

Lessons from Privatization of Cyprus Turkish Airlines

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Introduction

Recent decades have given rise to pronounced economic and political transformation for many, including North Cyprus. Since the late 1970s, a new economic and political paradigm; liberalization, privatization and globalization began to impose its market rationality globally. New paradigm characterized by reduced expenditures on state services, the privatization of public services and state owned enterprises, the expansion and creation of new markets. The general strategy was aimed at providing level playing field to the private sector. In many countries the shift to increasingly market-governed social policies to provide level playing field to the private sector; especially privatization, has been the source of street riots, protest demonstrations, and adverse news coverage. Protest grows from the criticism that market-governed social policies had distinctly varied effects and ramifications on the labour market. It created a jobless growth and transformed employment in favor of unregistered enterprises that actually lead to flexibilization of work and undermining of organized labour power with serious effects on welfare and working conditions of workers and inequalities in distribution.

North Cyprus as a small and politically unrecognized state is not an exception in the sense of economic and political transformation and protest. Although it has not been able to integrate to the world economy sufficiently due to its political non-recognition¹, liberalization, privatization and globalization policies have been implemented (since 1980s) after almost ten years of statist development approach² which was hugged since the inception of North Cyprus state (Turkish Republic of North Cyprus), 1974. North Cyprus has been facing severe economic crisis and high unemployment for decades and liberalization, privatization and globalization forms an integral part of an array of reform measures recommended by the donor country (Turkey) as well as policy makers and experts within and without country.

Funding and loans financing main investment and public expenditure of North Cyprus has been provided by Turkey; the only country granted political recognition to North Cyprus, through bilateral economic protocols since the establishment. Until 1986 Protocol (İsmail, 2001), funds and loans provided by Turkey were unconditional and made up almost 40 to 50 percent of the public financing. With the 1986 and 1987 Protocols the release and the use of the funds and loans bound to a series of conditions including liberalization of the markets and privatization of public services and state owned enterprises (İsmail, 2001) which made privatization a public concern; especially of the trade unions in North Cyprus. Privatization policies became more pronounced in 1997 Protocol (İsmail, 2001: 15), and the first time included in the Development Programs of North Cyprus (1997) (DPÖ, 1996: 72, 73). But no attempt was made to provide any law guiding the privatization policy included therein.

¹ Due to political factors which fall outside the scope of this paper, TRNC not recognized politically by other countries except Turkey and is subject to economic embargo imposed by the internationally recognized Republic of Cyprus controlled by Greek Cypriots.

² In the initial stage of its economic development after 1974 until 1983 the focus of public investment policy was the creation of state owned enterprises (SOEs) in agriculture, tourism, sea and air transportation, and manufacturing industries.

The main objection of the unions to privatization at the time was that it was an imported phenomenon, and not a genuine need of North Cyprus economy. The possible negative impact on employment was also one of the objections but the imported character of the privatization policies was the more pronounced one since “Privatization Unit” was established as one aspect of the structural adjustment package proposed by Turkey-TRNC Economic Protocol,1987 (İsmail, 2001). On the part of the government of North Cyprus asserts that privatization is a homemade policy, but it is far from convincing trade unions due to the fact that funds were conditioned with the restructuring and privatization of public enterprises. According to the unions, there was not much conviction behind the privatization program.

Incidentally, one of the largest SOE (state-owned enterprise) in light industry was privatized, including varied manufacturing enterprises, and the privatization of the 50 percent shares (end of 1990s) (Aslan, 2011) of the SOEs in alcoholic beverages, tobacco, and tourism sectors. This surmounted resistance of unions against privatization, high unemployment and economic crises, in turn, it slow down the implementation of privatization program. Turkey’s reluctance towards upholding the conditions also encourages the governments to postpone the implementation of the program. Seeing that, privatization efforts seemed to have cooled down.

Most of those privatized public enterprises were liquidated by their new owners. Workers of the liquidated firms lost their jobs, and workers of those firms that continued their operations, were subject to longer working hours and lower wages.

Ten years of silence of governments and unions about privatization was changed with the introduction of 2004-2006 Economic Protocol, which had strict measures in order to enforce TRNC governments to comply the conditions which privatization of SOE was one of these conditions. The leftist government at the time, by using the advantage of high growth performance of the economy due to construction boom triggered by peace negotiations (Özay & Yorucu 2007; Yorucu & Keleş, 2007), decrease the need of public financing to Turkey’s funds and aids while taking measures to increase efficiency and profitability of SOEs. However, reorganization of SOEs which was intended to increase the efficiency of public enterprises was halted by the objections of the unions that had been pronounced in the first privatization attempt in the end 1990s; the imported nature of the privatization program. The polemics between governments and unions and opposition parties were mostly focused on the impact of privatization on output, employment, and the government budget. On the part of unions and opposition parties the imported nature of the privatization program and negative impact on employment in the short run were highlighted. Leftist government is abstained of using privatization explicitly, highlighting the positive impacts of reorganization of SOEs on economic growth, and efficiency and employment gains in the long run. Discussion on the social or welfare impact of privatization was neglected. Furthermore none of the governments took any measures considering welfare losses of workers that were displaced or lost their jobs due to privatization or reorganization process. Yet the evaluation of the majority of economists within the country generally tends to be favorable.³

³ See Okan Şafaklı, “Özelleştirmeye karşı olmaya saygı duyarım da, Özelleştirme Yasası’na karşı olmak...” (I respect of being against privatization but being against privatization law...), *Star Kıbrıs*, 19 March 2012 and Vedat Yorucu, “Özelleştirme ama nasıl?” (Privatization but how?), *Kıbrıs Son Dakika*, 9 October 2010, Ünal Akifler “Şimdi ufalma ve acı ilaç zamanı”(It is time of contraction and to swallow the bitter pill), *Haber Kıbrıs*, 1 April 2011.

The criteria for evaluation of economists who is in favor of privatization typically include profitability, labor productivity, firm growth, employment growth, and market valuation as it is summarized in Megginson, and Netter (2001) comprehensive work on the economic and political merits of government versus private ownership. The counter arguments of economists who are against privatization are on negative impact of privatization on employment, and asset distribution. Unions and intellectuals, besides negative welfare impact on consumer and worker their salient objection is on the alien nature of privatization program which according to them do not respond to the value systems and social norms of the society (Granovetter, 1985), and to the transfer of public assets through privatization to foreigners. It seems that the rejection of the privatization policies by unions and intellectuals “not so much because of their economic consequences but because people felt betrayed when these policies destroyed certain basic principles of social life. One such principle is that public utilities should controlled by the state and the “nation” to avoid abuse of the “people” by the elite” (Castaneda’s comments on McKenzie & Mookherjee, 2003:223).

Upon to the strong resistance of the unions and intellectuals leftist government resigned and called away for early elections. Outcome of the election was a total victory of the rightist party which during the election campaign promised to stop the implementation of privatization program and reform package. However, the new government, just a year after election pronounces their conviction to the reform package and privatization.

