proposal had been continuously modified, thanks mainly to the resistance from state leaders and bureaucrats. In a nutshell, they were reluctant to accept the idea of unifying the existing social security agencies under the leadership of a professional DJSN and with new legal status for the social security agency (from state-owned corporation to trust fund). All of these meant potential lay-offs for bureaucrats, zero profit channeled to the state budget and challenges to redirect JAMSOSTEK's pool of money according to their whims.

CHAPTER 6

REFORM IN THE PHILIPPINES

6.1. Overview

Facing an increasingly uncertain and competitive market economy after the 1997 financial crisis, the Philippines opted to dissolve state political control and redistribute it into the hands of the many, i.e. workers and citizens. The reform bridged the mounting income gap between the powerful and ordinary people. By introducing a medium-dramatic change, i.e. by hiving off the provision of healthcare to a new agency, lowering the salary credit, increasing the contribution rate of employers by only one percentage point and improving benefit level, accessibility and professionalism in the management of all programs, the Philippines adopted a reform that empowers the people. The reform weakened state control over workers and employers by gradually building and strengthening the middle class.

The Philippine case demonstrates how the combination of the medium dramatic proposed change, the hopeful evaluation by employers and workers of the private sector and the relatively low symbiosis of bureaucrats and state leaders led to a reform that provided more benefits for individual workers and their dependents while weakening state control over workers and employers. Granted the reform has some negative side effects, yet the Philippines' direction of social security reform is to dilute the concentration of power in the hands of state leaders and to bridge the mounting income gap between those in power and ordinary people.

This chapter will start with an introduction to the Philippines' social security system. The rest of the chapter will elaborate the reform proposal, the reactions from the stakeholders, and the unfolding of the reform process.

6.2. Introduction

Like Indonesia, the Philippines is an archipelago but smaller in size with only 89 million people. Once colonized by Spain and the United States, the Philippines was granted its independence on July 4, 1946. Yet as stated in an Executive Order of 1963, President Diosdado Macapagal declared that the "correct date" for the Philippines' independence is June 12, the date on which in 1898 General Emilio Aguinaldo in Kawit, Cavite declared independence from Spain. Today June 12 has become the official date of independence while July 4 is celebrated as Filipino-American Friendship Day.

The legacy of Spanish colonization is strong. The gift of land to a few prominent families by the Spaniards to buy the support of Filipinos during the colonial period shaped the distribution of power in the country. Since there has never been any land reform, the politics and the economic sector in the Philippines have been dominated by a few dynasties.[305] Even the practice of democracy cannot mitigate the domination of these

[305] Coronel, Chua, Rimban and Cruz (2004), Seagrave (1988), Chua and Datinguinoo (2001).

few. If anything, democracy actually further enhanced the concentration of power because running for office is extremely expensive and requires the back-up of "strong" people.[306]

Philippine politics has been mostly tumultuous since the reign of the notorious dictator President Ferdinand Marcos. His brutal reign and massive corruption ended in the famous People Power movement of 1986 that installed President Corazon Aquino in office. After a brief period of peace and economic growth under President Fidel Ramos, the rule of President Joseph Estrada was ended by the second People Power movement that sent Estrada to jail for corruption and installed the then Vice President Gloria Macapagal-Arroyo as President. Political turmoil has characterized most of her administration too, especially following the allegation that she cheated to win the slim margin of the 2004 presidential election.

The statutory social security system in the Philippines is divided between that for the private sector workers (SSS, Social Security System) and the public sector workers and military (GSIS, Government Social Insurance System). For workers in the private sector, the system began following the signing of House Bill No. 15 and No. 148 as the Republic Act No. 1161 on June 18, 1954. The law is also known as the Social Security Act of 1954. The enactment of this law was preceded by a study from the Congress-formed Social Security Study Commission on July 7, 1948. The commission was born following the initiative of President Manuel A. Roxas to have a social security system for wage earners and low-salaried employees.

[306] Wurfel (1962), Lande (1965), Hawes (1987), Rocamora (1998).

The Social Security Act of 1954 was implemented on September 1, 1957. At this early time, the SSS commenced operations by covering all employers in the private sector with 50 or more workers. The benefits included loans for housing, sickness benefit and also pensions. By 1958, the SSS covered establishments with at least six workers; by 1960, the coverage expanded to all private enterprises with at least one worker. The coverage of the SSS continued to expand. In 1980 some self-employed people were also required to participate. In 1992 the self-employed farmers and seamen earning at least P1,500 per month or P18,000 per annum were included. In 1993, the coverage included household helpers earning at least P1,000 and in 1995 also workers in the informal sector earning at least P1,000 a month such as the street vendors and watch-your-car boys.[307]

The SSS administers two programs: the Social Security Program and the Employees' Compensation Program. The Employees' Compensation Program only started in 1975, which provides exclusive double compensation to workers with employers when they experienced illness or injury during work-related activities. Meanwhile the Social Security Program provides income replacement in times of death, disability, maternity, old-age and financial emergency loans. The following Table 6.1 provides the list of benefits and terms under which the benefits could be granted. All of the information is available publicly on the SSS web site.[308]

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[307] According to the National Statistical Coordination Board, the average annual family income in 1988 was P40,408 (or about P3,367 per month), in 1997 P123,168 (or about P10,264 per month), in 2000 P144,039 (or about P12,003 per month) and in 2003 P148,616 (or about P12,384 per month). These income rates vary quite significantly by provinces: the highest being in the National Capital Region (i.e. Metro Manila and surrounding area) and the lowest being in the Mindanao. P is for peso, the Philippine's currency. Throughout this study the exchange rate is as of 2006 US$, which is roughly 52 per dollar.

[308] http://www.sss.gov.ph/

Scheme	Benefits	Terms of Benefits	Benefit Computation
Social Security Program Effective March 2003, the contribution rate for SSS members stands at 3.33% for workers and 6.07% for the employers. Previously, the contribution rate for employers was only 5.07%.			
Sickness	Daily cash allowance (90% of the average daily salary credit – effective May 24, 1997). The maximum covered earnings or compensation is P15,000 (effective January 2002).	- The worker must have used up all paid-leave provided by the company she works for - Waiting period: 4 days - Worker must notify the employer (or the SSS in case she is self-employed or unemployed) on the 5th day - There must be at least three-month contribution within the 12 month period immediately before the semester of illness - The maximum benefit is 120 days in one calendar year. Any unused portion of the allowable 120 days benefit cannot be carried forward. - The sickness benefit shall not be paid for more than 240 days on account of the same illness. If the sickness or injury still persists after 240 days, the claim will be considered a disability claim.	1. Count 12 months backwards starting from the month immediately before the semester of sickness 2. Identify the six highest monthly salary credits within the 12-month period (list available at www.sss.gov.ph). 3. Add the six highest monthly salary credits to get the total monthly salary credit. 4. Divide the total monthly salary credit by 180 days to get the average daily salary credit. 5. Multiply the average daily salary credit by 90 per cent to get the daily sickness allowance. 6. Multiply the daily sickness allowance by the approved number of days to arrive at the amount of benefit due.

Source: the SSS

Continued

Table 6.1: The SSS Benefits and Terms

Table 6.1 continued

Maternity	Daily cash allowance equivalent to 100 % of the member's average daily salary credit multiplied by 60 for normal delivery or miscarriage, 78 days for cesarean cases.	- She has paid at least three monthly contributions within the 12-month period immediately preceding the semester of her childbirth or miscarriage. - She has notified her pregnancy through her employer or SSS (if unemployed or self-employed). - The maternity benefit may be given to a separated female worker provided that she was pregnant and has given the required notification prior to the date of separation from her employer.	*Di to* as step 4 above, then multiply the daily maternity allowance by 60 (for normal delivery) or 78 days (for caesarean cases) to get the total maternity allowance
Disability	Cash benefit paid to a member who becomes permanently disabled, either partially or totally. The cash could be availed as monthly pension or as a lump-sum depending on whether or not one has paid at least 36 monthly contribution to the SSS (if not, then the benefit would be as lump-sum)	- Worker must at least have one contribution paid to the SSS prior to the semester of contingency and will remain incapacitated and unemployed. - To qualify as disabled is to loose one or all of the following: one thumb, one index finger, one middle finger, one ring finger, one little finger, hearing of one ear, hearing of both ears, sight of one eye, one big toe, one hand, one arm, one foot, one leg, one or both ears. - Permanent total disability means having: complete loss of both eyes, loss of two limbs or above the ankle or wrists, permanent complete paralysis of two limbs, brain injury causing insanity. Other cases would be determined and approved by the SSS.	For permanent total disability, the lump sum is equivalent to the monthly pension times the number of monthly contributions paid to the SSS or the monthly pension times 12, whichever is higher. For permanent partial disability, the lump sum is equivalent to the monthly pension times the number of monthly contributions times the percentage of disability in relation to the whole body or the monthly pension times 12 times the percentage of disability, whichever is higher

Continued

Table 6.1 continued

Retirement	Cash benefit paid to a member who can no longer work due to old age. The cash could be availed as monthly pension or as lump-sum depending on whether or not one has paid at least 120 monthly contribution to the SSS (if not, then the benefit would be as lump-sum)	- A member who is 60 years old *and* unemployed and has paid at least 120 monthly contributions prior to the semester of retirement. -A member who is 65 years old, *whether employed or not*. If employed he should have paid 120 monthly contributions prior to the semester of retirement, whether employed or not. - There is an option to receive the first 18 monthly pensions in lump sum discounted at a preferential rate of interest to be determined by the SSS. The option should be exercised upon filing of the first retirement claim. Only advance payments shall be discounted on the date of payment. The dependents' and 13th month pensions are excluded from the 18-months lump sum pension.	The monthly pension will be *the highest of*: - the sum of P300 plus 20% of the average monthly salary credit plus two per cent of the average monthly salary credit for each credited year of service in excess of 10 years; or - 40% of the average monthly salary credit; or - P1,200 provided that the monthly pension is paid for not less than 60 months. The lowest monthly pension is P1,200 if the member has 120 monthly contributions; P2,400 if he has at least 20 credited years of service. The lump sum amount is equivalent to the total contributions paid by the member and his employer, plus interest.
Death & Funeral	Cash paid to the beneficiaries of a deceased member, available as monthly pension or lump-sum (if the member did not contribute for at least 36 months). The deceased member's beneficiaries are entitled to a 13th month pension payable every December and the funeral grant benefit.	- The deceased must have enrolled at the SSS.	The primary beneficiaries of a deceased member who had paid at least 36 monthly contributions prior to the semester of death shall be entitled to a minimum monthly pension of P1,000 if the member had less than 10 year of service, P1,200 if with at least 10 year of service, and P2,400 if with at least 20 year of service.

Continued

Table 6.1 continued

			If the deceased member had paid less than 36 monthly contributions, the secondary beneficiaries shall be entitled to *the higher of:* - monthly pension times the number of monthly contributions paid prior to the semester of death; or - 12 times the monthly pension. If the deceased pensioner is survived by less than five minor legitimate, legitimated, or legally adopted children, the illegitimate minor children will be entitled to 50 per cent of the share of the legitimate, legitimated or legally adopted children in the basic pension and 100 per cent of the dependents' pension. In cases where there are no legitimate, legitimated or legally adopted children, the illegitimate minor children shall be entitled to 100 per cent of the share of the former in the basic pension.

The SSS Employees' Compensation Program

Only the employer is required to remit monthly EC contributions on behalf of his workers, equivalent to one per cent of the worker's monthly salary credit. The required contribution ranges from P0.25 to P10 depending on the worker's salary

Schemes	Benefits
Disability	*a. Temporary total disability or sickness*. An income cash benefit equivalent to 90% of the average daily salary credit with a minimum of P10 and a maximum of P200 (effective Nov. 1, 1996). It is payable for a period not longer than 120 consecutive days. If the injury requires more treatment, the period may be extended

Continued

Table 6.1 continued

	up to 240 days. If it persists after this period, the injury will be considered as permanent total disability. This benefit is advanced by the employer every regular pay day. The amount legally paid by the employer is reimbursed 100% by the SSS. *b. Permanent total disability* (loss of two limbs, permanent complete paralysis of two limbs, etc.). This benefit is a monthly pension paid for as long as the injured lives plus 10% for each of the five dependent children beginning with the youngest and without substitution. The monthly pension is guaranteed for five years but will be suspended if the employee is gainfully employed, recovers from his permanent total disability, fails to present himself for examination at least once a year upon notice by the SSS or fails to submit a quarterly medical report certified by his attending physician as required under Section 5, Rule IV of the EC law. The minimum monthly income benefit is P2,000. Beginning Jan. 1, 1991, a permanent total or permanent partial disability pensioner is also given a supplemental allowance in addition to his monthly pension. This allowance will provide him additional financial assistance to meet his extra needs arising from the disability. Effective May 1, 1993, the supplemental allowance is P575 a month. Upon the death of an EC permanent total disability pensioner, the SSS will pay to the primary beneficiaries 100% of the monthly pension. In addition, his dependents will be paid the dependent's pension. If he has no primary beneficiaries, the SSS will pay to his secondary beneficiaries the remaining balance of the five-year guaranteed period, excluding the dependent's pension. *Permanent partial disability* (such as loss of one thumb, finger, leg). A monthly pension is provided to the member, equivalent to the pension for permanent total disability, but limited to the number of months designated by law for a particular disability. The minimum monthly pension is P2,000. However, if the period of permanent partial disability pension is less than a year the benefit may be paid in lump sum.
Death	A monthly pension is provided to the deceased member's primary beneficiaries, plus 10% of such benefit for each of five dependent children, subject to some limitations. In the absence of primary beneficiaries, the secondary beneficiaries are entitled to the monthly pension but not to exceed 60 months. The minimum monthly pension for the death benefit is P2,000. A funeral benefit of P10,000 will also be paid to any person who actually shouldered the burial expenses of the deceased member or permanent total disability pensioner.
Medical	Medical services, appliances and supplies provided to the afflicted member beginning on the first day of injury or sickness, during the subsequent period of his disability, and as the progress of his recovery may require. These benefits, however, are limited to the ward services only of an accredited hospital and physician. Ward services consist of all the services an in-patient would ordinarily receive in a hospital.
Rehabilitation	Rehabilitation services, consisting of medical, surgical and hospital treatment. The SSS also provides as soon as practicable, a balanced program of remedial treatment for handicapped members.

In response to concerns over the fate of retirees, the SSS in 2004 launched the Pensioners' Day Program where pensioners receive free medical check-ups, medicine for simple illnesses and informative discussions on aging and various health concerns. The program is held twice a month as a half-day program. The SSS also comes forward in time of national catastrophe such as floods and landslides by donating money to victims and providing a six-month moratorium on members' loans in the provinces declared as calamity areas. The latest instance was in November 2004 when a typhoon hit Eastern Luzon and the SSS provided P 5 million as emergency aid.[309] Until 1997, healthcare benefits (Medicare) were part of the Social Security Program but following the passage of Republic Act 7875 or the National Health Insurance Act of 1995, the SSS and GSIS transferred the administration of the healthcare programs to the Philippine Health Insurance Corporation (PHIC). The new name for Medicare is the PhilHealth program.[310]

Meanwhile the SSS itself also underwent reform in 1997. On May 1, 1997 President Fidel Ramos signed the Republic Act 8282 or the Social Security Act of 1997 that provides better benefit packages, expands coverage, allows for more flexibility in investment, enforces stiffer penalties on violators, condones the delinquent employers who are willing to pay their contribution debts and opens the possibility for the establishment of a voluntary provident fund scheme for members. President Ramos also increased the minimum flat rate benefits for pensioners. Effective March 2003, the contribution rate for SSS members stands at 3.33% for workers and 6.07% for employers. Previously, the contribution rate for employers was only 5.07%.

[309] SSS (2004).
[310] The National Health Insurance Act was signed in 1995 but the actual transfer of administration did not begun until 1997 for the SSS and 1998 for the GSIS.

The SSS fund is managed with the social insurance system where benefits are pay-as-you-go and defined benefit (except for a few members whose contribution is less than the required months to avail the full benefit; in this case the benefit would be a lump sum of contributions paid by the member and his employer plus interest). The Social Security Act of 1997 (Republic Act No. 8282) Section 20 requires Congress to annually appropriate the necessary funds to meet the estimated expenses of the SSS or the disclosed financial needs of the SSS based on the suitable periodic actuarial studies from the SSS. The Act (Section 25) regulates that not more than 12% of the total yearly contribution plus 3% of other revenue shall be disbursed for administrative and operational expenses such as salaries and wages, supplies and materials, depreciation and the maintenance of regional offices.

Meanwhile in the public sector, there is the GSIS System. The GSIS was established with the Commonwealth Act No. 176 of 1936, also known as the GSIS Charter. With this act, all civil servants receive life insurance. Before the act, there were several retirement plans for specific occupations in the public service, such as the Philippine Constabulary under Act No. 1638, Public School Teachers under Act No. 3050, and Health Service Employees under Act No. 3173. The act was later on amended with the Republic Act No. 660 on June 16, 1951 where benefits are expanded to include annuity for pensions including for the non-permanent government employees. On August 4, 1969, health insurance became part of the benefit scheme. In 1975, the Employees' Compensation Benefits Program was introduced which allows employees and dependents to receive financial and medical benefits in the event of a work-related injury, illness or death. GSIS provides a separate retirement plan for the judiciary, separate life, disability and accident insurance benefits for *barangay* (the smallest administrative unit) officials and other such officials of the Local Government Units.

As of today, benefits for GSIS members include: life insurance, pension, healthcare, some types of loans, and claims settlement. The first type of loan is the Salary Loan for active members. This is the most popular program where in 2004 the GSIS spent 28% of the total member loans. The allowable loan varies by length of membership, the cleanliness of the record from administrative or criminal cases or unpaid contribution, and the salary rate (see Table 6.2). The repayment term and interest rate for the loan varies by the loan types.

And then there are various loans. The programs include the policy loan that allows members to borrow 50%-80% of the earned cash value of the members' insurance, the emergency loan that allows members residing or owning a property in a calamity area (as declared by the President of the Philippines) to borrow some amount of money for their needs following a natural disaster event for 2 years, the *Bahay Ko* housing program that allow members to borrow money to buy or construct a dwelling unit, the socialized/special housing loans, and the old-age and disability pension loan to help retirees cope with the increasing cost of living. In March 2004, GSIS also introduced the Summer One-Month Salary Loan (a one time special loan package) and the Cash Advance program.

<table>
<tr><th></th><th>Qualifying Conditions</th><th>Loanable Amount</th><th>Repayment Term</th></tr>
<tr><td>1.</td><td>Member must be in the service and not on leave of absence without pay as of the date of application</td><td>With a minimum of 20 monthly contributions can borrow: 1 month basic salary</td><td>1 year for 1-month loan</td></tr>
<tr><td>2.</td><td>Member must have been a regular member for at least 20 months</td><td rowspan="2">With a minimum of 40 monthly contribution can borrow: 2 months basic salary</td><td rowspan="2">2 years for 2-3 months loan</td></tr>
<tr><td>3.</td><td>Member must have no pending administrative or criminal case as of the date of application</td></tr>
<tr><td>4.</td><td>Member must have no arrearages in the payment of mandatory social insurance contribution</td><td>With a minimum of 60 monthly contribution can borrow: 3-5 months basic salary</td><td>3 years for 4, 5, 6 months loan</td></tr>
<tr><td>5.</td><td>Member must have the required minimum take-home-pay of P2,000 or whatever is provided by the General Appropriations Act after deducting the monthly installment on the loan</td><td>With a minimum of 120 monthly contribution (10 years) can borrow: 6-8 months basic salary</td><td>4 years for 7-8 months loan</td></tr>
<tr><td colspan="4">All loans are renewable after 6 regular monthly installments</td></tr>
</table>

Source: GSIS.

Table 6.2: Types and Terms for Salary Loan for GSIS Members

GSIS is a defined benefit social insurance scheme. The workers' contribution rate now stands at 18% for the first 6,000 pesos of their wages and 12.5% thereafter. The government pays roughly 53% of total benefits. A portion of the reservable fund from the incoming contribution is partly invested by the GSIS and will be returned as dividends to active members and cash gifts to pensioners. Those who received dividends were members whose life insurance coverage was in force for at least one year. In 2004, the GSIS reported paying a total of P1.204 billion in dividends to active members and P684 million in cash gifts to pensioners.

The Philippine Health Insurance Corporation or PhilHealth is the new agency that currently manages healthcare programs and insurance for all workers and citizens in the Philippines. It is the agency that implements the mandate to provide the National Health

Insurance Program (NHIP). PhilHealth is based on the principle of universality (i.e. providing all citizens access to health services and at least a basic minimum package of health insurance benefits), equity (i.e. uniform basic benefits), solidarity (i.e. risk sharing among income groups, age groups, health-status groups and geographic areas), and cost containment (i.e. incorporating features of cost containment in its design and operations so people could pay for healthcare services). PhilHealth also starts to provide a basic package of healthcare services to indigents through premium subsidies or other direct service provision paid for by national and local government units until the program is fully implemented.

Established with the passage of Republic Act 7875 or the National Health Insurance Act of 1995, starting in 1997 PhilHealth receives a transfer of funds totaling P105 million from the GSIS, P14 billion from the SSS and P52.3 million from local government units for the enrolling of their indigent citizens. In 1997, when the National Health Insurance program was launched, 164,291 indigent families from two cities in 18 provinces were covered and by the following year 18 additional provinces alongside 44 cities were to be covered.[311] The media reported that in 1997 alone, a target of 18 local health insurance offices were to be built to service people from North to South, i.e. in the cities of Baguio, Dagupan, Tagaytay, Batangas, Legaspi, Iloilo, Tacloban, Cebu, Davao, Cagayan de Oro, Cotabato, Zamboanga, General Santos City, Pasay, Quezon and Kalookan and the provinces of Isabela and Pampanga.

As stated in the rules and regulations implementing the National Health Insurance Act of 1995, workers and employers share an equal contribution percentage (i.e. fifty-

[311] "Health for all Filipinos by the 21st Century" (1998).

fifty ratio). The total contribution rate is fixed at a certain amount for different groups of salary brackets (see Table 6.3). As for the indigents, the contribution rate for the national government and the local government units in which the indigents reside is specified as the following.

