

LABOR POLICY ANALYSIS FOR

JOB Expansion & Development

**Vicente Paqueo, Aniceto Orbeta, Leonardo Lanzona and
Dean Dulay**

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Visiting Senior Research Fellow, Senior Research Fellow, PIDS; Professor, Ateneo de Manila University, and Research Consultant, PIDS, respectively. Views expressed here are of the authors and not of the institutions they are affiliated with. Excellent research assistance of Sol Cortes and Georgina Gonzales is gratefully acknowledged.

OBJECTIVES

Of the Jobs Study

- Clarify the jobs issue
- Analyze the impact of legal minimum wage (MW) the welfare of the common tao and the disadvantaged
- Find ways to make labor regulations and practices work for the poor, jobless and disadvantaged

Structure of Presentation

- Highlights key findings and recommendations of the study
- Flow of presentation
 - Context in stylized facts
 - Summary of the evidence on MW effects
 - Conclusions and recommendations

OVERVIEW OF

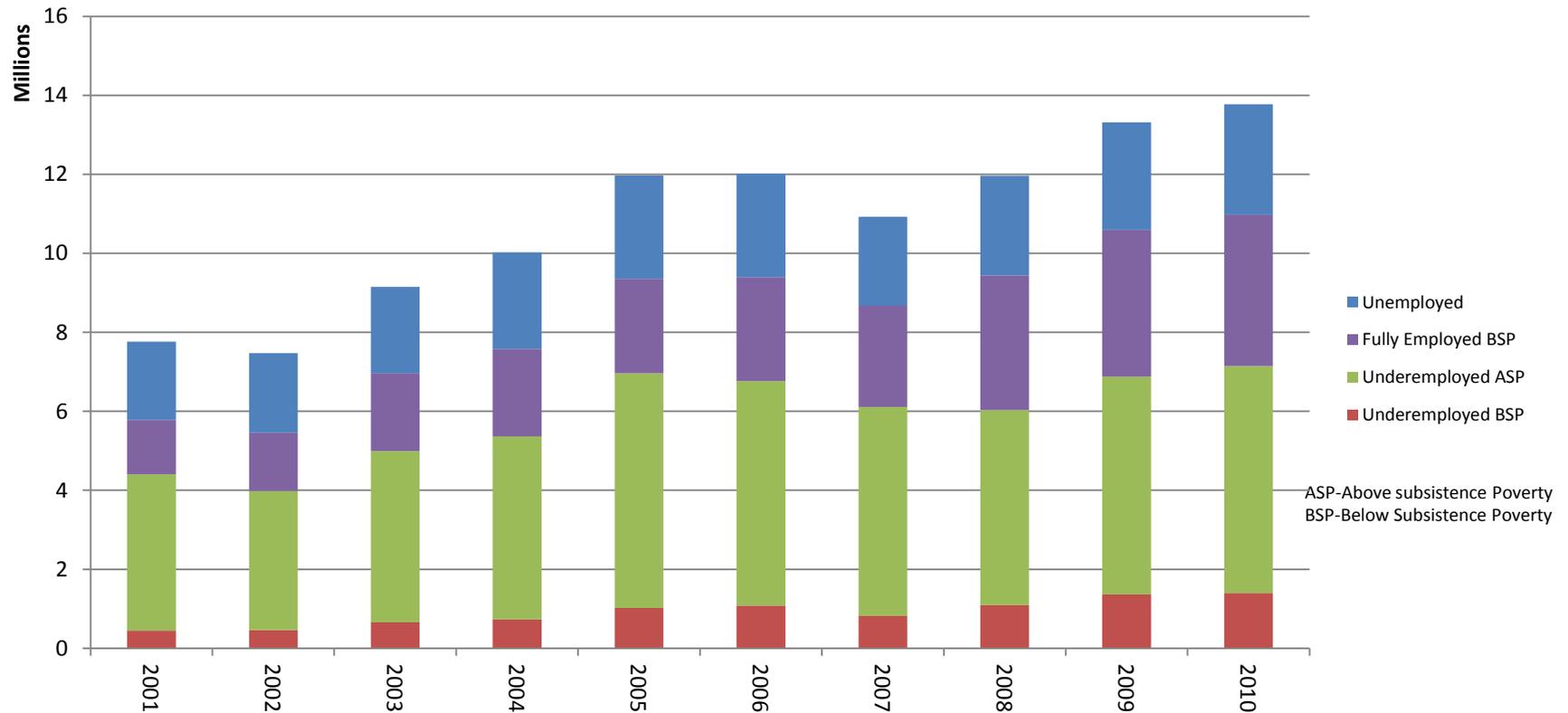
Jobs-Poverty Nexus

-  real wage +  surplus labor  high persistent poverty
- Central issue  jobless + underproductive workers

