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ABSTRACT

Historically, both Thailand and Indonesia have had relatively limited social security programmes, in terms of labour-force coverage and public expenditure. In the last decade, both have embarked on apparently ambitious reforms to move towards a more embracing system. This paper examines the political context of pension reform in Thailand and Indonesia. It also considers the likely economic and welfare effects of these reforms. These country experiences are located in a wider discussion of social security in developing countries. This discussion questions many conventional assumptions about social security programmes, especially as regards their distributive effects. It draws attention to the diversity of international experiences, which contrasts with a more proscriptive approach advocated by agencies such as the World Bank. In the light of international experience, the paper is pessimistic about the impacts of Thailand and Indonesia's reforms. Rather than promote general welfare and economic growth, they have led to the establishment of unsustainable and highly inequitable financing structures. This will threaten medium-term economic stability and questions the value of contributory pension schemes as an agent of social protection for the most needy.

Introduction

Over the past decade, social security programmes have become an increasingly prominent tool of public policy in countries such as Indonesia and Thailand. This goes against a historical regional trend for limited state intervention in labour markets and welfare provision (Gough, 2004). This trend was apparent in terms of low levels of expenditure and the restriction of entitlements to exceptional groups of workers. In recent years, however, social security has been advocated as a means of *universal* social protection. In response to this, both Thailand and Indonesia have undertaken to radically expand their social security programmes, with the alleged intention of creating schemes which will embrace the majority of workers in both the formal and informal sectors of their labour markets. Both reforms have sought to extend access to basic health insurance and some form of retirement income support. This paper focuses on the second of these areas, examining changes to pension policy with reference both to their actual content and to the wider socio-political forces which have driven them. The paper pays particular attention to the distributional effects of reforms and their effects on poorer groups.

There is an urgent need for researchers to examine the nature of these reforms and the contexts in which they are being implemented. It is also important to ensure that all stakeholders in such reforms are able to appreciate their complex and potentially sweeping ramifications, which may cut across many aspects of social and economic relations, and are able to draw on the varied experiences of other countries. This paper begins by reviewing the theoretical and international literature on social security schemes in order to map out the full range of effects they may have in different contexts, and to assess political motivations for their creation and extension. The paper then focuses on the Thai and Indonesian reforms, assessing their likely impacts in the light of international experience.

Potential benefits and drawbacks of social security programmes

Large-scale pension programmes were first established in the West, giving rise to a policy paradigm which has been diffused, with varying results, across most low and middle income countries. As such, there is a tendency for policy-makers in the South to take the experiences of OECD countries as their primary point of reference. However, there is an extensive body of research on the problems and reform of pension programmes in regions such as Latin America, as well as an emerging literature on similar issues in Formerly Socialist Economies.[1] This section draws on theoretical literature mainly derived from developed countries, but its empirical material is more focussed on the experiences of middle income countries which have more in common with Thailand and Indonesia.

According to the theory of international agencies and the rhetoric of policy-makers, pension funds are a central component of social security programmes, which are essentially concerned with affording social protection to vulnerable population groups, such as older people, the sick and disabled. The International Labour Office defines social security as:

> "..the protection which *society* provides for its members, through a series of *public* measures, against the economic and social distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from …[various contingencies including] invalidity, old age and death (ILO, 1984:3 –author's italics).

Theoretically, the principal functions of social security programmes have been understood to be the redistribution of income and risk across society and/or through individuals' life courses (Barr, 2002).[2] While most social security systems combine both these elements of redistribution, their effects should be considered in isolation. If a programme is genuinely seeking redistribution towards society's most vulnerable groups (which is not always the case), it is necessary to assess whether

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[1] Though less well-documented the structure and problems facing The Philippines social security system, are very similar to those of Latin American countries pre-"reform".

[2] In this paper, social security programmes are defined in the narrow sense, referring to the payment of cash benefits. They do not include other aspects of social policy, which are sometimes labelled as social security interventions, such as health insurance or food aid.

this function might not be better served through a progressive taxation system (notwithstanding the reality of weak fiscal governance in some countries). In most developing countries, social security redistribution across population groups does indeed occur on a large scale. However, the principal beneficiaries of this redistribution are, almost without exception, privileged groups of formal sector workers, who capture substantial transfers from society as a whole (Lloyd-Sherlock, 2000a). Studies from countries such as the Philippines, Brazil, Mexico and Egypt have demonstrated that social security schemes contribute significantly to their highly skewed income distributions (World Bank, 1994). International experience suggests a range of factors increase the likelihood of regressive social security effects (Box 1). As will be seen below, all of these features are present to a greater or lesser extent in both Indonesia and Thailand.

Box 1: Factors that promote inequality in social security programmes.

A funding system which is notionally contributory and hermetic, but which actually obtains substantial transfers through numerous channels, such as passing on the cost of contributions via price inflation, and receiving state transfers to stave off financial collapse.
An ineffective system of revenue collection, with high levels of evasion, frequent amnesties and regulations which are open to manipulation (such as last-minute pay hikes as a strategy to minimise contributions to final salary pension schemes).
Wide variations in life expectancy beyond retirement age among different groups of protected workers, whereby richer workers are likely to receive benefits over a considerably longer period than poorer ones.
A slack and stratified labour market containing a large informal sector, and with low rates of female participation in well-remunerated formal sector employment.
Weak political representation of those groups likely to loose out in regressive redistribution (i.e. poor, rural and informal sector workers), coupled with a poor understanding on their part of the potential effects of social security programmes (which may be easier to obfuscate than is the case with other regressive fiscal tools).
A general context of weak institutional governance, including the presence of large public or semi-public entities which are primarily concerned with rent-seeking, but which are presented as champions of state 'welfarism'.

The second form of redistribution, whereby individuals transfer income from periods of employment to periods of inactivity (be it due to old age, illness or some other contingency), should be understood as an entirely separate process. Herein lies a key distinction between social security programmes in developed and developing countries. In the former, an insufficient supply of appropriate employment opportunities is considered a legitimate 'contingency' for social security relief, and accounts for a high proportion of counter-cyclical expenditure (Glennester and Hills, 1998). Given that the majority of workers are likely to have been engaged in formal employment and making social security contributions for a large part of their working lives, this form of protection is more accurately understood as a redistribution between their working and non-working years than between the lifetime employed and lifetime unemployed.