Monthly Salary Bracket	**Monthly Salary Range (Pesos)**	**Salary Base (Pesos)**	**Total Monthly Contribution (Pesos)**
1	4,999.99 and below	4,000	100
2	5,000 until 5,999.99	5,000	125
3	6,000 until 6,999.99	6,000	150
4	7,000 until 7,999.99	7,000	175
5	8,000 until 8,999.99	8,000	200
6	9,000 until 9,999.99	9,000	225
7	10,000 until 10,999.99	10,000	250
8	11,000 until 11,999.99	11,000	275
9	12,000 until 12,999.99	12,000	300
10	13,000 until 13,999.99	13,000	325
11	14,000 until 14,999.99	14,000	350
12	15,000 until 15,999.99	15,000	375
13	16,000 until 16,999.99	16,000	400
14	17,000 until 17,999.99	17,000	425
15	18,000 until 18,999.99	18,000	450
16	19,000 until 19,999.99	19,000	475
17	20,000 until 20,999.99	20,000	500
18	21,000 until 21,999.99	21,000	525
19	22,000 until 22,999.99	22,000	550
20	23,000 until 23,999.99	23,000	575
21	24,000 until 24,999.99	24,000	600
22	25,000 and up	25,000	625

Source: PhilHealth
Note: the contribution rate for individually paying member (e.g. the self-employed or contractual workers) is fixed at P100 per month.

Table 6.3: Contribution Rate for PhilHealth as of January 1, 2006

In the Philippines, local government units are classified based on their economic capabilities and poverty level. The economic capabilities are measured by gross regional domestic product while the poverty levels are determined by the National Statistical

Coordination Board with various minimum basic needs indicators from nutrition, health, to public safety and literacy rate. For first to third class local government units, the contribution for the indigents would be shared equally (fifty-fifty) by national and local governments. For the fourth to the sixth class local government units, the ratio of contribution rate between national and local government starts with 90:10 until the second year of program implementation, then 80:20 in the third year, 70:30 in the fourth year, 60:40 in the fifth year and 50:50 in the sixth year of implementation onward.

Benefits under the National Health Insurance program consist of inpatient and outpatient care, also emergency and transfer services. Beneficiaries (paying members and their registered dependents)[312] receive a maximum 45 days of hospitalization. Until 1999, PhilHealth had two packages of benefits, basic and supplemental. Indigents and their dependents, however, would only be eligible to receive the basic benefit package. The benefit package caps the total cost per day or per treatment. See Table 6.4 and 6.5 for the benefit packages from PhilHealth. But effective December 1999, PhilHealth applies a uniform benefit for all participants, which is much more generous than the previous benefit packages (see Table 6.6).

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[312] According to Section 3 of the Law, the dependents would include legitimate spouse who is not enrolled, unmarried and unemployed legitimate and illegitimate children as acknowledged in birth certificate under the age of 21, children over the age of 21 who are suffering from disability or serious illness that renders them totally dependent on members, and parents who are 60 years old or older and not enrolled.

A. Hospital Charges			
Expense Item	Primary Hospital	Secondary Hospital	Tertiary Hospital
Room and Board (per day)	P55	P100	P145
Medical expense (per confinement)			
Drugs and Medicine	P595	P790	P1,015
Ordinary	P1,350	P1,620	P2,915
Intensive Care	Not covered	P3,650	P4,170
Catastrophic			
X-rays, laboratory, etc.	P150	P360	P635
Ordinary	P325	P830	P1,260
Intensive Care	Not covered	P1,620	P3,845
Catastrophic			
B. Professional Fee			
	General Practitioner		Specialist
Ordinary Cases	P300		P450
Intensive/Catastrophic Cases	P450		P750
C. Surgical Expenses			
Surgeon's fee			P7,080
Anesthesiologist's fee			P2,125
Operating Room charges			P1,550
D. Surgical Family Planning Procedures			
Vasectomy			P400
Tubal Ligation			P500

Source: PhilHealth

Table 6.4: Basic Benefit Package from PhilHealth until 1999

Certain expenses are not covered by PhilHealth, such as non-prescription drugs and devices, outpatient psychotherapy and counseling for mental disorders, drug and alcohol abuse or dependency treatment, cosmetic surgery, home and rehabilitation services, optometric services, and normal obstetrical delivery.[313] At the end of 2005, there was deliberation of a new law proposed by the Department of Health concerning reproductive health issues that among others wants to improve the coverage of PhilHealth by including normal delivery in its benefit package.

[313] Catastrophic illnesses are also not included, which include: cancer, meningitis, encephalitis, cirrhosis of the liver, myocardial infarction, rheumatic heart disease, massive hemorrhage, etc.

A. Hospital Charges			
Expense Item	Primary Hospital	Secondary Hospital	Tertiary Hospital
Room and Board (per day)	P30	P50	P75
Medical expense (per confinement)			
Drugs and Medicine	P300	P395	P510
Ordinary	P675	P810	P1,460
Intensive Care	Not covered	P1,825	P2,085
Catastrophic			
X-rays, laboratory, etc.	P75	P180	P320
Ordinary	P165	P415	P630
Intensive Care	Not covered	P810	P1,925
Catastrophic			
B. Professional Fee			
	General Practitioner		Specialist
Ordinary Cases	P150		P225
Intensive/Catastrophic Cases	P225		P375
C. Surgical Expenses			
Surgeon’s fee			P3,540
Anesthesiologist’s fee			P1,065
Operating Room charges			P775
D. Surgical Family Planning Procedures			
Vasectomy			P200
Tubal Ligation			P250

Source: PhilHealth.

Table 6.5: Supplemental Benefit Package from PhilHealth until 1999

Benefits	Hospital Category		
	Primary	**Secondary**	**Tertiary**
Room and Board			
Not exceeding 45 days for each member and another 45 days to be shared by his dependents	P200	P300	P400
Drugs and Medicines			
Per single period of confinement			
a. Ordinary	P1,500	P1,700	P3,000
b. Intensive	P2,500	P4,000	P9,000
c. Catastrophic	0	P8,000	P16,000
X-Ray, Lab, etc			
Per single period of confinement			
a. Ordinary	P350	P850	P1,700
b. Intensive	P700	P2,000	P4,000
c. Catastrophic	0	P4,000	P14,000
Professional Fees			
Per single period of confinement shall not exceed:	P150/day for General Practitioner P250/day for Specialist		
a. Ordinary			
General Practitioner	P600	P600	P600
Specialist	P1,000	P1,000	P1,000
b. Intensive			
General Practitioner	P900	P900	P900
Specialist	P1,500	P1,500	P1,500
c. Catastrophic			
General Practitioner	P900		
Specialist	P1,500		
Others			
Operating Room			
a. RVU of 30 and below	P385	P670	P1,060
b. RVU of 31 to 80	0	P1,140	P1,350
c. RVU of 81 and above	0	P2,160	3,490
Surgeon	Maximum P16,000		
Anesthesiologist	Maximum P5,000		
Compensable Outpatient services - ambulatory surgeries and procedures including dialysis, radiotherapy and chemotherapy - TB DOTS			

Table 6.6: Unified Medicare Benefit from PhilHealth, effective December 1999

PhilHealth is run by a professional staff of at least 108 people, who are mainly medical and healthcare experts. In 1997, PhilHealth was headed by Attorney Jose A.

Fabia, formerly the mayor of Binmaley, Pangasinan who had once been Assistant Secretary of the Department of Health from 1987 to 1991 and Vice Chair of the Dangerous Drugs Board of the Philippines.[314] Today it is headed by Acting President Lorna O. Fajardo, former director of the Philippine Overseas Employment Administration. Although its office on Shaw Boulevard in Pasig City is rather modest, with small rooms for the staff and crammed with offices of other private businesses in the City Center building, PhilHealth has a computerized system of services for its national to municipal and city-level units.[315]

The sources of financing for PhilHealth are not just workers' contributions and subsidies from national and local government units. They also come from various donors, both local and international, also private and public agencies. There are for instance the Philippine Amusement and Gaming Corporation (PAGCOR)[316] and the Philippine Charity Sweepstake Office (PCSO)[317] that provide subsidies to those who cannot afford

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[314] "Scaling New Heights in Social Health Insurance" (1998).

[315] The latest news is that with cooperation with Glaxo SmithKline, PhilHealth would monitor the use of outpatient services electronically by installing electronic facilities at rural healthcare units. See the news "PhilHealth, GSK to Introduce Computerized Monitoring of Outpatient Benefits Availment" (2006). In the past this has been the service easily abused by both users and healthcare staff, e.g. claim fraud.

[316] PAGCOR is a state-owned and controlled corporation established to regulate all games of chance in the Philippines, from sports betting to lottery, casino and online cockfight gambling. As mentioned its web site (http://www.philwebinc.com), it was created in 1976 to oversee the operation of gaming casino, to generate funds for the government's developmental projects and to help curb illegal gambling. PAGCOR is the third biggest source of government funds with annual revenue of P22 billion. Its charter was created by Presidential Decree No. 1869. The corporation is frequently used by the government to boost government revenues and beefs-up taxes. The principal beneficiaries of PAGCOR include among others the President's Social Fund, the Philippine Sports Commission, and government health, education and scientific programs. In June 1, 2006 PAGCOR and the Bureau of Internal Revenue (BIR) cooperated to conduct a nationwide raffle system where anyone submitting the raffle numbers noted in their merchandise receipts (one raffle ticket per P100 purchase) through text-messaging service of SMART would qualify for weekly prize drawing of P5 million. This is one way the BIR enhances its policy to require all businesses to issue receipts for every transaction and for consumers to demand receipts. With receipts, the government would be able to keep track of tax revenues from businesses.

[317] PCSO was created by President Manuel L. Quezon with his approval of Act 4130 in March 1935 to replace the National Charity Sweepstakes. A new law was approved by Parliament (*Batasang Pambansa*)

medical care and apply for financial help from them and occasionally sponsor the buying of ambulances for hospitals. As reported by the Secretary of Health Dr. Fransisco Duque, so far the PCSO had contributed P50 million for PhilHealth card provisions.[318] Both PAGCOR and PCSO are state-owned corporations under the direct management of the office of the President of the Republic of the Philippines.

Other sources of financing for PhilHealth programs include private pharmaceutical companies. Starting on July 31, 2002, Glaxo SmithKline, a giant pharmaceutical company, together with PhilHealth launched the Pinoy Health Pass program, which is a joint initiative between the private sector and the government aimed at creating quality healthcare accessible to the poor. With this program, Glaxo SmithKline will provide health insurance coverage to some 10,000 urban poor families by paying 50% of the policy premium in the first year while the remaining 50% will be paid by PhilHealth (from the subsidies of national and local government units from which the families reside).

In the second year, the company will pay 25% of the premium while the local government units pay 25% and the remaining is paid by PhilHealth. The program is supposed to give time to local government units to finance subsidies for the poor. By March 9, 2005, as disclosed by Glaxo SmithKline's Senior Vice President for Corporate

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in September 1979 raising the PCSO's charity fund from 25 percent to 30 percent of its net sales and reserving 55 percent for the prize fund and 15 percent for its operating expenses. PCSO's primary goals are to finance health programs, render medical assistance and services to the disadvantaged sectors of society and perform charitable work. It is also mandated to develop community health care in regional hospitals throughout the country through TB, cancer and dialysis centers. PCSO for instance was involved in helping the victims of natural and man-made disasters such as the Pinatubo eruption, the Ormoc disaster and the Ozone fire tragedy. For more information, see the official web site (http://www.pcso.gov.ph/).

[318] Presentation in a seminar with academicians and non-governmental organizations "Financing for Reproductive Health", October 4, 2005 at Parliament.

Affairs Noel Isberto, the program had been conducted in several urban areas in Manila, Quezon City, Tagaytay, also in the province of Tacloban, Mindanao, and Surigao.[319]

In line with the PhilHealth effort to improve healthcare access to all citizens, in 1999 President Joseph Estrada initiated a program called *Lingap para Sa Mahihirap* (care for the poor). This program provided 100 poor families in every city and municipality with health insurance. Legislators were given a Medical Assistance Fund valued at P1 million for Senators and P500,000 for Members of Congress which they could use for the enrollment of constituents in the indigent program. This program was reportedly made possible through the lobbying of the then Secretary of Health Alberto Romualdez who is the ex-officio chairman of the PhilHealth Board of Directors.[320]

In addition to the statutory healthcare scheme, the executive has been proactive in challenging then SSS and now PhilHealth to improve its quality of service. It started under the administration of President Joseph Estrada whose Vice President Gloria Macapagal-Arroyo served concurrently as the Secretary of Social Welfare and Development. Poverty alleviation was the agenda of his administration. In 2000, the Indigent Program was adopted as the priority program for the nation.[321] Its adoption

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[319] Articles compiled by Glaxo SmithKline.

[320] Philippine Health Insurance Corporation (2006).

[321] The Indigent Program provides both curative and preventive care. The curative care entitles members to the following benefits from PhilHealth accredited hospitals: room and board, services of healthcare professionals, laboratory and medical examination service, prescription drugs, surgeon's, anaesthesiologist's and operating room fees, surgical family planning procedures and outpatient benefits for chemotherapy, radiotherapy, hemodyalisis, cataract extraction and minor surgical procedures performed in an operating room. The preventive care entitles members with free primary consultations and free laboratory examinations for complete blood count, chest x-ray, stool exam, urinalysis, and sputum microscopy for TB suspect in accredited rural health units and health centers. The curative benefits are portable meaning that they can be obtained from any accredited hospital, while the preventive benefits must be availed in specifically assigned health centers.

allows government agencies to request budget allocations and private sector donations as a deductible from their taxable income for programs targeting indigents.[322]

Under the leadership of President Gloria Arroyo, poverty alleviation is still part of the administration's agenda. The concept has been that the government pays the first peso, the people pay the rest on their own. This is to say that in the Philippines the government consciously takes part in financing a fraction of the healthcare costs. In doing that Arroyo continues the Indigent Program of President Estrada and renames it the Sponsored Program or the *Medicare para sa Masa* (Medicare for the Masses). The targets of the program are those belonging to the lowest 25% of the population who cannot afford to pay health insurance premiums. Subsidies to the poor are paid for by the national and local governments but interested private entities may donate by paying a share of the local government premium. To entice private entities to join the program, their donations will be fully deductible from their taxable income. The President uses this program seriously to imply progress in socioeconomic development in every national speech.[323]

The statutory social security stands together with the effort of the government to provide income security, which is reflected in the minimum wage policy. Unlike Indonesia whose level of minimum wage is deliberated by a National Wage Council and

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[322] The indigents is defined in the Article II section 2 (q) of the Republic Act 7875 as "a person who has no visible means of income, or whose income is insufficient for the subsistence of his family". The deservedness of this person will be assessed by the Local Health Insurance Office. The critique has been that in reality there is the so-called political indigents namely people who are not necessarily poor but received the poor status so they could avail certain benefits in order for those in power to garner political support.

[323] As noted by PhilHealth, President Gloria Macapagal-Arroyo directed the enrollment of 5 million indigents into the Sponsored Program in the Executive Order No. 276 (dated January 29, 2004) with a goal to accelerate the expansion of universal healthcare coverage of the less privileged members of the society. *Ibid.*

issued as a national policy unilaterally by the executive branch, i.e. by the Minister of Manpower, in the Philippines the minimum wage policy may be proposed by the National (and Regional) Tripartite Wages and Productivity Commission but determination rests with the Congress. Any initiative to adjust the minimum wage policy has to pass both chambers of Congress.

The minimum wage varies by occupation and by region with the National Capital Region[324] as the highest (i.e. between P313 and P350 per day in 2006) and the autonomous region of Muslim Mindanao as the lowest (i.e. P200 per day in 2006). According to the Department of Labor and Employment, the current national daily average is P283. In this country the nominal value of the minimum wage is adjusted according to the consumer price index although the standard does not change as quickly as the cost of living. In fact when the House of Representatives passed a bill that would increase the daily minimum wage of Filipino workers by P125 in December 2006 it was the first change in ten years and unsurprisingly received bitter reactions from businesses in the Philippines.[325] The bill is known as House Bill No. 345. Labor activist and Congress member Crispin Beltran from the Labor Party still considers the standard low as he said a family with six children in the Philippines needs at least P684 per day.[326]

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[324] The National Capital Region (NCR) covers: Metro Manila, Caloocan, Las Pinas, Makati, Malabon, Mandaluyong, Marikina, Muntilupa, Paranaque, Pasay, Pasig, Quezon, Taguig, Valenzuela and the municipalities of Navotas, Pateros and San Juan.

[325] "Philippine Business Group Denounce Minimum Wage Increase", *International Herald Tribune,* January 3, 2007. According to this news, the bill to increase the minimum wage standard has languished in the House since 2001 and now that it awaits the passing from the Senate, business groups have already made strong campaign through media ads to call on senators to block the bill and for President Gloria Macapagal-Arroyo to veto the bill if it happened to pass the Senate.

[326] Ibid. Back in June 2006, the plan was to increase the minimum wage by P25 only and it triggered protests from three labor unions: The Partido ng Manggagawa, Bukluran ng Manggagawang Pilipino and Kilusang Mayo Uno. See "Labor Groups Criticize Payrise" (2006).

As elaborated by Virginia Teodosio (2001), until 1993 there was only minimal state intervention in the Regional Tripartite Wages and Productivity Boards. But lately there has been an increasing state role as indicated by the government's close and active monitoring of the formulation and implementation of the minimum wage policy. The goal is to protect the unorganized and unskilled labor force. The state does this by providing a formula in region-specific wage determination, checking company compliance, creating zonal inspection task forces, campaigning to heighten the consciousness of workers on the proper wage levels per region. In 1996 the state increased penalties for wage violators.

The issue with the minimum wage regulation is that it is centered on the concept of regular employment where there will be control exercised by employers on the workers who rendered labor or service to the employers. With the current expansion of flexible employment and subcontracting activities, compensation is based on the actual output produced or agreed time worked hence the minimum standard of wage often becomes irrelevant. The regulation is also irrelevant to the nearly 80% of the workers operating in the informal sector.[327]

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[327] This estimation was provided by Dr. Virginia Teodosio, Interview, October 3, 2005. The concept of informal sector refers to that provided by the ILO. As explained by the International Labor Organization, the Resolution concerning statistics of employment in the informal sector, adopted by the Fifteenth International Conference of Labour Statisticians (ICLS), January 1993, conceives the informal sector as consisting of production units that "typically operate at a low level of organization, with little or no division between labor and capital... and on a small scale. Labor relations are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees." Moreover, these units possess the characteristics of "household enterprises", which are: fixed and other assets do not belong to the unit but to the owner; units cannot engage in transactions or enter into contracts nor incur liabilities on their own behalf; expenditure for production and capital goods are often indistinguishable from household purposes. The ILO was the first to introduce the concept of the informal sector in 1972. In its Kenya Mission report, the ILO defined informality as (a) ease of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small scale operations; (e) labor intensive and adaptive technology; (e) skills acquired outside of the formal sector; (g) unregulated and competitive markets". The

What is interesting however is the fact that the state has been active not just in increasing the nominal wage for workers but also in providing institutionalized social wages for working citizens. Since 1990 the state has increased housing benefits, access to medical service, social security coverage and non-compensatory means of protecting workers' pay (e.g. relief allowance, loans). Such initiative allows for a reaching out to those working in the informal sector. This however has created some tension with the employers group arguing that flexibility on wage and employment contracts are most desired for employers, hence attractive to help create employment, which is one of the goals of the government's development strategies.

Hence to secure employment, the Philippine state has been less progressive in supporting workers. The state secures a measure of negotiated flexibility for employers. Indeed generally speaking the Philippines' economic development policy after President Corazon Aquino has been relatively more liberal in that government intervention is deliberately minimized to eliminate the paralyzing corruption and attract foreign investments.[328] The manifestation of this is the fact that on the one hand nothing has changed in the Filipino labor code (Presidential Decree 442). The law, which was enacted on May 1, 1974 and whose omnibus rule of implementation was adopted on May 27, 1989, remained intact.

ILO/ICFTU international symposium on the informal sector in 1999 proposed that the informal sector workforce can be categorized into three broad groups: (a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and (c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labor, home-workers and paid domestic workers. See the ILO (2006).

[328] Ringuet and Estrada (2003).

On the other hand, today there are more subcontracted jobs and recruitment. Such practices technically escape the legal enforcement and monitoring of the state, especially when it comes to wage and benefits. Employers are indeed rather aggressive in securing their flexibility. There was once a pending bill in Congress to criminalize labor subcontracting but this was halted. In 2001, there were attempts to regulate (or as workers read it "allow") subcontracting activities by issuing Labor Department Order No. 10 but the Order was then scrapped by *Malacañang* (the presidental office).

With regard to firing and the provision of compensation after work termination, the Philippines relies more on employers' good intentions. The Labor Code regulates the provision of severance pay upon work termination and retrenchment. The Code stipulates that the employer shall not terminate the services of a worker except for just cause as authorized by the law, e.g. due to installation of labor-saving devices, redundancy and retrenchment to prevent losses or the closing or cessation of operation of the establishment.[329]

Any termination of employment must be reported to the Department of Labor and Employment at least one month before the intended date of firing. Under the circumstance of installation of labor-saving devices and redundancy, the employer must provide severance pay equivalent to at least one month pay or at least one month pay for every year of service, whichever is higher. In the case that the company undergoes retrenchment, the severance pay would be at the rate of one month pay or at least half a month's pay for every year of service, whichever is higher. A fraction of at least six month's work would be equal to one year of work.

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[329] See Article 279 and 283 of the Labor Code. Azucena Jr (2004).

Severance pay is the only measure available to sustain workers' life after work termination. There is no unemployment benefit, which is still regarded as solely the responsibility (and the freedom) of the employers. And this is not a simple matter. Chairman Attorney Benedicto Ernesto Bitonio Jr. of the National Labor Relations Commission reveals that every year the Commission must handle 67,000 disputes regarding the reason for work termination and the provision of severance pay.[330] Chairman Bitonio discloses that the litigation associated with claims for separation pay are typically either caused by employers evading the responsibility or workers contesting the ground for separation.