EXPANDING

Underproductive Workers

Open unemployment is only a small proportion of the underproductive workers



CAVEAT

be careful about the interpretation of
open unemployment

- The *openly unemployed* are generally not the poor.
- *Positive correlation* of open unemployment with income and education
- *Lack of relationship* with growth, probably due to statistic noise and more search unemployment due to income rise

Usual Interventions

ADDRESS JOBS AND POVERTY ISSUE

- *Minimum wages* and other labor protection regulations
- General *productivity increase*
- Investment in *human capital* (education, nutrition and training)
- *Livelihood programs*

How effective are these interventions?

Labor Regulatory & Policy Environment

OBJECTIVES OF REGULATIONS

- protect labor against abuses of employers
- increase the bargaining power of labor for decent wages and working conditions

REGULATIONS AND PRACTICES

- **MINIMUM WAGES** and other mandatory benefits (e.g. severance pay and 13th month pay)
- Six-month regularization law
- Inflexibilities in hiring and firing workers

MORE ON

Labor Environment

More labor regulations and practices:

- Costly, inconvenient and long conflict resolution processes
- Tripartism, inadequate representation of the poor, disadvantaged, and unorganized labor
- Confusing regulations and biased jurisprudence

Potentially, labor regulations can have **positive or negative effects**

- On balance, what currently is their net impact on welfare of common man and the disadvantaged?

- Generally, not only unhelpful but *highly detrimental* to the welfare of the common man and the disadvantaged
- Clear and preponderant evidence from impact studies on
 - Household income and poverty incidence, using APIS panel data
 - Employment of enterprises (Survey of Enterprises)
 - Employment of individual workers from disadvantaged population groups (LFS)
 - Hours of work (LFS)

Minimum wage

Elasticities from enterprise & LFS data

*Minimum wage reduces demand for labor for all enterprise,
particularly, small ones*

Minimum Wage Elasticities of Labor Employment by Type of Enterprise and Worker

Data- Indicator of Minimum Wage	Methodology	All enterprises		Small Enterprises		Large Enterprises	
		Production	Non- Production	Production	Non- Production	Production	Non- Production
Industry Level With Regional Controls- Kaitz index	Difference-in- Differences	-0.513**	-0.386**	-0.702**	-0.385**	1.113**	0.102
	Fixed Effects	-0.295**	-0.607**	-0.284*	-0.600**	-0.031	-0.821**
Firm Level (Panel Data) - Minimum Wage	Fixed Effects	-0.927**	-0.782**	-1.107**	-0.915**	0.991*	-0.859
	Random Effects	-0.926**	-0.783**	-1.131**	-0.858**	0.980*	-0.936

MW-EMPLOYMENT

Elasticities from enterprise & LFS data

*Minimum wage hurt the employment probability of
the young, female and inexperienced workers*

Minimum Wage Elasticities of Labor Market Participation (Employment Probability)

Panel Logit	All workers	No Schooling	Primary School	Teenage (15-19 Yrs)	Young (20-34 Yrs)	Middle Age (35-49 Yrs)	Male
Fixed effects	-0.636**	-0.236**	0.022	-0.597**	-0.364**	-0.459**	1.983**
Random Effects	-0.689**	-0.295**	-0.446**	-0.298**	-0.091	-0.306**	0.283

Household Welfare

Results for a DID analysis:

Faster rise in MW results in:

- Lower household income
- 20 percent reduction in average household income relative to counterfactual

