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BRIEF SUMMARY

Social Studies open up many facades. Be it directly or indirectly related to finance or social well-being. In fact, it is about the managerial circle of life. On the one hand it relates to the management of the means to provide for life (finance), and on the other hand it relates to why, when, where, what, and how to manage these means (risk management). The risk is being everyday life and how we would like to live this life that is the objective and the uncertainty around it. The management of this objective always circles around finance or financial matters together with some psychological or social well-being.

In this book, we aim to provide chapters relating to contemporary issues in social science related to *finance, marketing, management, economics, tourism, risk and financial management*. Studies that bring to light the various aspects of how humanity is challenged and how they manage these challenges to meet the objectives they aim for.

Studies such as these are important to understand humanity and its viewpoints, gaps, objectives, and uncertainties to be able to take informed and proactive managerial decisions on forward looking strategies to ensure enough means for societal survival and well-being.

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SERIES EDITOR'S INTRODUCTION

THE FOREWORD

The Emerald book series: *Contemporary Studies in Economic and Financial Analysis*, edition CSEF106 includes studies on Contemporary Issues in Business Economics and Finance with chapters relating to contemporary issues in social science; contributed mainly by authors invited from participants in the 4th International Applied Social Science Congress (C-IASOS2020) held in Kuşadası, Turkey, between October 22–24, 2020 and 12th iCOnEc Conference (Competitiveness and Stability in the Knowledge-Based Economy) which held in Craiova-Romania on October 30–31, 2020.

Social Studies open up many facades. Be it directly or indirectly related to finance or social well-being. In fact, it is about the managerial circle of life. On the one hand it relates to the management of the means to provide for life (finance) and on the other hand it relates to why, when, where, what, and how to manage these means (risk management). The risk is being everyday life and how we would like to live this life that is the objective and the uncertainty around it. The management of this objective always circles around finance or financial matters together with some psychological or social well-being.

In this book, we present a collection of 23 chapters relating to contemporary issues in social science related to *finance, marketing, management, economics, tourism, risk, and financial management*. Studies that bring to light the various aspects of how humanity is challenged and how they manage these challenges to meet the objectives they aim for. Studies such as these are important to understand humanity and its viewpoints, gaps, objectives, and uncertainties to be able to take informed and proactive managerial decisions on forward looking strategies to ensure enough means for societal survival and well-being.

In Chapter 1, the author looks at the measurement of the degree of government regulation in the pension system. Chapter 2 delves into the effects of perceived stakeholder conflict factors on guests of the Kyrenian hotels in north Cyprus. In Chapter 3, the authors determine the relationship between job satisfaction, dependence on tips, and turnover intention in the context of hotel employees. Chapter 4 is about a comparative analysis of the efficiency of the tourism industry in the southern Mediterranean region. Chapter 5 delves into the circular economy to restore ecological balance. In Chapter 6, the author looks at the dependency on foreign labor in the information and communication technology sector of the Maltese economy. In Chapter 7, the authors ask the question on whether investors overreact to firm merger and acquisition decisions. Chapter 8 is about the opportunities and challenges in health tourism. In Chapter 9, the author takes a view on the influence of Covid-19 on consumers' perceptions of uncertainty and risk. Chapter 10 is a case study of the economic activity on Athens' Commercial Streets. Chapter 11 delves into the relationship between the credit default swap and Turkish macroeconomic indicators. A case study on Spain about immigrants advancing on the European Labour Market is the topic of Chapter 12. Chapter 13 is about financial development and house prices in Turkey. "**C**ovid-19 Pandemic: Reflections on Organizational Life and Employee Psychology" and "The Importance of Thorough Financial Reporting During COVID-19 Pandemic: Empirical Evidence From Borsa Istanbul are the topics of Chapters 14 and 15, respectively. Chapter 16 is about financial literacy in Estonia, Latvia, and Lithuania. The remaining Chapters 17–23 relate to Agricultural Biomass Production; Methods for Predicting the Future Evolution of GHG Emissions; The Impact of Good Governance on Entrepreneurship; Non-financial Reporting in Romania; Insights Into Consumer in Latvia; Latvian Digital Inequalities; and Individual Risk Perceptions and Behavior.