The idea for establishing a scheme within the SSS that provides an unemployment benefit was introduced as early as the late 1960s.[331] The Philippine Society of Actuaries wrote about the instances in which an unemployed person could be provided with temporary benefits during a period of unemployment.[332] Unfortunately the initiative remained an idea on paper since it was then tapped to serve political purposes.[333] The incidence of unemployment was considered high and might continue to increase in years to come. In the early 1990s, a Congress member, Senator Ernesto Herrera, who is also a labor activist from the Trade Union Congress of the Philippines (TUCP), reactivated the idea. Yet since the purpose was to provide a benefit with the existing contribution rate,

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[330] Interview, November 10, 2005.
[331] Interview with Mabini Juan of the Actuarial Society of the Philippines, October 28, 2005.
[332] The proposal was to cover the unemployed with recent labor employment attachment (hence not agricultural, domestic, seasonal, new-entrants, intermittent, or self-employed workers) and whose desire and willingness to work is active and real. See Nowacek (1966).
[333] Unfortunately the resource person who told this story did not (want to) specify the political issues surrounding the discourse. A former actuary of SSS, interview, October 28, 2005.

the SSS strongly rejected it, arguing that there was simply not enough funding. After all, as recalled by SSS Executive Vice President Horacio Templo, both workers and employers were not willing to increase their contribution to the SSS.[334]

6.3. The Stages of Social Security Reform

Locating the actual trigger of the reform in the Philippines was much more complicated than I expected. The reason for this is partly political. As revealed from the interviews of people who closely observed or were involved in the unfolding of the reform, everyone thought that they themselves and the people they supported politically had an important role in the process. Comparing the reform in the Philippines with Indonesia and Singapore, it is obvious that here there has been relatively more open deliberation on the problems and limitations of the existing social security provision and broader public awareness of the issues.

It is fair to say that Filipinos are more familiar with the concept and programs of social security than Indonesians. Filipinos are less cynical about the system too. Compared to the Singaporeans, Filipinos are relatively more open in speaking their minds. Of the 27 employers from various sectors and sizes of business with whom I had in-depth interviews, all were very familiar with the SSS, PhilHealth and even GSIS. Only two of them do not enroll their workers in the SSS and PhilHealth and that is because they just established their businesses one or two years ago and they are micro-size

[334] Interview, October 20, 2005.

businesses.[335] An interview with the representative from ECOP (Employers Confederation of the Philippines), their reports and surveys revealed that large private businesses enroll in the SSS, PhilHealth and provide additional benefits on top of those enrollments.

More details on business reactions about social security, the reform and other benefits private employers provide beyond the SSS and PhilHealth will be provided in Section 6.3.3. The workers I talked to, including people I had casual conversation with working in factories, apartment and hotel businesses, restaurants and public universities, were also very much aware of the variety of social security programs. Such public awareness is partly a fruit of the relatively broad population coverage of the social security programs and also decades of serious enforcement and implementation. With more than 52 million working population, the SSS alone covered more than 25 million people by 2001. SSS is one of Asia's oldest and most active social security institutions.

The reform initiative actually surfaced before the crisis with the adoption of the National Health Insurance Act in 1995. This Act established a separate healthcare management program under PhilHealth that targets broader segments of the population. It was not implemented until 1997. By that time the SSS was also reformed through the adoption of the Social Security Act of 1997 which increased the benefit level for members and further reduced the relative dependence of the agency on the state. By the end of 1999 the benefit and coverage from PhilHealth were also improved.

[335] In the Philippines, micro business is defined as business entity or cooperative engaged primarily in the production, processing or manufacturing of products or commodities with total assets of not more than P3.0 million. See Republic Act 9178 of 2002. The definition is subject to review and upward adjustment by the Small and Medium Enterprise Development (SMED) Council.

The adoption of social security reform was relatively uncontroversial and regarded as necessary. Back in 1993 and 1994 it was observed that the benefits paid for by the SSS exceeded collected contributions. Since the economy was doing relatively well under President Fidel Ramos, when the Philippines first experienced fiscal surplus after nearly two decades of deficit, reduced the poverty level and increased foreign direct investment,[336] in 1998 the SSS contribution exceeded benefits thanks to higher wages, better collection efficiency and moderate benefit enhancement.[337] Yet soon after the 1997 crisis hit the region, studies were released saying that the Philippine SSS will become insolvent in the year 2015;[338] much earlier than the previous 1995 actuarial study had predicted. With more people out of formal sector employment, a high and prolonged period of unemployment, there are fewer people contributing to the SSS. Combined with longer life expectancy, the SSS experienced fiscal pressure as benefits continued to be granted but the contribution rate was either stagnant or went down.

In 1999, the Assistant Vice President and Deputy Chief Actuary of SSS Rizaldy Capulong publicly presented a series of evaluations of the SSS. He argued that the life of SSS could be in danger if the contribution rate is not increased.[339] While such valuations are part of the regular activity of the SSS as stipulated in the Social Security Act of 1997, the message that it delivered was alarming: the health of the fund is deteriorating. In a

[336] Daniel Joseph Ringuet and Elsa Estrada, "Understanding the Philippines' Economy and Politics since the Return of Democracy in 1986", *Contemporary Southeast Asia* 25, no.2 (2003): 233-250.
[337] Cacdac (2001, 106).
[338] SSS official, interview, October 20, 2005.
[339] Evaluation is defined as activities to help determine the long-term actuarial solvency of the social security program, assess whether there will be a balance between revenues and expenditures in the future under the current financial system, and recommend corrective measures that will improve the financial viability of the program.

presentation to PricewaterhouseCoopers, Rizaldy Capulong revealed that based on actual experience, if the contribution rate is sustained but with the salary ceiling increased from P3,000 to P12,000, five increases in minimum pension (from P1,000-P1,200 to P1,000-P2,400) but with ten annual across-the-board increases and the return on investment ranges from 12.5 to 20 percent, the fund would only last to 2015.[340] The following Table 6.7 specifies his calculation of what might happened with or without yearly across-the-board increases in pensions.

According to Rizaldy Capulong, the deterioration of the SSS fund is the consequence of the higher ratio of payments to contributions. Within the past 8 years since 2000, there had been five occasions on which benefits exceeded contributions (see Table 6.8). There may be an increasing membership but there are too few paying members. In addition, the contribution for short-term benefit payment is insufficient (see Table 6.9) and the operating expenses are on the verge of insufficiency as the spending on administrative costs reached the limit in 1999, 2000 and 2001 (see Table 6.10).

[340] Archive of Capulong's presentation.

	KEY PROJECTION RESULTS	SCENARIOS		
		Realistic	**Optimistic**	**Conservative**
No Across-the-Board Increase	Year Fund will Last	2015	2021	2011
	Year Net Revenue Ceases to Increase	2004	2008	2000
	Year Portions of the Assets Starts to be Used	2008	2014	2001
With Yearly Across-the-Board Increase in Pensions	Year Fund will Last	2012	2017	2009
	Year Net Revenue Ceases to Increase	2003	2004	2000
	Year Portions of the Assets starts to be Used	2004	2010	2001

Note: *Realistic* refers to the realistic expectation of what might happen based on the existing style of management of the SSS fund, *Optimistic* refers to the optimistic expectation of what might happen to the inflow contribution, and *Conservative* refers to the hopeful plan to adjust the style of the management of the SSS fund in order to prolong the life of the fund.
Source: Presentation of Rizaldy Capulong, SSS to the PricewaterhouseCoopers (1999).

Table 6.7: Projections of Scenarios for SSS Fund Life

YEAR	**CONTRIBUTION**	**BENEFIT PAYMENT**	***THE DIFFERENCE***
1993	11.44	12.24	*-0.80*
1994	13.89	15.52	*-1.63*
1995	16.02	16.95	*-0.93*
1996	18.48	18.28	***0.20***
1997	22.35	20.58	***1.76***
1998	24.98	24.88	***0.10***
1999	27.12	28.77	*-1.65*
2000	*30.32*	*33.89*	*-3.57*

Source: Presentation of Rizaldy Capulong, SSS to the PricewaterhouseCoopers (1999).

Table 6.8: The SSS Ratio of Contribution and Benefit 1993-2000 (in Billion Pesos)

Benefit	1990	2000
Daily Sickness	P75	P360
Maternity	45 days	60 days
Funeral Grant	P4,000	P20,000

Note: The Increase is made without increasing contribution rate but with maximum monthly salary credit increased, from P3,000 to P12,000. According to Mr. Capulong, there was a temporary underfunding in 1993-1995 and an aggravated underfunding is expected in the 2000s.
Source: Presentation of Rizaldy Capulong, SSS to the PricewaterhouseCoopers (1999).

Table 6.9: The Summary of Increases in Maximum Short-term Benefits at SSS

Compliance rate is also reportedly low (only 31% in the year 2000). The SSS Executive Vice President and Chief Actuary Horacio Templo explained that in the past there were always some wage increases but not lately. While increasing the salary credit ceiling may be one way to increase contributions, it would also increase the obligation of the SSS to increase benefits. Given the condition of the funds, this is too risky to do.[341] He also argued that often the problem included people cheating on their contribution that is by colluding with employers not to admit their actual salary because they would like to minimize their contribution. This is also common among the self-employed.

Year	Limit of Expenses	Actual Expenses	The Difference
1993	1.90	0.92	0.98
1994	2.21	1.20	1.02
1995	2.51	1.52	0.98
1996	2.79	1.98	0.81
1997	3.29	2.35	0.94
1998	3.71	3.25	0.46
1999	3.99	3.99	0.00
2000	4.20	4.20	0.00
2001*	4.49	4.53	-0.04

Note: * projected number
Source: Presentation of Rizaldy Capulong, SSS to the PricewaterhouseCoopers (1999).

Table 6.10: The SSS Operating Expenses 1993-2001 (in Billion Pesos)

[341] Interview, October 20, 2005.

This is not to mention criticism of SSS and GSIS investment choices. The cases that drew most public attention include the SSS and GSIS ownership of shares in the PCI Equitable Bank (the third largest bank in the Philippines), the finding that President Estrada had a secret account under an alias (known as the Velarde account) at the bank which was supposedly aimed at securing a P500 million loan to William Gatchalian of the Wellex Group of Companies, the subsequent collapse of the value of shares of the PCI Equitable Bank, the selling of SSS and GSIS shares in the PCI Equitable Bank at a price that was considered too low, and most recently, the public uneasiness over the involvement of the SSS and GSIS in the creation of a potentially oligopolistic banking sector.[342]

These incidents have created an internal dispute within the SSS and led to the appointment of a series of new SSS executive presidents. This has in turn jeopardized the reputation of the SSS as an independent agency. The reputation of GSIS, however, has been spared. For some reason the leadership of GSIS Executive President Winston Garcia is unshaken.[343] Media publicity was mostly on the SSS.

The internal financial condition of the SSS and the negative publicity on its politicization further encouraged reform. On the one hand, measures were taken to prevent the bankruptcy of the SSS while the provision of social protection for those most in need was enhanced. On the other hand the SSS took actions to distance itself from

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[342] SSS and GSIS relinquished shares at a rate wanted by Banco De Oro of the SM Group that then allowed the acquisition of PCI Equitable Bank by Banco De Oro in which Banco De Oro becomes the surviving entity and the second largest bank in the Philippines.

[343] For sure Winston Garcia also owes the support from President Gloria Macapagal-Arroyo who firmly said that she has no intention to fire Garcia. Mrs. Arroyo assured the public that Garcia is the right person for the GSIS and that Garcia will not do anything that is wrong. See “GSIS Chief Stays” (2002).

state leaders and their agendas. As will be elaborated in Section 6.3.2, there was a series of internal tensions within the SSS indicating the move towards breaking at least the image of the symbiosis between state leaders and bureaucrats. The appointment of Corazon De la Paz as executive president of the SSS strengthened SSS professionalism.

6.3.1. The Reform Idea

With regard to the adoption of the National Health Insurance Act of 1995 and the establishment of PhilHealth, Dr. Eduardo P. Banzon, the Vice President of PhilHealth, offered some insight.[344] The history of social security includes an expectation that eventually the system would cover all Filipinos, assuming that the formal sector would continue to expand until it covers the whole country. What happened, of course, was different. By early 1990 legislators realized that they are not getting the job done by failing to capture the self-employed and people working in the informal sector. This is not to mention the indigents who cannot afford healthcare service in the first place. The legislators also argued that the competence of SSS and GSIS in managing health insurance was never satisfactory.

Eventually every legislator came to believe that there should be a social protection program that covers all Filipinos and is run by people with relevant core competencies. Dr. Banzon suggested that President Ramos, who signed the law, did not even understand the issue but along the way he saw the value of the bill, bought into it and so it became

[344] Interview, October 28, 2005.

law.[345] Being a health practitioner, he believed that a separate institution would improve the funding for healthcare as it would allow for an earmarked budget. Today indigent coverage has improved significantly although the money spent at the national level has not increased in the past four years. The existing national-level healthcare spending is about P11 billion. This is because in the past years most funding is the responsibility of the national government, whereas now the local governments have begun to catch up.

Both Dr. Banzon and the SSS officials also described the involvement of a foreign institution that helped bring the issue of the insufficiency of the existing Medicare and the SSS to the surface. A study conducted by the United States Agency for International Development (USAID) suggested the creation of a universal insurance coverage that would unify the system of contribution and benefits for all citizens. Presumably with the formation of PhilHealth, the government could provide a uniform set of benefits for all. Among the Filipinos involved was Dr. Rhais Gamboa, an economist from the School of Economics of the University of Philippines-Diliman. His idea then was to create a provincial health insurance program, setting up pilot programs prior to the establishment of PhilHealth.

On the other hand, the SSS was facing financial challenges. As mentioned in the previous section, something needed to be done to save the life of the agency. Being a program that relies on short-term contributions and benefit payments, the healthcare program suffered seriously. An SSS official joked that it is funny that the tendency has been to break away and set up a new institution whenever the mother institution is in

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[345] From interviews with people in the SSS and PhilHealth, nearly everyone believed that President Ramos simply bought in to the idea hence he was by no means the initiator of the reform.

trouble. In short, there are plenty of sources of initiative for improving healthcare coverage and benefits.

The initiative of reform therefore has been focused on the need to improve the benefit level of social security protection, to reach out to those who have not been covered, and to fix the financial problems. Within the SSS, the initial idea was to privatize it. Then-Executive President SSS Carlos Arellano was the first to initiate the privatization of the public social security programs. Hosting the second meeting after the formation of the Association of South East Asian Nation–Social Security Association (ASEAN-SSA), when he was appointed chair,[346] Arellano said that his immediate goal was to unify the eight member nations regarding the proposal of the IMF and the World Bank to allow private fund managers to handle public pension plans.[347] The appeal that was highlighted in that proposal is the shorter-term investment horizon of a profit-oriented institution. Back in 1996, President Fidel Ramos was reportedly mesmerized by the privatization of Chile's pension system saying that "privatization will allow an

[346] ASEAN-SSA is an organization of all social security organizations of ASEAN member countries whose goals are to provide a forum for senior officials to meet regularly, to develop meaningful cooperation in the area of social security through training, research and development. ASEAN-SSA was initiated by Indonesia in September 1995, met for the first time in Bali Indonesia on November 13-19, 1995, and finally was founded upon the Memorandum of Agreement among ASEAN countries on February 13, 1998 in Bangkok, Thailand. The Memorandum of Agreement was formally signed by the heads of social security organizations: Prof. Dr. Awaloedin Djamin (Indonesian National Social Security Association), Tan Sri Sallehuddin bin Mohamed (Employees Provident Fund, Malaysia), Mr Wan Abdul Wahab Abdullah (Social Security Organization, Malaysia), Mr Renato C. Valencia (Social Security System, Philippines), Mr Cesar N. Sarino (Government Service Insurance System, Philippines), Mr Leong Lick Tien (Central Provident Fund, Singapore) and Mr Chamlong Sriprasart (Social Security Office, Thailand). Mr. Djamin from Indonesia was the first Chair of ASEAN-SSA.

[347]See "ASEAN-SSOs must unite on Pension Reforms – Arellano" (1999).

enlarged provident fund system to widen its coverage, increase the management flexibility in investing its portfolio, decentralize its operations and raise minimum contributions."[348]

Apparently the idea of privatizing SSS was seen as a potential solution for the SSS financial pressure and lack of population coverage. Although the agreement among the ASEAN-SSA members was to leave the choice of privatization to each country member, the successor of Arellano in the SSS, Vitaliano Nañagas,[349] advanced that goal within the SSS. Soon after taking office, Nañagas unveiled his plan to privatize the pension fund to resolve the financial issues within the SSS including the controversial investment choices. The proposal was heard by the legislators and picked up as part of the Social Security Act of 1997 that allows for the establishment of a voluntary provident fund scheme for members.

6.3.2. State Leaders and Bureaucrats

With regard to the symbiosis between state leaders and bureaucrats and how it affects the social security reform in the Philippines, the reform was technically shaped in two different places. On the one hand there are the bureaucrats, career officials at the social security agencies, who employed actuarial measures and their existing linkages to state leaders (e.g. personal relationship, appointment duty) as well as their concern over their personal well-being to respond to the reform idea. On the other hand there are state

[348] Guerard (1996).
[349] Carlos Arellano headed the SSS from July 1998 to January 2001 while Vitaliano Nañagas headed the SSS for a shorter time period, from January 2001 to July 2001. Leadership in the SSS varies significantly, from Nañagas' leadership being the shortest and the leadership of Gilberto Teodoro (from January 1966 to February 1986) and Renato Valencia (from March 1990 to June 1998) as among the longest.

leaders who responded to the reform idea by keeping in mind the function of the social security agencies as means to support various development agendas and to enhance their political standing. Although there are instances in which a lucrative symbiosis between the state leaders and bureaucrats has been argued to have occurred, the evidence presented by the social security reform process contradicts that expectation.

In the case of the SSS and state leaders, both parties took actions independent of the agreement of the other party and mostly tailored to meet the needs of the enrolled members and the citizenry. This what makes the Philippines different from Indonesia or Singapore. Even if there were a symbiosis between state leaders and social security bureaucrats, it is more of a personal level symbiosis, individual to individual, rather than a concerted one where all bureaucrats are practically captured by the state leaders who have direct stakes in the bureaucratic agencies, to the point that these bureaucrats cannot make autonomous decisions to serve public needs. In the Philippines, the symbiosis is between the individual appointed executive president of the SSS and the President of the Republic or between the appointed SSS commissioners and the President of the Republic, all because there is some degree of indebtedness between these individuals. Yet the bureaucrats as a whole are relatively autonomous from such indebtedness, which comes from the subordinate position of their agencies in the government hierarchy.

The state leaders responded to the reform idea by acknowledging the insufficient existing coverage. Their mandate allowed them to take immediate unilateral action to respond to the reform needs, i.e. absent agreement from the bureaucrats. The state leaders typically tap in to the popular trend of public opinion as represented by discourse among the legislators. President Fidel Ramos who led the nation after the tumultuous administration of President Corazon Aquino bought in to the bill that improves the monthly pension of pensioners and the flat rate minimum benefit for pensioners, widows and the disabled. With the Social Security Act of 1997, President Ramos also locked in room for more flexibility, enabling the SSS to invest the reserve fund in private securities and foreign-currency denominated investments. Such diversity was helpful in improving the solvency of the SSS fund. There are also measures taken to protect workers' funds from violators. Under the reform, delinquent employers are persuaded to remit their contributions by condoning late payments over a certain time period. The 1997 Act stipulates that violators will be severely punished.

Such action to improve benefits could, and had, put even more pressure on the SSS, worsening the budget deficit by increasing benefit payments without creating revenues. Nevertheless the SSS leadership before Corazon De la Paz, i.e. under Carlos Arellano and Vitaliano Nañagas, bowed to the Act. Their way of resolving the need for revenue was by investing in high yield though more risky investments: stocks. Arellano, for instance, was big on the stock market. During his administration, the SSS started buying stocks heavily.[350]

The pattern continued until it reached the point where the SSS was "caught" signing off on the buying of bad stocks during the administration of Nañagas and when President Joseph Estrada was in office. Both Arellano and Nañagas resigned due to

[350] According to the SSS Senior Vice President for Investment Edgar Solilapsi and the Vice President for Treasury Gamelin Oczon, the size of investment in stocks and equities has increased significantly since mid 1990s. Before that the bulk of SSS investment, up to 90%, was in government securities. Now it is down to 18%. Interviews, October 28, 2005.

public scrutiny and the internal tension they caused within the SSS. The same thing happened to Federico Pascual who once chaired GSIS and was replaced by Winston Garcia. Arellano and Pascual ended up with grants of broad immunity from criminal charges and became witnesses on how the SSS and GSIS ended up dispensing money to the Belle Corporation (with a commission of P189.7 million provided to President Estrada in October 1999) and dragged SSS and GSIS into the transactions involving Waterfront Phil Inc. (a hotel and casino operator), Equitable PCI Bank and the Philippine Long Distance Telephone Company.

Indeed, the conformity of these top-rank bureaucrats coincides with controversial decisions that indicate the presence of orders from *Malacañang*. The fact that these gentlemen were granted broad immunity with very limited testimony, i.e. only to confirm that President Estrada received a commission from the purchase of Belle shares by the SSS and GSIS, have raised a controversy that the whole ordeal involved someone else in power.[351] A top-rank labor leader whose union sits as worker representative in the SSS argued that the law requires that SSS funds be spent only on blue chips but with the direction from President Estrada, the money was dispensed on buying not-yet-rated blue chips, including ESL. The SSS fund suffered from this action since the SSS has not been able to sell these stocks and they are still valued at the purchase price.[352]

Hardly anyone disagrees that the venturing of SSS into the stock market has hurt the SSS, both its funds and its reputation. The period of President Joseph Estrada was the most controversial time. A high-rank SSS official who then also suffered some

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[351] Mangahas (2002).
[352] Interview, October 7, 2005.

consequences due to his position revealed that President Estrada is basically a person who is never bothered by public scrutiny and pays little attention to the intricate system of corporate management. He argued that President Estrada should not be the only one to blame because he had had very capable cabinet secretaries. However, he also argued that the business community often wants something big (yet controversial) to happen hence they would need the support of the president and drag the SSS and GSIS into it.[353] This official insisted that the connection between the SSS and *Malacañang* is often exaggerated, that they have been unfairly connected to the scandals of the president. He regretted how he suffered professionally because of such allegations.