In middle income countries, where the formal sector is more restricted, general provision for groups lacking access to adequate income from market participation would entail a societal redistribution (from lifetime formal sector workers to the rest) rather than income smoothing through an individual's working life. For countries such as Indonesia and Thailand, the potential cost of universal unemployment protection, and fears about the complex effects this would have on the labour market mean that such a policy is seen as completely untenable. In those countries where unemployment protection does exist, it is usually limited to groups with a history of employment in high-status formal sector occupations and income support for groups lacking access to adequate employment is usually seen as unaffordable (Barrientos, 2004; Gough, 2004).[3] When the un(der)employment of poor and vulnerable groups has been addressed by developing countries, the favoured approach has been via stigmatised and poorly-paid job creation programmes (Rocha, 2001; Galasso and Ravaillon, 2003).

The main contingencies which social security programmes in developing countries *claim* to deal with are old age and retirement. To some extent, the two contingencies are not always identical, especially in some developing countries where workers may be entitled to retire well in advance of later life (although, in most developed countries the converse is increasingly being sought, whereby people are encouraged to defer their retirement well beyond their 60s). As seen below, large parts of the Thai and Indonesian reforms propose retirement at 55 years of age.[4] Effectively, social security programmes in most developing countries deal with the contingency of retirement, not old age, even though policy rhetoric often makes much reference to the needs and entitlements of older people. Again, a general form of social protection for older people would entail a societal transfer, not individual income smoothing, and, as with unemployment protection, this is seen as both an illegitimate and unaffordable option in most developing countries. Thus, even in countries with relatively high levels of pension expenditure, such as middle-income countries in Latin America, the Maghreb and the Middle East, substantial proportions of older people are left entirely unprotected (Lloyd-Sherlock, 2000a).

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[3] A rare exception to this generalisation about developing countries is South Korea, which now has a relatively embracing scheme of unemployment insurance. In such cases, however, the relative size of the informal and traditional sectors is very small, and so they can effectively be grouped in with OECD countries.

[4] Currently, people aged 60 in Thailand are expected to live for around a further 18.3 years. In Indonesia, the figure is 16.9 years (United Nations, 2002). These are averages: old age life expectancy for ex-formal workers is likely to be higher. Life expectancy at old age is projected to rise steeply for both countries.

While population ageing is an emerging phenomenon across the developing world, there is little indication that the political impetus for extending social security has arisen in response to this trend.

Thus, the primary function of social security systems in developing countries is the provision of privileged retirement funds to privileged groups of formal sector workers, usually with considerable cross-subsidisation from society as a whole. Whether they achieve this 'laudable' objective is another matter. As has been well documented by the World Bank and others, large pension schemes in developing countries have tended to be far from sustainable (despite capturing income from a variety of illegitimate sources) and have sometimes descended into multi-billion dollar bankruptcies (World Bank, 1994; Holzmann, 2000). Often, the real values of benefits (except for privileged elite groups) have been substantially reduced through a lack of inflationary indexation. In accordance with its neo-conservative ideology, the World Bank largely blames these failings on the inherent fiscal irresponsibility of the public sector. Hence, its preferred solution is the establishment of privately managed individually capitalised savings accounts (which it also claims will put an end to regressive societal redistribution). However, the assumption that private sector entities are inherently more efficient than public ones in allocating resources, and inherently less corrupt (indeed, the assumption that there is a clear dividing line between private sector rent-seeking and public sector cronyism) has more to do with textbooks written in Chicago than the complex economic and political structures of many developing countries (Orszag and Stiglitz, 2001).[5] Given the proven involvement of some Thai and Indonesian private financial institutions in large-scale corruption, the sector's reliability in pension fund management should not be taken for granted.

As well as moving income across social groups or through an individual's life course, social security programmes can entail a third, important form of redistribution – shifting income from private wage slips (and immediate personal consumption) to large institutional investors. Traditionally, these investors formed part of the state sector, as best illustrated by Singapore's Central Provident Fund (see below) and as worst illustrated by many Latin American states, which effectively bled their social security funds dry during the years of surplus (Lloyd-Sherlock 1992; Barrientos, 1998; Huff, 1995). In Indonesia, recent experience with JAMSOSTEK demonstrates the scheme's vulnerability to similar forms of public sector plundering. Globally, the emphasis has shifted from state fund management to private institutional investors, dominating recently-established and somewhat precarious capital markets, as best

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5 In recent publications, the World Bank bemoans the "high administrative costs" of privately managed individual pension accounts. Bizarrely, this problem is framed in terms of a general and readily rectifiable market failure, rather than a form of private sector inefficiency or corruption (James, et. al., 2001).

illustrated by the heady returns generated by Chile's pension brokers in the early 1990s and as worst illustrated by the unregulated malpractice of similar entities in many Formerly Socialist Economies (Chandler, 2004). Historically, the view of the World Bank has been that private sector investment is inherently superior to public sector investment (even if it is largely restricted to purchasing state bonds, as in Chile), ignoring the wider economic and institutional context within which it occurs. More recently, the World Bank has recognised that the volatility of financial markets both globally and especially in developing countries, calls into question the long-term reliability of returns through a worker's contributory lifespan (Orszag and Stiglitz, 2001). One has to question how private pension fund investors would cope with a financial shock anywhere near the scale of what occurred in Asia in 1997.

As well as redistributing income across societies, through an individual's life and between different modes of investment and consumption, social security programmes usually redistribute wealth over time, between different generations. This has been particularly apparent in pay-as-you-go systems in Latin America and the Philippines, which typically shifted from early years of surplus (due to a high ratio of contributors to beneficiaries), encouraging unsustainably generous benefit values, to later years of deficit (due to low returns on past investment and reduced contributor/beneficiary ratios), when the real value of benefits was often slashed (Lloyd-Sherlock, 1992). Theoretically, individually capitalised pension accounts should avoid this generational effect. In reality, however, this will depend on the degree to which the financial "rules of the game" are respected over the decades and, indirectly, by the performance of capital markets. As will be seen, there is also a generational trade-off between the immediate political benefits of unbudgeted extensions to social security and the eventual costs of keeping toady's promises which may well be borne by future cohorts.

Given all of the above, why do the governments of many developing countries seek to set up and extend social security programmes? The answers are complex and are likely to vary across countries, but most of the following factors have played some part in most cases.

In developed countries, the creation of social security systems is often portrayed as a fruit of labour struggle, often in the face of opposition from private capital and reluctance from states. There are also some examples of this tendency in a small number of developing countries, particularly in Latin America where the first social security programmes date back to before the First World War. However, while labour struggle in developed countries usually involved the actions of a 'labour vanguard' (i.e. relatively powerful groups of workers employed in key economic sectors whose militancy opened up improved conditions for the working class as a whole), labour struggle in developing countries, where it occurred, more usually took the form of a 'labour aristocracy' (i.e. relatively powerful groups of workers striving to improve their position *vis a vis* other sections of the working class) (Mesa-

Lago, 1978). Indeed, the relatively privileged position of blue-collar labour militants in societies where the majority of workers remained in the traditional and informal sectors, meant that working class resistance was more often a driver of socio-economic stratification than of general social inclusion.

