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Labor Assessment: The Philippines

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1. Introduction

The purpose of this assessment report is to provide some background information on the Philippine labor market to guide the formulation of programs in support of policy and institutional improvements to increase labor absorption/retention and labor productivity in the Philippine private sector.

After describing some recent trends in the Philippine labor market, this report will discuss some aspects of the policy and institutional environment that influence job generation in the private sector. Creating employment and raising the people's living standards ultimately depend upon the general health of the economy and the combination of macroeconomic and sector-specific policies to ensure sustained growth. However, government policies with respect to employment creation/preservation, labor standards, and industrial relations also impact on job creation and productivity to the extent that they affect employers' incentives to invest and workers' willingness to supply labor. This report provides an initial assessment of policies in the latter category from the viewpoint of increasing labor absorption and raising productivity. Labor market policies are discussed in terms of how they influence the following: 1) wage determination; 2) job security; 3) dispute settlement.

2. Overview of the employment situation

This section presents some recent statistics on employment and unemployment and highlights the following observations: 1) that the quality of employment is a more serious problem than unemployment; 2) that employment uncertainty in the formal sector seems to have risen over time; and 3) that the existing unemployment notwithstanding, data point to unfilled vacancies in firms. These observations provide the bases for looking more closely into labor market policies that may be unintentionally causing or exacerbating these problems, as well as those that may potentially respond to them.

2.1 *Employment and unemployment*

The Philippines' working age population now stands at 50.8 million (NSO, 2002). Of this number, about 30 percent belong to the 15-24 age group, suggesting that the Philippine labor force, currently estimated at 34 million, is comprised largely of young workers.

An indicator of the quality of the country's labor supply is the educational attainment of the working age population. Data from the labor force surveys show that more than one-third of working age Filipinos at present have completed at least secondary schooling.

The latest figures (January 2003) show that 3.6 million Filipinos are openly unemployed. In fact, the number of unemployed has been rising since 1999. The unemployment rate has ranged from 9.6 percent in October 1999 to 10.2 percent in October 2002.

Unemployment in the Philippines is closely related to youth joblessness [Esguerra and Canlas, 2002]. The breakdown of total unemployment by age group shows that unemployment rates are in the range of 18-22 percent for those aged 15-24 years old, while 10 percent or less for the rest of the age groups. The probability of being unemployed and staying unemployed for longer periods is likely to be higher for younger members of the work force than their older counterparts since they are still deficient in skills, training and

experience. The pressure to find jobs is also probably less for younger people who are not household heads or primary breadwinners.

From a human welfare standpoint, open unemployment, based on the internationally accepted definition of the term, seems to be less of a problem. In the Philippines where there is no organized system of unemployment benefits, it is the poor who can least afford to be without a job. That this is in fact the case is shown by recent data that indicate that of the unemployed, only 17 percent come from poor households. Compared with the non-poor, moreover, a greater proportion of the poor (64 percent vs. 58 percent) are employed [UNDP, 2002].

The distribution of the unemployed by educational attainment shows that unemployment rates are lowest among those with elementary or no education. More than 60 percent of the poor of working age belong in this category [UNDP, 2002]. What this suggests is that jobs are relatively easier to find for those who cannot afford to be choosy. However, such jobs leave much to be desired in terms of compensation and other benefits. Data show that about 60 percent of the employed poor work as unpaid family workers or are self-employed.

In contrast, unemployment rates are double-digit for those with at least some high school education. This could be the effect of higher reservation wages among the educated or the result of worker-job mismatches in some lines of work.

That the unemployed are not necessarily poor and that the poor are not necessarily unemployed does not mean to suggest that joblessness is not a problem. The fact that a not insignificant portion of society's human resources is underutilized indicates inefficient usage¹. That is, society could be made better off otherwise. It is thus important to determine the reasons behind the persistent labor underutilization.

Economic growth is critical for labor absorption. Yet the economy seems incapable of generating enough productive jobs. The reason is that Philippine economic growth has been unstable, following a boom-bust pattern.² As such, aggregate employment has generally fluctuated with output, albeit to a lesser extent. The latter point deserves some explanation on account of the observation that recent growth has been of the jobless variety. The reason for this observation is related to the presence of various low-quality employment alternatives (e.g. being self-employed in the informal sector) that people can resort to in order to cope with income shocks associated with economic downturns. In addition, as was observed during the Asian crisis, some employers may resort to shortened working hours instead of terminating workers. Thus, output could fall with little effect on aggregate employment. But this means, too, that in a period of growth immediately following a recession, the employment response will be weak as firms simply utilize their existing work forces more intensively, or as workers shift from being self-employed to some form of regular employment. In fact, the unemployment rate could conceivably rise during a period of economic recovery as more people are encouraged to enter the labor market.

Whatever growth in aggregate employment had accompanied economic growth in the last four years came mostly from services and agriculture. Since 1995, the primary source of employment has been the services sector, which currently accounts for about 47 percent of the employed work force. Agriculture accounts for 37 percent, while industry's share has

¹ This statement presumes, of course, that some unemployment is involuntary.

² For an explanation see de Dios [2001].

remained at about 15-16 percent for many years now. In particular, the share of manufacturing in total employment has been declining in the last four years. For 2002, more jobs were destroyed than created in the industry sector [NEDA, 2002].

The services sector has borne the burden of absorbing yearly additions to the labor force. Heterogeneity is a hallmark of this sector that includes firms and activities requiring diverse skills and using divergent technologies. Wide differentials also characterize pay and productivity in the sector. These features suggest that the expanding employment share of services should be approached with circumspection. While the sector hosts many of the emerging activities associated with the new information technology, the greater part of employment is still accounted for by wholesale and retail trade, and community, social and personal services, where low-productivity and low-paying jobs abound. Given the relative freedom of entry in these sub-sectors, the growth of employment in services in the last few years may be more an indication of a growing informal sector induced by an expanding labor force that cannot be absorbed by agriculture and industry.

Recent growth in employment has also been characterized by a faster growth of the self-employed and unpaid family worker categories relative to wage and salary workers. This is indicated by the increase in shares in total employment of these two groups and the declining share of wage and salary workers. That this should occur in a period of growth hints at the likelihood that firms are also undergoing some restructuring in order to achieve greater efficiency and labor productivity. It is possible that some industries took advantage of the economic slowdown to downsize. Whatever the underlying reason, the implication is that, for many of the employed, the quality of employment has gotten worse.

2.2 Precarious employment

The lower quality of jobs available at present is related to the fact that they are highly unstable and less remunerative. This has always been true for jobs in the agriculture sector, which is highly dependent on the weather, as well as jobs in the urban informal sector, which are low paying, insecure, and offer little promise of advancement. It used to be that jobs in the non-agricultural formal sector were associated with stability, generous non-wage benefits, and even long-term employment relationships. Greater competition today, however, has eroded the monopoly rents previously enjoyed by many firms in the industrial sector that permitted them to maintain a large and permanent work force. As a result, some previously existing employment arrangements have become unsustainable.

In the face of greater competition, firms are either closing down or reorganizing their operations. In many cases, this has entailed a downsizing of work forces. This perhaps explains the observed net job loss in 2002 for the industrial sector, where some 40,875 workers were displaced. More than 90 percent of these workers are factory workers (in manufacturing).

Firms are also increasingly resorting to flexible labor arrangements. Flexible labor arrangements take various forms³. However, the most controversial is "external flexibility", whereby a firm is able to adjust the size of its work force in response to changes in market demand or shifts in the production technology. This type of flexibility makes it possible for firms to hire workers on a "just-in-time" basis, and to terminate the relationship, whether temporarily or permanently, when no longer necessary without much cost. From the

³ For an overview and discussion on the Philippines, see Esguerra [1997].

perspective of labor, external flexibility (or plainly, flexibility) means the loss of job security, which is protected under existing labor laws. Philippines laws on termination of employment, however, consider economic reasons as justifiable grounds for dismissal provided certain conditions are satisfied. Workers employed under flexible labor arrangements also do not get to enjoy the non-wage entitlements granted to regular employees.

