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Philippine labour market outcomes and scenarios: 2000-2015

Dante B. Canlas

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Dante B. Canlas

ILO Subregional Office for South-East Asia and the Pacific
Manila, Philippines

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Abstract

The study assesses various labour market outcomes for the period 2000-2006, and with this information, paints likely scenarios for 2007-2015. The exercise seeks to determine whether observed outcomes and the scenarios they yield are aligned with Philippine commitment to the Asian Decent Work Agenda. Based on aggregate indicators of labour market performance, e.g., employment and labour productivity, prospects for income and employment 2007-2015 appear promising. The Decent Work Agenda, however, goes beyond mere employment. It has several dimensions, including, increased real earnings, declining poverty status, social protection, and quality of life in the workplace.

In fact the outcomes reveal episodes of declining real earnings, slow poverty reduction, and high income inequality, all of which are contrary to the vision of the Decent Work Agenda.

Corrective measures aimed at raising skills and human capital of workers, improving the investment climate conducive to creation of high wage high-skill jobs, and strengthening existing institutional mechanisms for workplace productivity and cooperation between workers and employers are indicated.

About the author

Dante B. Canlas is a professor of economics at the University of the Philippines School of Economics (UPSE). During the course of a distinguished career, he has held visiting appointments in universities and research institutions both in the Philippines and abroad. He has been seconded to the national government and at the Asian Development Bank. He has also taught and written numerous articles in the areas of macroeconomics, money, and labour.

Dr. Canlas holds a BS in Mathematics, a BA in Economics and also a PhD in Economics from UP. He is known as one of the foremost development economists of the Philippines and has been a long-time professor at the UP School of Economics. He is also co-editor of the *Philippine Review of Economics and Business* published by UP College of Business Administration.

Dr. Canlas has served in government with the National Economic and Development Authority (NEDA). From 1992-1998, he occupied the position of Undersecretary and later as Deputy Director-General where he was responsible for macroeconomic planning, social development policy formulation, public investments and ODA projects programming and monitoring. From 2001–2002 he returned to government as Director-General of NEDA and concurrently as Secretary of Socio-Economic Planning. From 2003–2004 he served with the Asian Development Bank as Executive Director (for Kazakhstan, Maldives, Marshall Islands, Mongolia, Pakistan, and Philippines).

ASIAN DECENT WORK DECADE 2006 2015

Foreword

At the 14th regional meeting of the International Labour Organization (ILO) held in Busan, South Korea in August 2006, representatives of 40 Member States covering the Asia, Pacific and Arab countries agreed to the launch of the **Asian Decent Work Decade** with the aim of contributing to the global poverty reduction agenda through enhancing productivity, competitiveness and growth and the promotion of "tangible" policy measures to better ensure that economic growth throughout the region—the most dynamic in the world at the present time—translates into productive employment and decent work for all.

The Decent Work Decade will run to 2015. During this time governments, labour organizations and employer organizations alike are committed to a concentrated and sustained effort to create employment opportunities that enable individuals to realize their own potential through work appropriate to their skills and at a fair and just wage that, even for the unskilled, will give them a living wage and thereby make a contribution to poverty reduction.

Integral to the programme is the ILO's Decent Work Agenda which stands on the pillars of rights of work, employment, social protection and social dialogue. ILO Director-General, Juan Somavia, who speaking after the meeting, summed up the programme succinctly in the following words:

"The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity."

In the Philippines where we have almost 30 percent of the workforce either unemployed or underemployed and where poverty remains entrenched in many places, the Decent Work Decade and the Agenda that accompanies it, assumes a special importance.

It provides us with a fresh opportunity to examine critically the policy assumptions and actions that inform the approach of government, of workers and employers to the workplace and, hopefully, act as a guide towards solutions to present problems that can be endorsed and accepted by all stakeholder groups.

With this in mind, the ILO Subregional Office for South-East Asia in Manila has commissioned a series of working papers designed to examine aspects of the labour situation in the Philippines from the standpoint of the commitments made in Busan and as a catalyst to informed debate.

This paper is part of that series.

Linda Wirth
Director
ILO Subregional Office for South-East Asia and the Pacific
Manila, Philippines

June 2008

International Labour Organization

Decent Work for all

"The goal of decent work is best expressed through the eyes of the people. It is about your job and future prospects, about your working conditions, about balancing work and family life, putting your kids through school or getting them out of child labour. It is about gender equality, equal recognition and enabling women to make choices and take control of their lives.

For many, it is the primary route out of poverty. For many more, it is about realizing personal aspirations in their daily existence and solidarity with others. And everywhere, and for everybody, decent work is about securing human dignity".