Prof. Simon Grima

CHAPTER 1

THE MEASUREMENT OF THE DEGREE OF GOVERNMENT REGULATION IN THE PENSION SYSTEM

Rasmiyya Sabir gizi Abdullayeva

ABSTRACT

Introduction: *The liberalization tendency in the economic system of most countries in the world exists in the last years. Our last research proves that in most cases liberalism gives a positive effect on social-economic development (including pension system). However, constructive potential of economic liberalism is not everlasting, it means, first at some stages there is a certain end for the liberalization of the economy. Secondly, after a certain level (before the last level) liberalism may bring out an imminent shortage (the market sinister) in the free market in a destructive way.*

That is why one of the essential (and very difficult) duties of economic science is to define effective ranges of liberalism (accordingly, government regulation) for each certain country during a specific time frame. One of the differences of the pension system from other social protected chains is that this system is capable to liberalize. Is it possible to measure the degree of the government regulation of the pension system?

Unfortunately, this chapter has revealed that there is no such methodology. The author has created a methodology for the first time that allows to measure the degree of government regulation in the pension system. This methodology is called the Index of Liberalism (Dirigisme) of Pension System (IL(D)PS).

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By calculating IL(D)PS, the author finds out that the regulation degree (interval) of the pension system. Measurement of the degree of government regulation in the pension system allows evaluating the social consequences of the implemented reforms.

IL(D)PS has been calculated on the basis of four indicators: (i) ratio of the private pension assets (%GDP); (ii) ratio of the public pension expenditures (%GDP); (iii) social security tax rates for employers; and (iv) restrictions for investment of the pension funds.

At the initial stage IL(D)PS has been calculated for 31 countries. Among 31 countries, there are developed, emerging, post-socialist countries and countries known for their revolutionary reforms in the pension system.

According to IL(D)PS, the most dirigiste *(leftness) countries are France (0.868), Greece (0.732), Italy (730) and Azerbaijan (0.704). According to the IL(D)PS, the most* liberal *(rightness) countries are Australia (0.208), Denmark (0.223), the Netherlands (0.231) and Canada (0.237).*

In Azerbaijan, pension provision is under governmental monopoly (extreme dirigiste system). The private pension system in Azerbaijan has not been formed yet. Azerbaijan has a certain degree of liberalization of the pension system.

Aim*: The author wants to measure the degree of the government regulation in the pension system.*

Method*: The author have performed correlation, analytical-statistical and cross-country analyze.*

Findings*: The degree of the government regulation in the pension system has been measured in 31 countries.*

Keywords: Government; regulation; liberalism; dirigisme; pension systems; Monopoly

JEL classifications: H53; H55; K20

STATEMENT OF THE PROBLEM

International experience proves the liberalization of the pension system in many cases has positive results.

> According to research, if a person with pension insurance in 1970 had invested the same payment in private funds instead of social security insurance, he would have received six times more than today's pension. (SSK, 1995)

However, "the fact that politicians perceive social security as a convenient source of funding and ignore to give up this source complicates the functioning of the present system" (Jeffrey, 1995).

However, this constructive potential of economic liberalization, of course, is not infinite. That is, first, there is a certain limit to the liberalization of the economy, including the pension system. And secondly, after a certain level (even before the last possible), liberalization can destructively reveal the immanent shortcomings ("market complications") of the free market.

Therefore, one of the most urgent (and most difficult) tasks of economics is to determine the effective limits of liberalization (and, accordingly, state regulation) for each specific country, including a specific field and time period. This task could be considered equally relevant for Azerbaijan. Conducted research at the Institute of Economics of Azerbaijan National Academy of Sciences in recent years has proved that the liberalization of the Azerbaijani economy has not yet reached its ultimate efficiency and remain a necessary condition for accelerating economic development and strengthening social protection in the near future (Muzaffarli, 2016). From this point of view, liberalization of the pension system, increasing the social burden of the state through the formation of private pension provision and further strengthening the social protection of the population are among the particular requirements of the time.