However, in most developing countries, especially in South East Asia, labour unions and other forms of organised working class resistance have not been particularly influential in welfare policy. More often, states have taken the lead role in promoting social security systems. The two key motivations driving this have been the creation of political alliances with key groups of workers (often with an eye to out-flanking more militant forms of worker resistance), and the capture of forced savings. For example, in much of Latin America social security schemes saw their most rapid development under authoritarian, undemocratic regimes, which used them to bolster legitimacy and undermine resistance at the same time as deploying a range of more repressive policies towards groups of workers considered less politically significant or less disposed to play by the regime's rules of the game (Mesa-Lago, 1978). There are many parallels between this and the Thai experience of the early 1990s (see below).

In countries with long-established pension programmes, generous entitlements for elite groups quickly generated deficits. Extending pension entitlements to other groups of workers expanded the pool of contributors (without initially increasing benefits paid out), thus serving as a short-term financial fix. Across Latin America, once the limits of extension were reached (i.e. when all parts of the formal labour force had been included), it was no longer possible to expand out of deficit, and social security schemes rapidly moved into bankruptcy. By this time, the opportunities to substantially remodel social security schemes along more sustainable lines were very limited. The social security 'industry' had come to represent a powerful interest group, while workers feared that any change would be a change for the worse. Perhaps more than any other set of institutions of state, welfare programmes, such as social security ones, are highly path dependent –once in place, the political and economic costs of restructuring are exceptionally high. Experience has shown that the creation of an effective social security programme is a single opportunity in the lifetime of a country, and that, once in place, the barriers to replacing a flawed system with a better one are usually insurmountable. This is a key lesson for countries such as Indonesia and Thailand.

In regions such as Latin America, the extension of social security was driven by a combination of labour militancy, political expedience and interest groups within the state bureaucracy. Interestingly, private firms and employers had a relatively limited influence, and concerns about the effects of social security on labour costs and international competitiveness did not feature strongly in policy debate. In part, this was because between the 1950s and 1980s most Latin American countries pursued a macro-economic strategy of trade protectionism and state-led import substituting industrialisation (Thorp, 1998). This diminished the role of private capital and, temporarily, shielded national economies from global pressures. In South East Asian countries such as Indonesia and Thailand, the political and developmental contexts were very different, and private firms, both local and international, have wielded far more influence over social policy. This influence is still in evidence today: the concerns of Indonesia's private employers had a drastic impact on the final form that the social reform bill took. It is clear then that, while lessons may be taken from international experience, the evolution and nature of social security programmes cannot be understood without reference to a range of local effects.

Another set of factors which have fostered the diffusion of social security programmes around the developing world relate to the attitudes of multi-lateral organisations, and the notion that contributory social security funds are a requisite for a modern 'developed' state. Historically, the International Labour Organisation (ILO) played the leading role in encouraging developing countries to establish social security schemes modelled on those of Northern Europe (Strang and Chang, 1993). This was associated with an unrealistic expectation that limited programmes for sections of the formal workforce would gradually be extended across the entire workforce, with the relative size of the traditional and informal sectors diminishing over time (Lloyd-Sherlock, 1996). Central to this approach was the somewhat naive belief that protected workers would serve as a pioneering vanguard rather than a self-interested aristocracy. Thus, the regressive redistribution of wealth towards privileged groups of workers was seen as an unfortunate but transitional effect that would lead onto a universal and hence equitable arrangement. With some rare exceptions, such as South Korea, the ILO's hopeful predictions about the evolution of labour markets in developing countries failed to materialize, yet even today the organisation holds on to the view that countries can ultimately achieve a gradual, linear universalisation of coverage. Reflecting its roots in the labour movements of developed countries, the ILO continues to perceive contributory social security in terms of an essential component of state welfarism, rather than a product of political factionalism (van Ginneken, 2003).

Since the 1990s the World Bank has taken the leading role in global thinking about social security and pension provision. This was first marked with its publication 'Averting the old age crisis: policies to protect older people *and* promote economic growth' (World Bank, 1994). As elsewhere, the primary *raison d'être* for social security programmes was framed in terms of protecting vulnerable older people, but, as a cursory perusal of this and subsequent Bank publications reveals, the main focus of policy has been to harness the supposed potential of pension funds for galvanising local capital markets (Lloyd-Sherlock, 1996). The World Bank is more cautious than the ILO, warning that countries should not rush headlong into establishing schemes which mimic those of the West, and stressing the advantages of informal systems of social protection, which it claims will be crowded out by state intervention. Quite rightly, the Bank makes considerable reference to the failings of social security programmes in Latin America, which are shown to offer salutary lessons for countries such as Indonesia. Even so, the World Bank is very positive about the benefits of privately administered individually capitalised pension accounts both as a tool of income smoothing and forced saving. Little reference is made to the dangers of establishing such schemes in countries with weak structures of governance.

Despite warning against global blueprints, the World Bank sets out a single model for pension fund management and financing, which it claims can be applied in all countries, regardless of developmental context. The details of this "three pillar" model for pension systems are dealt with below. Interestingly, the new social security arrangements proposed for Indonesia diverge from those advocated by the World Bank standard "multi-pillar" approach in a number of key areas (see below). The Bank's reluctance to openly criticise proposals that appear to have learned nothing from the mistakes of Latin America is surprising.[6]

Finally, regional development banks such as the Asian Development Bank have taken a much more positive attitude towards extending social security in recent years. In part, this has been a reaction to the social effects of the 1997 Crisis, and the recognition that states need to take a more proactive role in welfare provision (Ortiz, 2001). In part, it reflects the World Bank's view of pensions as a driver of capital markets. Social security is perceived as a 'win-win' option for countries such as Indonesia –creating a platform for social protection at the same time as a launch pad for new financial markets.[7] This contrasts with the view of 'traditional' welfare interventions, such as rice subsidies, which are often characterised by development banks as a net drain on state resources, leading to detrimental market distortions (World Bank, 2005).

The influence of international and regional thinking has occurred at the same time as a rather superficial process of democratic opening in countries such as Thailand and Indonesia, the writing of new constitutions and the emergence of new forms of populism. In this context, the enactment of embracing new social security schemes makes good political sense, regardless of the longer-term economic and social costs.

[6] The World Bank's Indonesia country website includes country "Policy Briefs" for 20 "critical policy areas", but none of these touch on social security, which is strange given the Bank's prominent involvement in this aspect of policy globally.

[7] A similar line has been taken by USAID, which commissioned Estelle James, latterly of the World Bank and seen as the most orthodox of the Bank's reform team, to produce a background paper on reform options for Indonesia (James, 2004).