Regional minimum wage of household location	Rapid MW rise (Treatment)		Slow MW rise (Comparison)		Difference in Difference	
					Total	Per peso change
NAMW level (2004) ^a		209.99		193.09		16.9
Rate of increase in NAMW ^a (non-agricultural minimum wage) in 2004-2007		53.82		23.78		36.04
AMW level (2004)		177.83		186.40		-8.57
Rate of increase in AMW ^a (agricultural minimum wage) in 2004-2007		55.85		24.54		31.31
Household income per capita by change in NAMW ^a	2010	29036	22190	6846	-1689 ^b	-46.9
	2007	28046	19511	8335		
Household income per capita by change in AMW	2010	27170	25639	1531	-1,455 ^b	-46.5
	2007	26321	23335	2986		

Notes:
a/ NAMW = Non-agricultural daily minimum wage rate; AMW = agricultural daily minimum wage rate
b/ In constant 2000 prices without controls. The estimate with controls is not too different at 1,717 for non-agriculture and 1,501 for agriculture wages. In the case of probability of falling into poverty its 0.04 for non-agriculture and 0.026 for agriculture wages.

Notes
“Difference,” is the simple difference computed from subtracting treatment-comparison. This is to not confuse the reader from other values which is actually a “Difference-in-Difference.”

Household Welfare

Results for a DID analysis:

Faster rise in MW results in:

- Higher probability of falling into poverty
- Significant *increase in poverty* incidence rate by 1.7 to 3 percentage points

Regional minimum wage of household location	Rapid MW rise (Treatment)	Slow MW rise (Comparison)	Difference	Difference in Difference		
				Total	Per peso change	
NAMW level (2004) ^a	209.99	193.09	16.9			
Rate of increase in NAMW ^a (non-agricultural minimum wage) in 2004-2007	53.82	23.78	36.04			
AMW level (2004)	177.83	186.40	-8.57			
Rate of increase in AMW ^a (agricultural minimum wage) in 2004-2007	55.85	24.54	31.31			
Increased probability of poverty due to faster rise in NAMW vs the counterfactual	2010	.4881	.4023	.0858	0.0302 ^b	.00084
	2007	.6034	.5478	.0556		
Increased probability of poverty due to faster rise in AMW vs the counterfactual	2010	.5412	.4577	.0835	0.0173 ^b	.00055
	2007	.5282	.4620	.0662		
Notes:						
a/ NAMW = Non-agricultural daily minimum wage rate; AMW = agricultural daily minimum wage rate						
b/ In constant 2000 prices without controls. The estimate with controls is not too different at 1,717 for non-agriculture and 1,501 for agriculture wages. In the case of probability of falling into poverty its 0.04 for non-agriculture and 0.026 for agriculture wages.						
Notes						
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Why would household income decline with a higher minimum wage on average?

Minimum wage lowers the average proportion of working-age family members who will be hired

Minimum wage lower the average work hours per working-age family member

**Effects of Minimum Wage Increase on Employment Outcome Using
Regression Discontinuity Design***

The minimum wage increase in 2007:

Reduced weekly work hours by 2.7 hours

Decreased probability of retaining or gaining employment by 8% to 22%

- Kristine Laura Canales(2013) Unpublished Master's Thesis UP School of Statistics (Adviser: Dr. Dennis Mapa)
- Data: LFS panel July 2007 and July 2008

Labor Productivity Increase

- *Significant* and substantial *negative impact* unemployment and underemployment
- *No direct effect* on real wages
- *Consistent* with economic models with *excess supply of labor*
- Used *frequency of typhoons* as instrumental variables

Impact of General Productivity on Employment

Positive relationship between productivity and employment

Negative relationship between productivity and underemployment

➤ **Country has surplus labor**

Effect of Aggregate Labor Productivity on Employment and Underemployment, IV estimates, years

	Employment Rate	Underemployment Rate
Constant	71.4406	23.42156
Regional aggregate labor productivity (output per worker)	.5372195*** (.0149954)	-.0976515*** (.023024)
R-squared	0.3060	0.0685
Elasticity	.2994079	-.3107145
Notes: 1/ Statistically at 1% significant level 2/ Productivity data taken from the Bureau of Labor and Employment Statistics website and employment and unemployment rate for Labor Force Surveys. 3/Fixed effects model, using frequency of regional typhoons as instrumental variable for labor productivity. 4/ Authors' estimate using IV and frequency of typhoons as IV to productivity		