Meanwhile, after several unsuccessful attempts of the new government to privatize national airlines of North Cyprus; the Cyprus Turkish Airlines (CTA), by overseas trade sales, it ended with the liquidation of the CTA (2010) and workers were dismissed. Hence, concern for welfare impact of privatization was brought to the scene, following the tragedy of many who lost their jobs and for they suffered other losses. The effect was that the personal tragedy of the dismissed CTA workers evoked adverse opinions about privatization, with adverse press coverage; all appear to becoming adverse over time. The vastness of the two protest demonstrations⁴ ‘The Communal Existence Mass Meetings’ which the prime targets were privatization could be interpreted as the indication of increasing adverse opinion of the public about privatization and reform package. Following, some of the economist favoring privatization for the sake of the success of the reform measures, they begin to pronounce the lack of privatization law declaring scope and objectives of privatization program. Furthermore they also pronounce the importance of the articles about reemployment and compensation of welfare losses of dismissed workers that the Law should include.⁵

Privatization Law enforced in 2012, besides providing the broad contours of privatization program the Law also includes articles guarantee employment for a certain period and reemployment of dismissed workers at the governmental administrative units (Chapter3 article 27, 28, and 30, pp 17, 18)⁶. Additionally, the Law includes a provisional clause (Chapter 7, pp.39) of the reemployment of dismissed CTA workers at governmental administrative units

⁴ “KKTC’de olaylı miting” (Eventful meeting in TRNC), *Milliyet*, 02 March 2011. “KKTC mitinge hazırlanıyor”(TRNC get ready for mass meeting), *Dünya Bülteni*, 01 March 2011. “ Mitinge binlerce kişi katıldı”(Thousand of people participated to the meeting), *Akşam*, 02 March 2011.

⁵ See Vedat Yorucu, “Önce Özelleştirme Yasası sonra uygulama: hükümete çağrı” (First privatization law then implementation of the program: An appeal to the government), *Yenidüzen*, 16 October 2010, Ünal Akifler “Şimdi ufalma ve acı ilaç zamanı” (It is time of contraction and to swallow the bitter pill), *Haber Kıbrıs*, 1 April 2011.

⁶ Privatization Law – Third Section: Rules regarding Personnel: Article 27. Redundancy Payment Rights, Article 28. Incentives for Reemployment after Privatization, Article 29. Employment Incentives in Public Sector Institutions and Organizations as well as in Public Sector Institutions and Organizations Established Under Specific Law, Article 30 Reemployment Opportunities for Other Dismissed Public Personnel and Workers due to Privatization.

even CTA liquidated before the enforcement of the privatization law. That may be included to soothe the adverse effect of dismissed CTA workers tragedies and as leverage to pressure opposition parties in the TRNC parliament to vote in favor of the Law. After 18 months of liquidation, 65 percent of the dismissed CTA workers were reemployed by the government subject to this provisional clause. But still, there is no article about the compensation of the welfare losses of the dismissed workers. On the other hand the only pronounced objective of the privatization program is "...decreasing the share of the public sector in the economy" (Privatization Law, 2012: Article 3,pp.4). Although it is not pronounced in the privatisation program government express that the privatization program is based on the principle of decreasing the share of the public sector in the economy and ensuring the viable and sustainable economy highlights the distorted prices, lack of competition, and poor government of business have hindered economic development, introduced inefficiencies, and contribute fiscal bleeding. But the objective of privatization as a means to increase consumers and workers welfare does not appear in explicit terms. Though government explanations fade out with the vocal unions' protest demonstrations and strikes even though government provide employment guarantees for a certain period of time (for 3 years) and deferred employment effect of privatization.

These adverse opinions are not restricted to the workers of the SOEs that privatized or subject to privatization in the near future. The vastness and the characteristics of the participants of the two protest demonstrations 'The Communal Existence Mass Meetings' of all age, gender and socioeconomic class show that a clear majority disapprove of the privatization process. The meetings were organized by broad based 'Unionist Platform' and the prime target was privatization program and the reform package. Even though participants believe in the contribution of privatization to improved efficiency and financial performance, they participated to the Meetings to raise their complaints on the way as privatization implemented; it is seen that privatization harming the poor and even the middle class; raising prices for essential services, throwing people out of good jobs and into poor ones or unemployment, giving away national treasures– and all this to the benefit of the foreign (specifically Turkish) corporations and investors, and corrupt politicians. The way that government handled privatization of CTA contributed the most to the formation of these negative perceptions of privatization.

Increases in profitability and efficiency can come at the expense of customers, workers, and other social groups as a result of increased prices, lower levels of employment, larger work hours, worsening services conditions and neglect of environmental effects (Kikeri, 1997; Freije & Rivas, 2002, Gupta et al, 1999). A more comprehensive social or welfare evaluation of privatization clearly must incorporate the effect on consumers and workers in addition to firm profitability. Particular attention needs to be devoted to effects on inequality and poverty which underlie perceptions of unfairness among critics of privatization. And which may have functional effects on economic efficiency in the long run via effects on human capital, entrepreneurship, and governance (Birdsall & Nellis, 2002; Freije & Rivas, 2002; MacCuish, 2003).

In the midst of this overarching privatization process in North Cyprus, the impact of privatization on the welfare of workers has been the least discussed and examined topic by the government. No precautionary measures or no targeted social support programs have been put into place to prevent welfare losses of the dismissed or displaced workers of these

enterprises which may be one of the reasons of the backlash against privatization policies in North Cyprus.

Thus, this study aims to assess the impact of privatization on the welfare of dismissed workers and to understand the backlash against privatization policies in North Cyprus. In the assessment of welfare effect it uses airline sector as a case study in the pre- and post privatization comparative framework. Policies and polemics were used to understand the backlash against privatization program.

Assessing the impact of privatization on workers welfare and understanding the motives of the backlash against privatization policies in North Cyprus is so timely and important for three reasons. First, the country facing a severe economic crisis and privatization forms an integral part of an array of reform measures recommended by the policy makers and experts within and without country and more important as a condition by the donor country (Turkey).

Second, CTA is not the first privatized SOE but it is the first largest one and the first that has recently become the source of protest demonstrations and so intense adverse news coverage. Protest demonstrations by unions and opposition parties following the announcement of reform measures included privatization as a prime target on the grounds that national values should not be taken by the profit calculus of the Turkish capitalism⁷. News articles highlight popular objections to large scale layoffs and welfare losses of workers. The public opinion appears to be becoming increasingly adverse over time which may have adverse effect on reform measures of North Cyprus economy.

Third, a large public enterprise in monopoly position in electricity and public utilities water and telecommunication is yet to be divested. This research allows us to assess the impact of privatization on workers welfare of the first large divested state monopoly and draw lessons for the privatization of large a SOE and public utilities in the future.

The next section will be a brief overview of the development and scope of privatization in North Cyprus and the liquidation process of CTA. The study then deals with the effects of privatization on workers welfare, and subsequently discusses the reasons for the popular disenchantment with the privatization process on the basis of their welfare impact. Then it explores whether the economic evidences provided with this study is consistent with the disenchantment with the privatization process, and final section concludes.

Privatization in North Cyprus: Its Development and Scope

This section briefly provides the development and scope of privatization in North Cyprus. As mentioned in the Introduction, privatization process began in the 1990s in North Cyprus. It was in line with the implementation of privatization policies in Turkey, due to the fact that Turkish SOEs were shareholders of the SOEs in North Cyprus. Even though no law and program regarding privatization was in force until 2012, privatization was and continues to be carried out in all its forms; as private trade sales, overseas trade sales, overseas leasing, management contracts, employees' buyouts, formal informal liquidation, up to this day.