International blueprints belie global diversity

Along with most development banks, and international development agencies (even parts of the International Labour Organisation), the World Bank advocates that all countries, be they high, middle or low income, adopt a form of what it calls a Three Pillar Pension Model, with each pillar playing the following role:

- First Pillar: this is financed through general taxation, providing a guaranteed minimum pension, either on a means-tested or flat-rate basis. The World Bank emphasises that this pillar should have a "limited objective", be "modest in size", and would entail a much smaller fiscal commitment than the support of more general pay-as-you-go schemes (World Bank, 1994:16).

- Second Pillar: this is mandatory, fully funded and privately managed. The World Bank suggests that "a successful second pillar should reduce demands on the first pillar" (ibid).

- Third Pillar: involves voluntary personal saving plans which can be taken out in addition to participation in the other pillars.

Through the 1990s, the World Bank and other International Financial Institutions continued to stress that the second pillar should be predominant, with the first pillar performing as a minimal safety net and the third one as an optional top-up. Numerous Latin American and Formerly Socialist countries sought to remodel their pension systems along these lines. However, a number of problems with the three pillar model were quickly identified by critics of the World Bank, and some of these have been accepted by the Bank itself. First, it is clear that an effective private pensions market requires effective state regulation, but it is less clear why state agencies should be more trustworthy and incorruptible as third party regulators than as pension providers in their own rights. Second, claims that the three pillar model would promote wider social security coverage have not been borne out by country experiences; indeed, a shrinking formal sector has led to substantial falls in the share of working age populations who will be entitled to pensions in later life. Third, the costs of transition from state to privately-managed funds were underestimated. As contributions are redirected to private accounts, pre-existing state funds are left with reduced revenue with which to finance on-going pension liabilities. In many Latin American countries these transition costs have been mainly funded out of general taxation, which represents a further inequitable distribution from unprotected to protected groups, as well as a heavy burden on public spending (Arza, 2005). In some cases, such as Chile, these costs have been estimated to be equivalent to 7 per cent of GDP.

To date, the World Bank has only put forward substantive responses to one of these three sets of problems: the limited capacity of the three-pillar model to provide coverage for the poor. This involves the introduction of an additional "zero-pillar", which would be non-contributory and financed through general taxation (Holzmann et. al., 2005). The Bank does not specify whether these benefits should be provided on a flat-rate or means-tested basis, but does argue that a modest monthly benefit for individuals aged over a given age (perhaps 70 years old), could be simply administered and could cost only a fraction of existing contributory schemes.

Substantial non-contributory pension programmes for poor older people represent a very different approach to the contributory, occupation-specific model of social insurance which continues to predominate in most developing countries. However, a number of successful examples of this approach have been in existence for several years. These range from relatively limited or even tokenistic safety net approaches, such as in Thailand (see below), to large-scale interventions which have significant impacts on the older population as whole. Examples of the more ambitious approach can be found in Brazil, South Africa, Namibia, Botswana and Mauritius (Barrientos and Lloyd-Sherlock, 2002). Key features of the Brazilian and South African funds are provided in Table 1. Recent World Bank reports suggest that similar programmes could operate on substantially smaller budgets, such as 0.7 per cent of GDP (Holzmann et al, 2005). Nevertheless, the costs of supporting such a programme would still appear to be unfeasibly high for a country such as Indonesia, which only devotes around 0.6 per cent of GDP to the entire health budget. When compared to the *real* costs of contributory pension programmes[8] and their minimal impact on the poor, non-contributory schemes may appear a more desirable option. Even so, there are strong grounds for expecting that up-grading basic health services would offer a more cost-effective route to improving the quality of life of poor older people, than any pension scheme, be it contributory or non-contributory.

Table 1. Selected features of non-contributory pension programmes in Brazil and South Africa.

	Entitlement	Monthly value (US dollars)	Number of benefits awarded	Estimated cost (% GDP)
Brazil	Means-tested	108	6.2 million	1.3
South Africa	Universal	80	1.8 million	2-3

Source: adapted from Barrientos and Lloyd-Sherlock (2002).

[8] These costs do not just include state contributions to funds such as TASPEN (see below). A range of other indirect contributions can be much more substantial. For example, it is unlikely that civil servant salaries would be so high, if they were not required to contribute to pension schemes, and so it is misleading to claim that these contributions are borne purely by the individual and not the state. Similarly, in private sector funds, price inflation can represent an indirect effect.

Non-contributory pension schemes such as those operating in Brazil and South Africa offer an important alternative to the standard three-pillar model. Provident funds offer another alternative. The most successful and best-known of these is Singapore's Central Provident Fund (CPF). The CPF is a state-run entity which administers individual, fully-capitalised savings accounts, which are invested solely in government bonds. These generate nominal rates of interest for affiliates, which are thought to be somewhat lower than the actual return on government investments (the latter are not disclosed to the public). The CPF has performed well in generating reasonably high rates of return for contributors over a period of several decades, and has avoided the problems of poorly-regulated private funds (Charlton and McKinnon, 2001). It is thought that the real levels of interest generated by CPF assets are in excess of double those offered affiliates (around 4 per cent over recent years). This bodes very well for the CPF's long-term sustainability. It has been argued that the secrecy surrounding actual levels of interest has shielded the Fund from political pressures to increase nominal interest rates and to offer a more generous range of benefits (Charlton and McKinnon, 2001). The gap between the two interest rates means that the CPF is more than an instrument of forced saving, but represents a substantial "implicit tax" on workers and employers (Heller, 1998). This has been a key factor in successive regime's ability to keep other forms of taxation at a low rate.

Despite its effectiveness, the extent to which the CPF represents a role model for countries such as Thailand and Indonesia remains open to doubt. First, the scheme has been less effective in reaching poor older people: only around half of the population aged 65 and over currently receives a pension (Barrientos, 2004). Second, the scheme has much in common with the JAMSOSTEK scheme which already operates in Indonesia, but which has been criticised for generating low returns and for the corrupt mismanagement of funds (see below). Clearly, there are great dangers in assuming that a mechanism which works well in a context of relatively good institutional governance will be similarly effective in a context of weak governance. Indeed, there are grounds for questioning whether the entire paradigm of formalised social security systems is a helpful one in a country as beset by corruption and malpractice as Indonesia.

The following sections review the experiences of social security "reform" in Thailand and Indonesia, drawing on the ideas developed in the earlier sections of the paper.

Thailand: radical expansion but how sustainable?