Data from the Bureau of Labor and Employment Statistics (BLES) show that the employment of non-regular workers has increased over time. From about 14 percent of workers surveyed in 1989, the proportion of casual, contractual and other non-regular employees had risen to 21 percent in 1997. More recent data from the Philippine Labor Flexibility Survey (PLFS) of 2000 show that of firms surveyed in six regions, 39 percent employed temporary or casual workers, 33 percent directly hired contractuels, 24 percent employed agency-hired workers, and 11 percent part-time workers.

According to the PLFS, the practice of employing non-regular workers tends to occur more in firms that are oriented towards the domestic market rather than in export-oriented firms, in Filipino- rather than foreign-owned firms, and in larger rather than smaller firms.

2.3 Labor market mismatches

Why unfilled vacancies in firms should exist alongside a large pool of surplus labor suggests a number of things. Either firms' demand for skills cannot be met by what is currently available or wage offers are too low relative to applicants' reservation prices. It is also possible that job market participants do not have sufficient information about job opportunities or that, even if they did, taking on such jobs entails high costs (e.g. relocation) as to leave them indifferent between working and staying unemployed.

Based on 2002 data, only 58 percent of college graduates are employed, a low figure compared with the 92 percent reported in 1980. What this means simply is that the rate at which college graduates have found employment in the last 22 years has been considerably slower than the rate at which the educational system has produced them. It is not possible to tell from the data, however, what specifically accounts for this. More detailed information about skill requirements and entry-level wages at the firm level are needed and have to be examined against the breakdown of college graduates by degree. Still, such comparisons can fail to provide an indication of the degree of the mismatch, if it is present, to the extent that the characteristics that firms look for in job applicants are not easily observable from their college credentials. For example, in spite of all the hype about thousands of jobs available as a result of the information and communications technology (ICT) revolution, applicants are finding out that merely meeting the paper credentials is not sufficient. A company in the call center business revealed recently that in order to hire 200 workers, it had to screen from a pool of about 12,000-15,000 applicants.

A 1998 study conducted by the Personnel Management Association of the Philippines (PMAP) provides an indication of the mismatch between the products of college education and the requirements of industry. Respondents to the survey, who were mainly HR senior personnel in charge of recruitment and selection showed that companies encountered difficulty in filling up some entry level positions. These included: accounting clerks and auditors; programmers and other IT positions; account executives or sales positions; general clerical or administrative positions. While in some cases, this was due to the shortage of graduates in certain fields, the main bottlenecks were deficiency in communication skills and other special skills required for the jobs.

The findings of the PMAP study tend to confirm the suspicion that quality-wise the actual level of education and formal training in the country may be overstated. The study suggests that merely having a college degree does not guarantee a job.

Given its bias toward formal higher education, the country has failed to prepare its work force for productive careers that are not based on college education. Vocational-technical training, generally viewed as an inferior alternative to college, has not been given the support it deserves. As a result, the country has lagged behind in developing skills or competencies in certain areas such as mechanics, electronics, metalcraft, woodcraft, and the building trades. The range of alternatives available to those with less aptitude for formal training has been limited by the overemphasis on producing college graduates. The fact, however, is that a majority of the young population of working age fails to even reach college for financial reasons. In this light, recent emphasis on the modern services sector (e.g. ICT, call centers) as a solution to the country's unemployment problem is misplaced.

Public policy must endeavor to ensure the employability not just of the skilled and educated, but also the less skilled and less educated. It must recognize that some individuals can benefit more from vocational and technical training, while for some only non-formal education is relevant. Thus, access to all types of education and training ought to be expanded and equalized.

It is also possible to say, however, that the co-existence of unemployment and unfilled vacancies is due to informational problems. In this case, simply improving labor market information to reduce the cost of job search and improve worker-job matches would be efficiency-enhancing. Currently the labor department has a network of offices in the various regions that facilitate the placement of job seekers as part of DoLE's employment facilitation function. The BLES compiles information on job vacancies solicited/reported and job applicants registered as well as placed based on reports provided by the labor department's local employment services.

Data from 1996 to 2000 data show that with the exception of 1998, the number of job vacancies reported has been rising. Similarly, the number of registered job seekers increased, except in 1998. Placements reported followed the same trend indicating that the facility has been useful for job seekers. However, it should be noted that placements as a proportion of applicants registered and number of vacancies reported has declined consistently. Whether this is due to worker-job mismatches or some impediments preventing qualified applicants from taking on available jobs cannot be determined from the data.

Of course, it is also not possible to tell from the data how many of those placed would have eventually found a job even without the placement service. The fact that employers choose to announce their vacancies through the service and job applicants register, however, suggests that both find the facility useful (perhaps less costly) for purposes of hiring and job search. It would be useful to study further the information contained in these reports to obtain a better understanding of how the facility works and whether it is effective.

As a complementary measure to improving labor market outcomes, a well-functioning labor market information system is indispensable. Such a system can facilitate linking labor supply with demand, guide decisions to invest in human capital, shorten the period of job search and reduce its cost, and hasten the absorption of a trained labor force into productive employment.

3. The policy and institutional environment

The legal basis for all existing labor market policies and programs is the Labor Code of the Philippines (1974) and subsequent amendments to it. The Code was last amended in 1989 with the enactment of RA 6715, or the new labor relations law, and RA 6727, or the wage rationalization law. As this report is being prepared, three bills proposing to amend certain key provisions of the labor code are pending in Congress.

Responsibility for the formulation of policies, the implementation of programs and the administration and execution of laws for employment and the protection of labor rests with the Department of Labor and Employment (DoLE). From being mainly a regulatory agency charged with standard setting and enforcement functions under the 1935 Constitution, the DoLE has evolved into an institution with broad ranging responsibilities in the areas of education and training, employment policy, employment services, social protection, and the management of industrial relations.

The protection of labor and the regulation of labor-capital relations have been fundamental elements of the state's labor policy since the adoption of 1935 Constitution. After the establishment of the Republic, this policy stance was expressed in the enactment of various laws prescribing minimum labor standards (e.g. minimum wage, eight-hour workday, maternity privileges and workmen's compensation) especially following the Philippines' accession to the International Labor Organization in 1948. In 1953, the Industrial Peace Act (RA 875) or the Magna Carta for Labor was enacted making collective bargaining at the level of the enterprise the norm for determining the terms and conditions of employment, even as the State would continue to intervene in the setting and enforcement of minimum labor standards and in dispute settlement through a compulsory arbitration system.

In 1974 a Labor Code, which codified 25 existing labor and social laws, was promulgated by presidential decree. The Labor Code basically adopted the protective posture towards labor as declared in the 1973 Constitution, which had by this time expanded the concept of labor protection to include human resource development and employment services. This added a developmental dimension to the regulatory functions of the labor department, which gradually saw its mandate expand, and with it its organization.

In the period 1972-1986, which coincided with constitutional authoritarianism under Marcos, labor policy was most interventionist. While the Constitution and the Labor Code guaranteed the workers' rights to self-organization, collective bargaining, security of tenure, and just and humane conditions of work, the conditions of martial rule effectively inhibited labor from using these constitutional guarantees to protect and advance its interests. While regulating union activity through various means, the State sought to placate the labor sector through various interventions purporting to influence the terms of employment in the workers' favor, most notably through across-the-board adjustments in the minimum wage and wage supplements effected by presidential decree.

With the restoration of democratic processes in 1986, many of the Labor Code provisions deemed to be anti-labor were amended. In particular, the right to strike was restored along with the right of public sector employees to organize. Similarly, previous restraints on union formation and recognition were relaxed. A new Constitution was subsequently adopted in 1987, which continued to uphold the labor policy espoused by its predecessors in 1935 and 1973. To the various entitlements for labor under the earlier constitutions, the 1987 Constitution adds a living wage and participation in policy and decision-making processes

affecting workers' rights and benefits. It also expresses a preference for the use of voluntary modes of dispute resolution to foster industrial peace.

In the formulation and implementation of labor policies, the state subscribes to the principle of tripartism, which is a principle enshrined in the Labor Code. The principle calls for social dialogue and consultation among the three sectors – employers, labor and government – in matters pertaining to a wide range of issues including wages, dispute settlement, vocational training and social protection. Since 1990, the process of consultation has been conducted through the Tripartite Industrial Peace Council (TIPC), which operates at the national and regional levels and also for specific industries.