The establishment of SOEs in North Cyprus, which are now being or are soon-to-be privatized, coincides with the economic and socio spatial restructuring process of the Turkish Cypriot community in 1974. De facto division of the island in 1974 resulted in the majority of

⁷ See "28 Ocak Mitingi" (Mass meeting on January 28th), *Gaile*, 6 February 2012, and K-Pet neden satılıyor? (Why Cyprus Turkish Petroleum (K-Pet) being sold out?), *Gündem Kıbrıs*, 11 November 2011.

Turkish and Greek Cypriot populations residing in the north and south respectively. This partition brought about a spatial change for the previously scattered Turkish and Greek Cypriot populations, which led to some production units that used to belong to either Greek or Turkish Cypriots lying idle in both the north and south of the island.⁸

With the establishment of the Turkish Federated State of Cyprus, the Turkish Cypriots entered a phase of reorganization. Besides setting up their governmental administrative units, they also reactivated idle production units in order to maintain and improve their economic existence (Güven, 1984; Keser, 2012). The necessary funding and the technical and administrative know-how to operate these SOEs, which were lacking at the time, were provided by Turkey. These shortcomings and the statist economic development approach of the Turkish government of the time were influential in reactivating the idle productive units as SOEs. In the end, 10 different SOEs were established in manufacturing, transport, trade, electricity, and tourism sectors, where the number of people employed within these SOEs (3132) amounted to the 5% of the overall employment (Güven, 1984). Those SOEs acted as means of Turkish Cypriots economic existence and a symbol of their political existence and independence (Keser, 2012)⁹. Especially national airlines; the Turkish Cyprus Airlines symbolized¹⁰ as their protest to the political non recognition of TRNC and to economic embargoes.

Starting in 1976, in the framework of the 'Technical Assistance and Cooperation Agreements' and 'Protocols on Economic Cooperation Meetings' (1978) signed between Turkey and the Turkish Federated State of Cyprus, assistance was provided for these SOEs (İsmaıl, 2001). The agreements, which included the necessary capital, technical and administrative support programs were intended to improve the performance of the SOEs. The aims of the protocols, on the other hand, were to strengthen the economic ties between Turkey and North Cyprus, thereby bolstering the North Cyprus economy. With the transformation of Turkish Federated State of Cyprus to Turkish Republic of Northern Cyprus (TRNC) in 1983, these protocols and cooperation agreements continued to be signed between Turkey and TRNC¹¹.

The 1986 Protocol differed from previous protocols. It carried the significance of being the first protocol that aimed not only to provide the necessary support to SOE but was the one that enforce structural adjustment programs including clauses on opening up SOEs to private sector (İsmaıl, 2001). The following 1997 Protocol marked the first protocol to bore the term privatization explicitly (İsmaıl, 2001: 15). In the same period, privatization also began to appear in the North Cyprus Development Programs. More precisely, it was included for the first time

⁸ Intercommunal violence in 1963-64 and in 1967, turned thousands of Turkish Cypriots into refugees. Greek Cypriot civil Guard attacks on Turkish Cypriot villagers led to the massive exodus of Turkish Cypriots into enclave zones so that they could be more effectively protected. Under the Treaty of Guarantee, Greece, Turkey and the UK were to serve as protectors of the new Republic and had the right to intervene on the occasion of severe violations of the constitutional order. However, it was not until 1974, when a newly installed military regime in Athens supported a coup against the government of the Republic of Cyprus, that a Guarantor nation intervened. Fearing that the coup would be followed by a declaration of *enosis* and attacks on Turkish Cypriots, Turkey intervened, capturing about 40% of the territory of the island by the time a cease-fire was arranged. *Enosis* had been thwarted, but in order to guarantee the safety of the Greek and Turkish Cypriots caught on the wrong side of the front line, the two sides agreed to population exchanges de facto dividing the island as North and South where Greek Cypriots live in the South and Turkish Cypriots live in the North. As a result of this about 60,000 Turkish Cypriots and 150,000 Greek Cypriots had to abandon their homes.

⁹ Ahmet Tolgay, "Özelleş tirmenin kısa tarihi..." (A brief history of privatization...), *Kıbrıs Gazetesi*, 25 November. 2011; "Endüstri mirasımız 'kepçe' darbeleriyle çöktü" (Our industrial heritage has been crashed down by a 'dipper').

¹⁰ See KTHY'nin kuruluş yıldönümü: kapatıldığı günü ve kapatanları unutmayacağız" (Anniversary of the establishment of CTA: We never forget the day of liquidation and those who are responsible for), *Ada Basını*, 4 December 2012 and "Erken seçim şart oldu" (Early Elections became a must)", *Haberdar*, 20 June 2011.

¹¹ See İsmail, 2001 for further information regarding the cooperation and protocol agreements between Turkish Federated State of Cyprus/ Turkish Republic of Northern Cyprus and Turkey.

in the 1997 Development Program (DPÖ, 1996: 72, 73). The need for privatization within a specific program was also stated within this protocol and the decision to establish a 'Privatization Unit', which would work hand-in-hand with the Privatization Board of Turkey, was made accordingly. Following, the first SOEs; all of the factories of *Industry Holding Ltd.*¹² in manufacturing, two hotels of *Cyprus Turkish Tourism Enterprises*¹³ in tourism, 2 factories of *Turkish Alcohol and Wine Industry Ltd.*¹⁴ in alcoholic beverages, and some of the activities of *Industry, Trade, and Management Enterprises Ltd.* in trade sector were privatized (Aslan, 2011). In the following years because of the aforementioned reasons and mainly because of the donor country's reluctance of the enforcement of conditions of the adjustment package, privatization efforts seemed to have cooled down. However with Protocols covering 2004-2006, 2007-2009 and 2010-2012 periods, implementation of privatization program was follow through. By the end of 2012 all of the SOE's, other than the SOEs in electricity and seaports and telecommunication services, were privatized either by transferring property or management rights, or liquidation.

The below table provides information on privatization date and privatization strategy of the privatized SOEs since the beginning of privatization process.

Table 1. List of privatized SOEs

Name of the SOE	Privatization Date	Strategy	Before or after the Privatization Law
1. Cyprus Turkish Tourism Enterprises: 17 hotels, 67 apartments, 26 Shops, a nightclub and a beach	1996, 1997	overseas trade sales	before
2. Sanayi Holding Ltd.: 46 plants in manufacturing	1996, 1998	overseas and private trade sales, liquidation	before
3. Cyprus Evkaf Foundation's tourism enterprises: 3 hotels	2007, 2008, 2009	overseas and local leasing (private firms and employees)	before
4. Eastern Mediterranean Univ.: pre-university education units; primary and high school	2009	overseas leasing	before
5. Cyprus Turkish Airlines	2006, 2010	joint venture & liquidation	before
6. Cyprus Turkish Petroleum	1997, 2010	private trade sales	before

¹² Cyprus Turkish Industry Holding Ltd. was established in 1974 as a partnership between Turkey and Turkish Federated State of Cyprus. It was one of the 10 SOEs, which aimed to contribute to the development of Turkish Federated State of Cyprus, by providing services in manufacturing, transport and tourism. While 50% of the shares of Cyprus Turkish Sanayi Enterprises Holding Ltd. were owned by Cash Development of the Consolidated Fund of the Assembly of the Turkish Cypriot Community, the rest were divided between 6 different SOEs in Turkey. During this time, the enterprise specialized in the production of metal, plastic, textiles, chemicals and food (Güven, 1984:65-67).