Historically, Thailand has been characteristic of liberal welfare state regimes, with low levels of public expenditure on social policies relative to average per capita income, and an ethos of delegating welfare provision to families and employers (Ramesh and Asher, 2001). In 1997 total state social expenditure was only 5.9 per cent of GDP, and private financing accounted for slightly more than half of funding for the education and health sectors (Gough, 2004). As regards social security, proposals to establish large-scale programmes date back to 1932, with numerous bills submitted and sometimes approved by parliament over the following decades (Schramm, 2001). Very few of these bills were passed and even fewer enacted. Important exceptions were the Government Officials' Pension Act (1951), which provided retirement benefits for civil servants, and a Workers' Compensation Fund (1974), which provided for a range of contingencies but excluded unemployment or retirement. From the 1980s, the state took steps to encourage private employers to set up provident funds, but refused to participate itself, either in terms of funding or administration. A 1986 ASEAN Ageing Survey found only 5 per cent of older men and 1 per cent of older women reported pensions as their main source of income (Hugo, 1988).

Before 1990, social security and entitlements to retirement pensions was restricted to the civil service. According to a 1998 labour force survey, there were about 2.4 million government employees in Thailand, accounting for about seven per cent of the total labour force (Knodel et. al., 2000). These workers were protected through two separate systems: the original pension system set up in 1951 and a more recently established Government Pension Fund (GPF). The first of these is a defined benefit scheme, with pensions worth 100 per cent of a worker's average salary over their last five years of employment. It is financed on an unfunded pay-as-you-go basis, entirely out of the government budget. Public sector workers who are enrolled in the established pension system and who have been in continuous employment for 25 years are entitled to either a lump-sum payment or a monthly pension when they retire. Public sector workers who have been employed at least 10 years or more, but less than 25 years receive a single lump sum.

Forecasted increases in the number of retired civil servants (due to increased public sector employment and rising life expectancy at the age of retirement) meant that the long and medium-term fiscal liabilities of maintaining the established pension system were increasingly a matter of concern to the government. This prompted the establishment of a new programme, the GPF, in 1996. By 2000, the GPF had around 1.5 million members (more than half of the public sector workforce). This is a fully-funded, defined contribution scheme. Contribution rates for the GPF are 3 per cent for workers and 3 per cent for the government. Theoretically, pensions should be worth the value of accumulated contributions plus interest accrued, minus a "minimal" administrative fee. As such, they are likely to be much smaller than those paid out by the previous scheme. Those employed prior to the initiation of this scheme could choose between the new and the old systems (it is unlikely that many would volunteer to join the new one). New employees must join the GPF. As in the established pension system, entitlement to a lump sum or annuity depends on the period of time a worker has been in continuous employment. Annuities paid out by the GPF are likely to be less generous (in real terms and as a ratio of previous earnings) than in the old system. To partly compensate for this, GPF members with 25 years or more employment receive both an annuity and a lump sum, and do not have to choose between them.

Significant social security schemes for non-state workers date back to 1990, when parliament unanimously approved a new bill in which all workers in private firms of 20 or more employees would be required to join a new, publicly-administered Social Security Fund (SSF). Schramm (2001) argues that the timing of this reform reflected a unique political conjuncture. It was not primarily driven by trade unions or some other form of labour movement: these remained weak and fragmented, and poorly represented in political parties which drew more on individual personalities than on coherent, class-based policy agendas. Schramm notes that rapid socio-economic change over the boom years had "brought about a change of mentality among political decision-makers, bureaucrats, businessmen, academics and the media. At the end of the 1980s, hardly anyone questioned the benefits of a social security system" (pp 5-6). Social security reform became a key bargaining chip in a political conflict between the civilian administration of Chatichai and the military-dominated senate. This conflict led onto a violent military coup in 1991, but the military did not reverse the 1990 social security bill. As with past military regimes in Latin America, social security became an indispensable tool for an authoritarian administration to dilute political resistance and maintain labour discipline. Indeed, the SSF was implemented with great speed: contributions were being collected within six months of the bill's passage.

The SSF claims to guarantee a replacement rate of 15 per cent of average wages over the last five years of employment after 15 years of contribution, with a further one per cent for every additional year. Members who have made less than 15 years of contributions and who retire at the age of 55 will receive a lump sum equal to their contribution plus interest. The SSF is financed by a tripartite contribution, from workers, firms and the state. This was originally set at 1 per cent of the worker's wages. In 1998, in response to the Asian Crisis, the 1990 social security bill was modified enabling government to withdraw from equal tripartite funding for the SSF, as a means to reduce its potential future liabilities. In 2000 and 2001 this rate was increased to 2 and then 3 per cent, except for the government contribution which remained at one per cent.

Since its implementation, the SSF has been gradually extended to workers in smaller enterprises, at least on paper. In 1997, before the Asian Crisis struck, around 6.1 million workers, or 18 per cent of the total labour force were insured under this programme. These numbers will have fallen somewhat, with official figures of 5.9 million in 2001 (Schramm, 2001). It would appear that efforts to extend coverage to micro-enterprises and the informal sector have only had limited success, despite the efforts of organisations such as the ILO to increase government priority given to this.

Thus, Thailand remains far from achieving its purported goal of universal social security coverage.

The SSF displays a number of structural weaknesses which call into question its medium-term financial sustainability and its capacity to offer future pensioners anything like the replacement rate it currently promises. Given the lead-in time for contributions, no pensions will be paid out by this programme for at least another 12 years, and so the realism of funding arrangements is not currently a matter of urgent political concern. Since it is not yet paying out pensions, the SSF is currently in surplus. However, it may quickly shift into deficit once it has to pay out benefits. The World Bank and IMF calculate that a total contribution rate of 13 per cent will be required in order to meet future pension promises, but the current rate is only 7 per cent (World Bank, 2000). Investments for all the social insurance funds are heavily regulated and concentrate on low-risk, low-return portfolios, which may further reduce their capacity to meet future liabilities. Evasion of contributions is widespread: estimated at between 25 and 40 per cent (World Bank, 2000). Contributions are highly sensitive to the wider economic context, falling by 35 per cent in 1997. More specific problems include fixing the replacement rate on the last 5 years of earnings, which creates an incentive to pay workers disproportionately high salaries in this period, and lower amounts for preceding years. The World Bank and others have expressed concern about the competence of SSF staff to manage such a large programme which was set up so quickly (World Bank, 2000). No comments are made about the transparency of fund administration and the dangers of political interference and corruption, but Thailand's poor record of governance in other institutions gives grounds for concern (Phongpaichit and Piriyarangsan, 1996).