The TIPC is comprised of representatives from the government, and from both employers' and workers' groups. It provides a forum for discussing issues dealing with wages, labor standards, training, and industrial relations. It also serves as a venue for building consensus among the labor market players on the ratification of ILO conventions and the formulation of major DoLE department orders and rules and regulations to implement the labor code. At the regional level, tripartism is also observed in the Regional Tripartite Wage and Productivity Boards (RTWPB), which are mandated to set wage floors.

With the increasing integration of the Philippines into the international economy, business organizations have been under greater pressure to adapt to change in order to remain competitive. This has lent support to the view – one that is shared even by insiders within DoLE – that existing policies on labor and employment ought to be re-examined. Recent advances in technology and increased competition leading to shorter product life cycles, rapid obsolescence and the greater preference for highly skilled, knowledge-based workers may have rendered traditional employment and employer-employee relationships out of date.

Indeed, while agreement is possible on the need to review, and perhaps, amend, existing labor laws in the light of new market realities, it should come as no surprise that there is less agreement about how to amend such laws. While employers are motivated by the desire to loosen existing constraints on their employment decisions, their increased vulnerability to income and employment risks makes it understandable why labor would like to see a broadening of coverage as well as tightening of certain aspects of labor standards. It is safe to say that the labor sector will resist any amendment to the Labor Code that is seen as contributing to the further erosion of whatever legal protection workers currently enjoy.

The challenge is how to promote an environment in which, on the one hand, private firms enjoy the flexibility that is required for them to be economically viable and thrive, thereby creating more employment, and on the other hand, labor receives its fair share and is reasonably protected from income and other risks emanating from both the workplace and the general economic milieu.

4. Some key labor market policy issues

This section discusses a number of policy issues impinging on the government's current strategies of employment creation, facilitation, preservation and enhancement.

A fundamental question that arises in connection with the current priority to create more jobs is whether the existing legal and institutional environment is supportive or pre-emptive of that objective. The Philippines through time has been able to develop labor market

institutions that aim to protect those employed. Various pieces of protective laws exist ranging from constitutional provisions to legislation and executive orders recognizing the right of workers to organize and bargain collectively, instituting labor standards, providing for a system of minimum wages, compensation for work-related injuries and membership in a social insurance system.⁴

In a situation where the lack of employment opportunities is a generally acknowledged fact, there is a prevailing perception in the business community that public policy tends to lean too heavily on the side of the employed. This explains the clamor for greater flexibility in labor regulations among employer groups. However, within a framework that subscribes to the principle of tripartism in the resolution of labor market issues, the central question is whether a policy environment can be evolved that achieves some measure of flexibility acceptable to employers and workers alike. In addition, what should the role of government, in particular, the DOLE, be in such a policy setting?

The following sub-sections discuss in greater detail the following areas of policy that have an important bearing on employment generation and productivity:

4.1 Wage fixing

The idea of paying workers minimum wages has been justified on the basis of the equity argument that workers need to meet a certain level of income in order to provide for their basic needs, including those of their families. In the Philippines, minimum wage laws have been motivated by the objective to provide workers with the "minimum standards of living necessary for the(ir) health, efficiency, and general well-being" in keeping with the constitutional mandate to provide labor full protection. In the same vein, the need to catch up with the rising cost of living underlies workers' occasional demands for increases in the minimum wage.

Most economic analyses, however, do not view legislated minimum wages favorably. That is because by introducing a distortion in the labor market, minimum wage laws give rise to inefficiencies that result in a lower level of employment than if the wage were allowed to seek its own level based on supply and demand. With a higher price of labor, employers are discouraged from hiring more labor, or simply reduce their demand for unskilled or low-income workers who are the intended beneficiaries of the wage floor. As a result, it is argued, minimum wage laws end up hurting the very people they aim to help. The main argument against minimum wages in the Philippines has been precisely that they tend to discourage investments thereby inhibiting employment growth.

The truth is that very little empirical evidence has been put forward to argue either position on the minimum wage question in the Philippines. Part of the reason has been the difficulty of accessing data on wages across individuals and over time, information that is critical for determining the coverage and impact of minimum wages since their introduction in the Philippines in the 1950s. The other reason is related to the widely acknowledged low rate of compliance with minimum wage laws, given which, the employment impact of such laws is generally deemed negligible and thus undeserving of further systematic inquiry. As a result, the debate has not progressed to the point where it is possible to compare objectively the costs and benefits of this social policy.

⁴ See Institute of Labor Studies, 1999, *Integrated Labor and Labor-Related Laws*, Manila: Department of Labor and Employment.

Introduced through legislation (RA 602)⁵ in 1951, wage fixing in the Philippines was an act reserved for Congress until the declaration of martial law in 1972. During this 20-year period, minimum wages were increased only twice, however; the first time in 1965 (RA 4180) and then again in 1970 (RA 6129). A wage commission composed of three members representing government, management and labor determined the level at which wages were to be fixed.

After the wage commission was abolished in 1972, wages were fixed by presidential decree. A total of 10 presidential decrees were issued in the period 1972-1981 either adjusting minimum wages, or requiring employers to grant wage supplements in various forms (e.g. cost-of-living allowances, emergency allowances, and the 13th month pay). Upon the formal lifting of martial law in 1981, the President continued to decide on wage adjustments based on the recommendation of the National Wage Commission (not to be confused with the former wage commission). The NWC was composed of representatives coming from seven government agencies and one each for labor and management. Between 1981 and 1986, six more wage orders were issued adjusting wages.

During the brief period immediately following the end of the Marcos regime in early 1986 and up to the formal restoration of democratic processes with the adoption of a new Constitution in 1987, the President retained the prerogative to fix wages. Thus, in 1987 the 13th month pay was made mandatory for all workers, while the previous cost-of-living allowances were integrated into the basic minimum wage. The power to fix wages returned to Congress upon its resumption in the same year, whereupon the minimum wage was raised from P57 to P64 per day in late 1987.

The last legislated across-the-board increase in the minimum wage was in 1989 when RA 6727 hiked the statutory level by 40 percent. However, RA 6727 also created the National Wages and Productivity Commission (NWPC) and decentralized the wage fixing process through the creation of the Regional Tripartite Wage and Productivity Boards (RTPWBs) for each of the country's administrative regions. The DoLE regional director chairs the RTPWB with the NEDA and DTI regional directors as vice chairs and two representatives each from the worker and employer sectors as members.

The decentralization of wage setting in 1989 was an important step towards making minimum wages better reflect regional variations in cost of living and level of development. Decentralization also reduced the role of legislators, national labor centers and similar influences emanating from the national capital in the wage setting process, turning this over to their regional counterparts who presumably are much better informed about price movements, labor productivity, employment and business conditions in their respective locations. Since 1989, regional wage boards have on average raised wages every year. Currently, there are at least 300 minimum wage levels nationwide, with the highest in the National Capital Region.

Both employers and organized labor have expressed dissatisfaction over the present system of wage fixing. Invoking the constitutional guarantee of a "living wage" for workers and arguing that the current level of minimum wages is inadequate for an average family's needs, the more militant section of organized labor has advocated the abolition of the regional wage boards and a return to wage fixing by legislation. Other labor groups, on the other hand,

⁵ This law fixed minimum wages at P4 per day for non-agricultural workers and P2.50 per day for agricultural workers.

take a more practical stance and have so far been willing to argue their case for higher wages in the regional wage boards. Still, other labor groups think that the practice of annually raising minimum wages through the regional wage boards undermines the *raison d'être* of unions, as individual workers no longer find it worthwhile to join them.

For their part employers are generally opposed to any form of wage fixing that seeks to replace that which results from private contracting. However, to the extent that various ways of adjusting to or circumventing minimum wage laws are available to them, open opposition has been limited to increases in the minimum wage outside of the current framework, such as those by legislation or more frequently than the annual adjustments prescribed by law. This stance suggests that employers find the present set-up tolerable at the very least. However, they also want to tie wage increases more closely to productivity increases.