Needless to say, the SSS and GSIS happened to be present in scandals involving those in power or the cronies of those in power. The case that also became the center of attention in President Estrada's scandal was the finding of the so-called Velarde account (with P3.3 billion in it) at the Equitable PCI Bank, 42 percent of whose stocks are owned

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[353] Cronyism was among the pathologies found in Estrada's presidency. As listed by the Philippine Center for Investigative Journalism, the close associates/cronies of the president include: Dante Tan (a major contributor to Estrada campaign who has been charged with insider trading and price manipulation), Lucio Co (owner of duty free shops who has been investigated for smuggling), Jaime Dichaves (longtime presidential crony who has been accused of intervening in the telecommunicationss industry), Mark Jimenez (former presidential assistant for Latin American affairs who is facing extradition charges in the US) and Ramon Ang (vice-chairman of San Miguel Corporation who acts as the political broker for SMC chairman and Estrada's supporter Eduardo Cojuangco, Jr). The closeness of these cronies to the President is signaled by the fact that most of 17 pieces of luxurious real estate in Metro Manila, Tagaytay and Baguio that is acquired by president and various family members since 1998 were in the name of shell corporations formed by these gentlemen. There are also men who enjoy political favor from the president, such as William Gatchalian, the plastic tycoon who was appointed advisor on the welfare of overseas Filipino workers, Julio Tan, the uncle of one of taipan Lucio Tan's wives who was appointed presidential consultant on Chinese affairs, and Wee Dee Ping, a wealthy Zamboanga businessman as adviser on Mindanao. See Coronel (2000).

by the SSS and GSIS. In the dramatic impeachment trial, the Velarde account was proven to be Estrada's, which despite the denial on its purpose[354] was found to be a means to increase his personal wealth.

The controversy involving the SSS and GSIS is not just the fact that PCI Equitable ended up to be a Trojan horse for President Estrada to increase his personal wealth, it is also the fact that the participation of SSS and GSIS in the acquisition of PCI Bank had made it the second largest in terms of resources. This, critics suspect, was another way of enriching the cronies to co-exist with, if not block the growth of, the "outsiders".[355] Critics also suggest that the SSS and GSIS investment was tainted with cronyism at the expense of members' money. After PCI merged with Equitable, the share price went down to an average of P98, and the present value is at P52 to P53.[356] The same report noted that Estrada skimmed P6 billion from this transaction.

All these facts tell us that there are actually some linkages between the bureaucrats and the state leaders, although the shape of the linkages themselves should not be judged as uniform let alone concerted. The internal tension within the SSS,

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[354] President Estrada insisted that the account belongs to Jaime Dichavez, a wealthy businessman who is his friend. His signing of the account as Velarde was to make it appear that he owned the account so that the bank would approve the P500-million loan application of William Gatchalian on behalf of the Wellex Group of Companies, of which Gatchalian was president. His signature, he said, was only a guarantee that the businessman would pay back the loan. See "Erap: I signed as Jose Velarde" (2006).,.
[355] President Estrada reportedly said that with the mergers and acquisitions of banks, the Philippines would ended up with having four really big banks: Metrobank owned by Chinese tycoons like Gokongwei and George Ty, Equitable, Bank of the Philippine Islands (BPI) owned by the old-rich Lopezes and Ayalas, and the buyer of Philippine National Bank (an ailing bank). See "The Bank that Could" (1999). For more information on the history of the banking sector in the Philippines, including the past life of Philippine National Bank and tycoons venturing in this sector see Hutchcroft (1998).
[356] Coronel (2001).

between the bureaucrats appointed by the President of the Republic and the career bureaucrats, sheds light on this. As one can imagine, the appointed bureaucrats typically have a certain degree of personal relationship with those in power.[357]

In the case of the SSS, these appointed bureaucrats usually would come into office with their preferred staff who would occupy certain strategic decision-making positions including the office of the executive vice president of the SSS. Such habits create resentment among the career bureaucrats, especially when it means sacrificing one's own promotion. How one connects with another therefore depends on the level of resentment and how the chair deals with sensitive decision-making.

As mentioned earlier, Arellano and Nañagas both agreed to secure the life of the SSS through stock investment and privatization. While Arellano was the first to advance the idea of privatization, his focus was stock investment. Nañagas, on the other hand, focused on the idea of privatization. With his personal staff at odds with the career bureaucrats and the scandals involving President Estrada bursting to the surface, Nañagas' emphasis on privatization inevitably created turmoil within the SSS resulting in his ousting and the suspension of some top-rank career bureaucrats. The fear among the bureaucrats was that with privatization, they were going to lose jobs.

The tension within the SSS was minimized under the leadership of Corazon de la Paz, the first woman to head the SSS. She is a well-known accountant who was a senior partner and chairperson of Joaquin Cunanan & Co., now PricewaterhouseCoopers in the Philippines. She is also a successful businesswoman who holds membership on the

[357] Pascual of GSIS used to head the Allied Bank which is owned by Estrada's crony Lucio Tan. Arellano is President Estrada's boyhood friend who used to work with Equitable president and CEO Wilfrido Vergara in Far East Bank.

boards of the following corporations: San Miguel Corporation, Philippine Long Distance Telephone Company, Ilonics, Equitable-PCI Bank (as Vice Chairperson), Republic Glass Holdings, Philex Mining Corporation, Philex Gold Inc., and the Philippine Health Insurance Corporation. Her deceased husband was a lawyer who served as the chairman of the National Power Corporation and Presidential Advisor on Energy Affairs in 1991-1992. Within the SSS she is known as a friend of Nañagas but she quickly earned respect from her policy choices.

Under de la Paz, the response to the reform idea includes the strengthening of public relations, for which she has been widely praised.[358] After the earlier evaluation, de la Paz decided to talk about the problem publicly instead of concealing it. Since coming into office in August 2001, whenever she had an opportunity she spoke about the need to raise the contribution rate in order to prevent the financial deterioration of the system. Her effort paid off when the SSS successfully lobbied the employers to increase their contribution rate by one percentage point in January 2003. Now the contribution rate for employers is 6.07%, making the total contribution of employers and workers 9.4%. This was the first time in two decades that the SSS contribution was raised. Because of this change, the life of the fund has lengthened.[359] The latest news was that the actuarial life of the fund is spared until 2027, thanks to the increased contributions and substantial income from investments.[360]

[358] Virtually all news media gave positive evaluation of the leadership of De La Paz and nearly all people I interviewed praised her competence in getting the SSS out of the negative image.
[359] "Is Social Security In Danger?" (2005).
[360] SSS news, September 1, 2005. According to the Executive Vice President Horacio Templo, from a deficiency of about P7.6 billion in 2001, they were able to narrow the difference in 2004 to only about P1 billion. In 2005 their contribution collection is projected to reach P47.6 billion as opposed to benefits disbursement of P47.2 billion

The SSS also evaluated their loan programs, especially the direct lending to hospitals, schools, cooperatives, and members, in order to reduce the possibility of difficult collection. In 2003, the SSS restructured the portfolio of housing loans for members. This is after realizing that many of the housing accounts since the 1970s are not yet paid off although their maximum loan time is 30 years, and that it is very costly to run the administration of the program independently. Today they choose mainly to collect their outstanding loans, make very few new loans, and channel any new lending through banks in order to eliminate the administrative expenses.

Most importantly, de la Paz restored order by putting the sidelined bureaucrats back in their positions. She also successfully created a dialogue among the bureaucrats that is focused on finding a solution for the threatened life of the fund. By emphasizing more on actuarial calculation and professionalism of her staff and high-ranking officials, she calmed the tension within the SSS. Since people from the past leadership of Nañagas are still there, the policy was to create new posts for these individuals. For instance, the position of "special assistant" with the same level of salary and benefit as the vice presidents. With regard to the privatization proposal, the view of current Executive Vice President and Chief Actuary Horacio Templo is now dominant. He successfully promoted the idea that private management with defined contribution and individual provident account for members is not suitable for the Philippines. In his words, Templo says:

> "I really believe that the individual account system or the voluntary provident fund can only work in a society where the rich outnumber the poor, but not like the Philippines where the poor is growing in number. We cannot allow the rich to

take care of themselves, which is this simplification of the voluntary provident fund. Because the poor cannot contribute anything to the fund; as it is now we need the continued support of the rich for the majority of the poor."[361]

Not all actuaries in the SSS agree with him, but everyone respects Templo and so long as the leadership is still under him, it is confirmed that the policy is unlikely to change. As will be revealed in Section 6.3.3.2, Templo was not alone. Workers were also opposed to the idea of private social security.

In short, under the leadership of de la Paz, the SSS appears more persistent in defending its autonomy. To revive the SSS, de la Paz also amplifies the standards for ensuring financial viability, sound and secure investment, quality service, and corporate culture. She calls this her four pillars of governance. The manifestation of this includes the hiring of 319 additional accountants in October 2003, the expansion of tellering counters in 17 SSS major branches in March 2003, the operationalization of the accounts monitoring system in November 2003, the online service, the direct deposit of cash benefit to banks, the use of a convenient short-messaging-system to grant instant access to certain services, the speeding up of member services and the condonation program for members who have outstanding or delinquent short-term member loans.[362] Visiting the SSS headquarter on East Avenue in Quezon City, I also learned that there are now some

[361] Interview, October 20, 2005.
[362] "Keeping SSS Afloat" (2005).The condonation program allows members to just pay the principal and interest of their loans and have the SSS waive the penalty fees.

new equipment and facilities to provide convenience for members during the visit. It includes an electronically regulated waiting system, roomy and air-conditioned service rooms and the availability of more medical equipment at the SSS health clinic.[363]

With the initiative of the SSS to promote decision-making autonomy, the state leaders took the opportunity to restore the respect and legitimacy of the presidency after the second People Power movement. With the former President Estrada known for his appeal to lower-income members of the society, the current President Gloria Arroyo uses the same appeal to build her legacy. While in the macroeconomic field President Arroyo emphasized the balancing of the national government budget by improving revenue collection and reducing public sector debt, at the micro level she focuses on enhancing the wellbeing of lower-income citizens.

One of the priorities of Arroyo's development project is the extension of healthcare for every Filipino, especially the poor. The PhilHealth program that tries to reach out to the poor is therefore dear to her. She specifically appointed her close acquaintance, Fransisco Duque as the secretary of health who back in 2001 also simultaneously served as the chief executive of PhilHealth.[364] Despite the controversies that membership cards are typically distributed during election time and have been allegedly used by the Arroyo administration to elicit electoral support, more indigents are covered in PhilHealth through the distribution of PhilHealth cards.[365] Among the

[363] Two medical doctors at the SSS clinic, interviews, October 27, 2005 and personal observation.
[364] Dr. Duque's father was the Health Secretary of President Diosdado Macapagal, President Arroyo's father. Dr. Duque also has a long history of work in the medical field and politics. When President Arroyo was still the vice president, he served as the member of the PhilHealth board of directors representing President Arroyo who simultaneously served as the Secretary of the Department of Social Welfare.
[365] "Duque named to cabinet as PhilHealth chief" (2004).

interviewed high-ranking officials at PhilHealth, nearly everyone positively evaluated Secretary Duque. In their view the fact that Secretary Duque is a medical doctor helps him to have genuine concern for solving problems in healthcare provision.

PhilHealth also has issues of its own. Some SSS officials suggest that they do not like the separation of the Medicare program. They only did it because President Ramos required it but they argue that there is resentment that emanates from the fact that the accounts of paying workers and indigents are not separated within PhilHealth, which means that basically PhilHealth is piggy-backing workers. This, they say, will put more overhead into members' expenses. In their own words, they also resent the fact that PhilHealth "piggybacks on SSS membership, computer system and officers".[366]

The officials at the SSS and PhilHealth are already talking about the potential future fallout of PhilHealth due to the impractical rules that regulate the financial management of the institution, the deficit funding due to high expenditure for benefit payments and inconsistent payment of contributions, and the poor database system for crosschecking claims. A high-ranking PhilHealth official who prefers to remain anonymous reveals and specifies the troubling issues within the institution, ones that they would rather keep private as the time is not yet right to reveal them.[367] Unlike the SSS, this official believes that raising the contribution rate will not solve the problem within PhilHealth. Instead, the solution should be to keep PhilHealth away from politicization by bringing in actuaries in institutional decision-making.

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[366] Interview, October 28, 2005.
[367] Interview, November 3, 2005.

Indeed, it is fair to say that there are indications that the state leaders want to keep the bureaucrats in social security agencies dependent on them. The appointment of certain "friendly" individuals to the leadership positions in these agencies is one of them. And then there is still the restriction for non-Trade Union Congress of the Philippines workers to represent workers in these agencies. Yet the bureaucrats in the social security agencies recognize that actuarial calculation is the way to sustain their operation (and jobs!).

6.3.3. The Conduciveness of the Economic Environment in the Philippines

6.3.3.1. The Expectation of Employers

Businesses pay the increase in the SSS benefit level. This deal was not an easy one to make. There were some doubts from the businesses that the measures taken to increase social security benefit level will not adversely affect them. A representative from the Employers Confederation of the Philippines (ECOP),[368] argued that there is a lot of hassle in the business environment, from village, municipality, city, and national governments and the departments. Employers resent the various permits, the red-tape and the associated rents they need to pay just to get things done. Taxes and corruption are other things they are concerned about.

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[368] ECOP is a thirty-year-old organization of employers that sits in many multi-sectoral agencies with tripartite representation dealing with issues of labor and economics (e.g. the SSS, the National Labor Commission, the Tripartite Industrial Peace Council, the National Wages and Productivity Commission, the Regional Tripartite Wage and Productivity Boards, etc.). To date ECOP has more than 500 individual corporations, mostly large corporations, as its members and members from industry associations that include the chamber of commerce, some foreign chambers and some specific industry associations like mining industries. ECOP also represents the Philippines' employer sector in international conferences.

Indeed when it comes to the cost of running businesses, the Philippines is among the least competitive countries in the world.[369] The Philippine economy is still dominated by the oligarchy of prominent families.[370] With democratization, the oligarchs do not disappear. Instead they use democratic measures to access the state and divide the spoils among themselves and their supporters.[371] Such a condition may be preferable in that it secures relatively high rents for certain groups, but it also creates suspicion and doubts among the outsiders.

What makes the employers hopeful about the conduciveness of the Philippine economy is the fact that there is room to adjust the costs for hiring and providing social protection for workers. The employers I talked to acknowledged that they tried to cut the cost of production by hiring contractual workers or subcontracting some of their activities. Such a practice gives them flexibility in terms of not providing SSS and PhilHealth benefits and extending company-tailored benefits instead. Also, the employers generally accept the statutory social security programs.

To obtain the insights of the employers on social security provision in the Philippines, in addition to talking with the representatives of ECOP, I also contacted the Institute for Small-Scale Industries at the University of the Philippines-Diliman to interview employers who are mostly non-members of ECOP. The institute is part of the School of Labor Relations at the University of the Philippines in Diliman and they regularly hold training for employers and entrepreneurs on various skills (e.g. on

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369 Please refer to Table 3.2 in Chapter 3.
370 Rivera (1994); Philippines Center for Investigative Journalism (2004).
371 Kang (2002b, p. 23-25). He cited from Tan (1991, p.12) that the Filipinos talk of the one-hundred or so Philippine families that control most of the country's business.

networking, profit-management, marketing, and tax management). Most of their participants are small, medium and micro business owners but there are also some who are high-ranking staff of big businesses (mostly from the Human Resource and Finance Department).

The organizers introduced me to the participants at the beginning of the training sessions, gave me a few minutes to talk about my research project and invited the participants to come to me during or after the program to voluntarily share their views and experiences. I attended all of the training sessions held from eight-to-five o'clock every Saturday for a period of seven weeks. In total I spoke to the owners and representatives of 27 businesses from various sectors, sizes and locations. For some businesses I talked to more than one representative, so the total number of people I talked to was more than 28. (The specification of the businesses is in Table 6.11.)

All the employers I talked to, members of ECOP and non-members, believe that the benefits provided through the SSS and PhilHealth are not in competition with the benefits that the company decides to provide internally for their workers. Although there are those who wished for better quality service,[372] all agree that the SSS and PhilHealth provide the necessary basic social protection for their workers at a price that is affordable. A company with 60 workers says that the SSS and PhilHealth are a big help for the company in that they lessen the headache of providing necessary social protection for workers.

[372] An employer says that PhilHealth reimbursed them two weeks late, another compares the SSS to other countries and argue the benefits are not sufficient given the contribution rate, while another says that there are too many documents needed to claim benefits which are not practical for emergency needs.

No	Sector	No of workers	*Location*
1.	IT, Manufacturing and Construction services	15 permanent, 45 contractual (varies by project)	*Makati City and Paranyake*
2.	Phone, telecommunication	9,500 workers	*Makati City*
3.	Food (restaurants, canteens, catering)	30 workers	*Alabang, Muntinlupa*
4.	Plastic and tin-sheet manufacturing	50 workers	*Tondo, Manila*
5.	Pharmacy	4 permanent, 10 contractual	*Manila*
6.	Soap and personal care product manufacturing	7 workers	*Quezon City*
7.	Travel agency	8 workers	*Pasig City*
8.	Education - College polytechnic	485 workers	*Bataan*
9.	Pharmaceutical	367 workers	*Makati City*
10.	Food (coconuts and vegetables frozen for export)	60 workers	*Laguna*
11.	Technological engineering and manufacturing	12,000 workers	*Pasig City*
12.	AC and ventilation system (sales and services)	55 workers	*Valenzuela, outskirt of Manila*
13.	Food (meat products, processed and packaged Filipino delicacies)	3,000 workers	*Pampanga*
14.	Food (restaurant)	98 permanent, 25-70 contractual	*Tagaytay*
15.	Hotel and Restaurant	60 workers	*Quezon City*
16.	Security agency (securing banks, etc.)	800 workers	*Bulacan*
17.	Printing	9 workers	*Quezon City*
18.	Live fish	10 workers	*Quezon City*
19.	Pumps and Motors (distributor and production for export)	70 workers	*Calamba, Laguna*
20.	Pharmacy	78 workers	*Quezon City*
21.	Purified water	11 workers	*Paranyake*
22.	Education – English school	15 workers	*Quezon City*
23.	Food (restaurant)	8 workers	*Quezon City*
24.	Clothing (manufacturing)	400 workers	*Pasig City*
25.	Manufacturing spare-parts for shipyard	6 workers	*Mandaluyong*
26.	Service (skin treatment, spa)	350 workers	*Quezon City and 32 branches*
27.	*Service (marketing)*	*2 workers*	*Quezon City*

Table 6.11: Interviewed Business Owners/Representatives in Cooperation with the Institute of Small-Scale Industries, University of Philippines, Diliman

In all cases, they provide additional benefits. A marketing company, for instance, needs to provide incentives based on product/service selling in order to entice workers to be productive and loyal. A company that requires workers to do a lot of physical work and lengthy working hours argues that non-cash benefits are the least they can do to compensate for the low wage rate. The internal benefits include Christmas bonuses,[373] commissions for good performance, on-the-job training, personal loans for emergency needs with no or very low interest rate, cash advances, additional healthcare benefits (e.g. regular check-up) paid for solely by employers (in the case of micro and small business, the money comes from the personal pocket of the owner), gifts (e.g. for birthday, baby, or death), rice subsidies, transportation allowances, housing loans, and loyalty awards.

Big companies typically provide more variety and generous benefits compared to smaller companies. Cash gifts for babies and funerals, transportation allowances, rice subsidies and housing loans are examples of benefits that only big companies would provide. The big companies do not just have more financial flexibility to provide these extra benefits, they also argue that they need them to improve the performance of workers. In most cases, these are also part of the collective bargaining agreement that the company has with a labor union.

All employers argue that social protection benefits are necessary for the wellbeing and survival of the company. Most of them argue that a friendly approach to workers is needed to develop trust, generate honest and productive behavior, and to retain workers.

[373] The Philippines is a country with 95% of the population embracing Christianity, a majority of them Roman Catholics.

An employer argues that workers are capable of doing terrible things if the employers do not take care of them, from gossiping about the owner to tainting the image of the company. They argue that the toughest period is when the economy is sluggish, inflation high, and workers realize the pressure of the economy on their pocketbook. They say that that is the time all the social provisions (i.e. the good treatment of workers) will pay off.

It is clear that the voice that mattered most during the reform deliberation was the voice of big companies, especially those represented by ECOP. Non-ECOP members are generally not involved in any policy-influencing activities. However, the relatively positive evaluation by employers of the SSS and PhilHealth helps promote acceptance of the reform that requires their increased contribution.

The good public-relations campaign of de la Paz played some role in educating employers on ways to fix the problem at the SSS. Since the employers' representatives at the SSS are respected business people in their community, they also helped get the message across. Fe Tibayan Palileo, an SSS Commissioner who represents employers, said that it was just a matter of time to make employers realize that increasing employers' contribution rate is the only suitable way to keep the SSS afloat.[374] Palileo elaborated that one of the things the employers demand in return for their agreement to raise their contribution level was the quality service and return on their investments in the SSS. She specifically emphasized that service and delivery have to be felt by employers.

Thankfully the Philippines did relatively well during the Asian financial crisis. The analysis then was that the banking sector appears to have been less over-lent than

[374] Interview, October 26, 2005.

others in the neighboring countries. [375] The steps taken by President Ramos toward economic liberalization[376] were welcomed by businesses although the looming cronyism under President Estrada pushed back growth.[377] Immediately after President Estrada was forced out of office, the business environment showed clear signs of improvement. The stock market surged and peso values improved to 47.50 per US dollar.[378] Businesses were hopeful that the economy was going in the right direction, especially with signs that the state is considering their demand for employment flexibility.

The fact that the contribution hike is relatively small also helps the employers to agree to it. Hence the combination of employers' hopeful outlook on the conduciveness of the economy and their positive evaluation of the return on their investment in the social security programs despite a known symbiosis between state leaders and social security agencies' bureaucrats helps promote acceptance of the reform. As a note, with the recent national government policy to increase taxes, ECOP has already signaled its disagreement with any further increase in their social security contribution.

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[375] Noland (2000).

[376] Between 1992 and 1997, the liberalization happened in the area of foreign exchange (from the waived documentation requirement on foreign exchange for non-trade transactions to the lifting of domestic borrowing ceiling for foreign firms), insurance industry, banking sector (which includes branch banking liberalization, liberalization of entry and operation of foreign banks, liberalized local ownership of banks, liberalization of entry-exit rules of rural banks, liberalized banking hours and banking days, room for banks to invest in insurance companies up to 51% from previous 35%, eased restrictions in obtaining license for trust fund operations, unibanks are now allowed to invest in a holding company as another area for expanded operations, reduced reserve requirements from 25% to 13%, and the ability of thrift banks to invest in companies involved in stocks and securities dealership), investment houses industry, and accreditation for dealership of government securities. See Presidential Management Agency (1997).