¹³ Cyprus Turkish Tourism Enterprises Ltd. was one of the 10 SOEs established in 1974 in the Turkish Federated State of Cyprus. 50% of the shares of the enterprise were owned by Cash Development of the Consolidated Fund of the Assembly of the Turkish Cypriot Community, the rest were divided between 6 different SOEs in Turkey. The enterprise was composed of 17 hotels, 67 apartments, 26 Shops, a nightclub and a beach (Güven, 1984:73, 74).

¹⁴ Turkish Alcohol and Wine Industry Ltd. (TAŞEL) and Industry, Trade, and Management Enterprises Ltd. (ETI) was established in 1961. While Cash Development of the Consolidated Fund of the Assembly of the Turkish Cypriot Community held 51% of the shares, the rest was divided between SEOs of Turkey; TEKEL Ltd, İş Bank and Şişecam A.Ş. With the privatization of TEKEL in Turkey in 2003, TAŞEL was also privatized accordingly. The transfer of shares occurred in two stages, with a private company buying 66% of the shares.

Ltd.			
7. Turkish Alcohol and Wine Industry Ltd.	2003, 2010	overseas trade sales	before
8. Ercan Airport Management Enterprises	2012	overseas leasing	after
9. Industry, Trade, and Management Enterprises	2012	overseas trade sales	after
10. COOP DAIRY ¹⁵	2013	local cooperatives trade sales	after

As listed in the above table privatization of SOEs and public services have been continued as per date since 1998 either implicitly (without naming the policy) or explicitly in North Cyprus. However, current or former, leftist or rightist governments beware to name leasing, private joint ventures or liquidation of SOEs as privatization before 2012. Ministry of Transportation and Local Governances of the current government declared to the public that “with the parliament approval of the Privatization Law TRNC is ready to apply privatization program. Government pushes the start button with the privatization of the Ercan Airport Services Enterprises... Ercan Airport Services Enterprises will be the first privatized public enterprises”¹⁶. On the other hand unions, intellectuals, and economists who come out against privatization make use of the impact of past privatizations to solidify their objections to privatization. Especially they intensified on employment impact of privatizations in tourism sector who suppose to be the leading sector of North Cyprus economy. According to the unions, privatization of labor intensive SOEs in tourism sector lead to massive job layoffs¹⁷. They claim that in privatized tourism enterprises registered local workers replaced by migrant unregistered or illegal workers, especially from Turkey, with lower wages and longer working hours. Migrant workers from Turkey “...tend to have lower supply prices as compared to the local Turkish-Cypriots workers. This is demonstrated by the lower wage rates and poorer working conditions that they are willing to accept (Besim & Jenkins, 2006: 3)”.

The following section of the study will assess the impact of privatization on workers welfare in a sense to understand the motives of the backlash against privatization in North Cyprus, as expressed by street demonstrations and general strikes, and if it is consistent with the economic evidence provided by this assessment.

Impact of privatization on workers welfare

This part of the study documents the effects of privatization on workers’ welfare, especially the extent of employment changes and the possible impact on earnings and retirement benefits that accompanied privatization of Cyprus Turkish Airlines. There was evidence that the losses may reflect the loss of noncompetitive rents at SOE employment. Welfare losses were probably higher than those indicated by the earnings losses, since the post-dismissal

¹⁵ was founded by 21 farmers in a village near Nicosia in 1958 under the name of ‘Dairy Products Company’. In 1962, the land of the current milk factory in Nicosia was purchased with a loan received from the Cooperative Central Bank for the construction of the original factory. During the first years, the Dairy Products Company operated between January and May only, using only sheep milk. In 1968, the company was purchased by the Cooperative Central Bank and subsequently expanded and improved its operations under the name “COOP DAIRY”.

¹⁶ See “Ersan Saner, ‘Yeniden Yapılanmayı’ anlattı...” (Ersan Saner explicated ‘restructuring process’), *Haber Kıbrıs*, 5 May 2012.

¹⁷ See “El-sen: kazanmaktan başka seçeneğimiz yok.” (Electricity worker union: We have no choice but to win). *Afrika Newspaper*, 31 January 2011.

state jobs not only paid lower monetary remunerations but were also of lower quality and retirement benefits than the CTA jobs.

To estimate the impact on monetary welfare pre- and post privatization the state of employment of CTA workers, monthly earnings and retirement benefits is compared. The non-monetary aspects of losses are captured by the face to face in depth interviews by 10 CTA workers by questions, which required workers' subjective evaluations of their pre- and post-dismissal welfare that would include changes in work pattern and changes in tenure (that is, the duration of employment relationships, which would affect the level of economic insecurity, and investments in firm-specific relationships).

Employment Effect

It is generally believed that privatization leads to a fall in employment and wages at least in the short-run (Gupta, *et al*, 1999). But in the long-run it is believed that privatization may even increase employment if privatized firms are tempted to inject new capital due to overall improvement in the economy (Megginson & Netter, 2001; Gupta *et al*, 1999; Kikeri, 1997; Boubakri & Cosset, 1998). It is also acknowledged that in some cases, restructuring and privatization may reduce the employment permanently and in case of liquidation all the employees may lose jobs (Gupta *et al*, 1999).

In case of North Cyprus, particularly in the partial privatization of CTA; joint venture in airport services, there was no job losses. Airport services workers continued to work with the new company due to joint venture agreement includes employment guarantees for the displaced workers. Meanwhile due to liquidation of the other services of CTA, rests of the workers; almost eighty percent of total employment of CTA before privatization lost their jobs. When this study conducted, it was almost two and a half year after liquidation of CTA, dismisses CTA workers reemployed by the government to public administration units as temporary office workers.

CTA workers' union (Hava-Sen), agreed to provide a list of all the dismissed CTA workers by names which these information made it possible to track 77 percent of the dismissed CTA workers' current state of employment. Before liquidation, CTA had 656 employees and nearly half of these employees (%47.1) were women. 583 (46.2% women) of those were employed in North Cyprus, 51 in Turkey and 20 in England. The CTA's restructuring process, which began in 2005, aimed to privatize the airport, aircraft maintenance, catering, cargo, aircraft storage as well as the ticketing services apart from the aviation services through domestic and foreign private sector equal partnership (CTA, 2010). In 2006, with joint venture, airport services department of CTA were privatized. Employees of the privatized department (129 employees) asked to decide either to continue to work in the privatized firm (Cyprus Airport Services, CAS) or to quit from CTA. 129 of them decided to continue to work. Thus the number of CTA employees dropped down to 527. Due to CTA union's resistance and the change of government after the early elections, at the time, the restructuring attempts could not be taken any further. In 2009, the new government cancelled the restructuring process and decided to privatize the enterprise as it was. However, the biddings were not successful. With the company defaulting on its debts, all flights were cancelled and the company liquidated informally.

After the cancellation of flights, due to various reasons 109 people either quit or were laid off. The number of employees working in CTA on the date of liquidation had dropped to 418, with 347 working in North Cyprus, 51 in Turkey and 20 in England. Out of the 109 people

who either quit or were let go, 55 who were captains, had resigned and started working in other airlines in order not to lose their flying license. Other 33 of these employees were part-time cabin attendants, whose employment contracts were terminated due to their services becoming redundant after the cancellation of the flights. From the remaining 20, 18 resigned the contracts and 2 of them retired.