Investment In HUMAN CAPITAL

- The rate of return to investment in **education** is *relatively high* (Paqueo, Orbeta, Castaneda and Spohr 2013):
 - *income* of households headed by high school graduates is *more than double* that of households with only elementary education,
 - taking to account differentials in both daily wage rate and hours of work
- *Rising wage premium* for educated labor (Di Gropello et al. 2010)
- *Improved nutrition* has a positive effect on wages of agricultural workers (Haddad and Bouis 1991)
- Mixed effects of training programs (J-PAL, 2013; Betcherman et al, 2004) and low percentage of training done on-the-job and in-plant (less than 10%)

General Strategy

PROPOSAL

Label:

Jobs Expansion and Development Initiative
(JEDI) for poverty alleviation

TWO BROAD OBJECTIVES:

- Expand gainful jobs through the acceleration of *labor intensive production*, particularly, manufacturing of tradable commodities
- Improve *investments in education* and other human *capital development* and sustain total productivity gains

JEDI's Predicates

- Clear and preponderant evidence of the *deleterious impact of minimum wage* on employment, income and poverty status of households, particularly those belonging to the disadvantageous population groups
- The aspiration for secure jobs with decent wages is well recognized but *challenges the idea* that the minimum wages and other current labor regulations should be the weapons of choice
 - *Better alternatives* are education, increased labor intensive manufacturing and greater opportunities for training on the job
 - Helping the poor *directly with their subsistence needs* – e.g., direct and temporary income subsidy

Time to leave the beaten path and try new approaches

Labor Reforms and the 12-point JEDI Program

1. Instituting measures that would ***minimize the imposition of labor regulations and practices*** detrimental to and discriminatory against the poor and other disadvantaged population;
2. ***Allowing firms to hire*** low skilled and poor workers who want to ***voluntarily opt out of the mandatory minimum wage norm***, recognizing that it hurts rather than helps them; ensure, though, that workers' acceptance of the offers is ***voluntary and well informed***.

Labor Reforms and the 12-point JEDI Program

3. Adapting and experimenting with a ***Singaporean style scheme*** providing ***income supplement to targeted ultra poor workers*** to close the gap between market wage and decent wage norm society wants
 - if conformity to the norm is deemed a public good, the use of general tax revenues (following public finance principles) would be better than mandating high minimum wage that perversely penalize labor-intensive firms.
4. Transforming the consultation process from a ***tripartite into a quadripartite system*** that would give the poor, unemployed, underemployed and self-employed ***direct representation*** in the determination of labor regulations and policies;

Labor Reforms and the 12-point JEDI Program

5. Encouraging labor unions to focus on ***raising the competencies and productivity of workers*** as a means to achieving decent wages;
6. Lengthening from ***six months to two years*** ***the compulsory regularization*** of young workers to expand their learning experience and build their skills on the job;

Labor Reforms and the 12-point JEDI Program

- 7. Simplifying labor dispute resolution processes* to cut the time, cost, inconvenience, and uncertainty involved;
8. Making the rules on hiring and firing decisions *more flexible*, leaving the firms and workers to negotiate and work out agreements that are mutually beneficial;

Labor Reforms and the 12-point JEDI Program

9. Accelerating the accumulation of skills

Ensuring *quality implementation of the K-12 reform*; undertaking institutional reform of TESDA as articulated in the 2011 **Economic Policy Monitor** of PIDS; and pursuing ongoing CHED initiatives like the UNIFAST aimed at improving access to quality higher education and the production of good research;

10. Implementing the *extension of demand-side education assistance of Pantawid Pamilya* to high school students and complementing it with policies and programs that facilitate on-the-job training and employment in private enterprises;

Labor Reforms and the 12-point JEDI Program

11. *Promoting research and development activities* in support of this proposed 12-point program, including piloting and testing of innovative approaches; and
12. Facilitating the emergence of a *well-organized coalition of stakeholders* devoted to finding and promoting approaches that effectively advance the interest of poor workers now being excluded from gainful job opportunities.

Daghang Salamat
Maraming Salamat