[377] See for instance Congress First Session of the 11th Congress (1998).

[378] Lande (2001).

6.3.3.2. The Expectation of Workers

Just like any other legislation before Congress in the Philippines, the Social Security Act of 1997 was put together after consultation and public hearings that involved the participation of workers. At that time the Congress consulted many organizations including trade unions, informal sector associations, and employers associations. Just as in Indonesia or Singapore, there is also a friendly union in the Philippines, one that has won funding from government and international groups and is trusted by the state to send its representatives to government agencies. Its name is the Trade Union Congress of the Philippines (TUCP). Despite the long history of political and economic involvement in the country, the unions outside the TUCP are highly segmented by origin, spectrum of militancy, and leadership.[379] With decreasing membership,[380] the influence of unions was relatively limited during the reform. TUCP was pretty much the union whose voice was seriously heard.[381]

A top-ranking officer of TUCP recalled that prior to the passing of the Act they demanded higher maternity benefits, dependent benefits, the provision of unemployment insurance and the institutionalization of women in the SSS board of commissioners.[382] The demand for incorporating women representatives in the SSS board of commissioners ended up as part of the 1997 Act. Specifically in Section 3, it is stated that the SSS shall be directed and controlled by a Social Security Commission composed of the Secretary of

[379] Ramos (1990).
[380] Bitonio (2000).
[381] This view was uttered by workers from other unions that I interviewed as well as a representative from the employer association ECOP. The views of other unions are mostly seen as mere protests since they don't have much room to sit down and talk about their views either or that their choice for a militant approach prevents them from even sitting down with employers and government.
[382] Interview, October 7, 2005.

Labor and Employment or his duly designated undersecretary, the SSS president and seven appointive members, three of whom shall represent workers, at least one of whom shall be a woman; three for the employers' group, at least one of whom shall be a woman, and one member of the general public whose representative shall have adequate knowledge and experience regarding social security.

At that time the TUCP was aware that annual SSS revenue was dangerously close to expenses. Yet, and this they were open in saying, the TUCP intentionally avoid talking about increasing the contribution rate, especially for workers. The TUCP officer jokingly said that just like anyone else in the world, they would rather look for the chance to free ride. Indeed they got what they wanted: increased benefits at no cost to workers.

Having their representatives sitting on the SSS board of commissioners, they actually knew that many of the workers who are also members of their union would retire soon and that this constitutes a substantial part of expenditures. Yet again they did not stress that issue during the Act deliberation to avoid responsibility for increasing workers' contribution. With regard to unemployment insurance, their idea was to add a new benefit in which workers losing jobs involuntarily will be covered for six months without any increase in contribution. The rationale was that the statistics suggested that it took around six months for a skilled worker losing a job to find another job. The idea then was to accede to the International Labor Organization (ILO) Convention on social security which included unemployment insurance and dependent benefits as part of the social security provision.

As mentioned earlier, the idea to establish unemployment insurance and to grant dependent benefits without raising the contribution was rejected by the SSS. The SSS argued that there are simply not enough funds to extend such benefits. Indeed with the demand for higher benefits fulfilled, the next issue was how could the SSS meet the stated responsibilities given the threatened life of the fund? Apparently knowing that the SSS was in trouble financially, the TUCP backed off. They did this not by acknowledging that they were backing off or by toning down their public rhetoric but rather by finding a solution outside the public arena. Their proposal, which was not made public, was to increase by half a percentage point the employers' contribution every year.

TUCP's idea was to keep the search for a solution out of the public eye to avoid political suicide for any groups. Yet the SSS under de la Paz decided otherwise. By bringing the issue of the life of the SSS funds to the public, they ended up raising awareness of the costs of social security provision and improved the life of the SSS by increasing employers' contribution by one percentage point in 2003. The leadership of de la Paz was praised also because she did not push for privatizing the SSS and creating an individual provident fund account for members. In addition to opposition from bureaucrats in the SSS who feared losing jobs and did not think that such an idea is suitable for the Philippines, a majority of whose citizens are low-income workers, seriously questioned the idea. In his own words, the TUCP official said:

> "(there is the idea to create) another tier of contribution whose money will be invested by private institutions and will be run by a private institution. It is a

disguised privatization of the SSS, which we never agree, which we *never* agree, because what is there to privatize? It is private, private employers and private employees [who are paying], not government paying."

On a separate occasion a senior official from TUCP who served as SSS Commissioner for over 12 years and was retired in 2000, said that the TUCP understood then that despite the need to extend coverage to all citizens, there is a serious administrative problem whose solution is yet to be found.[383] He argued that ideally there should be social security coverage for all Filipinos as well as an unemployment insurance program for the unemployed. Yet the difficulty of tracking and maintaining the contributions for the self-employed and people working in the informal sector as well as the high rate of unemployment is bound to create new trouble for the SSS.

Such a view is sensible given that now in the Philippines there is a tendency for employers to maintain a fraction of their workers as a skilled core that enjoys permanent employment while the less-skilled workers will be more "disposable" and have more flexible or contractual-based employment. The most common practices of flexible employment include subcontracting, agency hiring and the use of home-workers.[384] There has also been a trend of feminization of the labor force, mainly due to the need for cheaper and more flexible sources of labor as women are typically more willing to accept lower wages and benefits, easier to dismiss on the basis of life-cycle criteria, and less prone to organize into trade unions.

[383] Interview, November 15, 2007.
[384] Teodosio (2001).

Therefore outside of the deliberation within the SSS, there is an extra-SSS move to extend social security benefits to the growing informal sector, i.e. people working outside of formal contracts and the self-employed such as the *sari-sari* store owners, the BBQ street-vendors, and the tricycle motorists.[385] The social protection for these people is provided by cooperatives. The state reacted to this development by strengthening the Cooperative Development Authority (CDA), an agency within the Department of Finance whose responsibility is to promote the viability and growth of cooperatives. As of July 16, 2004, the CDA was transferred from the Office of the President of the Republic of the Philippines to the Department of Finance.[386]

As acknowledged by Attorney Niel Santillan, the executive director of CDA, the reason for the development and use of cooperatives for social security provision is mainly the irregularities of income of this group of workers.[387] According to Dr. Virginia Teodosio of the School of Labor and Industrial Relations at the University of the Philippines in Diliman, who has been studying the growth of cooperatives and the services they provide for members, today in the Philippines there are about 600 hospital cooperatives, 28,000 operational cooperatives that collect savings from members and channel it back to members as credits, and smaller cooperatives that provide a death benefit called *damayan* (support for people losing loved ones).[388]

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[385] Sari-sari store is a tiny store selling various daily needs (e.g. soaps, candies, etc) that is typically located in the front-yard of one's home.
[386] The idea then is to ease the coordination of CDA with the country's fiscal policy. See Executive Order No. 332 signed by President Gloria Macapagal-Arroyo.
[387] Interview, October 12, 2005.
[388] Interview, October 3, 2005.

In short, the improvement of the benefit level for workers without increasing their contribution rate is seen as positive. For the most part workers value the insurance benefits provided through the SSS and PhilHealth. They actually appreciate the return on their investment during contingencies. Granted, workers are aware of the proneness of the SSS and GSIS to symbiosis with (and pressure from) *Malacañang* but they were open in saying that they respect the leadership of de la Paz at the SSS.

While they also still want to have a relatively higher benefit, the workers I talked to do not think that it is timely to talk about it if the consequence is a further cut in their paycheck. Employment flexibility is indeed part of the concern of workers. Hence more workers, especially non-union members, prefer to not push for social security provision through the SSS. Instead, they look for an alternative way to meet their need for a safety net during life contingencies, among others through community or workplace cooperatives.[389] To date there are numerous successful cooperatives that have gathered millions of pesos which they circulate for various member needs including social security in times of illness and emergency, e.g. the Coops for Christ in Pasig City and the Coop of San Dionisio in Paranyake.

6.4. Conclusion

The success of the social security reform in the Philippines hinged on the low level of symbiosis between the bureaucrats and the state leaders and the hopeful environment (medium-level in conduciveness) for private businesses. Any presence of

[389] For more on the cooperatives in the Philippines, see for instance Pagdanganan (2003).

symbiosis between state leaders and agency bureaucrats is mostly at the individual level and does not compromise the ability of bureaucrats to provide needed solutions. Combined with a proposal for change whose significance was understood by employers and workers, generally speaking the reform won acceptance from the stakeholders.

Especially for the SSS, which underwent substantial changes including the separation of management of its healthcare benefit to PhilHealth, the professional management of the agencies and the maintenance of the defined benefit principle in granting benefits secures the preferences of employers and workers, which hinged on a good (if not improved) return on their social security investment and uninterrupted (if not improved) convenience in earning and securing income or profit from the economy.

Indeed the reform proposal whose bottom line was to improve benefits and extend the coverage of social security programs to all Filipinos was passed mostly without fanfare. At least two things are interesting here. First is the fact that decisions for reform were made without agreement from the direct stakeholders. The SSS and GSIS did not necessarily agree to the decision to improve benefits and transfer the healthcare program to PhilHealth. Second is the difficulty facing the implementation of the reform and the relative success in overcoming those challenges without sacrificing the initial intention.

CHAPTER 7

REFORM IN SINGAPORE

7.1. Overview

In response to the 1997 financial crisis, the Singapore government opted to maintain Singapore Inc. by diversifying both domestic and international policies and tightening its grip on the daily lives of Singaporeans. With a gradual reform that deepened the involvement of the Central Provident Fund (CPF) in the lives of workers and employers, Singapore engineered a reform that increases state control while improving employment opportunities and the benefit level offered through CPF schemes. The incentives and pressures for people to continue to work until old age keep the economy rolling while the enticement for workers to put more money into the CPF in return for better benefits sustains the self-sufficiency of Singapore's economy.

The Singapore case demonstrates how the combination of a gradual and not-so-dramatic change, the low relative independence of the social security agency from the state (but a relatively clean symbiosis) and the optimistic expectation of employers and workers toward the economy led to a reform that strengthens state control over workers and employers while increasing benefits. The state leaders in Singapore expand the control of the CPF over more aspects of citizens' lives, from income and taxes to assets and spending habits in order to consolidate Singapore Inc.

This chapter begins with an introduction to the social security system. The rest of the chapter will elaborate the reform proposal, reactions from the stakeholders, and the unfolding of the reform process.

7.2. Introduction

Singapore is a city state on an island south of the Malay Peninsula with a population of 4.5 million. Once colonized by Britain and ruled by Japan for three and a half years during the Second World War, Singapore was back under British rule soon after the war before being granted self-governance. In June 1959, Singapore inaugurated its first Prime Minister, Lee Kuan Yew, and became fully independent from Britain in 1963. For two years Singapore joined the Federation of Malaysia.

In 1965, due to a dispute between Singapore's ruling People's Action Party (PAP) and Malaysia's governing Alliance, Singapore was expelled from the Federation and became an independent nation-state. Since then Singapore has been a one-party authoritarian regime. Elections for Parliament are regularly held, but opposition parties and candidates are heavily constrained.[390] The current Prime Minister is Lee Kuan Yew's son, Lee Hsien Loong, who took over the Prime Ministership from Goh Chok Tong on August 12, 2004.

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[390] Seow (1994) and a transcript of Francis T. Seow's interview by the *Straits Times* retrieved October 12, 2006 from http://www.singapore-window.org/sw03/031019fs.htm. For more relevant issues such as the emasculation of criticalness of media (both domestic and foreign), public surveillance activities and human rights concerns, see Rodan (1998), Jayasankaran (2001), "Singapore extends law on foreign media in politics" (2001), and the press release of Tang Liang Hong following 13 suits of defamation from PAP politicians dated April 21, 1999. Retrieved October 12, 2006 from http://www.sfdonline.org/sfd/Link%20Pages/Link%20Folders/Human%20Rights/tang4.html.

The social security system in Singapore was established in 1955 as part of the inheritance from the British colonial power. The statutory program for social security, named the Central Provident Fund (CPF), is unitary, covering all working Singaporeans in the private and public sectors. As of July 1992, the CPF schemes were also extended to the self-employed earning a net trade income of more than S$ 2,400 a year (approx. US$ 1,534 a year).[391] The self-employed are only required to participate in the Medisave program of the CPF which provides healthcare needs for them as well as their dependents. In the past, civil servants and military officers were fully funded by the government but now they too have to contribute through the CPF although at the lower rate. The government also categorizes government employees as pensionable and non-pensionable. The lower contribution rate is also available for Singapore's permanent residents, especially those working in government ministries, statutory bodies and aided schools.

The CPF in its early years was aimed solely to provide lump-sum benefits upon retirement. As time progressed, it was diversified to cover various other contingencies. The first additional program that allowed for the withdrawal of CPF funds was introduced in September 1968, to finance the buying of public flats from the Housing and Development Board. Since then CPF programs have been expanded significantly to allow participating workers to cover their various financial needs: from buying a home to insuring it, from healthcare to getting tertiary education, and from financing retirement to buying shares for investment.

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[391] The minimum income (net trade income) per year for the self-employed participating in the Medisave is raised to S$ 6,000 as of October 1, 2002. S$ is for Singaporean dollar, Singapore's currency. Throughout this study the exchange rate is as of 2006 US$, which is roughly 1.56 per dollar.

The CPF is a privately funded provident fund system, a mandatory savings scheme, where benefits are financed from the accumulation of monthly workers and employers' contributions. Technically the money coming in to the CPF would be returned as available funds for withdrawal by the participating workers with some interest and after deductions for administration costs. The various contingencies that can be legally paid from the fund are listed and often need to be approved by the CPF authority. Benefits are therefore granted based on the defined contribution principle, where the CPF simply tracks the contribution coming in and technically does not secure the amount, let alone the sufficiency, of worker's funds for the listed contingencies. Withdrawal of CPF funds from the worker's personal account depletes workers' savings for future contingencies.[392]

[392] I said that this is technically what should happen with members' funds at the CPF given the logic of the interest rate provision and fund withdrawal policy. However, there are studies that suggest a different way of looking at what actually happen. This is elaborated in Mukul Asher, "Southeast Asia's social security systems: Need for a system-wide perspective and professionalism", *International Social Security Review* 55 no. 4 (2002): 71-88. In a nutshell this is what Mukul Asher said happened. The interest rates paid to members are actually determined administratively, that is without clear connection between profit earned by the CPF and profit distributed to members through the interest rate. This is because of at least three things: the rule to invest in government securities, the national budget surplus and the lack of public scrutiny. Under the CPF Act all balances with the CPF Board must be invested in Singapore government securities but the government has been running persistent budget surpluses so the borrowed funds are not needed to finance government expenditure. Nearly all the CPF funds are believed to be invested abroad without public scrutiny, resulting in lower interest rate return than what might actually be. Such practice, Mukul Asher suggests, indicates a more of a Notional Defined Benefit (NDB) scheme that is financed on a pay-as-you-go basis instead of a fully-funded scheme. Mukul Asher said: "It is NDB because interest paid on balances bears no resemblance to investment returns and it is pay-as-you-go because the government securities will be serviced by future taxpayers whose consumption will decline to finance that of the elderly population." (p. 81). While appealing, my problem with Mukul Asher's observation is twofold. First, is what he is referring to as the Notional Defined *Benefit* actually a Notional Defined *Contribution* (NDC) scheme? If it is, then NDC is an individual account that is financed on a pay-as-you-go basis since the record of contribution serves a book-keeping purpose only and no asset is immediately used to fund current pensioners. From this end, the Singapore system of contribution tracking still serves as the basis for granting benefits. The proofs are the various Minimum Sum requirements and Medisave Required Amount that determine how much members might withdraw or what kinds of health service members could get. Second, in the NDC, benefits are determined by accumulated account balance at retirement where the balance will be converted into annuity and the size of monthly pension would depend on the age by which one retires (the younger, the smaller the monthly pension will be). In Singapore, this may seem true with

CPF contributions are credited into three accounts: the Ordinary Account, where about 75% of the total is channeled, is usable for housing, approved investments, tertiary education, mortgage insurance and other approved pre-retirement purposes. Included here are: 1) the Dependents' Protection Scheme, which provides optional term-life insurance against death or permanent incapacity before the age of 55; 2) the Medisave Account, where 15% of total contribution is channeled, is usable for hospitalization and other approved health care services; and 3) the Special Account, where 10% of total contribution is channeled, is reserved for old age and contingencies including investment in retirement-related financial products. Savings in the Ordinary Account earn a minimum interest rate of 2.5% per year, while savings in the Special and Medisave Accounts earn additional interest of 1.5 percentage points above the prevailing Ordinary Account interest rate.[393] The higher interest rate for the Special and Medisave Accounts was said to help workers accumulate funds faster for healthcare and retirement purposes.

As of 1990, CPF participants were encouraged to participate in the MediShield program. This is on top of and separate from the Medisave scheme and is optional. MediShield is a healthcare program that is designed to provide a higher benefit for

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the retirement benefit. But not all retirement benefit is in the form of annuity. Annuity will only be granted to those who buy annuity for their old-age protection. And one should not forget that in Singapore, members still bear their own risks if their savings are insufficient for the retirement needs. In the NDC, it is common that the government provides subsidy of minimum pension provision from general government revenues. This is not happening in Singapore. If members' funds are insufficient, the best people to rely on are their family members and not the government. For reference on the NDC, see for instance: Williamson (2004), Brooks and Weaver (2005), Williamson and Williams (2005).

393 The interest rate is currently adjusted quarterly and is credited annually. From 1955 to 1976, the interest rate was credited and compounded annually while from 1977 to 1985 it was credited quarterly and compounded annually. The rate for October 2006-December 2006 is 2.5% per year for the Ordinary Account and 4% for the Medisave and Special Accounts. The rate remained constant since July 1999. The 2.5% is actually the minimum rate suggested by the CPF Act. There were times in the CPF history where the interest rate of CPF reached as high as 6.5% per year (1974-1986). When Singapore just gained the right for self-governance independent from Britain in 1963, the CPF interest rate jumped from 2.5% to 5% per year.

healthcare, especially for future catastrophic illness. MediShield continues to diversify. Now there are three plans: basic MediShield (with hospital service in B2/C class wards) and MediShield Plus Plan A and B (with hospital service in class A or B1 wards).

MediShield has deductible and co-insurance features that participants have to pay with their Medisave account or cash before a claim is payable. The monthly premium for MediShield could be paid for by the money in the Medisave account and it will cover the participant for one policy year (12 months from the day the cover commences). The MediShield premium increases progressively as one gets older (see Table 7.1) but there would be more discounts available as one keeps her membership longer. Acceptance for MediShield is contingent upon good health. Benefit for MediShield is flat and measured in claim limits per treatment or per day of service.[394]

Age on Next Birthday	**Yearly Premium (Inclusive of 5% Goods & Service tax)**
30 and under	$ 30
31 - 40	$ 40
41 - 50	$ 80
51 - 60	$ 160
61 - 65	$225
66 - 70	$265
71 - 73	$335
74 - 75	$375
76 - 78	$420
79 - 80	$510
81 - 83	$600
84 - 85	$705

Source: CPF.

Table 7.1: Annual Premium for Basic MediShield (effective January 1, 2006)

[394] Among the claim limit benefits for admission on or after January 1, 2006 are: daily ward and treatment charges for a maximum S$ 250 per day or $500 for treatment in the Intensive Care Unit, surgical operations ranges from a maximum S$ 150 to S$ 1,100 (depending on the complexity of surgery), and the maximum claim for outpatient chemotherapy for cancer or certain benign neoplasmas is S$ 150 per 7-day treatment cycle or S$ 700 per 21 or 28-day treatment cycle.

Meanwhile the general CPF contribution rate for workers and employers varies by sector of employment (private or public), citizenship or permanent residence, pensionable or non-pensionable if one is a civil servant, and also by age. As of July 1988, lower contribution rates were applied to workers aged 55 and above. This is designed to provide incentives for employers to hire elderly workers. From January 1, 1999, the minimum retirement age for employees in Singapore was raised from 60 to 62. The variation in the ratio of contribution rate across time is compiled in Table 7.2. and Table 7.3. These rates are for private sector employees, government non-pensionable employees, non-pensionable employees in statutory bodies and aided schools and Singapore Permanent Resident employees from their 3rd year onwards. As of January 1, 2005, the rates are revised again with new age categories (50-55 and 55-60) and new amounts credited to each account. In this latest revision, only about 55%-66% of the contribution goes to the Ordinary Account (compared to 75%) and more goes into the Medisave Account.

Age group	**1988**	**1994-1998**	**1999**	**2001-2004**
55 years and below	12 : 24	20 : 20	10 : 20	16 : 20
56-60 years	11 : 20	7.5 : 12.5	4 : 12.5	6.5 : 12.5
61-65 years	9 : 19	7.5 : 7.5	2 : 7.5	3.5 : 7.5
Above 65 years	8 : 18	5 : 5	2 : 5	3.5 : 5

Source: CPF various years

Table 7.2: CPF Contribution Rate as Percentage of Wages (Employer : Worker) until 2004

Age (years)	Employer contribution (% wage)	Worker contribution (% wage)	Credited into		
			Ordinary Account (% wage)	Special Account (% wage)	Medisave Account (% wage)
35 & below	13	20	22	5	6
Above 35-45	13	20	20	6	7
Above 45-50	13	20	18	7	8
Above 50-55	9	18	12	7	8
Above 55-60	6	12.5	10.5	0	8
Above 60-65	3.5	7.5	2.5	0	8.5
Above 65	3.5	5	0	0	8.5

Source: CPF.

Table 7.3: CPF Contribution Rate as of January 1, 2005

There are ceilings for taxable wages. As of 2005, the average monthly income of Singaporeans is S$ 3,444.[395] The maximum contribution for private sector workers, non-pensionable employees in government ministries and statutory bodies and aided schools is S$ 4,500. As for pensionable employees working in government ministries and statutory bodies and aided schools, their ceiling is S$ 6,000.[396] According to the CPF report, as of December 31, 2005 the CPF recorded a total membership (including the few self-employed) of 3.05 million with only about 1.38 million or 45% of it still actively contributing.[397] The total members' balance is S$ 119.78 billion.