Following the cancellation of flights, 418 workers; 347 were North Cyprus-based workers lost their jobs. Looking at the gender composition of these workers, one can see that number-wise, liquidation resulted in larger negative impact on the female workers than on men. Even though the women constituted 47% of the total workers while the company was intact, the number of women losing their jobs after the liquidation amounted to 74% of all dismissed workers.

Office workers have the largest share of those who lost their jobs (46.4%). The majority of the other remaining dismissed workers were made up of full-time flight pursers and cabin attendants, who were all women. The fact that the number of women (161) working as office workers was larger than the number of men (53) and that the second group was made up entirely of women elucidate why, even though the percentage of women working for CTA was %47, the percentage of women who lost their jobs following the liquidation was higher, namely %74.

Demand for office workers is usually higher in the public sector, whereas employment as such is limited in the private sector. Besides, there are quite significant differences in terms of working conditions (including pay and working conditions) between public and private sector office workers. North Cyprus labour market consisted distinct public and private segments with different wage determination mechanisms and employment policies with limited labour mobility between segments (Güven-Lisaniler, 2010). Private sector pay equals roughly 70 percent of the public sector pay. Half of the public-private wage gap (16 percent of the gap) reflects the public sector advantage (non-competitive rents associated with state employment) (Ugural & Güven-Lisaniler, 2009).

The same goes for airline personnel as well. Also due to the fact that for many years CTA enjoyed monopoly conditions, the demand for cabin attendants at the time came solely from it. And even though from 2006 onwards two foreign airline companies began offering regular scheduled flights in North Cyprus, their demand for North Cyprus-based cabin attendants was limited and the working conditions and pay offered were worse than those offered by CTA. Since women made up the majority of clerks, pursers and cabin attendants in CTA, in terms of loss of employment, the decision to liquidate resulted in a higher employment impact on women than men.

One and a half year after the liquidation, with the enforcement of Privatization Law (April 2012) out of the 347 North Cyprus-based dismissed CTA workers, 303 of them were reemployed in different public administration units. Out of the 44 dismissed CTA workers, who were not reemployed within the public sector, 2 retired, 13 began to work in the private sector (5 in Turkey) and 3 of them were hired in the public sector through personnel recruitment examinations that were not carried out within the framework of the provisional clause of the Privatization Law. It could not be determined whether the remaining 26 North Cyprus-, and 51 Turkey- and 20 England-based dismissed workers were reemployed following the liquidation. So, it is assumed that there has been no job loss amongst the North Cyprus-

based (TRNC citizen) dismissed CTA workers, since reemployment opportunities have been provided for them until October 2012¹⁸.

Evaluation of the employment effect of privatization of CTA reveals that there is no job loss in both processes; restructuring and liquidation processes. However, privatization had deteriorating effect on contractual conditions of those workers who remain in employment in the privatized service of CTA and of those who reemployed by the government.

Evaluating the Welfare Impact on Workers

This section provides the evaluation of welfare impact of privatization; on monetary and non-monetary welfare of dismissed CTA workers upon reemployment. Welfare impact includes monetary welfare besides non-monetary welfare; changes in workers 'functioning/capabilities' that make them subject to deprivations.

The changes in monthly earnings, retirement benefits (retirement pension and gratuity) were used to evaluate impact of privatization on worker's monetary welfare in a pre- and post comparative framework. The study workers' sample consists of 258 workers which are 74% of the total North Cyprus-based dismissed CTA workers who's reemployed within the public sector after the liquidation of CTA. The data provided by the union captured tenure (years of work at the CTA employment), CTA job (manager, office worker etc.), and education levels which can be identified as determinants of CTA monthly earnings. Below table summarize the individual characteristics of the workers and CTA job distribution of sample worker. Monthly earnings changes upon reemployment were probably higher for those who were in manager position in CTA, those who were engaged in works with higher risk and asocial working hours (like being flying personnel), and more years of work at CTA (CTA tenure) that might be associated with higher salaries in CTA. Also the losses of women might be higher due to the horizontal and vertical gender segregation at CTA employment.

Table 2. individual characteristics of the North Cyprus-based dismissed CTA workers

Gender	Characteristics	N	Minimum	Maximum	Mean	Std. Deviation
Women	Age	170	24	54	36.2	6.3
	Work experience	170	4	23	10.8	5.6
	Years of schooling	170	6	18	13.0	2.4
	CTA job:	N	%			
	Manager	2	1.2			
	Technical personnel	2	1.2			
	Flying personnel	89	52.4			
	Office workers	66	38.8			
Worker	11	6.5				
Total	170	100.0				
Men	Age	88	28.2	53	39.1	5.8
	Work experience	88	14.1	22	12.2	6.1
	Years of schooling	88	6	18	11.7	2.9
	CTA job:	N	%			

¹⁸ Privatization Law upon the provisional clause provides the right to North-Cyprus based dismissed CTA workers, those who are TRNC citizens, to apply for state job without a condition; whether they are reemployed or not after dismissal. Out of 347, 303 of them applied.

	Manager	5	5.7			
	Technical personnel	16	18.2			
	Flying personnel	0	0.0			
	Office workers	46	52.5			
	Worker	21	23.9			
	Total	88	100.0			

Source: CTA union.

The majority, about 43 percent, of sample workers were office workers. However as can be seen from the above table (Table 2), when the data segregated by gender the majority of women were flying personnel (%48.2) and the majority of men were office workers (%52.2). Manager, flying personnel and technical personnel payments may associate with relatively high paid jobs compared to office workers and workers. The overall mean years of schooling of sample workers was 12.6 years. The mean years of schooling of females were about two years and one-half greater than the years of schooling (13.0 years) of the males (11.7 years). On the other hand CTA tenure of males was a year more than the females. The following section investigates the existence and extent of the changes in monthly earnings of dismissed workers upon reemployment.

Effect on monthly earnings

The effect on monthly earnings was captured by calculating the difference between workers' gross average monthly earnings in CTA and state employment. Based on the results of Table 3, monthly earnings for a worker were 4,763 at CTA employment, compared to 2,408 in the state employment. As can be seen from the difference between average monthly earnings of state and CTA employment, which they are supposed to be comparable since both are public employment; dismissed CTA workers experienced significant earnings losses upon reemployment. On average state employment monthly earnings were 49.9 percent less than CTA employment.

Table 3. Changes in the gross average monthly earnings of sample CTA workers

	CTA monthly earnings (2010) TL	State monthly earnings* (2012) TL	Change	Total change	Change(%)
Total	4,734.60	2,373.80	-2,360.8	-609,086.4	-49.9
Women	4,763.0	2,408.6	-2,354.4	-400,248.0	-49.4
Men	4,703.50	2,309.60	-2,393.9	-210,663.2	-50.9

Source: Author's own calculations by the use of data provided by CTA union

*State monthly earnings calculated by the author by the use of TRNC Personnel office state salary scale and CTA tenure and education level of the dismissed workers provided by the CTA union. CTA monthly earnings provided by the CTA union.

The fall in earnings varied with gender, CTA jobs and individual characteristics. Women's earnings, on average, fall almost one percent less compared to men (Table 3). Among workers with different levels of schooling, in general high school graduates experienced the largest losses, whereas the smallest losses were experienced by college (2 years university) graduates. Overall, the losses were smaller for the better educated (Table 4).