The features that distinguish the pension system from other components of the state social protection network are also reflected in the liberalization of this system. In this case, the government's political and economic ideology, liberal (rightness) or dirigiste (leftness) economic policy equally affects the structure of the pension system and the ratio between public and private pension funds. Political and economic ideology here means, primarily, the government's attitude to economic liberalism and dirigisme. The first ideology dictates to reduce the government's modeling intervention in the economy, and the second, on the contrary, efficiently keeps to increase it. Both the leftness (based on dirigisme) and the rightness (based on liberalism) declare the ultimate goal of improving social welfare. According to the leftness political–economic ideology, the "shortest" and accurate way to achieve this ultimate goal is through the implementation of active regulatory measures by the government, and according to the rightness ideology, it refers the "liberation" of the economy. The competition between these two philosophies (leftness and rightness) is one of the essential driving forces of political and economic development in the modern world (Muzaffarli, 2014).

In general, pension policy is shaped by a number of political, economic, demographic and social factors. Regardless of the political and economic ideology, each government implements pension reforms based on the current level of economic development, demographic situation, the mentality of the population (economic psychological features of society) and opportunities to strengthen its social protection, as well as the foreseeable future altogether to take the forecasts into account linger important. Therefore, whether governments adopt, a liberal or dirigiste ideology is less important than other sectors of the economy in the comparison with formation a pension system.

Due to the accelerating demographic aging in recent years and the growing social burden of the state, political and other reasons made most countries around the world to carry out various reforms in the pension system. Aging, inefficient governance, premature retirement and numerous benefits cause problems in public finances and necessitate reforms (Andrews, 2006). One of the fundamental reasons for the weakening of economic development in both developed and developing countries was the "welfare state." In other words, the cause of the crisis was the social expenditures used by the welfare state. In addition to reducing government intervention to ensure economic development, there was a need to cut social security spending (Topak, 2004).

There are other factors that have highlighted pension reform. According to Barna Balci Izgi, the system has suffered as a result of the negative effects of the populist policies of the changing governments in Turkey on the social security system (reduction of the retirement age, pension and insurance premiums) (Balci, 2016) . Mehmet Zeki Ak and Shukru Chichioglu agree that Turkey's social security system has been forced to reform due to serious financial problems (Ak & Chichioglu, 2006). In some countries, radical reforms have been carried out in the social security system, such as large-scale privatization, while in others, softer reforms have been implemented, such as partial privatization.

> Researchers who advocate the privatization of social security and all those who implement it argue for the government's withdrawal from social security, as in other areas and the need for a modern organization in which the initiative is in the hands of individuals. (Weinberger, 1996)

It must be noted that in many countries (e.g., in most Asian countries) pension systems are "fragile and unstable." According to experts, if the current pension system is not radically changed, in 10 years, the retirement of civil servants in Taiwan will remain a serious problem. There some young civil servants officially stated that they would even refuse to pay into the public pension fund (Hsieh, 2016).

The economic crisis in Latin America in the 1980s led to a reduction in public resources needed for social policy. Due to lofty inflation in countries such as Chile, Argentina and Brazil, social insurance funds have lost value and the real value of pension payments has decreased. In some Latin American countries, state social insurance funds were unable to pay all pension payments, and in Argentina, pensioners sued the government to receive their pensions (Ughur, 2004).

According to a number of authors, "financial issues are at the forefront of privatization in the field of social security" (Campbell, 1977; TUSIAD, 1996).

Taking into account current demographic trends, possible to say that in the near future the social protection of pensioners will be weaken in many countries. This problem has been observed in developed countries since the 1980s. In order to clarify it, liberal reforms were carried out, and private pension systems (funds) were formed. Since the 1990s, reforms for establishing a private pension system have become widespread. Reforms have taken place as a spread in most parts of Europe, many parts of the Americas and some parts of Asia. These reforms are primarily due to two processes (population aging and globalization).

The results achieved by some countries in this area are particularly noteworthy. In Chile, for example, radical liberal (rightness) reforms have almost completely replaced public pensions with non-state pensions. Chile's private pension model represent a successful example in terms of pension savings, labor market flexibility, labor motivation, development of capital markets and prevention of political manipulation of pension funds. A number of countries have benefited from this experience. Following Chile, some other countries in the Americas have begun to move to the private pension system. However, the Chilean experience does not end the controversy over the preference for public or private pensions. On the contrary, in recent years, this issue has become a deliberate topic of discussion for both, politicians and expert communities in a number of countries (e.g., the United States and Canada).