As well as being financially unsustainable, it is evident that the various components of Thailand's social security infrastructure exert a strongly regressive distributional effect. The continued financing of the pre-GPF civil service pension entirely from the government budget is highly inequitable, representing a substantial flow of public funds to a relatively privileged group of workers, albeit on a smaller scale since the introduction of the GPF. Were these funds redirected to social assistance programmes, they would potentially have a substantial impact on poor and vulnerable sections of the population. The distributive effects of the GPF and SSF remain to be seen, although the chances that they will lead to progressive distribution to low income workers or will make particular provision for groups such as poor and vulnerable older people are remote.[9] The SSF would appear to

[9] Since 1993 the Thai government has developed a small programme of targeted emergency social pensions for older people lacking social security benefits or other means of livelihood (including support from family members). This has gradually been extended, but still falls a long way short of a comprehensive safety net for vulnerable older people (Lloyd-Sherlock, 2001). Currently, around 318,000 emergency pensions are provided, representing only 6 per cent of the population aged 60 or more. The system of targeting discriminates against older people living in poor communities.

encapsulate many of the weaknesses of pre-reform pension schemes in Latin America. Untenable promises of future pension entitlements may lead to future legal challenges from dissatisfied pensioners (as has occurred in much of Latin America). They are likely to foster a climate of false confidence about old age security, and the ultimate disillusionment which may result is likely to undermine public confidence in social security schemes of any ilk and thus foreclose the substitution of the SSF with a sustainable and equitable programme. By contrast, the GPF does not make firm promises of future benefit values. However, the degree of influence that civil servants continue to wield over government policy (as testified by the continued survival of the costly and privileged Civil Servant's Medical Benefits Scheme) suggests that the political pressure to provide generous pensions will be irresistible, regardless of the long-term performance of GPF investments.

The mirage of social security reform in Indonesia

According to Indonesia's 1945 Constitution, the provision of social security is a citizen's right and the government's responsibility. In reality, until recently the system of social security has been embryonic, even in comparison with other developing countries. The main forms of pension provision in Indonesia are a mandatory provident fund for private sector workers (JAMSOSTEK) and separate mandatory schemes for civil servants (TASPEN), members of the armed forces and the police.[10] Currently, only around 10 per cent of Indonesian workers are included in social security programmes (Arifianto, 2004).

Social security pensions for civil servants date back to 1969. Presently, TASPEN offers affiliates health insurance, a lump-sum at retirement and a monthly pension benefit. At 56, the age of retirement for civil servants is relatively low by international standards. Until 1994 all benefits for civil servants were paid for entirely out of the state budget: since then they have been partly covered by a 4.75 per cent payroll contribution. Even so, it was calculated that direct government contributions still accounted for nearly 80 per cent of TASPEN's revenue in the late 1990s (Asher, 1998). Administrative costs are reported to be 7 per cent of total revenue, which is relatively high by international standards (Asher, 2000b).[11]

Pensions are worth less than US$10 a month, which does not meet the basic living needs of older people. The scheme is funded from general taxation and administered by an entity (the Department of Public Welfare) which has no links with the SSF or GPF. As such, it should not considered be part of the country's general social security infrastructure.

[10] In addition, there are a number of voluntary private pension schemes, which had expanded during the 1990s to cover around 3 million workers; 12 per cent of the formal sector (Asher, 2000a). Also, war veterans are entitled to monthly benefits from the age of 60.

[11] Administrative costs for the military pension fund are even higher, reaching 12 per cent.

TASPEN offers generous pensions, provided that 20 years of service have been made. The monthly benefit is calculated as 2.5 per cent of the final basic salary, multiplied by the number of years of service. Once the lump-sum is included, this represents a replacement rate of between 75 and 100 per cent of final salary. TASPEN membership has grown sharply in recent years, reflecting a rise in public sector employment. Between 1989 and 2001, total membership grew from 3.7 to 5.7 million; roughly 4 per cent of the total labour force. Similarly, the number of TASPEN pensioners has risen from 1.5 to 2.0 million (Tambunan and Purwoko, 2002). According to Ramesh (2000:536), projected benefit payouts are likely to exceed contributions by 2006, and total assets will be exhausted shortly after that. As with Thailand, the political costs of substantially downgrading civil servant benefits may be such that the state will be left to shoulder an escalating fiscal burden for maintaining the scheme's generosity.

TASPEN displays similar problems of unsustainablity and inequality as the Thai GPF. Government funding for TASPEN represents a huge flow of funds to a group of workers who may not be as highly paid as some of their private sector colleagues, but are still in a much better position than the majority of the country's workforce. Increased longevity beyond the age of 55 will lead to large increases in this support, which will be difficult to sustain.

The compulsory social insurance scheme for employees in the formal private sector started in 1977 as ASTEK offering work accident benefits, pre-retirement death benefits and a lump sum on retirement. In 1992 ASTEK was converted into JAMSOSTEK and started to offer a range of health benefits (Tambunan and Purwoko, 2002). The lump-sum is financed on a defined contribution basis, whereby workers obtain their accumulated savings plus interest at the age of 55. Thus, the scheme is restricted to income smoothing through an individual worker's life, and does not entail an explicit redistributive element. The state makes no direct contribution to the lump-sum, which is funded at the level of 5.7 per cent of a basic monthly salary (3.7 per cent by employers and 2 per cent by workers).[12] The replacement rate offered by these lump-sums is much lower than is the case with TASPEN. According to Asher (1998), even under optimistic assumptions on investment returns over 35 years, JAMSOSTEK lump sums would still only represent a replacement level of 10 per cent, if calculated on an annuitised basis. A recent ILO report (2003) estimated that the average value of a lump-sum would be approximately equivalent to 8.5 months of the minimum wage. The reasons for such low replacement rates are as follows:

[12] The state does contribute to JAMSOSTEK's health insurance function, but has only done so on a limited and inconsistent basis.

- Over half members are thought to be contributing at the minimum wage level (Gough 2001b). It is thought that many such workers receive a large share of their income from allowances and bonuses, which are exempt from the contribution.

- Theoretically, members may withdraw their funds within five years of joining if they become unemployed. This has become more important as the labour market has become more unstable. According to JAMSOSTEK's Director of Operations, almost half of those workers enrolled in the fund were unemployed in early 2005 ("Government to reinforce social security reforms" The Jakarta Post, 5 February 2005).[13]

- Funds have been poorly invested and administrative costs (11 per cent of revenue) have been very high. Asher (2000b) observes that members would obtain significantly higher returns than those offered by JAMSOSTEK if they had simply paid them into a bank. Investments are heavily regulated and are largely channelled into bank deposits, bonds and government papers, which offer low returns. JAMSOSTEK is required to pay the government an annual dividend on any investment profits, further depleting its asset base. Also, JAMSOSTEK has been dogged by accusations of corruption and mismanagement. Under the Soeharto regime some of the funds were purportedly used to shore up the Central Bank and stave off the currency devaluation (Asher, 2000b). As with Singapore's CPF, JAMSOSTEK does not provide financial statements or progress reports on investments, which can be readily accessed by contributors, which does nothing to improve public confidence in its operations (Arifianto, 2004).