In state employment two measures were used in the determination of the salaries of the reemployed CTA workers; education level and CTA tenure (Privatization Law, 2012, article

56.1). Education level determines the beginning scale category and tenure determine the degree. Significant education level difference between male and female workers decreased female workers earning losses compared to male workers. Within the worker sample, 26 percent of the female workers while 15 percent of the male workers held a university degree. On the other hand, while 26 percent of the male workers were primary school graduates, only 6 percent of the females were primary school graduates. This is about the same as the distribution of North Cyprus labor force by education level. Women in employment holding university degree (%32.9) were almost 10 percent more compared to men (%20.3). And primary school graduate women (%19) were almost 10 percent less than men (%30) (Household Employment Survey, 2010, Table 2).

Table 4: Change in monthly earnings after dismissal as a percentage of CTA earnings*

	Total	Women	Men
Primary school	48.8 (15)	52.0 (6)	46.9 (9)
Middle school	52.8 (17)	55.3 (4)	52.1 (13)
High school	47.5 (153)	47.3 (104)	48.0 (49)
College	56.4 (9)	57.5 (8)	46.0 (1)
University	55.2 (56)	56 (42)	52.7 (14)
Graduate	55.9 (8)	56.2 (6)	54.9 (2)
CTA tenure: 9 years or less	53.9 (112)	54.2 (78)	53.4 (34)
15 or more years	46.2 (78)	47.2 (48)	44.7 (32)
CTA job: manager	36.7 (7)	39.3 (2)	35.8 (5)
technical personnel	50.3 (18)	50.0 (2)	50.4 (16)
flying personnel	53.5 (89)	53.5 (89)	(0)
office worker	48.0 (112)	46.9 (66)	49.8 (46)
(clerk) worker	52.9 (32)	58.0 (11)	52.4 (21)

Source: CTA union.

*The numbers in parentheses denote the number of worker within each category.

Additionally all workers employed as clerks with temporary work contract and CTA tenure confined to 14 years. Thus sector specific professional skills such as flight dispatcher, aircraft maintenance, and stewardess, and CTA tenure above 14 years were disregarded in the determination of state monthly earnings. Therefore workers with higher education, non-sector specific professional skills, and CTA tenure under 14 years experienced lower loss. On the other hand, workers in managerial position, with sector specific professional skills, and CTA tenure more than 14 years experienced higher loss.

The fall in earnings may also reflect the loss of a good job match or the loss of non-competitive rents associated with CTA employment. In the case of managers the fall in earnings (63 percent) could reflect the loss of a high rank job. For skilled workers; technical personnel and flying personnel the fall in earnings (50 and 47 percent respectively) could reflect the loss of a good job match. The loss of office workers (52 percent) may reflect the loss of non-competitive rents associated with CTA employment. But non-competitive rents associated with CTA employment cannot be excluded in either case; managers and skilled workers.

In short dismissed CTA workers experienced significant earnings losses upon reemployment that may reflect the loss of a good job match, high ranked job, or the loss of non-competitive rents associated with CTA employment. However monthly earning losses represent only one aspect of the welfare losses; other aspects include welfare losses incurred for loss in retirement benefits, lost of fringe benefits, changes in work pattern and conditions, changes in promotion opportunities. These other aspects of the changes in welfare are examined by comparing pre- and post retirement benefits, working conditions, fringe benefits, and promotion opportunities.

Other welfare losses

Changes in employee benefits, working conditions, and retirement benefits

The post-dismissal jobs not only paid lower salaries, but were also lower quality in terms of employee and retirement benefits. Although there is no change in social security coverage, working hours and their union membership, annual leave of 40 days, is dropped down to 30 days. In CTA employment all the workers had subsidized lunch and transportation service to work, and had maternity, child, marriage grants, death and funeral benefit. In the post-dismissal state jobs however, other than child allowances which is incomparable to child grant in CTA employment, they had no such payments. Furthermore, their retirement pension and gratuity payments will be lower due to the decrease in salaries which decrease retirement and pension contributions. Table 5 reveals estimated retirement pension and gratuity losses of the dismissed CTA workers upon reemployment.

Table 5. Estimated changes in retirement pension and gratuity of sample CTA workers

retirement pension	Average loss ○ Total ○ Women ○ Men	(%) ●14.6 ●14.3 ●15.2
retirement gratuity	Average loss	●49.9
	○ minimum	●28.8
	○ maximum	●68.4
Women	○ Total	●49.4
	○ minimum	●28.8
	○ maximum	●64.9
Men	○ Total	●50.7
	○ minimum	●36.1
	○ maximum	●68.4

Source: Author own calculations.

Level of retirement pensions depend on the years of social security contributions and the average of the last 7 years monthly earning of the worker before the retirement. In view of the fact that the state employment monthly earning are almost half of the CTA, retirement pension in state employment will be much lower compared to CTA employment. On the other hand the bases use for the calculation of the retirement gratuity is the years and the amount of contribution which is minimum 8 percent of the monthly salary (İSY, 1993-2012: clause 8, article 1). Four percent of the contribution is paid by the employee and 4 percent

by the employer. The loss in both; retirement pension and gratuity reflects the loss in monthly earnings.

The loss in monthly earning which is amounted almost 50 percent on average resulted by 14.6 percent loss in retirement pensions and 49.9 percent for gratuity as can be seen on the above table. The amendments made in the 'Social Securities Law' in 2012, that aimed to conjoin public and private sector workers in one social security system also changed the method used in the calculation of retirement pension. The new method allowed the previous salaries earned by the workers in CTA employment to be factored in the pension calculations. Despite the 50 percent decrease in monthly earnings estimated pension loss is 14.6 percent. However in retirement gratuity 50 percent monthly earning loss causes almost 50 percent losses on average. The loss of workers with less tenure will be much higher in fact that most of their gratuity contribution will be accrued from their monthly contributions that will be 50 percent less than their previous monthly contributions. As can be seen from Table 5 the maximum loss for female worker will be 63 percent for female workers, 68 percent for men.

Changes in Capabilities

Privatization is only a means and not an end in itself. The pronounced positive impact of privatization is its positive impact on productivity, profitability, allocative efficiency and economic growth, so development of a country and the well-being of all people. Concern with well-being of all people emphasizes equity as a major policy objective, requiring monitoring not only through national averages, but also via measures of deprivation and distribution. Although the study did not use national averages, used individual micro data in its evaluation using capability approach will allow assessing the impact of privatization on non-monetary welfare; happiness of sample workers by how well privatization expands their capabilities.

Workers welfare (happiness) does not depend solely on results (level of income, employment). Human interactions (interactions at work) and the processes (processes of reemployment and adaptation to work) carry as much importance as the results. This approach argues that in determining welfare effect of any policy the focus should be on the effective beings and doings of people, that is, on their capabilities (Sen, 1992 cited in Kabas, 2006).

