REFORMING THE PHILIPPINE LABOR MARKET
Summary of major points

- The Philippine unemployment problem is very serious.
- Present labor market policies are mismatched with the magnitude of the unemployment problem.
- The current policies are suited for other countries with relative labor shortages and where unemployment is not a serious problem.
- Economic policy must promote good, sustained, quality employment in the modern sectors of industry, agriculture, and services.
Outline of presentation

- Sketch the severity and challenge of the unemployment problem
- Explain the nature of present labor market policies
- Outline the key features of needed reforms
THE EMPLOYMENT CHALLENGE FACING THE NATION
LABOR FORCE
2002: 33.6 million

Employed Labor
2002: 30.2 million or
89.8% of Labor Force

Unemployed Labor
2002: 3.4 million
10.2% of labor force

Notes:
(a) Around 10% of workers are unionized (3.9 million).
(b) 34% of employed workers receive incomes below minimum wage. (GPS estimate)

2002: Of those employed, 15.3% consider themselves underemployed (NCSO)
POPULATION
2002: 80.1 million

Dependent population under 15 years old:
2002: 29.3 million

Unemployed Labor
2002: 3.4 million
10.2% of labor force +
Underemployed among
Employed Labor (about
4.6 million)

IMPLICATIONS FOR FUTURE NATIONAL
JOB CREATION ARE VERY DEMANDING
Magnitude of the employment challenge – based on 2002 data

- 3.4 million unemployed
- 4.8 million employed but underemployed
- PLUS young people now in the population and under 15 years – All of 29.3 million who are now growing to adulthood.
- This means around 18 million new members labor force members (an average of 1.5 million every year for the next 15 years).
EMPLOYMENT PROBLEM: For graphic comparisons with other countries

- Unemployment problem is more than the population of Singapore (near 5 million people)
- Our young population (29.3 million) under 15 years are 1.5 times the total population of Australia (near 20 million)
- All young Filipinos constitute more than nine-tenths of the total population of Canada (of nearly 32 million)
The economy has been failing to generate the needed *quality jobs*

- The modern sector of the economy is not absorbing enough people into quality jobs. This sector has to expand faster to absorb more workers.
- The rest of the unemployed and underemployed is integrated in the informal sector and are condemned to work at low income.
- Therefore, the ranks of the poor are increasing, not declining in numbers.
- Even with a family planning program (absent mainly), size effect on labor force is only after 15 years.
LABOR MARKET HAS FRAGMENTED INTO

- **(1) MAINSTREAM LABOR MARKET** – affected by labor laws
- **(2) LOW INCOME, INFORMAL LABOR MARKET** – low income segment of Filipinos left out by the progress of the economy – hard core members of the country’s POOR – Getting alarmingly large
- **(3) “GREAT ESCAPE” LABOR MARKET** – members exile themselves to seek work abroad – OFWs; TNTs – already large
NATURE OF PRESENT LABOR POLICIES
EMPLOYMENT ORIENTED LABOR POLICY

MINIMUM WAGE POLICY IS AFFORDABLE & COMPETITIVE

SUFFICIENT FLEXIBILITY IN LABOR HIRING/DIS-HIRING

ABUNDANT LABOR RESOURCES

RESOURCE

REASONABLE POLICY
"PRO-EMPLOYED LABOR," NOT PRO-EMPLOYMENT POLICY

MINIMUM WAGE POLICY EVOLVED FROM "HIGH" LEVEL

INFLEXIBILITY OF LABOR HIRING & DIS-HIRING
Incidentally, the country’s industrial and trade policy during this period was a big mistake – high industrial protection, restrictive foreign investment policy.
ENCOURAGING POLICY FOR INVESTMENTS

COMPETITIVE INVESTMENT CLIMATE

NON-DISCRIMINATORY FOREIGN INVESTMENT REGIME

SCARCE CAPITAL TECHNOLOGY LIMITED MARKETS

RESOURCE

REQUIRED POLICY
RESTRICTIVE AND PROTECTIVE INVESTMENT CLIMATE

POLICY LIBERALIZATION HAS ARRIVED RATHER LATE

BUT STILL HAS (TODAY) MAJOR RESTRICTIONS IN THE CONSTITUTION
Mainstream labor market policy environment is

- highly regulated – with interventions in mandating minimum wages, supplemental wage, hiring and firing policy.
- bureaucratized under a strong labor department
Employment generation in the mainstream market possible

- in industries where the “high” minimum wage workers of relatively good skills (mainly educated workers) still meant low cost.
- in foreign direct investments located in special economic zones – e.g., electronics assembly, export zones, IT centers, etc.
- in the case of establishments that innovate to transfer labor intensive operations to outsourced activities.
- in strictly home-market industries.
Inadequate creation of employment at home has induced the Great Escape from the mainstream labor market

- OFWs
- Migration of young people and families to other countries
- Country of exit rather than of opportunity (TNTs – tago ng tago)
REFORM OF LABOR POLICIES
Key direction of reforms

- Redress the balance between labor protection and job creation
- Put productivity on center stage
Redressing balance between labor protection and job creation

- Reject “industrial minimum wage” setting as proposed and keep current regional minimum wage process
- Requirement to regularize workers should be extended to a longer period of employment or abolished – to remove the short cycles of employment and unemployment of casuals
Putting productivity on center stage

- Continue to pay premium for the training and education of workers
- Re-examine issue of state role in the hiring and firing of workers – encourage use of collective bargaining mechanisms to deal with firing issue
- Remove discretionary power of the government to declare extra holidays to avoid work disruptions
- Re-examine the logic and philosophy behind the 13th month pay
Rationale of wage policy

- To absorb excess labor into productive sectors, thereby making it scarce and then raising the wage rate by economic forces.
- To give the country competitive ability with other labor markets in a global world.
- To encourage productivity and skill differentiation.
Wage policy must be sustained and credible

- Regional minimum wage setting needs to continue
- Variations in wages across firms and industry should be promoted through collective bargaining – there is no place for “industry minimum wages”
- Government should be only a referee, not active participant, in wage determination at the regional wage level and in the company level
- Government needs to assure stable and reasonable price levels for basic commodities, especially food
13\textsuperscript{th} month pay – What is it?

- If it is an additional emolument, it should not be postponed but integrated in pay.
- If it is a bonus and incentive for productivity, it should be prorated to worker’s contribution to firm’s profits.
For further readings on these issues, see UP School of Economics website: www.econ.upd.edu.ph

Recent papers (2004) on labor issues by Gerardo Sicat:

- Labor Issues during Blas Ople’s times (discussion of political economy of 1970s-80s), DP 0402
- “Successes” and Adjustment in the Philippine Labor Market, DP 0403
- Reforming the Philippine Labor Market, DP 0404