The case for a minimum wage can be decided only empirically on the basis of the relative costs and benefits of this social policy. Against the potential losses in employment must be compared the numbers that are able to break out of poverty as a result of the wage floor. Unfortunately, even knowledge of this trade-off may not be sufficient in the absence of a social consensus about what weights to attach to the conflicting policy objectives. There is also a lack of agreement on the appropriate role of a minimum wage. The ILO concept is that of a safety net for unorganized workers. However, in an economy where publicly provided social services are inadequately funded and organized social insurance mechanisms are limited, the minimum wage tends to be viewed as the primary means for addressing the problems of poverty and vulnerability. This creates strong social pressures for upward adjustments in the minimum wage during times of economic stress and places the burden of combating poverty on this single device.

Few studies on the effects of the minimum wage as currently structured can be found for the Philippines for reasons alluded to above. The more recent ones are by Pascual [2002] and [2002a], which use data from the Labor Force Surveys for October 1988-1995. Though they have yet to be subjected to a more rigorous review, these studies offer valuable information that can be potentially useful for policy discussions on the minimum wage.

The first study shows that from relatively high levels before the regionalization of wage fixing in 1989, the ratio of the minimum to the median wage in 1995 was, in most regions, "fairly close to 1.0". This means that minimum wages were roughly equivalent to the wage of the typical worker. Moreover, changes in the level of the minimum wage were observed to impact on the wage distributions, the change depending upon how binding minimum wages are. (For example, the effect seemed less pronounced in areas outside NCR where coverage is more limited.) This supports the view that the minimum wage exerts a potentially significant influence on average labor cost.

The study also found widespread non-compliance, especially outside of key urban centers, although coverage increased with the decline in minimum wages after decentralization. Whether this was due to more effective enforcement is difficult to say. Nevertheless, poor compliance did not seem to detract from the observation that wages in general moved in conjunction with the minimum wage. Given a negatively sloped labor demand curve, the reduction in employment caused by a rise in the minimum wage then boils down simply to a question of labor demand elasticities.

4.2 *Labor flexibility*

Employers' use of flexible staffing arrangements is another contentious issue in Philippine industrial relations. Specifically, this pertains to the practice of employing workers on a non-regular basis (i.e. as contractuels, casuals, or temporary), whether hired directly or through an employment agency. Workers hired based on these contractual arrangements generally have shorter job tenures and do not enjoy the non-wage benefits granted to regular employees. As these labor contracts, which are increasingly being resorted to by firms in the manufacturing and services sectors, breach established notions of the employment relationship (widely interpreted as job security), they have encountered resistance from organized labor. From labor's standpoint, employers resort to flexible employment arrangements to circumvent various labor regulations, such as minimum wages, various non-wage benefits and other labor standards, including the right of workers to unionize, that increase labor cost.

The quasi-fixed nature of labor as a productive factor provides a useful starting point for understanding employers' motivations for using flexible employment arrangements. Some components of labor cost – hiring and training, vacation and sick leaves, employers' contributions to social security, medicare and housing, severance payments – are incurred per employee regardless of contribution to output. This provides the basis for some firms preferring to pay an overtime premium to existing workers instead of taking in additional employees during periods of strong demand.

Alternatively, a firm may respond to fluctuations in the workload over a period of time by using employment contracts that allow it to expand its work force in times of peak demand and contract it relatively costlessly when demand is weak. Because workers hired as "non-regulars" (i.e. as casuals, contractuels, temporaries, agency-hires) are usually not covered by mandated benefits (e.g., benefits provided in CBAs), or existing protective legislation, the firm is able to economize on the various non-wage costs.

Another reason for using flexible employment contracts is to discriminate between groups of workers in compensation without inducing adverse consequences on workers' morale. For example, firms may desire to reduce turnover among workers with high levels of firm-specific skills and thus pay them efficiency wages, whereas others with only general or low skills, being easily replaceable, may be paid no more than the competitive wage. However, doing so may not be in keeping with norms of fairness among employees and invite resentment among the lowly paid. By differentiating between regular and non-regular employees, flexible employment contracts allow employers to tailor employee compensation according to the desired degree of worker attachment to the firm in a way that avoids its negative repercussions.

Non-regular employment may also act as a screening device whereby employers sort qualified workers into regular and full-time positions. If dismissal is costly for employers because of severance payments and various job security regulations, hiring workers as casuals or temporaries with the option to terminate the underperformers without risk of legal action provides an economical way of promoting job productivity and selecting employees for a permanent staff.

Short-term labor contracts also provide a convenient and less costly alternative for firms to employ workers with specialized skills that are not available in-house but are needed only for specific times of the production cycle or for specific projects. Non-regular workers can be

used as well to fill in for regular workers who are on vacation or medical leave, or to fill certain vacancies for which qualified full-time workers cannot be found. In times of company restructuring or mergers, temporary workers may be called upon by management as a way of circumventing imposed limits on personnel costs.

In all the above, cost minimization is the underlying reason for the firm's use of flexible labor arrangements. Today's increasingly internationalized business environment demands greater agility among firms in order to survive. This implies avoiding being locked in to production technologies that tie firms to inflexible long-term contracts with their workers, even when product demand is expanding. In this scenario, labor standards, and job security regulations that make terminations costly, can only increase the cost of hiring. Firms avoid these costs by resorting to employment contracts that escape coverage of existing labor laws.

The upshot of all these is that employment has become more precarious and workers' incomes increasingly vulnerable to economic shocks. The response from organized labor has been to pressure government to regulate labor contracting and thereby limit employers' ability to terminate workers. At bottom, however, what the various attempts to curb flexible labor contracting are trying (or have tried) to achieve is secure for the worker the terms of employment typically associated with regular employment contracts (e.g. continuous employment, access to wage and non-wage benefits mandated by law and/or collective bargaining agreements, severance payments). The government's response has been to define the scope for lawful labor contracting and explicitly assign the responsibility for providing mandated benefits or complying with labor standards to either the labor contractor or the firm for whom the services are performed.

Contracting and subcontracting are generally allowed under Philippine laws, but are subject to regulation in the interest of employment promotion, recognition of workers' rights to just and humane conditions of work, security of tenure, self-organization and collective bargaining. Hence any contracting of labor services that contravenes these declared objectives is considered an outright violation of law or public policy.

Department Order 18-02 (2002) of DoLE considers legitimate those contracting arrangements whereby a firm (the principal) enters into a contract with a contractor or subcontractor for the performance of a certain job, work or service, and the latter in turn enters into a contract to employ workers to do the job, work or service. In this instance, the contractor or subcontractor is deemed the employer of the contractual worker for purposes of enforcing the provisions of the Labor Code and other social legislation. However, the principal shall also be held liable in case the contractor or subcontractor fails to pay wages or violates any provision of the Labor Code (Sec. 7).

Moreover, in certain instances specified under D.O. 18-02 the principal shall be deemed the direct employer of the contractual employee, and therefore, liable for any monetary claims of contractual employees that may arise from violation of existing laws or labor standards. These include committing any of the acts prohibited under Sec. 6 of D.O. 18-02, and engaging in labor-only contracting (LOC), which D.O. 18-02 expressly proscribes.

LOC is an arrangement whereby the contractor merely recruits and supplies workers to perform a job or service that is directly related to the main business of the principal, and the contractor or subcontractor has no substantial capital or investment to perform the job or service under its own account or responsibility. In addition, the contractor does not exercise the right to control over the performance of the work by the contractual employee. The

simultaneous presence of these conditions qualifies labor contracting, which is generally lawful, as LOC, making it unlawful.

By categorically defining who the employer is in each case, the intent of regulation is to ensure for the contractual worker that some party shall assume responsibility for providing him whatever entitlements existing laws have mandated all workers to receive. Note, however, that the declaration of a "competent authority" is needed to determine the instance of LOC, or where contracting violates existing laws or public policy. Specifically, in the case of LOC, while the condition regarding capitalization is relatively easy to establish, the other two (performance of a job directly related to the main business of the principal, and no right to control over the performance of the work of the contractual employee) are open to various creative legal interpretations. This shifts to the already clogged courts the burden of determining whether the conditions for lawful labor contracting have been breached.