The developed "welfare countries" of Europe perceive the particular way out of the situation in reducing pension spending. At the same time, in recent years, partial privatization of pension institutions has begun in the UK, Sweden, Germany and Italy. Greece is making changes to its pension system (despite workers' protests) in line with EU norms. Spain has been discussing pension reform for many years. Hungary and Poland have moved to a "mixed" (partly traditional, partly savings-based) pension system.

Liberalization of the pension system in the post-Soviet countries also began in the 1990s. After the restoration of state independence, the political system in these countries, along with the economic system, changed and, as in all areas, reforms were carried out in the field of pensions. Political decisions in a number of post-Soviet countries have led to a slight liberalization of the pension system. Elements of "savings" in most of these countries (Azerbaijan, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Moldova, Turkmenistan and Uzbekistan) have been included to the existing state pension provision, and in some countries (Russia, Kazakhstan, Ukraine, Kyrgyzstan, Belarus, Georgia and Armenia) more liberal reforms were carried out and, at the same time, private pension funds were established.

LITERATURE REVIEW

Extensive research on the liberalization of the pension system, the creation of private pension funds and their socio-economic significance naturally began in the 1950s.

Currently, state pension funds in common are in the economic crisis in most countries of the world. Instantly recognizing the specific need for pension reform, countries and international organizations (the World Bank and the International Monetary Fund) are adequately preparing reform packages. Comprehensive reform packages, as a rule, include a reduction in state social security expenditures, including pension expenditures. In a 1994 report, the World Bank found a way out of the social protection of the old people by sufficiently establishing a three-tier pension system (minimum state security, savings-based insurance and private pension provision) (World Bank, 1994). The International Labor Organization also acknowledges that aging and globalization will cause problems for the social security of pensioners and that reforms are needed.

Since the mid-1990s, there have been problematic discussions about the cognitive development of the social security system in the United States. In these discussions, some experts opposed liberalization (Baker, 1997; Williamson, 1997), but the main views were in favor of liberal reforms (Auerbach, Gokhale, & Kotlikoff, 1991; Bosworth & Burtless, 1997; Poortvliet & Laine, 1995).

There are different views on the impact of the liberalization of the pension system on socio-economic development. Some authors (Barr, 2001; Diamond, 2002; Fultz & Ruck, 2001; Minns, 2001) oppose the liberalization of the pension system. According to another group of experts, liberalization in the field of pensions has both advantages and disadvantages (Chybalski, 2009). According to the third group of authors, the liberalization of the pension system has a short-term positive economic effect (Heijden, 2010). Proponents reasonably believe that this process leads to increased pension savings and access to investment capital, increases national income and accelerates economic growth (Mesa & Bertranou, 1997).

Research is also being conducted on the optimal valuation of pension savings in various financial instruments for the long term (Walker, 2016). Some experts believe that the impact of liberalization on savings varies depending on the situation (especially macroeconomic policy in the country) (Williamson, 2010).

The Melbourne Mercer Global Pension Index (2016) calculated by the Australian Center for Financial Sciences on various aspects with carefully measuring the liberalization of the pension system and assessing its impact on socio-economic development, the UN Pension Sustainability Index (2016), The Global AgeWatch Index (2015), published by HelpAge International and a number of other organizations (especially the Organization for Economic Co-operation and Development (OECD)) are precisely preliminary comparative assessments in this key area.

Extensive research on the liberalization of the pension system, the independent creation of private pension funds, and their socio-economic significance began earnestly in the 1950s.

Pension reforms carried out by a number of countries (Argentina, Colombia, Uruguay, Mexico, El Salvador, Croatia and others) under the pressure of international financial institutions, primarily the World Bank, are often accompanied by economic and political tensions. In recent years, serious work has been done in the UK and Sweden to privatize pension institutions (Liu, 1999). Between 1981 and 2007, the pension system of more than 30 countries underwent a process of serious liberalization (Orenstein, 2011).