Non-monetary welfare impact was considered as the welfare loss caused by limitations in the workers' functioning and capabilities (economic, social and cultural deprivations). In-depth interviews with 10 dismissed CTA workers (5 women and 5 men) have enabled the researcher to gain some understanding of many key issues in participants' lives with reference to working for the CTA and subjective evaluations of previous and current levels of welfare. Interviewees selected by snow balling technique. The life history method of interviewing provides a means of understanding multi-dimensional aspects of individuals, including critical stages and periods in their lives (Rosie 1993; Taylor and Tilley 1998). Deprivation theory and Amartya Sen's capability approach¹⁹ was employed in the assessment of the interview transcripts. Non-monetary aspect of welfare (workers'

¹⁹ Amartya Sen's capability approach provides the underlying conceptual framework for the World Bank in producing the Human Development Index to rank countries in terms of their development levels. According to this approach, the limitations or enhancements of the individual's "capabilities" (beings and doings, i.e. functionings a person is able to achieve) diminish or increase his/her welfare respectively (Sen, 1992: 6 in Kabas, 2006).

happiness) is captured by two questions, which required workers' subjective evaluations of their pre- and post-dismissal welfare and job satisfaction.

All of the interviewed workers considered their current welfare worse than it had been during CTA employment (lower remuneration and low/no job satisfaction, limited social interaction) and would have preferred to go back if they could. This suggests that the attractive monetary and attributed employee benefits of CTA employment were unattainable in the state employment, as well as their economic, social and cultural deprivation. Before reemployment, for 18 months, they are subject to economic deprivation in the sense that the restrictions of spending for material necessities and restriction of spending for meaningful leisure activities upon reemployment. They also subject to different forms of social and cultural deprivation. Paid work as a principal source of income is also the source of individuals' identity and feeling of self-worth. In post-dismissal job workers have experienced changes in physical and social conditions of the workplace as well as a sense of undervaluation due to the lack of promotion opportunity and their unaccounted years in service. Some of the workers signs of deprivations indentified by interviewers are provided below.

...unfortunately we are not able to make use of our experiences. We are working in completely unrelated elementary jobs without a chance to promote. My current job does not satisfy me (I3: male, married, high school degree).

I don't know exactly who I am and what I will be. Within the framework of the "Privatization Law", we do not have a defined position and therefore what we do does not really count. I cannot judge my qualifications. My job in CTA was a lot harder but it gave me satisfaction, I was happy (I4: male, married, high school degree).

They did not take into account our qualifications at all. The job I am now assigned is very easy. Still, this job doesn't satisfy me. Working in CTA, no matter what the conditions, satisfied me. I was happy (I6: female, married, high school degree).

... I was not placed in a job that was fitting to my experience...Also since I am a contract-based archive clerk, employed within the framework of the "Privatization Law", I have to do everything, including making photocopies. It is such a far cry from professionalism. The work I was doing before was hard, now it is easy but it does not satisfy me (I7: female, married, high school degree).

...I had an office at CTA and the physical conditions were so much better in many aspects. I don't really have complaints about my current job but at CTA I had more opportunities (I6: Woman, married, high school degree).

...there is no difference with regards to the physical conditions. But we cannot work in harmony with the other co-workers, they are so scornful and they don't want us there. (I2: male, married, College degree).

...I work at the Prime Minister's Office but I do not have a place assigned for me. Harmony with the other co-workers is missing; they seem to see us as their rival (I1: male, married, high school degree).

...Before, I had an office all to myself, but now I have to sit in a crowded room (17: woman, married, high school degree).

Within the capabilities approach, capabilities primarily represent the freedom to achieve functionings that are of value to the people. According to the theory, if the functionings constitute the wellbeing of people, capabilities represent the freedom to achieve that wellbeing state (Sen, 2005). The information provided in the interviews demonstrate that the freedom of the reemployed CTA workers to achieve wellbeing has been limited, i.e. their functionings inhibited.

I can no longer dream. I have to cook at home; I can't eat out. I can no longer afford to spend so much. I can't travel; I've chosen the cheapest option in Digitürk [*a Turkish Satellite television provider*]. Spending is now a major concern of my daily routine (15: woman, single, master's degree).

....In my previous job I didn't have a desk or an office, I was working in the plane and it was very comfortable. The building of the department that I work for now is very old and the physical conditions are inadequate. However, the real problem is not the building or the physical conditions. I have a desk in a four-people room, but overall my co-workers have been very helpful to me (18: woman, single, university degree).

Other than remuneration they have encountered exclusion in the workplace and a sense of isolation both during and in the aftermath of the liquidation process. All of these have created a sentiment among the workers that the welfare losses they endured go beyond the aforementioned monetary losses. This is readily identifiable when they were asked to compare their former and current welfare and job satisfaction. Even though the workers were offered the possibility of reemployment in the public sector, resolving their loss of employment and deprivation from the employment associated social security and retirement benefits, the workers show signs of experiencing a welfare loss as if their monthly earnings stayed same. This could partly reflect the deprivations of freedom to achieve functionings that are value to them; socialization with co-workers, to generate extra income by working overtime or promotion. And partly reflect deprivation of self-esteem. The workers have not been included in any step of the privatization process but nonetheless have been held responsible for the liquidation of the CTA. They have been demeaned before society, lost their jobs and have been victimized. Reemployment has been offered to them eventually; however not as if their labour is needed, but rather as charity in the sense that ignorance of their skills and CTA tenure while reemployment.

Discussions: Policies and Polemics

Findings presented here are consistent with the popular perceptions concerning the impact of privatization on workers welfare which is also consistent with the findings of the researchers and academics that privatization leads to a fall in wages in the short term but inconsistent with the negative employment effect (Birsdall & Nellis 2002; Khan, 2003; Gupta et al, 1999; Azam, 1994). On the other hand it contrast with the only explicitly pronounced aim of the privatization program; 'decreasing the share of public sector in the economy'.

In the studied case, there was no employment loss for dismissed TRNC citizen workers. They were all reemployed either by private sector firms or (mainly) by the government in the

public sector, or continue employment in the privatized firm. However dismissed workers experienced significant welfare losses, due to contractual deterioration upon reemployment. On the other hand the share of public sector in the economy increased in the sense of increased employment share of the public sector after privatization.

These could partly reflect the sample bias or the formulation and/or implementation of privatization policy and program. The following will discuss these two possibilities in further detail.

As already noted, the workers sample were subject to limitations. It covers only dismissed CTA workers that was reemployed by the government and did not cover the dismissed workers whose continue employment in privatized firms or those reemployed by private firms or self employed. This involves counterfactual: namely, what would the evaluation of workers welfare have been in the inclusion of the entire CTA dismissed workers or other previously privatized SOEs' dismissed workers to the study? The entire CTA dismissed workers not included in the sample due to lack of data. But the welfare effect would be comparable at best due to the following reasons. First, although there is a wage gap between public and private sector, the gap for the new entrants decreased by the adaptation of public sector new salary scale in 2012 under the public sector reform. The new salary scale of public employment is comparable with prevailing average salaries in formal private sector jobs. Dismissed CTA workers were subject to this new salary scale upon their reemployment. According to this new salary scale the beginning salary for state employment is TL1,500 and minimum wage is TL1,415 per month in 2013 (TL1,237 between years 2009-2012) (SPO, 2013) which is lower than public employment salaries that would make monthly income loss (welfare loss) larger. Second loss of CTA tenure is more probable and will be higher in private sector employment since there is no local private firm operating in airline sector that can value their CTA tenure or job specific skills. Third, it is more probable to stay unemployed due to high unemployment (%11.9; %8.9 for men and %17.5 for women in 2010) or employed in the informal sector since informal employment make up 35 to 40 per cent of the total labour force in North Cyprus (Besim & Jenkins, 2006). Fourth, considering monthly earnings of the CTA workers that are continue employment in privatized firm dropped by fifty percent on average after privatization (interview with one of these workers, 1.10.2012). Formal sector private jobs low in quality in terms of wages, working conditions, and retirement benefits. Informal sector jobs lower in terms of wages and no social security.