[395] Central Provident Fund and the Ministry of Manpower.
[396] Central Provident Fund, retrieved October 10, 2006 from http://mycpf.cpf.gov.sg/Members/Gen-Info/Con-Rates/ContriRa.htm.
[397] As noted by Asher (2004), anyone who contributes even just once to the CPF is regarded as a member.

The CPF schemes encourage family members to help one another. Spouses can use their CPF balance to pay for the needs of the other. Children can help parents pay for life contingencies. Up to four children can help pay the hospitalization bill of parents through their Medisave Accounts. To ensure that aged parents are taken care of, the Maintenance Parents Act was passed in 1996. The government set up a Tribunal for the Maintenance of Parents, which is supposed to help aged parents who are unable to meet their needs through legal channels to seek maintenance from their adult children. As a consequence of this, by the end of 2000 there were only 2.8% of total households that consisted solely of those aged 65 and above, which means the elderly are living with family members.[398]

Despite the diversification of the schemes, the CPF Board is concerned mainly about workers saving for retirement and future (often age-related) serious illness. Therefore the Board requires participants to set aside a certain minimum sum, which is expected to serve as a guarantee for continuous self-financing of workers' contingencies. The Minimum Sum scheme was established in January 1987, with an initial minimum of S$ 30,000. Since then the amount continues to increase roughly S$ 4,500-5,500 per year. By July 2003, the minimum sum amount was increased to S$ 80,000 and will continue to increase gradually up to S$ 120,000 in 2013. The amount was S$ 94,600 in July 2006.

The raise is supposed to guard the value of the minimum sum given the yearly inflation. A member may pledge 50% of the minimum sum with her property. The

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[398] Pai (2006). According to her, in the first three years following the passing of the Act, over 400 cases were brought to the Tribunal, defying the expectations that parents would be too ashamed to report their children.

usefulness and the risk borne by the members depends on what they choose to do with it. The Minimum Sum cannot be withdrawn arbitrarily but it can be used to buy life annuities from a participating insurance company, placed with a participating bank or left with the CPF Board in the Retirement Account. If a member buys a life annuity, she will receive a monthly income for life. If she places the money in a participating bank or the CPF, she will receive a monthly income until the minimum sum is exhausted. In the case where the minimum sum consists also of property, the Board will liquidate the property when the cash portion is exhausted.

On top of this, one also needs to set aside funds for the Medisave Minimum Sum. Since July 1, 2003 members are required to maintain up to S$30,000 in their Medisave, while those who withdraw their savings at the age of 55 need to set aside S$25,000 (in 2003 dollars) or the actual Medisave balance, whichever is lower, in their Medisave Account to meet healthcare needs during retirement. Only the amount in excess of the prevailing Medisave Minimum Sum can be withdrawn. And then there is also the Medisave Required Amount, which is the amount that a member is required to have in her Medisave Account after meeting the CPF Minimum Sum. Thus after meeting the CPF Minimum Sum, members are also required to keep the sum of their Medisave Account at a certain level.

If a member does not have the required sum in her Medisave Account, she must transfer her Ordinary and Special Account balances to meet this need before she can withdraw funds. The Medisave Required Amount is set at S$ 8,300 from January 1, 2006 and will increase by S$ 2,500 (adjusted for inflation) each year until it reaches S$ 28,000 (in 2003 dollars) on January 1, 2013. The yearly adjustment to the Medisave Minimum Sum is based on the previous year's medical treatment component of the Health Consumer Price Index.

For those who are poor, the government created three schemes: Public Assistance (for poor citizens), Special Grant (for permanent residents) and Interim Financial Assistance (a short-term financial help up to usually a period of three months and subject to review). As cited by Yasue Pai (2006), in 2003, 2,551 people were beneficiaries of the Public Assistance Scheme, 177 were beneficiaries of Special Grants, and 1,403 received Interim Financial Assistance. The amount provided for Public Assistance for different types of household is available in Table 7.4 Medifund is part of the Public Assistance scheme that is provided by the government to help the poor and indigents pay for their medical care. Citizens with financial difficulties can approach the Medical Social Worker in the hospital to fill an application for Medifund help. According to the Ministry of Health, in fiscal year 2002 practically 99% of Medifund applicants received assistance.[399]

For those with financial difficulties but not necessarily poor, the government provides assistance too. The Government Bridging Loan Scheme, for instance, provides help to members who have taken private housing loans and yet have difficulties in meeting their installment payments due to insufficient funds in their CPF Accounts. Following the 1986 economic crisis and 1997 financial crisis, with CPF (employers') contributions cut, members may not have enough funds to pay their housing loans.

[399] More specifically, 177,949 of 178,209 Medifund applications were approved. See Ministry of Health. Retrieved October 30, 2006 from http://www.moh.gov.sg/corp/financing/medifund/intro.do.

Household Type	**Monthly Public Assistance Allowance (S$)**
1 Person	
1 Adult	260
1 Child	260
2 Persons	
2 Adults	445
1 Adult, 1 Child	535
2 Children	535
3 Persons	
3 Adults	510
2 Adults, 1 Child	600
1 Adult, 2 Children	675
3 Children	675
4 Persons	
4 Adults	590
3 Adults, 1 Child	680
2 Adults, 2 Children	755
1 Adult, 3 Children	825
4 Children	825
5 Persons and above	825

Source: Yasue Pai (2006) Table 4, developed from the Singapore Statistics Bureau and Ministry of Community Development Services.

Table 7.4: Singapore's Public Assistance Scheme in 2003

In such cases, the government offers the Government Bridging Loan as a short-term loan with a concessionary interest rate to citizens and permanent residents. The maximum loan for members depends on the old and new rate of CPF contributions and the salary rate of members. Members cannot be bankrupt, should be younger than 62 years old at the time of application, and have used up all the withdrawable savings in their Ordinary and Special Accounts in order to qualify for the loan. The formula for the maximum loan is the following:

> Government Bridging Loan quantum = (Old Ordinary Account contribution before the CPF cut x salary) – (New Ordinary Account contribution x salary).

Until the loans are paid, members cannot make any other investments with their CPF funds.

Another help for citizens, not necessarily poor, is the Economic Restructuring Shares, which are assistance to citizens to defray the hike in the Goods and Service Tax in 2003. All citizens who are at least 21 years old and contributed at least S$ 50 into their CPF accounts the year before get a certain amount of shares depending on the Annual Value of their home based on Inland Revenue Authority (IRA) records. Anyone who lives in a home with Annual Value of up to S$ 10,000 will get shares at the value of S$ 400. Those living in homes with Annual Value of more than S$10,000 will get S$ 200. According to the CPR, almost all public flats have an Annual Value of at least S$ 10,000 and since most Singaporeans live in public flats, about 90% of Singaporeans will be given the higher amount.

To increase the amount of money for members, CPF took several measures. *First*, the CPF allowed the use of a portion of the funds for various investment purposes. The incorporation of investment in the CPF programs began in May 1986 when CPF members were allowed to use their savings, above the minimum sum, to buy non-residential properties for investment or use. More recently there is the CPF Investment

Scheme (CPFIS) that comprises the CPF Investment Scheme-Ordinary Account (CPFIS-OA) and the CPF Investment Scheme-Special Account (CPFIS-SA) which allow members to invest their available funds (i.e. above the Minimum Sums) in either the Ordinary Account or the Special Account or both to increase their funds for retirement. Such an investment is optional and members are warned about potential loss given its higher risk despite its potential higher return relative to the guaranteed-interest-rate from the CPF.

Second, still in line with the use of investments, the government provides discounted prices of shares from certain government-linked companies, i.e. companies whose shares are partly owned by the investment arm of Singapore's government: either Temasek Holding Limited (100% owned by the Ministry of Finance) or the Government of Singapore Investment Corporation (a global investment management company that manages Singapore's foreign reserves). This happened starting in 1993. The examples of companies' shares that are available for CPF members to purchase at a discounted price include: Singtel (the telecommunication technology company that also owns shares of telecommunication companies abroad, e.g. Thailand and Australia) and the Singapore Bus Service.

Third, through the top-up schemes where the government adds some cash or shares to members who agree to pay a certain amount of matching contribution to their CPF accounts. In 1995 there were at least 3 top-up schemes: the Second Share Ownership (SOTUS 2), the S$ 200 CPF and the Pre-Medisave for senior citizens. In 1996-1997 there were: the second phase of the Pre-Medisave, the S$ 200 Medisave and SOTUS 3.

SOTUS 2 was introduced in 1994 to help Singaporeans own shares in government-linked companies and statutory boards which may be privatized from time to time.

CPF members, unless they choose to opt out, are also included in the Dependents Protection Scheme. The scheme is optional and available at the age-progressive premium rate (see Table 7.5). The scheme provides a few years of financial support in case the breadwinner is incapacitated or dies. The maximum protection is S$ 46,000, or if members do not have enough savings in their CPF Ordinary and/or Special Account(s) to pay the full premium, the coverage will be invariably lower with a minimum of S$ 5,000. As of September 2005, the Dependent Protection Scheme was privatized so that two private insurers, the Great Eastern Life Assurance Company Ltd. and NTUC Income Insurance Cooperative Ltd manage the scheme.

Age (Last Birthday)	**Yearly Premium**
34 years and below	$ 36
35-39 years	$ 48
40-44 years	$ 84
45-49 years	$144
50-54 years	$228
55-59 years	$260

Source: CPF.

Table 7.5: Premium Rate for the Dependent's Protection Scheme

Unlike Indonesia and the Philippines, Singapore does not really have a minimum wage. There is a National Wage Council comprised of government, employer and worker representatives. Yet this Council is merely a form of corporatism, where the state leaders act as the actual determiners of the policy and the other representatives as mere formulators of the annual wage guidelines.[400] Soon after the 1997 financial crisis, for instance, the Council issued wage restraint guidelines.[401] The decision was to reduce the overall wage costs (both wage and CPF benefits) by 15%.

To achieve this, the Committee on Singapore's Competitiveness recommended a 10% point reduction in employers' CPF contribution rate and the National Wage Council recommended a 5-8% cut in total wages. The guideline was issued in May 1998 and was supposed to be valid until June 30, 1999. The state backed this decision by calling on workers to lower their expectations.[402] In August 1999, Prime Minister Goh Chok Tong made a statement that Singapore would continue "to keep a lid on wages and other business costs even though the economy is recovering from the Asian economic crunch".[403]

The Prime Minister compared Singapore to Hong Kong in its ability to attract a huge reservoir of foreign talent and expected that the wage restraint policy would improve Singapore's competitiveness. The wage restraint and the cut in the CPF contribution rate for employers are yet to be restored. After September 11, 2001 the Council recommended the maintenance of low business costs.[404] The same wage restraint policy had also been implemented in 1986 when Singapore's economy was experiencing contraction.

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[400] Tang (2000).
[401] National Wage Council Revised Wage Guidelines for 1998-1999, retrieved October 28, 2006 from http://www.sgemployers.com/public/industry/NWCWageGuidelinesFor1998(Revised).pdf.
[402] Tang (2000, 57).
[403] "Singapore Premier urges continued wage restraint" (1999).
[404] Retrieved October 28, 2006 from http://www.sbf.org.sg/public/eventsvc/hrir/hrirjan2003jun2003.jsp.

Singapore also does not have any specific stipulations on what an employment contract for workers should look like or how much the compensation would be should retrenchment happen and workers' contracts need to be terminated. Section 45 of the Employment Act 1968 says that workers who work for less than three years are not entitled to any severance pay. Typically companies pay such benefits at the rate of one month's pay per each year of service, but in practice there is more flexibility.[405]

7.3. The Stages of Social Security Reform

7.3.1. The Reform Idea

Unlike Indonesia and the Philippines, Singapore's decision-making during the reform process remains mostly a public mystery. Although one may cynically say that the ruling PAP is the "puppet master" in every unfolding event in Singapore, this study intends to locate the triggers of the social security reform and the underlying logic for adopting one program and not another. It is fair to say that Singapore is run as a corporation by state leaders. Hence it is common to find initiatives raised by state leaders that are then obediently followed or conformed to by other stakeholders such as employers let alone workers. All of these shed light on the reform process in Singapore.

As mentioned in the earlier chapters, social security reform in Singapore was mostly seen as a normal routine within the CPF. Such a view, however, underplays the politics of the process. First, those politics may be seen through analyzing the small calculated steps taken by politicians who wanted to avoid blame that may risk their tenure

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[405] Asher and Rajan (2002, p. 248-249).

and political stability.[406] Changes in social security in particular are prone to public scrutiny and backlash, since they pertain to citizens' savings diligently collected over the course of their work life.

Workers, and probably employers too, resent decisions that impact negatively on their benefits or increase their contribution rate. For that reason, politicians try to tune in to public opinion prior to introducing changes.[407] While political opposition and dissidents are discouraged in Singapore, the longer-term economic backlash which in turn might affect how Singapore's economy performs is a matter of great concern. This is reflected in the following November 1981 statement of Prime Minister Lee Kuan Yew, an inspirational politician whose speeches and thoughts continue to reverberate today:

> "Subsidies on consumption are wrong and ruinous…for however wealthy a nation, it cannot carry health, unemployment and pension benefits without *massive taxation and overloading the system, reducing the incentives to work* and to save and care for one's family – when all can look to the state for welfare...*Social and health welfare are like opium or heroin. People get addicted, and withdrawal of welfare benefits is very painful*."[408] (emphasis added)

If we look at how the CPF schemes are financed and policed, it is clear that they are tailored to sustainable economic growth and performance. The following are just a few of the indicators. First, the minimum sum requirement and the top-up schemes that require matching contributions, ensure that members do not take government subsidies for granted and always exercise prudent judgment when it comes to withdrawing money

[406] Weaver (1986), Pierson (1996).
[407] Meneguello (2006).
[408] Barr (2001, p. 711).

from their CPF Accounts. Such regulation also pushes citizens to continue working and be productive to their old-age. The investment of CPF funds in government securities and the incentives provided for members to invest in government-linked companies exemplify the link between CPF and the broader Singapore strategy of maintaining and operating Singapore Inc., a state run as a corporation. The cut in the employer's contribution rate was also designed to ensure that the economy continues to attract investors.

Second, the style of governance in the period after Prime Minister Lee Kuan Yew is different. Prime Minister Goh Chok Tong, who for all fourteen years of his rule was thought of as a seat warmer for Lee Kuan Yew's son, current Prime Minister Lee Hsien Loong, was also searching for his own identity as a state leader.[409] At the very least Goh must have wanted to be out of the Lee family's shadow. Compared to the previous administration, Goh was known for his warmer and more consultative style of governance.[410] With Singapore run more as a corporation with heavy state engineering in the economy, any changes within the CPF are part of a bigger scheme. Obviously Goh wanted to prove his capability, hence the adjustments within the social security programs cannot be simply regarded as business as usual. They shaped the society to provide a foundation for the new direction of Singapore Inc.

Third, the changes that affect benefit level, political control and employment do not just happen at random. Whenever the economy goes into the tank, whenever the state leaders consider certain imminent economic or demographic threats to the overall neat-

[409] Goh Chok Tong was the second Prime Minister of Singapore who reigned from November 28, 1990 to August 12, 2004.
[410] Leong (2003, p. 49-83).

orchestration of Singapore's economy, politics and social relations, those are the times when something is changed within the CPF. It is fair to say that the CPF is an indicator for issues within the society that need to be tackled immediately by the state leaders. At the very least, with the CPF being a provident fund in which Singaporeans collect a portion of their income every month and register their assets, economic activities and personal activities (e.g. withdrawal for housing mortgage, education, etc.) and regulating how people use the collected funds as well as their spending habits, the CPF constitutes a type of social control for Singaporeans through financial means.

The 1997 crisis produced some jitters on the part of the state leaders. Regional developments created a sense of insecurity that had not been felt in Singapore since the 1985 recession. Being a small economy, the severe shock that flattened the neighboring economies and the entrance of new economic competitors like China and Vietnam intensified the already high pressure to out-compete neighboring economies like Indonesia, Philippines or Malaysia. For the first time in nearly two decades, Singapore had to experience a period of negative economic growth, an increasing rate of unemployment and rising numbers of cases of retrenchment (see Table 7.6). The immediate reaction to the economic downturn was the downward adjustment of the contribution rate to the CPF for employers, from 20:20 to 10:20 in January 1, 1999. The rate of employer contribution became 12% and 13% in 2000 and 2003 respectively while the worker contribution remained intact at 20%.

The idea of a cut in the employers' contribution to the CPF was first raised by Prime Minister Goh Chok Tong. The goal was to cut business costs to help Singapore stay competitive. At the end of October 1998, Prime Minister Goh Chok Tong urged unionists and workers before a conference of Singapore's biggest and government-friendly union National Trade Union Congress (NTUC) to accept painful steps such as cutting employers' contributions to the CPF in order to save jobs and help Singapore out of the crisis. Interestingly enough, within three days the NTUC issued a statement accepting the proposed 10% cut in employers' contribution to workers' CPF account.[411]

	Annual GDP Growth (%) - *a*	**Annual Unemployment Rate (%) - *b***	**Retrenched Workers (number) - *c***	**Retrenching Establishments (number) - *d***
'95	8.2	1.8	8,788	351
'96	7.8	1.7	10,956	399
'97	8.3	1.4	9,784	358
'98	-1.4	2.5	29,086	1,235
'99	7.2	2.8	14,622	781
'00	10.1	2.7	11,624	525
'01	-2.4	2.7	25,838	1,239
'02	4.2	3.6	19,086	1,149
'03	3.1	4	16,400	1,106
'04	8.8	3.4	10,191	723
'05	6.6	3.1	10,294	609
'06 *p*	7.9	2.7	12,200	n.a.

Note: *p = prediction, n.a. = not available*
Source:

a. Singapore Department of Statistics, last updated February 14, 2007
b. Ministry of Manpower, Singapore, last updated January 31, 2007
c and d Labor Market Survey, Ministry of Manpower, Singapore, last updated January 31, 2007 – data pertains to private establishments each with at least 25 workers.

Table 7.6: Singapore's Economic Indicators

[411] "Singapore unionists accept proposed CPF cut" (1998).

Businesses also reacted. The Singapore Confederation of Industries had expected a cut in employers' contribution rate to 5%, hence much lower than the state-proposed rate, to which the workers had agreed.[412] In mid November 1998 the suggestion from businesses was tackled. Lee Yock Suan, chair of the Committee on Singapore's Competitiveness and Minister of Trade, released a statement agreeing to the need to boost businesses hence calling on Singapore: "to go out and get more business, attract more companies and tourists. We need more demand, we have to go out and sell Singapore."[413] Lee's idea was to cut business costs by 15% or S$ 10 billion (US$ 6.2 billion) a year through a 10 percentage point cut in employers' contribution to the CPF, which he argued would save S$ 4 billion (US$ 2.5 billion) a year and reduce salaries by 8.3%. Soon after this statement, Prime Minister Goh said that he supported the cut to 10% consistent with his fellow state leaders' statement.

Another initiative was to adjust the contribution rate for elderly workers. The new policy is to reduce the contribution rate downward. For those aged 55-60, the contribution will be 7.5% from employers and 12.5% from workers. For those aged over 60, the contribution ratio is 7.5:7.5 for employers and workers. The idea of state leaders, as voiced by Minister of Manpower Lee Boon Yang, was again to ensure that Singapore

[412] "Singapore Industries Seek Cut in Fund Contribution" (1998). As of July 3, 2003, the Singapore Confederation of Industries has a new name Singapore Manufacturers' Federation (SMa Federation). SMa Federation is the key national organization that represents roughly 1,100 member companies both Small Medium Enterprises and Multi National Companies in the manufacturing and manufacturing related industries.

[413] "Proposal to Cut Business Costs in Singapore by 15 Percent" (1998). Other measures he suggested include the adoption of flexi-wage system by reducing annual and monthly variable components of wages, reducing foreign workers' levy in the manufacturing and services sector by S$ 50 to S$ 100 a month and cutting rentals and utility charges, lower vehicle overhead costs including custom and fuel duty, extending the 55% property tax rebate and suspension of stamp duties on share transactions and to reduce or extend rebate on corporate and personal income tax in the following year.

maintains its competitive edge for employers who retain elderly workers.[414] With a rapidly aging population, the state intended to provide various incentives for employers to hire elderly workers and vice-versa for elderly workers to keep working to their old age. Raising retirement age to 62, and in the future possibly to 65, is one of them.

Another incentive is to encourage employers to adopt an Alternative Medical Benefit Scheme under which new workers are required to pay part of their outpatient expenses, be responsible for their own hospitalization expenses while employers pay an additional one percent contribution to workers' CPF Medisave Account to cover the inpatient risks. In return for employers' compliance, the government will raise the tax-deductibility limits for Medisave contributions and medical expenses of employers who adopt the co-payment system. Workers, as represented by the NTUC, welcomed this policy.

Following the 1997 crisis, there was also more attention to the need of all Singaporeans to save for future contingencies through the CPF. Indeed mandatory participation in the CPF was extended to include the self-employed who are now required to enroll in CPF schemes. The recommendation was made by the Inter-Ministry Committee on Aging Population, then studied closely by Minister of Manpower Lee Boon Yang.[415] The decision was to require the self-employed to enroll and to increase their contribution rate to Medisave to ensure that there will be enough funds for contingencies. As an incentive, there is a new higher tax exemption limit for CPF

[414] "Retirement age to be raised to 62" (1997).
[415] "Self-employed may have to put in CPF" (2000).

contributions by self-employed persons.[416] Aligned with the idea of making the workers more responsible about their CPF funds, there are also new requirements to maintain an increasingly high minimum balance in CPF accounts.

To enhance the exposure of Singapore's businesses abroad, the state leaders also initiated a liberalization of the CPFIS scheme to allow CPF members to increase their investments through mutual funds and diversify their portfolios internationally. Since 1997, the CPFIS scheme has been liberalized substantially to increase investment through mutual funds (unit trusts) and to reap the benefits of international diversification of investment portfolios.[417] Up to 35% of investible savings could be invested in stocks and bonds and up to 10% of the investible savings could be invested in gold. The profit from investment should be channeled directly to and stay at the CPF. Investment profits and interest, except corporate dividends, are non-taxable.[418] With the same goal the government also provides discounted prices of shares from certain government-linked companies, i.e. companies whose shares are partly owned by the investment arm of Singapore's government. While the initiative itself began in 1993, the implementation intensified in the 2000s.