There are different views on the impact of the liberalization of the pension system on socio-economic development. Some authors (Barr, 2001; Diamond, 2002; Fultz & Ruck, 2001; Minns, 2001) oppose the liberalization of the pension system. According to another group of experts, liberalization in the field of pensions has both advantages and disadvantages (Chybalski, 2009). According to the third group of authors, the liberalization of the pension system has a short-term positive economic effect (Heijden, 2010). “The fact that politicians see social security as a ready-made source of funding and do not want to give it up complicates the functioning of the existing system” (Katz, 1995).

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METHODOLOGY

Quantitative assessment of the pension system based on various classifications is a prerequisite for optimizing pension provision. From this point of view, it is especially important to measure the level of liberalization of the pension system and the degree of government intervention in this system.

Graciously according to a considerable number of authors, low public pension spending is typical of poor and high public countries (Pallares-Miralles, Romero, & Whitehouse, 2012). In remarkable fact, this idea is wrong. Because in some economically developed countries of the world, although the cost of state pensions is low, in general, the number of pensions, the replacement rate and pension income is quite high. This is due to the strong development of the private pension system in these countries. The outstanding share of public pension expenditures naturally depends on the level of government intervention in the country's pension system, rather than on whether a country is poor or rich. Experience shows that the government can strengthen the social protection of pensioners by interfering in the pension sector not directly but indirectly (by stimulating the establishment and development of the private pension system). This efficiently is a universal law and can be applied to all components of social welfare. N. Muzaffarli proved that the formally "socially oriented," "non-existent" rightness economy can be more socially oriented than the so-called "socially oriented" economy, and in many cases (Muzaffarli, 2014).

Index of Liberalism (Dirigisme) of Pension System (IL(D)PS) proposed in this study, in accordance with the methodology of Index of Leftness (Rightness) of Economics created by Prof. Nazim Muzaffarli, which allows to measure the government's model shaping forms of economy published annually by the Institute of Economics of ANAS (Muzaffarli, 2014), is calculated on the basis of four indicators: (i) the ratio of the private pension assets (%GDP); (ii) the ratio of the public pension expenditures (%GDP); (iii) compulsory social security tax rates for employers; and (iv) the restrictions for investment of the private pension funds. IL(D)PS varies in the range 0–1: 0 –the extreme rightness of economy (absence of the government intervention) and 1 – its extreme leftness (total government regulation).

This Index (including each indicator) is computed by the formula $(V_i - V_{\min})/(V_{\max} - V_{\min})$.

At the initial stage, IL(D)PS was calculated for 31 countries.

RESULTS AND THEIR INTERPRETATION

The first indicator used in the calculation of IL(D)PS is “Ratio of the private pension assets (%GDP).”

Among the countries included in the ranking, the country with the highest ratio of private pension funds to GDP is Denmark (198.6%), and the country with the lowest ratio is Azerbaijan (0). Therefore, as the subsequent of V_{max} and V_{min}, 250 and 0 were taken, respectively. The statistical source has been used of the database of the OECD since 2018 (OECD, 2019) (Table 1).

The most advanced countries in terms of the ratio of the private pension assets (of GDP) are Denmark, the Netherlands, Canada, Switzerland, the United States and Australia. In these countries, the assets of private pension funds exceed GDP as well as. It should be noted that the pension systems in these countries are quite liberal.

Table 1. Ratio of the Private Pension Assets (%GDP).

	Ratio of the Private Pension Assets (%GDP)	İndex
USA	134.4	0.462
Germany	6.9	0.972
Australia	140.7	0.437
Austria	5.5	0.978
Azerbaijan	0.0	1.000
Belgium	10.9	0.956
UK	104.5	0.582
Czech Republic	9.2	0.963
Chile	70.2	0.719
Denmark	198.6	0.206
Estonia	16.9	0.932
Finland	57.2	0.771
France	10.4	0.958
Spain	12.5	0.950
Israel	57.4	0.770
Sweden	88	0.648
Switzerland	142.4	0.430
Italy	9.8	0.961
Canada	155.2	0.379
Korea	28.5	0.886
Luxembourg	2.7	0.989
Hungary	5.3	0.979
The Netherlands	173.3	0.307
Norway	9.8	0.961
Poland	8.5	0.966
Slovakia	11.7	0.953
Slovenia	6.8	0.973
Turkey	2.5	0.990
Japan	28.3	0.887
New Zealand	27.4	0.890
Greece	0.7	0.997

Source: OECD (2019).