Thus, while the objective of some labor groups to have LOC illegalized may have been achieved through D.O. 18-02, it is another thing to say that this will achieve the intended effect, which is the provision of some measure of income security for non-regular workers. In the first place, the determination of whether a contracting arrangement is LOC, or if it violates the rules on legitimate labor contracting, can be a tedious legal process. Due to more limited resources, workers normally are at a disadvantage in long-drawn out court cases. Firms' willingness to invest more in the domestic economy could also be dampened as a result. Although firms are generally better positioned (relative to workers) to absorb transactions costs attendant to labor standards, the constant uncertainty of being taken to court for purported violations of labor contracting rules may be too much to take in a situation where competitors elsewhere can operate with greater flexibility to adjust to changing market circumstances.

Because of potentially negative impacts on employment and output, tighter regulations on the hiring of non-regular workers, such as declaring LOC illegal, may then not be the best option for creating and preserving jobs and promoting income security. Aside from the costs of enforcing them, the prohibitions are unfair to those non-regular workers who prefer to have a low-paying job than no job at all in the event that affected firms are forced to fold up or relocate their operations some place else other than the Philippines.

A policy question in light of what seems to be an irrepressible trend towards flexibility in labor markets worldwide is whether there are other avenues available for contractual (and other non-regular) workers so that they are not disadvantaged by income shocks arising from interruptions in paid work. Recent work [Esguerra, Ogawa and Vodopivec, 2002] on publicly provided income support for the unemployed should be instructive. Such support can take various forms: unemployment insurance, unemployment assistance, severance pay, unemployment insurance savings accounts, and public works. Apart from fulfilling the main purpose of acting as a safety net for labor, the availability of one or several of these forms of income support can strengthen the bargaining power of non-regular workers in negotiating with employers for better contractual terms and/or improving working conditions.⁶

⁶ That is because while contractual workers are *de jure* entitled to similar rights guaranteed all workers they may be reluctant to assert these rights for fear that employers can easily terminate their contracts owing to their non-regular status. With a publicly provided income support scheme in place, bargaining may take place on a more equal footing.

The choice of the appropriate income support scheme for the Philippines will have to consider a number of factors, including: (i) its ability to respond to systemic or economy-wide income shocks such as economic recessions or structural imbalances brought about by globalization and liberalization, as well as natural calamities; (ii) how the scheme(s) fits into the whole gamut of existing informal, as well as formal, mechanisms of risk management – will it supplement or supplant existing private modes of self-protection, will it work well with prevailing norms and culture, are there existing institutions or practices that can merely be strengthened instead of creating new ones? (iii) compatibility with other publicly provided support programs and policies, such as those relating to job creation and facilitation; and (iv) adaptability to local (i.e. Philippine) circumstances and the potential to work well given the existing level of administrative capacity in the country [Esguerra, Ogawa and Vodopivec, 2002]. Mechanism design issues loom large here in view of the need to address problems of client selection, work incentives, resource mobilization, institutional viability, and a large, heterogeneous informal sector.

Finally, it is important to look at publicly-provided income support for the unemployed as merely one element in a package that seeks to alleviate the cost of joblessness, the other two being retraining and labor market information. To counter negative effects on work incentives, eligibility for unemployment income support can be made contingent on attendance in training or re-tooling programs designed to improve employability. This needs to be complemented by an effective system of labor market information to guide decisions on worker training and reduce the costs of job search. As an initial step, the scope for improving coordination between existing programs on training and labor market information should be explored. The strengthening of the technical and administrative capacity of the labor department to oversee and manage these programs is a critical aspect of the institutional reform that is needed to ensure that labor markets perform their function efficiently and labor market outcomes benefit workers as well.

4.3 Dispute settlement

Employment contracts are incomplete contracts in that they cannot spell out fully what either contracting party must do under various states of nature unknown to both parties at the time of contracting. The ambiguity of language, moreover, can result in differing interpretations once a state of nature occurs. This makes contractual disputes unavoidable, sometimes with adverse consequences. Strikes, work slowdowns, and lockouts are instances of breakdown in the employment relationship, when either party disengages from the terms of the contract. No wages are paid and profits are foregone, reducing the welfare of both employers and workers.

Contractual disputes are costly so their early resolution is in the interest of both workers and employers. It is thus important for government to minimize the occurrence of breakdowns in the employment relationship. By protecting legal and property rights and adjudicating disputes when they arise, a well-functioning legal and judicial framework is indispensable in the enforcement of contractual performance. This is not costless, however.

Informational problems due in part to the private nature of individual employment contracts often present difficulties for third party enforcement. Voluntary and bipartite modes of dispute resolution are thus preferable and should be the first recourse. In the Philippines, where such a preference has been officially expressed, employers and workers are encouraged to develop and use other available mechanisms for settling disputes, including establishment-based grievance machineries, conciliation, mediation, and voluntary

arbitration. The savings realized from resorting to these conflict resolution schemes can then be appropriated by both parties.

The reality, however, is that there is still too much reliance on the courts or quasi-judicial bodies for resolving issues involving labor-management relations. DoLE statistics show an increasing number of cases filed with the regional arbitration branches of the National Labor Relations Commission (NLRC) between 1993 and 2002.⁷ Of the cases handled by the NLRC arbiters, disposition rates have been around 60-70 percent. Some of these cases are appealed to the Commission proper. Data for 2002 show a less than 60 percent disposition rate for almost 16,000 such cases.

The figures for voluntary arbitration and preventive mediation are much smaller.⁸ Data show that cases handled under these two modes combined have not exceeded 2000 in any year during 1993-2002. However, disposition rates here are invariably higher at 80 percent or better.

It should be mentioned that the data on compulsory arbitration from the NLRC pertain largely to cases involving individual workers, while those on voluntary arbitration and mediation, which come from the NCMB, pertain to cases involving the organized section of labor. This difference reflects the different mandates of these two agencies. The NCMB is tasked to handle disputes between employers and labor unions preventing such conflicts from developing into strikes or lockouts. Its principal function is the promotion of labor-management cooperation mainly through voluntary modes of dispute resolution.

The NLRC, on the other hand, is a quasi-judicial body that decides on cases brought before it by employers or individual workers. While it also performs a conciliation and mediation role, the NLRC is more easily associated with compulsory arbitration. It is not an exaggeration to say that most cases brought to the NLRC go to adjudication. A possible explanation for this is the low union density in the country, which means that most workers have to rely on the intervention of a third party, often with the assistance of lawyers, to compensate for their disadvantage in direct negotiations with employers.

The process of resolving labor disputes in the Philippines is notoriously slow. From the time that a complaint is first filed with the NLRC, the process normally takes anywhere from one to three years. When decisions are appealed, the waiting time is even longer.

Cases are initially filed with the regional arbitration branches where, during the mandatory conference stage, conciliation is first attempted to resolve differences amicably. Failing this, the case goes to compulsory arbitration. When an adjudicated case is appealed by either party, it is elevated to the Division level where the NLRC commissioners themselves review and decide on the appeals. If still unsatisfied with the decision, the parties may bring their case to the Court of Appeals as a last resort. Sources familiar with the procedures say that the whole process inclusive of appeals can take as long as ten years in some cases.

⁷ The rise in the NLRC caseload from about 33,000 to 49,000 during this period is partly due to the enactment of the Migrant Workers' Act in 1996, which gave NLRC exclusive jurisdiction to hear and decide cases arising out of contractual disputes involving Filipino OCWs.

⁸ Another agency attached to the DoLE, the National Conciliation and Mediation Board (NCMB), has jurisdiction over cases for voluntary arbitration, conciliation and mediation. However, NLRC labor arbiters are expected to also perform conciliation and mediation functions, succeeding in which compulsory arbitration becomes unnecessary.

Reasons offered by users of the arbitration system to explain the large number of pending cases include the tendency for various non-principal parties (lawyers, fixers and unions) to dominate the process, often complicating or even preventing the settlement of disputes. The dilatory tactics resorted to by both parties and their lawyers (postponements, non-appearance) also contribute to the clogging of the NLRC dockets. In addition, certain inefficiencies in the system of dispute resolution, such as the inability of grievance machineries to function properly at the plant level, the lack of training of labor arbiters in conciliation, and the predisposition of many lawyers to litigate rather than negotiate out-of-court on behalf of their clients result in more cases going to compulsory arbitration than otherwise. This situation has tended to fuel allegations, albeit largely unsubstantiated, of corruption (decisions for sale) in the system, notably in Metro Manila.