To entice workers to support the CPF, the state leaders initiated various schemes aimed at distributing "the fruit of economic growth" by adding some cash or shares to members who agree to pay a certain amount of matching contribution to their CPF

[416] If usually the tax-exemption for self-employed persons is equal to regular employed workers, which is 20 percent of their income and a maximum of S$ 14,400, with the new policy, the tax exemption is raised to 36 percent of income up to a maximum of S$ 72,000.
[417] Asher (2002b).
[418] As of January 1, 2003, Singapore applied a new corporate tax system which gradually replaces the Full Imputation Tax System to the One-tier Corporate Tax System for companies that reside and whose control of management is in Singapore. Under the new system, dividends are exempted in the hands of shareholders while in the past tax would be credited to shareholders as well as the corporations.

accounts. These are called the top-up schemes. The schemes are supposed to entice people to contribute more to the CPF in return for additional funds or a chance to earn more funds through investment in certain companies.

Tying all of these reform initiatives with the leadership of Prime Minister Goh, it becomes clear that Goh tailored the reform items to suit his agenda of taking Singapore out of what he called the most severe economic and security crisis since Singapore's independence. The voters granted his PAP a landslide victory at the November 3, 2001 election.[419] In his speech at the National Day Rally on August 17, 2003, he repeated the need to keep Singapore's economy competitive by keeping CPF as light a burden as possible.[420]

Goh explained that in the long run he envisioned a range of CPF contribution rates for various age groups of workers with the idea of cutting the rate during bad years and increasing it during good years. He argued that his plan to keep older workers employed by lowering their contribution rate was already accepted by the Economic Review Committee. Goh also mentioned that the total CPF contribution may be cut as low as 30% when necessary. But in the meantime, he urged everyone to understand the need to signal to investors that Singapore is willing to bring down costs of doing business, is realistic, long-term in thinking and hence attracts more investment and jobs.

According to the final report of the Economic Review Committee released on February 6, 2003, Singapore's manufacturing workers are paid US$ 7.14 per hour, compared to US$ 0.53 per hour for workers in China and US$ 2.68 per hour for those in

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419 .Huxley (2001a, 2001b).

420 Retrieved October 3, 2006 from http://www.gov.sg/nd/ND03.htm.

Malaysia. The state leaders cited the statement of an economist with a US firm who said that adjusting the CPF rate may be 'an easier pill to swallow' than an outright cut in wages.[421]

With regard to the requirement to keep an increasingly high Minimum Sum in workers' CPF accounts, the consideration could be tracked in the 2002 speech of Prime Minister Goh Chok Tong. He said that recently there had been a disturbing new attitude toward social assistance. He cited the Economic Downturn Relief Scheme (EDRS), a scheme outside the CPF that is supposed to help retrenched Singaporeans cope with living expenses. He quoted the story of Lim Boon Heng, a Member of Parliament who is also chairman of the PAP and secretary-general of NTUC, that some Singaporeans see the EDRS as a source of free money. If back in the 1980s the poor and jobless went to Lim for help to get a job and not to get welfare assistance, now able-bodied young men ask for monetary help. For this reason, Goh emphasized the need of Singaporeans to be more self-reliant and to develop more sense of responsibility to take care of themselves when they fail. The minimum sum requirement was part of that campaign.

7.3.2. The Reactions from State Leaders and Bureaucrats

CPF is technically an extension of the hand of state leaders. It is a statutory board under the direct authority of the Ministry of Manpower. Unlike Indonesia and the Philippines, where bureaucrats can still be differentiated from state leaders, here they are

[421] "Analysts expects CPF cuts but in stages" (2003).

practically molded by state leaders. The CPF Board has twelve members, all of whom are appointed by the Minister of Manpower. They are representatives from the government, employees, employers and professionals (included here are academicians).[422]

Despite this representation, the Board is just an administrative entity with little policymaking autonomy.[423] Decisions are made by the Ministry of Finance and the Ministry of Manpower. It is worth noting that today the Minister of Finance is the wife of sitting Prime Minister Lee Hsien Loong, Ho Ching, who simultaneously serves as the CEO of Temasek Holding Limited. Temasek Holding is the investment arm of Singapore's government that owns shares (hence control) in government-linked companies and is 100% owned by the Ministry of Finance.

The individuals who sit on the CPF Board are either very young, hence mere beginners, or seasoned politicians or business persons or union activists from the TUCP who for years have served in various different boards in Singapore's politics. For that reason, these individuals have proven records of cooperation, if not conformity, with the sitting state leaders. An academician in Singapore argues that one should not expect, for instance, the workers' representatives on the CPF Board to stand in opposition to the state leaders on issues pertaining to workers.[424] Rather, they mostly serve as the voice of the state leaders among workers.

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[422] More specifically the Board consists of the Chairman and Deputy Chairman, two persons holding office of emulement under the government, two persons representing employers, two persons representing workers, and up to four other persons that the Minister of Manpower determine to be necessary (typically academicians).
[423] Asher and Rajan (2002, p. 253), Low and Choon (2004, p. 175).
[424] Interview, February 6, 2006.

Indeed there is a neat and harmonious link between the bureaucrats at the CPF and the state leaders. This is enhanced by the common practice of rotating positions among bureaucrats and state leaders. Any smart and ambitious young person may start off as a labor leader or businessman and by the end of the day be recruited to work as a bureaucrat or state leader. A case in point is Goh Chok Tong himself. Goh started his career at the Neptune Orient Lines as its planning and project manager and then managing director. Neptune Orient Lines is partly owned by the government through Temasek Holding Limited, which allowed his good performance to be heard by those in power. Being a member of the PAP certainly helped too. After being a member of Parliament, Goh later served in various cabinet positions (Senior Minister of State for Finance, Minister for Trade and Industry, Minister of Health and Minister of Defense) before becoming First Deputy Prime Minister in 1985, the position that opened his way to becoming Prime Minister. A Deputy Prime Minister typically also holds simultaneously other cabinet positions, e.g. Minister of Finance (as happened with now Prime Minister Lee Hsien Loong) and Minister of Defense.

Ideas for public policies in Singapore for the most part come from the Prime Minister. Strong Prime-Ministership, i.e. having a Prime Minister who takes and promotes initiatives through government agencies, is characteristic of governance in Singapore. Every year there are at least two occasions on which the Prime Minister is expected to give a speech that addresses various current political, economic, social concerns and challenges and explains the steps that the government is about to take.

Shaped as speeches that locate Singapore on the world map of economy and politics, the messages are usually uplifting as they are also aimed at affirming to Singaporeans their potentials and capabilities.

The occasions are the National Day Rally (typically held a week or two after Singapore's National Day on August 9) and Budget Day (typically held in the month of May). During these occasions, the Prime Minister usually also singles out one or two individuals for special mention. These are individuals who ought to be watched in the coming year, because of their success (e.g. in business, as Ong Peng Tsin, the cofounder of Interwoven software company based in Silicon Valley and Goh Zeng Liong, a 35 year-old aerospace technician with Singapore Airlines) or because of the concern the government has toward this individual and the potential ramifications of this individual's actions or statements. An example is Lee Kim Mun, who writes the "Mr. Brown" column in *Today Daily.* He wrote a critique of the government that was considered too harsh and was responded to immediately and firmly by the Ministry of Information, Communications and the Arts).[425]

[425] The mentioning of the two businessmen was by Prime Minister Goh Chok Tong in his 2001 and 2002 National Day Rally speeches respectively. The mentioning of Mr. Brown was by Prime Minister Lee Hsien Loong. Tying the Mr. Brown incident as a new phenomenon of the development of political entertainment in the media and that the Ministry of Information, Communication and Art (MICA) was doing the right thing to respond firmly to what Mr. Brown wrote, Lee Hsien Loong specifically said "We have got to keep this government serious and responsible. We can't govern based on jokes; we can't govern based on sound bites, or distortions. You have to have debates which will add reasons, which will add enlightenment, which will come to a conclusion and not just end up in angry words and name calling… By all means, if you think the government is doing something wrong, criticize us, criticize the government, criticize the leaders but be prepared to stand by your criticisms, to back up what you say and let's argue it out. If the government disagrees, then we have to respond, if you criticize the government and the government does not respond, then the government has not taken you seriously. Number one, it does not deserve to be here. Number two, because if we do not respond, untruths would be repeated and will be believed and eventually will be treated as facts and the government and the leaders will lose the respect of the population and the moral authority to govern. So we argue, sometimes we argue fiercely but we should not take that as a sign that we are not open. Openness doesn't mean just lovey-dovey. Openness means being prepared to be

If not from the Prime Minister, a reform idea or policy might emerge from a government-formed committee or commission consisting of and led by top-rank state leaders. And by this I mean people who are highly trusted by and are the political confidants of the Prime Minister. Any policy idea needs to be approved by key state leaders in order to make the cut as part of public discourse. For instance, on issues pertaining to the CPF, new policies are often adopted with inputs provided by the Economic Review Committee.[426] Aside from the representatives of the private sector (e.g. big business CEOs and NTUC representatives), trusted state leaders sit in the committee too, i.e. the deputy prime ministers and the senior ministers.

Judging from how policies are developed and adopted, it is not surprising to find little if any diverging opinion on how things should be once the Prime Minister speaks in public. Decisions pertaining to CPF are a case in point. There was barely any public deliberation or meaningful opposition from bureaucrats on any of the reform ideas.

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candid, to be direct and to discuss very serious things very seriously…So I give you the example of Mr Brown's column in Today. Some of you may have read it, some of you may not. But it hit out wildly at the government and in a very mocking and dismissive sort of tone. So MICA replied. How can you not reply? And some Singaporeans feel we were too harsh, we should have been gentler or may be just even accepted it. It's just niceness. He didn't mean us any harm." The transcript of the speech is retrieved January 3, 2007 from http://app.sprinter.gov.sg/data/pr/2006082010.htm.

[426] The Economic Review Committee was established in 2001 as a division under the Ministry of Trade and Industry. This committee is further divided into several sub-committees whose task is to review various different issues such as tax, the CPF, land allocation, wages, as well as manpower use, all to promote entrepreneurship and innovation. Back in 2001, half of the Committee consisted of government representatives: Lee Hsien Loong as the chairman (he was the Deputy Prime Minister and Finance Minister), Tony Tan (Deputy Prime Minister and Defence Minister), George Yeo (Trade & Industry Minister), Khaw Boon Wan (Senior Minister of State on Transport, and Info, Communications & the Arts), Tharman Shanmugaratnam (Senior Minister of State on Trade and Industry and Education), Raymond Lim (Minister of State), Ng Eng Hen (Minister of State on Education & Manpower), Teo Ming Kian (chairman of Economic Development Board), Shih Choon Fong (President from the National University of Singapore). Half of the committee are CEOs of big companies operating in Singapore (e.g. Stephen Lee of the Singapore Business Federation, Loo Choon Yong of Raffles Medical Group,
Ong Peng Tsin of Interwoven, Johan van Splunter of Philips Electronics Singapore, Rob Stein of the Deutsche Bank Group in Asia Pacific, etc.). Two workers representatives at the Economic Review Committee were Heng Chee How (Deputy Secretary General of NTUC) and Halimah Yacob (Assistant Secretary-General of NTUC).

Newspaper columnists provided subtle reactions but mostly just reported the development of the issue. For instance in response to the cut in the employers' contribution, the commentary from the *Straits Times,* the English-speaking newspaper with the biggest readership in Singapore, was:

> "How well Singapore fares will depend on whether it is ready to change. This has been the lesson of the British withdrawal in the 1960s, the 1985 recession and the financial crisis of 1997. In each case, the punishment of adjustment allowed Singapore to benefit from the upswing that would come its way. In each case, the ability to face up to reality made the ensuing recovery a little more real. This time around, wage reform and CPF changes, painful as they cannot but be, are the wrenching mechanisms of change, means to keep the economy competitive by making it flexible. These must be combined with support for entrepreneurship, revving up manufacturing and services as twin engines of growth, and investing in human capital. The key question at the end of the day is whether the economy can create jobs."

It is therefore fair to say that the bureaucrats in Singapore are highly dependent on the state leaders, from policy initiation to adoption and implementation. Yet the Singaporeans would rather consider this as a demonstration of conformity to "good" leadership. As a Singaporean academician said, there is no doubt that the initiatives of the state leaders will always yield a good return for the citizens, at least that has always been the case.[427] They understand that the credibility of the state leaders who are also the leaders of the ruling PAP is at stake with every policy taken. With economic

[427] Interview, February 6, 2006.

development and growth as the central goal of the Prime Minister, they learn that the state leaders cannot afford bad returns on implemented policy. The question in the minds of Singaporeans, this academician said, is more about accountability, about how big the actual profit is and where the society is going.

7.3.3. The Conduciveness of the Economic Environment in Singapore

7.3.3.1. The Expectation of Employers

A recent study suggests that Singapore's governing elites are less separated from private interests and less bureaucratic than commonly thought.[428] I agree with this. With Singapore being run as a corporation where the state holds the shares and management of strategic and profitable industries and companies,[429] the interests of state leaders are basically entwined with those of the private sector. Compared with the bureaucrats, businesses have relatively more room to make suggestions that are not necessarily to the taste of the state leaders. Having a goal of excelling in the global market, the Prime Minister listens and observes carefully the needs of the employers. The incorporation of local as well as international businessmen in state agencies, committee or commissions, such as in the Economic Review Committee mentioned earlier, as well as the appointment of civil servants and military officials in government-linked companies, conditions the state leaders to care about what employers need.[430]

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[428] Hamilton Hart (2000).
[429] Low (2001).
[430] Government-linked companies refer to companies whose part of their shares is owned by the investment arms of the government of Singapore. It has been said that the bigger the share of government in a company, the bigger also the influence and interference of the state in that industry or company. So far the formal minimal threshold of government ownership in a company that would make that company classified as a government-linked company is 20%. Yet such measurement is typically just used in a strictly

This care is reflected in how the state leaders address the concerns and the wellbeing of the employers. Goh Chok Tong acknowledged, for instance, that Singapore should be concerned with giant economies like China and Russia and neighboring countries like Indonesia and Malaysia. He said that the highway to the market is getting congested and now no matter how fast or powerful the vehicle one drives, one cannot simply zoom around anymore.[431] For this reason the government is willing to adopt changes that in the short run may cause pain. He argued that tax rates have become a key element of competitiveness, hence Singapore must adjust its tax structure and the CPF.

In addition, in the year 2000 the government tackled rising structural unemployment by establishing a S$ 5 billion Lifelong Learning Endowment Fund, a fund that is used for skill upgrading and retraining of workers, and increasing it by S$ 500 million in 2004. There is also the so-called Skills Development Fund that pays for course fees of older workers and certifiable training for needy workers. Hence the government is absorbing some costs of improving the condition of the labor market.

All of these, however, do not imply that employers' initiative dominates policymaking. The state leaders may listen to the needs but how the needs are met remains within their authority. In most cases this is how the state leaders maintain their

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quantitative study simply because the amount of shares smaller than 20% would be harder to track as most information might not be available publicly. In reality, any company that the state leaders lay eyes on could very well be a government-linked company.

[431] National Day Rally speech August 18, 2002.

autonomy. For instance the decision to cut the employers' contribution rate to CPF. Companies in Singapore were hoping that the government would cut their contribution rate as soon as possible and at one go but the government wants to do it in stages.[432]

Needless to say, the state leaders' attention to the wellbeing of businesses in Singapore was welcomed by the employers. As reported by the *Straits Times,* at least one multinational company that was considering shifting its operation to China for cheaper low-end production, Matsushita Refrigeration Industries, said that the changes in the CPF will help the company keep its manufacturing operations in Singapore.[433] The same newspaper also revealed that the Singapore National Employers Federation (SNEF) and Singapore Business Federation (SBF) issued a joint statement appreciating the "swift action" to implement the CPF contribution cut from October 2003 as it saves S$ 1.3 billion annually for businesses and in the long term it may increase employment including for the elderly workers. Share prices were higher in the midmorning trade the next day after Prime Minister Goh Chok Tong announced the cuts in the employer contribution rate.[434]

The assurance from the NTUC Secretary General Lim Boon Heng that the cuts are unlikely to be restored in the near future because the union is looking to secure jobs further boosted the credibility of the reform step.[435] This credibility was further enhanced by the government's pro-business budget as announced by then Finance Minister Lee

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[432] With wage costs making up about half of total business costs, the cut in the CPF contribution rate saves S$240 million monthly, especially for big businesses. See "Singapore firms favor cutting CPF rate at one go" (2003).
[433] *Straits Times,* August 29, 2003.
[434] *AFX Asia,* August 18, 2003.
[435] *AFX Asia,* August 13, 2003.

Hsien Loong. The budget allowed businesses to continue to enjoy rebates on property tax and rentals on government properties, have lower foreign worker levies, enjoy tax exemptions for foreign incomes remitted to Singapore (so that domestic companies could expand abroad), experience cuts in red tape and further divestment of non-strategic firms to promote entrepreneurship.[436]

The credibility of the state in caring for the needs of employers seems unquestionable. Looking back at the 1980s, there were plenty of reasons for employers to be encouraged. To multinational companies, Singapore is ideal as the workforce is motivated and well-educated, unions are "tamed" and the government is supportive of investment since Singapore lifted most pre-1965 trade barriers. Back then the policy to establish the National Wage Council to boost workers' productivity, establish a Skills Development Fund that would reimburse 70% of the costs of retraining workers in certain activities and raising workers' education level through the Vocational and Industrial Training Board, as well as the cut in the employers contribution rate to the CPF had increased the average earnings in manufacturing dramatically and improved workers' value added by 81% and 85% respectively.[437]

With regard to recent adjustments at the CPF, employers have been no less persistent in getting favorable changes. Back in 1998, Singapore manufacturers called for stiffer measures to ease business costs including a bigger than suggested cut in employer

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[436] *Channel News Asia.*
[437] Rigg (1988).

contributions to the CPF, to 5% instead of the state-proposed 10%. The Singapore Confederation of Industries argued that such a drastic cut will help make the change effective for businesses.[438]

The Committee on Singapore's Competitiveness, which is one of the committees of the Ministry of Trade and Industry, later responded that Singapore should not "overdo" the incentive package for employers in order not to make everybody too pessimistic or make the government appear too cheap.[439] The Committee considered the 10 percentage point cut from 20% employer contribution to CPF as the right one and the rest of business' cut should come from slashing variable wages, as that is one of the biggest components of costs in Singapore, and the cutting of government taxes and charges.

This attentiveness of the state leaders to businesses is reciprocated with the support of businesses to restore the "burden", especially in social security, when the economy does better. It is indeed interesting that employers in Singapore actually welcomed the potential restoration of the CPF cut in the contribution rate as early as one year after the cut was made in 1999. In a survey by the Singapore Chinese Chamber of Commerce and Industry, two in three of the 115 companies surveyed were prepared to accept some upward adjustment in the rate (from 40% of them wanting a 1-2 percentage point increase to nearly 60% wanting a 2-3 percentage point increase) while the rest would prefer that the restoration be deferred for seven months.[440] The reason for this was

[438] *Financial Express,* November 4, 1998. The cut in the CPF contribution was only one among other cuts wanted by businesses, e.g. suspending or lowering levies applied on foreign workers hired by Singaporean companies, higher rent rebates, lower port charges, halving the Goods and Services Tax (GST) to 1.5%, reduction of non-wage costs for land rentals, utilities, transport and communications.
[439] *Business Times,* November 12, 1998.
[440] *Straits Times,* November 24, 1999.

that the overall cost-cutting package that the government introduced had been proven effective in restoring their businesses. Indeed a large majority of the surveyed companies had a very positive outlook toward the economy and only 3 percent said the outlook was bleak.

All of this confirms that employers in Singapore have a generally optimistic outlook on the conduciveness of the business environment in Singapore, mainly because they believe the state leaders share an interest in keeping them profitable. In 2005, the efficacy of the state's incentive package was proven again. The Ministry of Manpower reported that the economic condition had turned favorable with record high employment and improved profitability for companies so that the wage increase is the highest over the last five years.[441]

7.3.3.2. The Expectation of Workers

Workers in Singapore do not and cannot assert any independent political influence on policy-making or state leaders. All authorized trade unions in Singapore, currently 64 in number, are members of the umbrella organization National Trade Union Congress (NTUC), an institution known to have a symbiotic relationship with the ruling PAP. It is representatives from the NTUC who sit on various tripartite boards in the government, including the CPF. Those from NTUC who sit in the tripartite boards are senior officers who have a proven record of cooperation with state leaders. NTUC becomes a tool that supports the state's development plan.[442]

[441] Singapore Ministry of Manpower (2005).
[442] Deyo (1987).

In this country, unions do not have the right to strike and their activities are closely controlled by the state. Yet their submission to the state is rewarded with benefits and political positions. As an academician says, those at the top-rank of the NTUC are basically bureaucrats whose task is to maintain a harmonious relationship between workers and employers and government.[443] Hence all Singaporean workers must be members of NTUC. One way to attract membership is to develop businesses organized by the NTUC, such as the taxi and supermarket chain NTUC FairPrice, where the prices of goods are cheap, good in quality and members get discounts and rebates. Members are also enticed with benefits such as NTUC Healthcare (including free healthcare screening, discounted drugs), NTUC Childcare, NTUC Eldercare, NTUC Denticare Clinics. These businesses are run on the principle of cooperatives.

As a union, the NTUC participates fully in any activities and policies designed by the government. It also does not consider cooperation with the employers as taboo. The stand of the NTUC is well captured in the following statement of NTUC's Secretary General Lim Boon Heng:

> "…we have kept faith with the basic aim of trade unionism: looking after the interests of workers. But we have changed the way we operate over the years. We realize that we can help workers get jobs and better pay only if we make it possible for the economy to grow. That is why we work closely with government and business in a tripartite partnership. Ours is a value-adding labour movement….We add value to workers by protecting their interests and providing them with many benefits. We add value to business by fostering industrial

[443] Interview, February 7, 2006.