- Perhaps not surprisingly, levels of compliance are very low. In theory, all firms with 10 or more workers or a monthly payroll of over a million *rupiah* (US$109) are obliged to join. However, it is estimated that by 1998 only 57 per cent of firms required to participate actually did so (Tambunan and Purwoko, 2002), and it is thought that many firms under-report wages in order to reduce contributions (Asher, 2000b). Efforts to reduce evasion by the Department of Manpower (DEPNAKER) have been almost entirely ineffective.

The distributive effects of JAMSOSTEK are less obvious than for TASPEN, but are likely to work against those in low paid, insecure jobs who may make a small number of contributions at some point, but who may have difficulty in obtaining

[13] Ironically, it might be argued that this aspect of the system contradicts claim made earlier in the paper that social security programmes in developing countries tend to exclude unemployment relief. However, the amount of benefit would be very small, and workers are forced to trade-off unemployment assistance against income security in later life. Also, Berman and Wiradi (2002) found examples of workers who had been denied these payments despite being eligible for them.

these funds upon retirement or when unemployed (Berman and Wiradi, 2002). Other than its dubious administration, a key problem of JAMSOSTEK is that it may cause workers to believe that they are making adequate provision for their old age, even though the value of the lump-sum will fall a long way short of what will be needed.

The social fall-out of the 1997 Asian economic crisis along with a return to notionally democratic rule prompted broad popular demands for a more comprehensive social security system. During the 2001 Annual Session of the Indonesian People's Legislative Assembly, the President was mandated with developing a new, universal social security system. The Amended National Constitution grandly states that:

> "The state shall develop a system of social security for all of the people and shall empower the weak and underprivileged in society in accordance with human dignity" (Article 34, Clause 2 of the 2002 Amendment).

In 2002 a Task Force was formed to draft a bill which would introduce a national social security system. The World Bank, ADB and ILO all took an interest in the reform, providing advisory papers (ADB, 2002; ILO, 2003). The draft bill (more generally known as the "Academic Paper") as originally developed by the Task Force included some ambitious "guiding principles": egalitarianism (with explicit redistribution from rich to poor workers), universality (including coverage for non formal sector workers), and benefits which would cover actual living needs "in accordance with the development of the Indonesian nation". The Academic Paper also advocated that TASPEN, JAMSOSTEK, the police and military funds be housed inside a new umbrella organisation: the National Social Security Provider Agencies (NSSPAs). This new body would have overall responsibility for the management of funds, including the collection of contributions, their investment and the disbursement of benefits. The Paper envisaged that the NSSPAs would eventually operate at a regional level, rather than nationally, in line with Indonesia's wider policy of regional autonomy (Arifianto, 2004).

However, the Academic Paper also contained some cautious elements, stressing that progress towards universal cover would be a gradual process in line with socio-economic conditions and "programme feasibility" (putting a somewhat notional date of 25 years into the future for its completion), and that more priority would be given to programmes such as health insurance than to pensions. Similarly, it envisaged that institutional unification could take up to a decade to complete, and that in the meantime TASPEN, JAMSOSTEK and other social security agencies would continue to operate autonomously within NSSPAs.

Somewhat predictably, the Academic Paper and draft bill proposed that pension provision should ultimately conform to the World Bank's three-pillar model. The first pillar would provide a guaranteed pension benefit for people over the age of 55, so long as they had contributed for at least 15 years.[14] This would pay a fixed benefit of 70 per cent of the minimum wage (survivors would get 40 to 60 per cent).[15] Contributions for formal sector workers would be set at an unspecified percentage of salaries and would be evenly split between workers and employers. Contributions for informal sector and self-employed workers would be calculated on a flat-rate basis, and again would cover both pillars. Contributions for the poor and unemployed (however defined) would be paid directly by the government. At first sight the first pillar would appear to be offering a very generous set of entitlements, including a low age of retirement, which go well beyond the World Bank's preference for a limited first pillar. It would also seem that the first pillar might lead to substantial redistribution of wealth from formal sector workers to informal sector ones and the poor. However, the first pillar scheme proposed by the Academic Paper is far from universal, since only a minority of Indonesian workers currently make 15 years of contributions through their working lives, and there is no reason for believing that this will substantially increase in the foreseeable future. As such, the "poor and unemployed" will not refer to the "poorest" nor to those suffering from chronic underemployment or unemployment. The Academic Paper makes no reference for the need to establish a non-contributory "zero pillar" for these groups.

The second pillar, known as the "Old Age Savings Programme" would be a fully-funded, defined contribution programme. However, it would differ from the standard World Bank approach in that it would be run by the NSSPAs, rather than competing private firms. Members would be paid a lump sum, rather than an annuity, upon retirement. They would also be entitled to withdraw from the fund when they were within five years of retiring.

Overall, the Academic Paper and the reform bill which ultimately arose from it provided a confusing mixture of precision and vagueness. The Paper gave quite precise details about the level of the flat rate benefit to be provided by the first pillar, but did not venture to set or even estimate the contribution rates which would be required to sustain the new system. The Paper did not specify how the government would meet the cost of contributing for the poor and unemployed: this might come from the general budget or some other source such as any surpluses generated by the NSSPAs. Overall, the Paper provided a distant promise of a better world of universal, egalitarian social security, but did nothing to set in train specific mechanisms to achieve this ideal in the foreseeable future. Awkward political decisions about the amount workers and employers would be required to pay, and the extent to which they would theoretically subsidise the welfare of their poorer

[14] Those who had contributed for less would receive their contributions plus interest in the form of a lump sum.

[15] Widow(ers) would continue to receive the pension until their death; dependent children until they marry, start full-time work or reach the age of 23.

fellow workers were left to later laws, to be enacted at some undisclosed date. In the meantime, JAMSOSTEK and TASPEN would continue to function largely as before.

These areas of vagueness created opportunities for interest groups concerned about the reform to put forward their own scenarios. One study published by SMERU (a neo-liberal think-tank) estimated that the total amount of payroll taxes required to sustain the first and second pillars of the pension system would be in the order of 10.75 per cent (4.75 per cent for the first pillar and 6 per cent for the second one) (Arifianto, 2004). The author goes on to argue that the reform:

> "…could create a substantial burden for formal employers and workers and could further reduce the competitiveness of Indonesia's business climate, as it creates substantial new labor costs for companies." (ibid, p.16).