To address some of these problems, the DoLE issued Department Order 40 in 2003 (D.O. 40-03), which, among others, seeks to fast-track dispute settlement by stipulating a maximum period within which the NCMB must act on cases before it. However, the order is silent about the consequences for the mediators-arbiters of not meeting deadlines. On the other hand, the costs imposed by the rules on the parties to a dispute engaging in dilatory tactics may not be high enough to deter strategic action if a legal recourse can be found around such rules. More importantly, D.O. 40-03 applies only to disputes involving labor unions, and not to cases involving individual workers at the NLRC where the backlog is much bigger. In the latter case, the approach as of late has been to train labor arbiters in conciliation and mediation work as a way of reducing the number of cases that go to compulsory arbitration.

Clearly, the issue is how to wean the current system of dispute settlement away from costly adjudication and move it toward prevention. The strengthening of institutional capabilities at the NLRC is certainly a move in the right direction. At the moment, the lack of personnel who are well-trained in conciliation, mediation and adjudication tends to magnify the backlog of unresolved cases. However, there is also a need to examine existing rules and procedures governing dispute settlement as these may be generating incentives that are a potential source of the problem. There may also be good reasons to re-examine the existing system of providing separation pay for displaced workers.

Most cases at NLRC (80 percent) involve terminations or dismissals with money claims. Since the amount of money claims, and even the merit of such claims, is contingent on the reason for termination, the circumstances of the termination are often a contentious item in many cases. For example, terminations due to misconduct involve no payment of separation benefits, while termination for economic reasons requires such payments. Severance payments when dismissal is due to redundancy are also bigger than when firms resort to it to avoid "further losses". Furthermore, non-regular employees are not usually entitled to most non-wage benefits including separation pay. These suggest that part of the explanation for the large number of industrial relations disputes may lie in the inadequacy of the current system of providing regular workers who are displaced with retrenchment benefits or severance pay as well as in the recent trend towards non-regular employment. The possibility of economizing on such payments creates incentives for employers to choose the circumstances under which to terminate their employees, which makes worker separation subject to so much delay and costly litigation. A system where receipt of separation benefits is assured regardless of the reason for termination will reduce the incidence of disputes even as it satisfies the safety net consideration.

Rules on termination also prescribe certain procedures to be followed. If employers fail to observe these, dismissed workers are reinstated, with back wages for the period of "illegal"

separation, until procedures shall have been properly observed or, if the basis for dismissal is contested, the case has been decided with finality. With workers entitled to full wages, or back wages, for the entire period in which no decision on a termination case has been handed down, there are potential rents that can be extracted by those in a position to control how slowly or quickly a specific case is resolved.

5. Scope for policy reform and donor assistance

Employment growth is fundamentally a function of economic growth. A healthy and growing economy is thus the nation's best guarantee that jobs will be available for its labor force. This calls for macroeconomic and sectoral policies that are conducive to investments growth to assure a continuous demand for labor. On the supply side, investments in education and training as well as in health and population should pay off in terms of raising the quality of labor supply, increasing employability and improving incomes. These employment creating policies need to be complemented by labor market policies that (i) facilitate the allocation of labor to its most productive uses and minimize mismatches; (ii) provide adequate safety nets for workers to reduce their vulnerability to income shocks without restricting employers' flexibility to adjust to changing market circumstances; and (iii) lower the cost of settling industrial relations disputes.

On the basis of the discussion in the previous sections, labor market policies should aim to strike a balance between reducing the cost of transacting in labor markets and safeguarding workers' welfare. While more analysis is required to come up with specific recommendations on the exact form of interventions, it is clear from the discussion above that the goal of job creation can be advanced by a policy regime that minimizes impediments to the formation of employment contracts or breakdowns in the employment relationship. In order to reduce transactions costs (i.e friction) in the labor market, policy should pay attention to the following areas:

- (1) **training and re-training:** to ensure the supply of skills in demand and to increase employability;
- (2) **labor market information:** to facilitate labor absorption as well as shorten unemployment spells;
- (3) **unemployment income support:** to insure workers against adverse income/consumption shocks arising from unemployment; and
- (4) **an efficient system of dispute resolution:** to reduce costs associated with work stoppage and employment losses due to disruption in economic activity.

In the area of training and re-training, it has been recommended previously by the Congressional Labor Commission (2001) that the Technical Education and Skills Development Authority (TESDA) concentrate on its mandate to oversee technical and vocational training rather than on directly operating vocational-technical schools. The idea is to devolve as much as possible vocational and technical training to local government units (LGUs) and the private sector to enable the government thru TESDA to concentrate on the functions of skills certification, standard setting and equivalency, and the building of partnerships between training centers and industry. While this idea does not lack support within DoLE, it is important to give it greater impetus by providing some technical assistance to TESDA in areas where such assistance is needed. One such area is in the evaluation of training programs so that policy makers have a better sense of how these contribute to job creation and improved incomes, and in what activities the public sector has an advantage over

the private sector. Rate-of-return studies on technical-vocational education are also useful guides for households deciding on the type of educational investments to make and can be used in conjunction with other labor market information to guide human capital investment decisions.

TESDA may also need assistance in building its institutional capacity towards promoting better coordination between public and private sectors in providing vocational and technical training at the local level so that a better match of skills with industry demand may be achieved and costly duplication of government- and privately-provided training may be avoided. Concretely, TESDA can pave the way towards better coordination between the private providers of technical-vocational education and training and private firms needing specific types of skills.

The labor market mismatches noted in an earlier section of this report suggest that a more effective labor market information system is needed in order to bridge the gap between the human resource requirements of firms and available skills. The current set-up provides for such a system: there is a law (R.A. 8759, 1999) mandating the establishment of Public Employment Service Offices (PESOs) in "all capital towns of provinces, key cities and other strategic areas". However, it has been difficult to institutionalize these employment facilitation offices mainly on account of their budgetary implications, the lack of a clear delineation of responsibilities between national (DoLE) and local (LGU) governments, and certain inadequacies among PESO personnel.

If designed well, the labor market information system can go a long way in guiding private decisions with respect to the job market as well as public policy dealing with employment creation. At the moment, this is the only publicly operated facility in the Philippines that has the potential for providing information about both sides of the labor market. This potential must be exploited further towards the enhancement of labor market outcomes. Technical assistance may be needed for upgrading the capabilities of DoLE and PESO staff to conduct labor market analysis using the information collected from firms and job applicants. Assessments of the effectiveness of the PESOs as currently organized would also be useful so that weaknesses in concept and design can be addressed. For example, given that there are already private placement agencies, what additionality does a public facility bring? What types of employers and applicants are likely to find such facility useful?

Beyond recording vacancies, applications and placements, the network of public placement offices can provide information about the types of skills sought by employers, the level of skills possessed by job applicants accessing the PESOs, the kinds of jobs or occupations that are relatively difficult or easy to fill, and regional surpluses or shortages of specific skills. This information can be used to guide decisions concerning the provision of training.

With respect to promoting greater labor market flexibility, policy must be sensitive to the increased vulnerability of workers to income shocks as a result. To complement re-training, which should increase employability, and better labor market information, which should hasten re-absorption and shorten unemployment spells, some form of safety net ought to be available to prevent household consumption from falling below some minimum threshold level during the worker's period of adjustment.

As in most developing countries, no formal system exists in the Philippines for providing income support for the unemployed. However, there may be merit in considering putting such

a system in place. First, because workers are increasingly exposed to greater employment risk due to the erosion of traditional employment relationships. Second, because severance payments, which constitute the only form of formal income support for displaced workers, are largely confined to the formal sector and often entail non-compliance problems that invite costly litigation. And third, because the alternative, private transfers, can be extremely limited for insuring against income shocks experienced by the poor and underemployed.