> harmony and encouraging workers to upgrade their skills and become more productive. We add value to society by stabilising prices through our network of cooperatives and by making available quality social and recreational facilities to Singaporeans at prices they can afford. Together with government and employers, we must identify skills and knowledge needed to strengthen Singapore's position as a leading regional hub for manufacturing and services in the global economy."[444]

This stand has been the commitment of NTUC since 1969, in compliance with the Industrial Relations Act of 1960 that designated an orderly system of collective bargaining, conciliation and arbitration for the prevention and settlement of industrial disputes.[445]

As a union, what the NTUC fights for is jobs for workers. As a top-ranking officer of NTUC says, "the best welfare is a job".[446] The cut in the CPF contribution rate may be painful for workers as it would also cut the accumulated funds in workers' accounts that is run based on the provident fund system, but the NTUC believes it helps create and keep jobs in Singapore. As this officer says: it worked in the past (i.e. in 1986) hence he was confident that such sacrifice is short-term only and will work to the advantage of workers. He insisted that NTUC's policy of cooperation towards employers and government is in the long-term interest of workers.

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[444] Official message to union members. Retrieved September 3, 2006 from (http://www.ntucworld.org.sg/ntucunions/abt_ntuc_message.asp.
[445] ILO (1987).
[446] Interview, February 8, 2006.

The NTUC leader elaborated the dilemma in providing any social security benefits given that workers in general won't care as much about accumulating funds in the short run because they mostly need benefits when they are old, while the employers would need to put money in the CPF always even when the workers are not sick. For this reason, he argued that NTUC must focus on keeping employment high, especially since the cycle of economic crisis seemed to get shorter and more explosive. Looking back, he argued, the crisis has been in 12 year cycles: 1973, 1985 and 1997/1998 but then in 2001 Singapore faced another economic downturn. Hence he said the NTUC is being realistic in its steps to prepare for the next round of economic challenges.

From my interview with a top-rank NTUC officer, it is clear that one should not expect any tension or disagreement to damage workers' participation in policymaking. On the one hand there is simply no room for political challenges as the state leaders have warned everyone about the dire political as well as economic consequences. While Singapore's Constitution guarantees freedom of speech and association, there are what the state leaders call "OB markers" (out-of-bounds markers), which are often used to describe sensitive issues that are prone to destabilize public order and hence the economy.

The political elite believes that citizens' views are incoherent and a poor guide for formulating policy.[447] Even Goh Chok Tong who is known to be more open to consultation with non-political elites (i.e. relative to Lee Kuan Yew who was plain anti "non-sense talk") had openly condemned critiques over the top-down decision-making in

[447] Leong (2000).

Singapore, further suggesting that the safe route is not challenging the state leaders.[448] On the other hand any input would be offered in a non-political style (i.e. with no obvious standing that separates the interests of groups and with no emphasizing of competing interests). In the case of NTUC and their participation in shaping the CPF programs, the current attention of the NTUC is the contractual workers, the training for self-employed workers and the aging workforce. The NTUC argued that cooperation with employers, for instance by invoking corporate social responsibility, serves them well.

Outside the NTUC, several Singaporean workers I met were not thrilled with the changes in the CPF. Granted they see the improvement of CPF benefits and how the changes helped create employment but they retain some dissatisfaction. I argue that this is where workers sense the strengthening of the political control of the state over them. In a nutshell, the workers are uneasy about having hundreds of thousands of dollars in the CPF but with very limited freedom to use it. Not only are workers restricted in withdrawing money from their accounts, they basically still need to pay out of pocket for healthcare needs given the minimum sum requirements. Moreover, workers must basically pay back their "loans" to their own account, especially the Medicare account, in order to secure the availability of funds during retirement.[449] Although the government

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[448] Ibid*,* 441-442. The critique came from Catherine Lim, a well-known writer, who wrote in the *Straits Times* about the limit boundaries of OB markers. See "One Government, Two Styles" (1994). As Ho Khai Leong nicely summed, Prime Minister Goh Chok Tong calls that everyone may criticize the government but the government will treat them as though they have entered the political arena. He further says "If you land a blow on our jaw, you must expect a counter blow to your solar plexus…Well- meaning people who put forth their views in very well-meaning ways will receive a very gentle and very well-meaning reply, while those who try to undermine the authority of the government through snide remarks and mockery must expect a very-very hard blow from the government in return."

[449] As noted by Ramesh (2000), since 1987 members must leave a Minimum Sum in their account to ensure they have funds to pay for their basic expenses during retirement. The Minimum Sum is currently

provides a lower rate of contribution for the elderly who work, this means Singaporeans must always work. The option to pledge assets instead of cash for the CPF Minimum Sum does not alleviate the burden of responsibility on individual Singaporeans as this means putting their home or land in mortgage to the government. A worker also revealed that the top-up scheme is not all that exciting for her or her family members given the requirement of workers to match the subsidy of the government.

Such comments from workers are probably not ones that the state leaders want to hear. In fact Goh Chok Tong once addressed this issue.[450] He cited the feedback from radio listeners to the morning AM NewsTalk of NewsRadio 93.8 where caller after caller complained that the government was not sincere in asking for feedback from the public with regard to the increase in bus and Mass Rapid Transit (MRT) fares, that they felt Singapore is not their country anymore, and that the government should be worried if Singaporeans do not speak out anymore as it could be the start of a "revolution". Goh said:

> "The callers are wrong. The government does listen to the people. When the going was bad, such as in 1998 and last year, we had deferred price increases, and doled out generous financial assistance. In good times too, we distribute surpluses, especially to help the weaker members of our society. CPF top-ups, New Singapore Shares, Economic Restructuring Shares, Economic Downturn

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S$ 55,000, of which S$ 16,000 must be in cash and the rest may be pledged with property. It is set to increase in a phased manner until it reaches S$ 80,000 in 2003, of which S$ 40,000 will be in cash. Before retirement, funds above the Minimum Sum may be withdrawn for approved investment purposes.

[450] National Day Rally speech, August 18, 2002.

Relief Scheme, off-budget measures, utilities rebates, S&C rebates, Edusave grants and awards, Medisave Top-Ups - have you forgotten them?"

Goh further said that the government works like a doctor, who listens to feedback but exercises expert judgment in solving the problem.

One thing for sure, however, and this is where the puzzle lies, is why workers continue to have an optimistic outlook toward the Singapore economy. They may be quietly or openly unhappy about the restrictions in their policy making participation or the CPF but there is no question that they, just like the employers, view the economy as conducive for the private sector. I argue that the limited room for protests cannot answer this puzzle. A Singaporean academician helped affirm my hunch that the workers are satisfied with a wage level that is relatively sufficient to meet their living costs.[451] See Table 7.7 for the median monthly gross wages for workers in Singapore.

Cost of living for an individual in Singapore is known to be relatively low compared to other industrialized countries. As an illustration the living cost ranges from roughly S$ 750 per month for a modest graduate student to S$ 2000 for a more lavish life-style. Such a sense of relative sufficiency undergirds the optimistic view of workers, which in turn allows state leaders to have credibility in shaping the social security reform as it now is, which improves employment and benefit level but at the expense of perpetuating, if not deepening, state political control over workers and also employers.

[451] Interview, February 6, 2006.

Industry	Managers	Professionals	Associate Professionals and Technicians	Clerical Workers
All	5,770	4,295	2,916	1,950
Manufacturing	5,665	4,171	2,993	1,950
Construction	4,471	3,300	2,604	1,000
Services	6,000	4,600	2,899	1,980
Wholesale and Retail Trade	5,500	4,322	2,988	1,975
Hotels and Restaurants	3,092	2,900	2,252	1,631
Transport and Communications	5,631	4,620	2,849	1,952
Financial Services	7,280	6,250	3,215	2,079
Businesses and Real Estate Services	6,803	4,600	2,920	2,050
Community, Social and Personal Services	4,660	3,595	2,453	1,903

Source: Ministry of Manpower.

Table 7.7: Median Monthly Gross Wages of Workers in Singapore Aged 35-39 by Industry and Occupational Group, 2005 (in S$)

7.4. Conclusion

Social security reform in Singapore demonstrates how the combination of a gradual and not-so-dramatic change, the intense symbiosis between state leaders and the bureaucrats and the optimistic expectation of employers toward the economy has led to a reform that strengthens the political control of the state over workers and employers. With the changes made based on caring for the needs of employers, that is with the goal of keeping the Singapore economy competitive, slashing structural unemployment, keeping the elderly employed and changing the mindset of workers who are reportedly more interested in collecting welfare than working, the state leaders designed adjustments to the CPF schemes to address those issues.

Despite inputs from employers and workers, policy making is monopolized by the state leaders. It is not a surprise, therefore, if despite the benefits workers yield there is some dissatisfaction. The relative sufficiency of workers' wages to meet living expenses suppresses any dissatisfaction and keeps the NTUC as the union that is cooperative towards employers as well as the state. The employers, on the other hand, are more concerned about business profits and how the social security reform helps enhance those profits. They are not necessarily bothered by the strengthening of the state's political control over them. Both employers and workers therefore have an optimistic expectation that the reform package will advantage them. It had done so in the 1985 crisis and again after the 1997 financial crisis.

Meanwhile the bureaucrats at the CPF have a relatively low level of independence from the state leaders. In fact the CPF is the extension of the hand of state leaders. Board members have little autonomy to make decisions for the CPF. Ideas for public policies, including social security reform, in Singapore for the most part come from the Prime Minister. The final say on the policy too rests with the Prime Minister.

CHAPTER 8

CONCLUSIONS

Post-1997 social security reforms in Indonesia, the Philippines and Singapore do not converge but instead vary on two important dimensions: benefit level for the contributors and state political control over the private sector. Reforms in these countries affect the playing field for groups and individuals. In Indonesia, the shift eroded benefit level but strengthened state control over the private sector. In the Philippines, the shift improved benefit level and weakened state control. In Singapore, the shift improved benefit level while at the same time deepening state penetration of the private sector.

Such variation, I argue, cannot be explained with the usual explanatory variables: national fiscal constraints, the ranking of economies in the global competition, or the intervention of international financial institutions. I find that these factors only influence the dramaticness of change proposed for the social security reform. Once the proposal is initiated, however, there were a series of confrontation and compromise among involved stakeholders: employers, workers, state leaders and bureaucrats.

Although the Philippine state was less challenged during the crisis and had fewer outstanding multilateral loans compared to Indonesia, its social security system was nonetheless in danger of bankruptcy in the immediate future. Instead of cutting benefits, however, the Philippines retained the ostensibly untenable defined benefit scheme, rejected a shift to defined contribution and increased benefit levels.

Indonesia, which suffered the greatest during the crisis, initially aimed at increasing benefit levels and creating highly dramatic changes in existing social security programs. Despite cooperation with several donor agencies, however, reform in Indonesia took a different direction unrelated to weakening state control over social security. In fact, they ended up doing just the opposite. Meanwhile Singapore increased benefits and launched actions to employ their social security systems as means to enhance employment creation. All while maintaining the strong state in the private sector and in the lives of individual workers and citizens. So clearly there are more stories behind the variation of shifts in the dimensions of social security provisions in these countries.

There are at least four reasons why the usual variables did not work. First, the reforms within the social security systems were the second layer of the reform agenda after the crisis, that is *after* other monetary and fiscal measures were put in place. In fact, the social security system was seen less as a burden and more as a source of domestic resources to supplement the inflow of foreign loans. Second, social security systems are aimed at creating a certain pattern of interaction among state leaders, employers, workers and bureaucrats. Hence the state leaders' goals were not to alleviate the financial pressure on the social security system *per se* but rather to adjust the playing field for stakeholders.

Third, the social security reform *process* actually evolved independently from what was going on at the macroeconomic level. Once the reform started, it did not really matter what the global market was saying; the reform was concerned more with the interactions among domestic stakeholders and how the new systems would yield desired returns for each of them. Fourth, although each of these countries share concerns over their economic position, their loans and their competitiveness in the world market, they do not share the same way of dealing with them. Again since the attention of stakeholders was on their own playing field, what they looked at are the incentives and punishments implied in the existing and proposed new systems.

This study finds that the variation is determined by the expectations of employers and workers based on the conduciveness of the economic environment for private businesses (whether employers and workers foresee more or less positive outlook for their welfare) and the degree of relative independence of social security agencies and bureaucrats from the state. Dramatic change offered in the reform proposal, despite its necessity to solve problems within the existing social security system, could be easily derailed and emasculated when the employers and workers lack positive outlook for their wellbeing and the state leaders and bureaucrats values the symbiosis between them.

I find that employers and workers are concerned about the yield from the financial contribution they made into the social security system and how it will affect their survival in the economy. The less optimistic they are that the proposed reform will secure an acceptable return on their contributions in social security, the less likely the reform will improve benefits and create employment. They may reject the reform or prevent the effective implementation of the adopted reform.

In addition, there are state leaders and bureaucrats who are concerned about maintaining easy access to the significant collection of domestic funds, which is important to finance state development agendas, create a certain image for the power insiders and outsiders (e.g. by boosting the stock market, providing temporary cash or service benefits, and prosecuting those who are endangering the sustainability of these practices), and secure personal employment. The more intense the symbiosis between state leaders and bureaucrats, the more likely the reform will strengthen the political control of the state at the expense of the employers and workers. Indeed it is clear that an intensive, and typically also highly lucrative, symbiosis between state leaders and bureaucrats, especially when the social security agencies have little if any statutory autonomy from the state and the bureaucrats are practically captured by a few state leaders who have direct stakes in the bureaucratic agencies, sacrifices the ability of bureaucrats to perform professionally and prevents them from taking necessary actions to solve problems that are embedded in the reform idea.

The combination of low independence of the social security agency from the state and the low or skeptical expectation of employers and workers on the conduciveness of the economy, along with proposed highly dramatic changes, have led to a reform that erodes the benefit level for workers and employers and strengthens state control over the private sector. This is what happened to Indonesia.

The combination of the medium (hopeful) expectation of employers and workers on the conduciveness of the economy and the low degree of symbiosis of social security agencies and the state, along with proposed non-highly-dramatic change, led to a reform that produced more benefits for individual workers and their dependents while weakening state control over workers and employers. This is what happened to the Philippines.

Finally, the combination of low relative independence of the social security agency from the state, the high (optimistic) expectation of employers and workers on the economy and the gradual non-highly-dramatic change have led to a reform that strengthens state control while improving benefit levels. This is what happened to Singapore.

The events of social security reform in Indonesia, the Philippines and Singapore demonstrate that there are the shifts on the two dimensions of social security are part of a bigger scheme of market governance. This study reveals the broader reasons why the state leaders pushed toward certain direction of reform, i.e. the need to generate domestic funds that would enable them to be autonomous from outside pressure, the need to develop incentives and punishments for private sector players that would help them maintain or enhance control over worker-employer relations, and the need to secure certainty for all stakeholders that would restore the overall sense of predictability for all stakeholders.

Social security system a giant fund-generating machine that could help finance various economic development and political agenda, both at the level of the state and the level of specific individual state leaders. Such financial discretion is useful to protect the autonomy of the state from outside pressure. At the very least social security funds provide financial resources to tackle social agenda, including the concern over the poor. In Indonesia, the state does this by tapping the profits from the investment of, and the lack of public control over, the social security funds. In the Philippines, by intensifying tax generation activities in the name of financing cushions for workers from market risks and assisting the poor. In Singapore, by further activating the CPF as a means to generate funds from workers and employers (including from multinational companies).

Social security reform is also a potent tool to maintain or enhance the control of the state over worker-employer relations. In Indonesia, the state does this by using selective enforcement of statutory programs and rules. Those who enjoy the incentives from the state are not necessarily the ones who comply with the statutory programs and rules, especially since the rules themselves are further divided into the national level laws, which are mostly vague and contain ideals, and the implementing executive orders, which are more specific but are the prerogative of the ruling state leaders. In the Philippines, the state uses improved social security benefits and flexibility practices of employers as incentives while the punishment only applies to workers, i.e. poor working conditions. In Singapore, the state uses improved social security benefits as the incentive for workers and lowered employers' contribution as the incentive for employers. Meanwhile the punishment in Singapore also applies only to workers, i.e. higher minimum sum in workers' CPF accounts before they can withdraw any for their contingencies, which consequently forces workers to work hard beyond their old age.

Last, as a system that penetrates and influences employment relations (employer-worker), industrial relations (state-employer and state-worker), and labor market (business-consumers), social security reform is helpful to restore the overall sense of predictability for all stakeholders in the midst of a more globalized market. A "proper" intervention of the state in the system sets the rule of the game and expectations in that particular market, which in turn should mitigate any sense of uncertainty, especially following a devastating financial crisis.

Through the social security reform we will see that the state in Indonesia establishes regulated competition with state-owned corporations as the pillars, bureaucrats as the biggest supporters of state leaders and state leaders as the mastermind regulators. Certainty is expected through the numerous, yet poorly coordinated, regulations, which ironically would be further challenged by the intensifying political competition among state leaders. In the Philippines, the state chooses to establish more financial and service opportunities in citizens' hands through the various social security schemes. In a country where popular protests and movements have the reputation of overturning government administrations, such institutionalization of opportunities minimizes uncertainties borne from unsatisfied citizens. Meanwhile in Singapore, certainty is guarded by the state through the expanding control of the CPF (as the extension of the state) over more aspects of citizens' lives, from income and taxes to assets and spending habits. Such an expansion of the CPF's area of control strengthens and consolidates Singapore Inc.

By focusing on social security reform, we can identify better the desire of the states in these countries to regulate, administer, advocate, coordinate, secure or provide things for the greater good that otherwise would not be provided. And of course, most importantly social security reform provides a practical opportunity for us to identify the anticipation and response of both the powerful and the weak stakeholders, also the creation and distribution of wealth among them which in turn will affect the power and influence of groups in the policy-making process.

Now the question is: What is the importance of these findings to the broader field of comparative politics? First, the discourse of market governance is still as relevant today as it was in the 1960s and 1970s when the less developed economies were trying to catch up with the more developed economies. Countries that started to implement neoliberal policies almost immediately confronted various new challenges of globalization.[452] Indonesia, the Philippines and Singapore were among them. With improved and ubiquitous technology that allowed data, information and money to be stored and moved around the globe at lightning speed,[453] and capital and business owners diversifying their investment options to foreign places, participants have a heightened chance of winning but also of losing. The existing competition creates insecurity for market participants derived from the following "sense of sacrifices", e.g. lower labor standards, fear of massive outsourcing, unemployment, and costs (e.g. infrastructure,

[452] Kahler (2004).
[453] McKenzie and Lee (1991).

foregone subsidies as incentives, etc.) for keeping investors within their borders.[454] The series of financial crises that ended with the terrible 1997 crisis further highlighted such insecurity. So what happened is not necessarily a cutback in state intervention in the economy but rather a modification of it.

Second, to govern the market, the state needs some sort of legitimacy from the private sector. Here, actions speak louder than words. The record of achievements and cooperation that lead to favorable returns for the private sector help enhance a state's credibility. The cases of social security reform process in Indonesia, the Philippines and Singapore show that employers and workers now prefer to be risk-averse and have less tolerance for risk management. Employers and workers find it harder to support the state's plan when the state is not willing to give a financial pledge or is taking actions that end up benefiting a few groups or individuals. Indeed, the positive or negative expectations of employers and workers are partly based on the state's willingness to share the costs of potential externalities borne from its leadership of market practices.

Third, institutionally speaking, bureaucrats' ability to solve problems is critical in any social security reform. The chances are, if they are not independent from the state, they will be politicized and hence more likely to serve certain political interests than to solve problems. With limited ability to solve problems, bureaucrats become a meaningless tool of public policy, which in turn erodes the legitimacy of ruling state leaders. Unfortunately, I suspect, until the state leaders are aware of such problems, they will continue to grow. The bureaucrats themselves will not reveal their own weaknesses

[454] Gilpin (2000), Chan (2003), Drezner (2004).

until they too collapse from internal problems that stem from feuding over lucrative privileges, inefficient work, and greed for power security. Over time, this will create a vicious circle that will weaken the efficacy of governance and threaten the economic as well as sociopolitical stability of a country.

The specific lesson from Singapore is that there is a virtue in making the ruling state leaders directly responsible for the performance of their market. Such exposure of state leaders to market pressure creates a positive sense of insecurity that leads to productive output. Insecurity pushes them to develop strategies that work to yield the greatest outcome. The fact that the credibility of the ruling state leaders in Singapore is rooted in their economic performance, and that this economy is too small to be able to ignore poor performance, pushed the state leaders to take meaningful action to provide incentives and punishment to secure cooperation from the private sector.

In the future, there are several research agendas. The first concerns the importance of social security schemes for governance. This study could be further expanded to include the connection of social security to particular sectors of the economy, e.g. the manufacturing and service sectors. With the different emphases of sectors of production of countries in the current market, one could explore the impact of that on the dimensions of social security provisions in these countries. I wonder if the level of wages in specific sectors plays a role in creating patterns of "privileged benefits." Such a study would benefit from the increasing number of studies of poverty alleviation around the world.

The second concerns employer-worker cooperation. This study demonstrates that employers do care about providing social security benefits to their workers. What could be further specified are the different kinds of relationship between employers and workers, as well as employers and unions, that might in turn contribute to the different set up of plant-level schemes.

As we learn from Hall and Soskice (2001), there are economies that adopt segmentalist strategies where individual employers shield themselves from competition by erecting barriers to the outside labor market. They create seniority systems, bonus systems, internal career ladders and company-based training that are supposed to keep them competitive with other companies. In such a condition, what might happen is that national regulations would be adjusted to how companies are operating. In other words, instead of scrutinizing the national level regulations as the milestone of policies, one should begin to consider scrutinizing the variations of company policies. This is a promising approach given the recent development of more informalized employment relations in small and medium size enterprises.

The third concerns bureaucratic reform. Rueschemeyer and Evans (1985) have written about how an inadequately developed bureaucracy limits state capacity to intervene in economic transformation. At that time they were exploring the ways to construct effective state organizations that helped countries (namely Korea and Taiwan) integrate into the world capitalist economy. My study helps reveal some of the challenges of constructing effective state intervention through social security agencies. What could be interesting and valuable to explore are other state-owned corporations. It may be even worth doing a comparison of how state-owned corporations would develop different kinds of effectiveness of bureaucracies within them. This is because each state-owned corporation might perform a certain role for different groups of ruling state leaders, especially considering that state leaders now (compared to the context in which Rueschemeyer and Evans first studied the capitalist developmental state) are less unified in interest and are competitive politically.

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