The author claims that the capacity for Indonesia's formal sector workers to subsidise those in the informal one is "questionable", given "international experience" (which would appear to ignore that of many countries). In fact, if any progressive redistribution is to occur, it will probably flow mainly from moderate and well-paid formal sector workers to other formal sector workers on the minimum wage or very low salaries. Past failures to reduce evasion and a general mistrust of state financial governance reduce the likelihood that large numbers of informal sector workers will come into the new scheme for the required 15 years.[16] As such, any winners will be those formal sector workers whose contributions are insufficient to sustain a retirement benefit worth 70 per cent of the minimum wage. The extent this would occur would depend on the levels of contributions which are finally agreed for the first pillar scheme (if it ever goes ahead), the future value of the minimum wage (set by politicians[17]) and the number of years such workers may be expected to live beyond 56, as well as their dependents' situations. No information is available for any of these factors, and so it is impossible to assess the degree to which they would be net winners from the first pillar regime. Nevertheless, the low age of retirement and the generous dependents' entitlements suggest that their overall gain would be substantial in the unlikely event of the first pillar ever being implemented.

The bill's lack of clarity and fears of high contribution rates led to strong opposition from both employers' associations and labour unions, neither of which had been directly consulted by the reform Task Force. Together, they argued for a more precise and less wide-ranging reform, seeking to improve the general operation of

[16] Studies from around the developing world have demonstrated the difficulty of extending social security to the self-employed, micro-enterprises and informal activities (refs).

[17] In Brazil, where the majority of pensions are linked to the minimum wage, political pressures to raise the minimum wage have often been diffused by the need to ensure that sufficient public funds were available to cover the increase in benefit values. Paradoxically, this has promoted global competitiveness through lower wage levels.

JAMSOSTEK. They also argued that any benefits for low-paid workers should be funded purely by the state. One wonders whether poorly paid formal sector workers enrolled to labour unions were aware that they were much more likely to benefit from the reform than their non-unionised informal sector colleagues. A spokesman for employers and unions claimed that it had already been secretly agreed that the existing social security schemes contribute 3 trillion *Rupiah* (approximately US$300 million) to a fund dedicated to provide social security for the poor ("House to press ahead with social security bill", Jakarta Post 18 September 2004).

In the face of this opposition, the draft bill was substantially amended before it was approved in September 2004. The bill which was approved made no explicit provision for eventually replacing JAMSOSTEK, TASPEN and the other funds with a unified three pillar system, although they would still be merged into the NSSPAs. Instead, the funds would be allowed to continue to operate largely in the same way, the only key change being that they would no longer be required to pay taxes and dividends to the government, and that any profits would be added to their asset bases.[18] Any social security provision beyond this would be solely the responsibility of government, with no possibility of cross-subsidisation to those on low pay or working outside the formal sector. The bill makes some provision for limited extension of health insurance to groups outside the formal sector, but absolutely none for the extension of pension rights or other benefits.[19] As such, any claim that the bill represents the universalisation of pension provision in Indonesia and complies with the 2002 Constitutional Amendment is entirely unfounded.

Concluding comments

It is difficult to find many positive aspects in Thailand and Indonesia's recent pension reforms. In the case of Indonesia, the original reform bill appeared to promise much, but the reality was more complex. In fact, the bill which was approved was effectively a non-event, as far as pension provision is concerned. The existing system will be allowed to continue unchanged, despite the vague promise of a more extensive model at some unspecified future time. By late 2007 there had been no further legislation aimed at carrying the bill forwards. In the case of Thailand, the reform of the SSF was more meaningful and led to a substantial increase in coverage.

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[18] Since the bill was approved, there have been growing calls to convert JAMSOSTEK into a private, not-for-profit trust fund, which would theoretically reduce its vulnerability to the misuse of funds by politicians ("Turn Jamsostek into a trust fund", The Jakarta Post, 11 April 2005).

[19] Unlike pension benefits, "universalising" health insurance does not necessarily entail any direct costs for the government, unless it is accompanied by a large increase in investment in health care infrastructure. Without this, supply will continue to be rationed by what it actually available, regardless of funding regime. This has been found to be the case in Thailand, which implemented a similar reform in 2000.

By the time of the 1997 Crisis, nearly a quarter of its workforce was enrolled, compared to only 10 per cent in Indonesia.

Taking Thailand and Indonesia together, pension funds either operate as defined contribution schemes whose benefits which will be derisorily small (JAMSOSTEK and to a lesser extent GPF) or as defined benefit schemes which promise unfeasibly large pensions (SSF, TASPEN and the Academic Paper's first pension pillar). Stakeholders do not appear to be aware of these effects. Indeed, the general level of debate on pension and social security reform outside of a small group of "experts" appears to have been minimal and poorly-informed. In neither country have there been genuine attempts to extend pension provision to workers in the informal economy or the chronically unemployed, despite constitutional commitments. Given both governments' continued support of their social security systems, either directly or indirectly, the various pension schemes are likely to redistribute towards better-paid, long-lived workers from poorly paid and non-formal sector colleagues.

It is clear that neither the Thai nor the Indonesian reforms have learned from similar reforms in Latin America, nor from the problems of the pension systems which pre-dated them. This is surprising, given the involvement of international agencies such as the ILO and World Bank in the initial plans and consultations. There are two key differences in the political context of the Indonesian and Thai reforms. The extension of the SSF in Thailand took place before the 1997 Asian Crisis and was pushed through by a *de facto* military administration. As such, it responded to a similar set of political imperatives as those which had spurred the extension of social security in much of Latin America: regimes seeking a quick fix to bolster their legitimacy and to dampen social unrest. The Indonesian reform occurred after the Asian Crisis (when more was being demanded of the state) at a time of democratic transition (generating optimism about a new social contract), explaining the grand ambitions of the draft reform bill. However, as interest groups began to mobilise, the limits of the new democratic regime's commitment to meaningful reform became apparent.

Sadly, both countries are now stuck with social security pension programmes that are expensive, unsustainable and unjust. In the medium-term, it is very likely that these programmes will descend into bankruptcy or some other form of financial collapse. As tools of social protection, it is clear that these programmes are doing much more harm than good. This raises the question whether better designed social security reforms were possible anyway (bearing in mind each country's political conjuncture), or whether any form of social security linked to employment status is inherently inappropriate for them. Such an approach almost inevitably marginalises groups who do not have access to secure formal sector employment. Reliable labour market data are unavailable for either country, but rough estimates dating from before the 1997 crisis indicate that around a quarter of their workforces could be classified as formal sector employees. This, when taken along with the other factors described in Box 1, demonstrates that any contributory social security scheme is likely to generate perverse distributional effects. Unfortunately, neither country is in a position to dismantle its current system of social security and replace it with social policies which genuinely meet the needs of their most needy citizens.

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