Initial studies at the World Bank indicate some scope for introducing some form of income support for the unemployed and underemployed in developing countries. However, unlike unemployment insurance, which is found in most mature economies and which gives rise to incentive problems, the system being proposed for developing economies is one based on pre-funded individual savings accounts that workers can tap in times of need. While actual design will most likely vary depending upon the specific circumstances of the developing country, the essential features are: (i) inclusion of non-regular workers and those in the informal sector in the coverage; (ii) need rather than unemployment per se as basis for eligibility; and (iii) complementation with existing informal mechanisms in targeting design.

To be sure, many issues of economic, financial and administrative import will have to be sorted out in connection with any proposal to introduce a publicly provided scheme for unemployment income support. Foremost of these is the question of whether this does not unduly add to the cost of hiring. But if this is the single most important consideration, then no proposal for shielding workers against income risks is acceptable. The point is some form of risk-sharing between employers and workers is socially optimal.

Finally, as the previous discussion of dispute settlement indicates, there is considerable room for reducing further the cost of creating jobs by minimizing breakdowns in the employment relationship. To achieve this requires a well-functioning legal and judicial framework that can enforce contracts, protect property rights, and adjudicate in a least cost manner when disputes arise. The courts must be staffed with competent, ethical judges who are properly remunerated and not likely to succumb to bribery. This aspect can be taken care of as part of the general program of judicial reform.

Given the huge financial requirements and long-term nature of legal reforms, it is useful to develop equivalent rules that can substitute for some enforcement aspects of the formal system. The cost of settling disputes declines considerably when self-regulatory and voluntary arbitration mechanisms can be put in place. Current moves to make conciliation and mediation the first level of government intervention in labor disputes are in the right direction and should be vigorously supported. At the same time, there is a need to study more closely the incentive structure that leads to the clogging of cases at the NLRC as a first step towards instituting reforms that will alter the behavior of parties involved in resolving labor disputes.

The four areas of policy reform discussed above should be taken together as a set of mutually reinforcing measures to promote greater employment and income security for workers. While policies should generally aim for greater flexibility in order to take advantage of the growth opportunities opened up by increased integration into the world economy, it should be clear that labor market flexibility requires corresponding measures in the areas of enforcing labor standards, continuing worker training, labor market information, and mitigating income losses arising from job separations.

Working Age Population, Labor Force, Employment and Unemployment by Age Group
in thousands

	Age Group								Age not Reported
	All	15-19	20-24	25-34	35-44	45-54	55-64	65+	
Working Age Population									
1999	46,740	6,162	5,841	9,894	8,828	6,443	4,195	3,580	4
2000	46,076	6,515	6,247	9,370	9,172	6,947	4,313	3,604	7
2001	49,424	6,415	6,579	9,907	9,288	7,289	4,475	3,791	2
2002	50,841	6,863	6,527	9,772	9,428	7,523	4,607	4,120	1
Jan 2003									
50,841	6,863	6,527	9,772	9,428	7,523	4,607	4,120	1	
Labor Force									
1999	30,893	2,906	3,988	7,319	6,980	5,116	2,985	1,439	0
2000	30,908	2,870	4,109	7,073	7,110	5,312	2,981	1,471	4
2001	33,354	3,254	4,988	7,368	7,464	5,884	3,201	1,808	0
2002	33,675	3,076	4,477	7,536	7,531	6,043	3,274	1,736	0
Jan 2003									
33,675	3,076	4,477	7,536	7,531	6,043	3,274	1,736	0	
Employed									
1999	27,782	2,338	3,134	6,622	6,631	4,662	2,612	1,343	-
2000	27,775	2,283	3,207	6,319	6,732	5,048	2,600	1,374	2
2001	30,085	2,688	3,675	6,552	7,077	5,588	3,029	1,497	-
2002	30,252	2,464	3,473	6,731	7,121	5,755	3,088	1,610	-
Jan 2003									
30,252	2,464	3,473	6,731	7,121	5,755	3,088	1,610	-	
Unemployed									
1999	2,931	588	834	897	349	234	153	96	-
2000	3,133	577	902	754	378	284	161	97	2
2001	3,289	588	923	814	387	298	172	111	-
2002	3,423	612	1,054	807	410	288	176	126	-
Jan 2003									
3,423	612	1,054	807	410	288	176	126	-	

*Note: 1. Details may not add up to respective totals due to rounding. 2. Estimated based on the 1995 Census-based Population Projections
Source: Labor Force Survey as used in the Integrated Household Survey, BLS, Yearbook of Labor Statistics, BLS, various years

Working Age Population, Labor Force, Employment and Unemployment by Educational Attainment
in thousands

	Total	No Grade Completed	Elementary			High School		
			Total Elementary	Grade 1-6	Grade 7-8	Total High School	1st to 3rd Year	Grade 9-12
Working Age Population								
1999	46,740	1,534	16,104	7,488	8,616	17,708	7,858	9,857
2000	46,076	1,491	16,307	7,881	8,726	16,984	8,151	10,433
2001	49,424	1,443	16,221	7,887	8,334	19,489	8,982	10,507
2002	50,841	1,348	16,557	7,888	8,669	19,849	8,888	11,061
Jan 2003	51,280	1,328	16,888	7,910	8,778	20,342	9,288	11,054
Labor Force								
1999	30,893	826	11,432	5,308	6,124	16,885	4,897	6,789
2000	30,908	819	11,488	5,336	6,152	11,617	3,823	7,894
2001	33,354	794	11,912	5,882	6,030	12,376	4,832	7,544
2002	33,675	746	11,825	5,736	6,089	12,389	4,518	7,871
Jan 2003	33,675	744	11,889	5,888	6,001	12,376	4,541	7,835
Employed								
1999	27,782	776	10,788	5,017	5,771	16,288	3,823	6,947
2000	27,775	738	10,888	5,078	5,810	11,617	3,489	6,228
2001	30,085	730	11,088	5,288	5,800	10,882	4,175	6,707
2002	30,252	694	11,213	5,408	5,805	10,888	4,832	6,056
Jan 2003	30,179	682	11,084	5,326	5,758	10,888	4,088	6,800
Unemployed								
1999	2,931	68	892	288	288	1,220	404	821
2000	3,133	63	743	320	423	1,367	424	876
2001	3,289	64	719	313	404	1,304	457	847
2002	3,423	52	712	328	382	1,488	406	884
Jan 2003	3,501	52	801	354	447	1,488	406	1,080

*Note: 1. Details may not add up to respective totals due to rounding. 2. Estimated based on the 1995 Census-based Population Projections
Source: Labor Force Survey as used in the Integrated Household Survey, BLS, Yearbook of Labor Statistics, BLS, various years

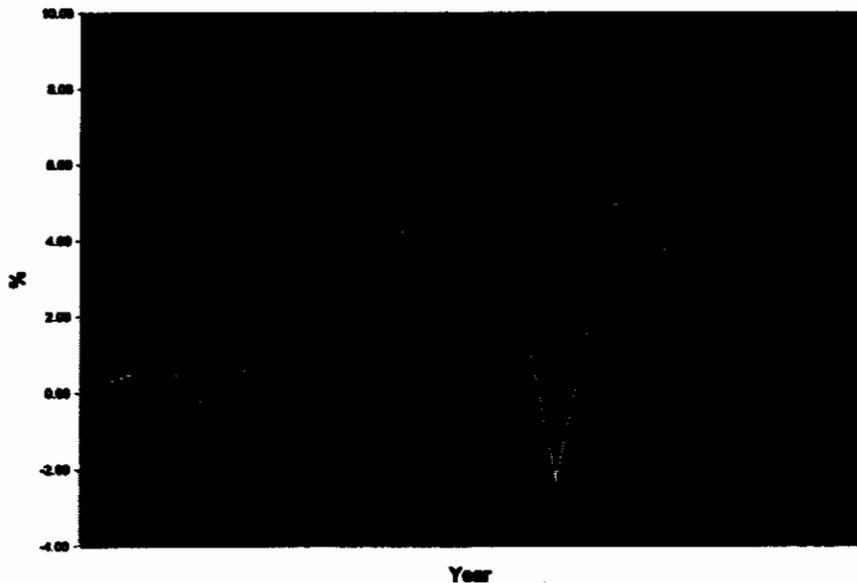
Working Age Population, Labor Force, Employment and Unemployment by Educational Attainment (continued)