So, in terms of the sample, the study has merits to represent the welfare of the dismissed CTA workers. But of course, for further studies, having a larger sample covering dismissed workers of previously privatized enterprises of those in the beginning of privatization process could make the findings of the study more accurate and informative in terms of policy formulations.

It can be argued that negative privatization perception of the public may have been formed not so much because of its economic consequences; employment or welfare loss, but because people felt betrayed when these policies destroyed certain basic principles of social life. One such principle is that public enterprises and utilities should be controlled by the "nation" to avoid abuses of the "local people" by the foreigner investors. Regardless of whether this concept is misconceived or lacking in a theoretical basis, it can become codified in the minds of individuals who have witnessed a series of events in which powerful foreign private interests benefited to the detriment of the unprivileged locals. For example by modifying the rules of the game previously defined according to the country's underlying social structure.

For example, when government announced that Cyprus Turkish Electricity Authority (CTEA) is going to be privatized faced with the strong resistance of the CTEA union as protest demonstrations and power cuts and massive criticisms of the economists and intellectuals. The suggestion was administrative autonomy instead of privatization. CTEA union also came up with a proposal detailing of restructuring process and necessary law amendments for administrative autonomy. The proposal prepared by the volunteer contributions of the economists and experts. The main arguments against privatization of CTEA union were; due to the lack of domestic capital privatization of the CTEA will end with formation of a private foreign monopoly. And government not able to control the abuse of the monopoly power which will increase prices and decrease service quality. This will be a great threat to the economic existence and independence of the country. The proposal of the union received strong support of the public and economists even those who are in favor of privatization. Very similar approach was evident in the privatization of a public high school which was privatized by transferring operation rights to a private Turkish company. In the privatization process of the public high school (Eastern Mediterranean College-EMC) which is a part of a public university; Eastern Mediterranean University (EMU), the proposal of local business persons to undertake the operation rights of the school supported by most of the teachers unions, economists and the public. The justification of the teachers unions of the support to the local business person's proposal was similar to the CTEA case in that is the existence of a foreign education institution threatening Turkish Cypriot society's societal existence. Consequently in the above two examples the real debate was not about economic impact of privatization but it was about the fear of possible abuse and economic and social domination of foreign investors and the effect of privatization on existing value system and individual perceptions of what the socioeconomic life in a country ought to be. That is, a historical reflex action to protect Turkish Cypriots' traditions and identity. From a socio-cultural standpoint which recognize that "...individual motivations, constraints, and cognitive mechanisms of selection are conditioned by ideologies and social interaction (Castaneda, 2004, pp: 2)" we may conclude that privatization program does not respond to the value systems, social norms and sentiment of Turkish Cypriot society, social governance is lacking. Social governance is a set of mechanisms that influences individuals' behavior because of their membership in specific social networks and communities (Durlauf, 1999, pp: 2). For instance the decision to privatize CTA can be an example to the lack of social governance. It does not value the sentiment of the society as possession of a national airline which was for years proposed by the politicians and opinion leaders as the symbol of the objection of Turkish Cypriots' to political, economic, and cultural isolation due to political non-recognition. CTA was their 'national flag on the sky', representing economic, political and societal existence in spite of all the countries that denied their independent identity.

The divergence between the aim of the privatization program; 'decreasing the share of public sector in the economy' declared in the Law and the consequences of the privatization that increased the share of the public sector in the economy may reflect the poor conviction of the government to the program. At the end this is a reform conditioned by the donor country.

Summary and Conclusions

The impact of privatization on labor is a universal concern. This study principally focuses on the welfare impact of privatization on dismissed workers in North Cyprus. It uses Cyprus Turkish Airlines as a case study, which was liquidated in privatization. Welfare impact of

privatization in this study is used to refer the impact of privatization on monetary and non-monetary welfare of the workers.

Pre- and post-privatization monthly earnings and retirement benefits used to evaluate the impact of privatization on workers' monetary welfare. The sample of the study covers 74 percent of the North Cyprus-based dismissed CTA workers. Findings show that dismissed workers experienced significant earnings losses upon reemployment, amounting on average to 50 percent of their CTA earnings. Earning losses were smaller for women; for the better educated; for less sector specific skilled and for less CTA tenure workers. It is plausible that the earnings losses reflect non-competitive rents associated with CTA employment.

Post-dismissal jobs were not only characterized by lower earnings, but were also lower quality in terms of employee and retirement benefits; retirement pension and retirement gratuity. Retirement pension loss was amounting 14.6 percent and gratuity loss 49.9 percent on average.

Some of the non-monetary attributes (working conditions, promotion opportunities, investment in firm specific relationships) of post-dismissal job are not easily quantifiable and consequently, it is difficult to calculate the true welfare losses (economic and social deprivations) based on the more easily observable earnings losses. But the magnitude of the true welfare (monetary and non-monetary) losses can be inferred from the subjective evaluations provided by the workers themselves. All of the interviewed workers considered their current welfare worse than it had been during CTA employment and would have preferred to go back if they could. This suggests that the attractive monetary and attributed employee and retirement benefits of CTA employment were unattainable in the state employment and also suggest their economic deprivation (Han & Phillips, 2008). Also all of the interviewed workers considered their work environment (social and/or physical) worse than it had been during CTA employment; suggest their social deprivation (social exclusion at work) (Brownlee, 2013: 3).

The backlash against privatization in North Cyprus is consistent with the welfare losses and deprivations of dismissed workers provided by this study. However, it is plausible that backlashes against privatization could stem not only because of its economic consequences but because it does not respond to the value systems, social norms and sentiment of Turkish Cypriot society; lack of social governance (McKenzie, 2003: 220). Or it could also stem from the readiness of the country to accept and absorb SOE reforms (Kaur, 2004: 14) and how privatization is structured and who the new owners are (Kikeri *et al.*, 1994; Guriev & Megginson, 2005: 2; McKenzie, 2003: 220).

The findings of this paper give an idea not only about earnings losses, but also about the extent of the welfare losses from dismissals due privatization. Moreover, they show that the possible reasons of the backlashes against privatization. The insights about the factors stemming both earnings and welfare losses could prove useful to policy makers in designing privatization, reemployment process, or compensation packages for dismissed workers.

Finally, the results of this paper provide several observations about how the process of privatization involves social and political sensitivities and the potential to halt all other reforms. It is important for policy makers to develop strategies dealing with it like implementation of social governance in privatization process valuing social values, traditions and sentiments of the society.

Ultimately, the significant earnings and welfare losses point not only to public sector rents but also to the poor quality of jobs in the private sector in terms of both monetary and non-monetary attribute.

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Appendix A. Education by gender

Gender	Education Level	Frequency	Percent
Female	Primary	6	3.5
	Junior high school	4	2.4
	High school	104	61.2
	College	8	4.7
	University	42	24.7
	Graduate	6	3.5
	Total	170	100.0
Male	Primary	9	10.2

	Junior high school	13	14.8
	High school	49	55.7
	College	1	1.1
	University	14	15.9
	Graduate	2	2.3
	Total	88	100.0