in thousands

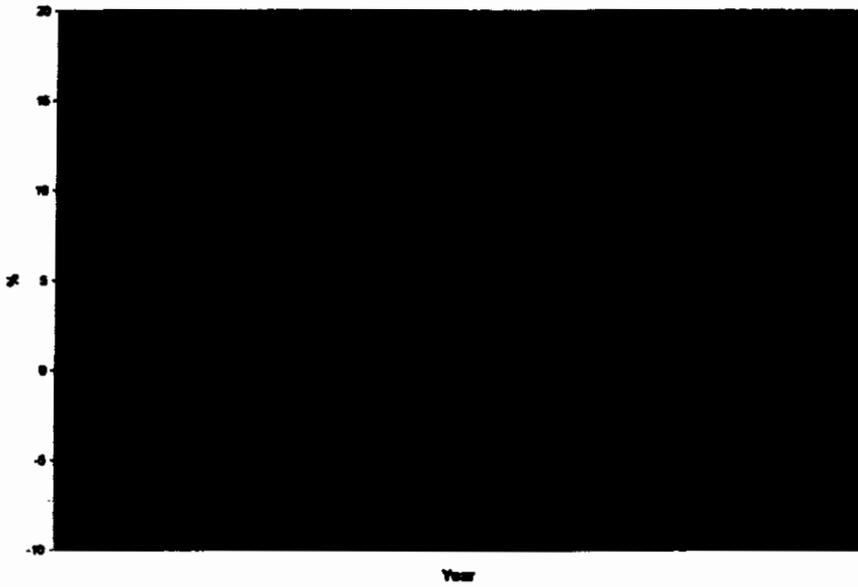
	College			
	Total College	Undergrad	Graduate & Higher	Not Reported
Working Age Population				
1999	11,204	6,582	4,842	145
2000	11,512	6,708	4,744	181
2001	12,308	7,008	5,380	-
2002	12,886	7,485	5,530	-
Jan 2003	13,022	7,488	5,534	-
Labor Force				
1999	7,481	3,868	3,643	128
2000	7,517	3,810	3,597	148
2001	8,372	3,868	4,423	-
2002	8,853	4,107	4,546	-
Jan 2003	8,675	4,122	4,553	-
Employment				
1999	6,554	3,142	3,412	188
2000	6,528	3,188	3,420	148
2001	7,381	3,413	3,898	-
2002	7,484	3,510	3,984	-
Jan 2003	7,485	3,482	3,983	-
Unemployed				
1999	927	508	431	38
2000	888	502	487	38
2001	1,001	538	558	-
2002	1,188	587	602	-
Jan 2003	1,220	632	588	-

*Notes: 1. Details may not add up to respective totals due to rounding. 2. Estimated based on the 1993 Census-based Population Projections
 Source: Labor Force Statistics as used in the original Marshall Staffing, HRD, Yearbook of Labor Statistics, BLS, various years

GDP and Employment Growth Rates



Growth Rates : GDP and Employment by Class of Worker



Growth Rates: GDP by Sector and Employment by Class of Worker



Non-regular Workers, 1989-1997

INDICATOR	1989	1990	1991a	1992	1993	1994	1995	1996	1997
Levels ('000)									
TOTAL EMPLOYMENT	2,431	2,378	2,292	2,504	2,561	2,493	2,692	2,606	2,865
Part-time Workers	32	39	34	37	46	37	48	51	63
Casual Workers	100	87	95	102	87	108	119	108	134
Contractual Workers	201	195	161	250	250	197	319	320	401
Total Non-Regular Workers	333	321	290	389	383	342	486	479	598
Percent									
Part-time Workers	1.3	1.6	1.5	1.5	1.8	1.5	1.8	2.0	2.2
Casual Workers	4.1	3.7	4.1	4.1	3.4	4.3	4.4	4.1	4.7
Contractual Workers	8.3	8.2	7.0	10.0	9.8	7.9	11.8	12.3	14.0
Total Non-Regular Workers	13.7	13.5	12.7	15.5	15.0	13.7	18.1	18.4	20.9

Note: a) Excludes Agriculture, Fishery and Forestry

Source of data: Bureau of Labor and Employment Statistics, Survey of Specific Groups of Workers

Job Vacancies Solicited/Reported, Applicants Registered and Placed, 1990 - 2001

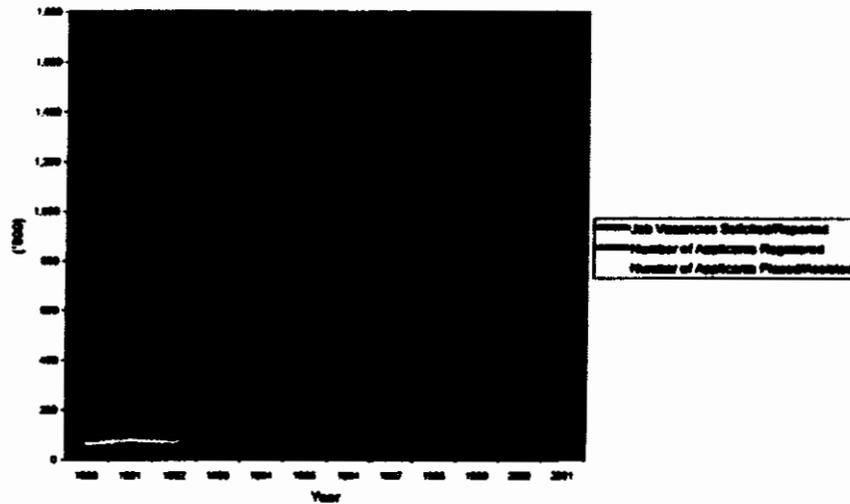
In thousands

Year	Job Vacancies Solicited/Reported	Number of Applicants Registered	Number of Applicants Placed/Assisted
1990	83	104	65
1991	106	122	81
1992	117	120	71
1993	207	317	162
1994	421	553	373
1995	581	733	566
1996	535	623	449
1997	565	643	477
1998	505	547	393
1999	886	907	636
2000	1,434	1,619	983
2001	1,090	1,151	922

Notes: 1. Data on job vacancies solicited/reported from 1997 to 1999 reflect data from Employment Promotion Division (EPD) of DOL's Regional Office only. From 1991 to 2000, data include those coming from Public Employment Service Offices (PESOs) directly to the Community Employment Centers (CECs). Starting 2001, employment facilitation through EPD had been fully absorbed to Public Employment Service Offices (PESOs) of Local Government Units (LGUs). 2. Applicants placed from 1994 onwards include those coming from Local Government Agencies (LGAs) which had been covered to Private Recruitment and Placement Agencies (PRPAs) starting 2001.

Source of data: DOL's Regional Office, Bureau of Labor and Employment Statistics (BLES), Statistical and Performance Reporting System (1989-2000); Bureau of Labor Employment (BLE), Statistical and Performance Reporting System (2001)

Job Vacancies Solicited/Reported, Applicants Registered and Placed, 1990-2001



Hiring and Firing Workers

	Conditions of			
	Flexibility of hiring index	Flexibility of employment index	Flexibility of firing index	Employment law index
<i>Philippines</i>	58	73	50	60
Singapore	33	26	1	20
Taiwan, China	81	59	32	57
Thailand	78	73	30	61
Vietnam	43	77	48	56
China	17	67	57	47
Hong Kong, China	58	22	1	27
Indonesia	76	53	43	57
Malaysia	33	26	15	25

Source: Doing Business in 2004, World Bank

Wage Rates

Region	Non-Agriculture	Agriculture
NCR	280	243
CAR	187	174
Region 1	172	154
Region 2	181	189
Region 3	209	177
Region 4	207	175
Region 5	159	145
Region 6	168	143
Region 7	190	175
Region 8	186	159
Region 9	175	140
Region 10	205	200
Region 11	194	174
Region 12	Daily: 180.00, Hourly: 22.50	
CARAGA	179	159
ARMM	148	134

Source: National Wages and Productivity Commission

Note: Average values of sub-segments under Non-Agriculture and Agriculture, as detailed breakdown for Region 12