Juan Somavia, ILO Director-General

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Common acronyms

DOLE	Department of Labor and Employment
NCR	National Capital Region (Metro Manila)
ADB	Asian Development Bank

Glossary of terms used in tables and formulas

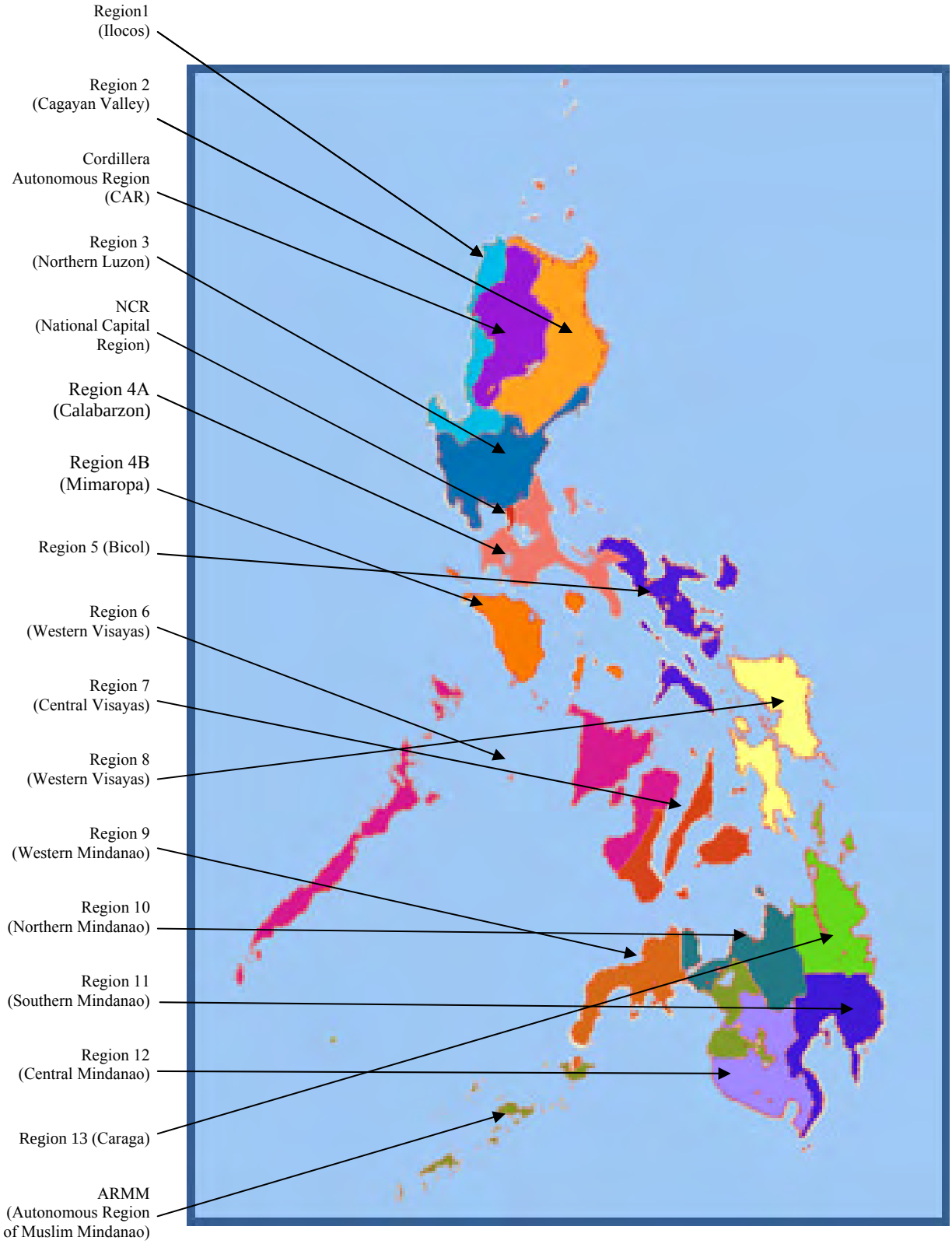
RGDP	Real Gross Domestic Product
N	Employment (in thousands)
RGDP/N	Labour Productivity
PC RGDP	Per Capita Real Gross Domestic Product
K	Capital
α	Share of labour to total GDP
TFP	Total Factor Productivity
LFP	Labour Force Participation
LFPR	Labour Force Participation Rate
U	Unemployment rate (LFPR-N)/LFP
Search unemployment	Unemployment which occurs while an unemployed worker searches the job market for an acceptable job offer.

A note on spelling conventions

In accordance with the practice of the International Labour Organization (ILO) this document follows the general spelling conventions as laid out in the Oxford Dictionary. Where two or more alternative spellings are allowed we normally apply the first such spelling.

Exceptions are made for proper names. Thus we use the general term of "labour market" and "labour scenarios" but "Department of Labor and Employment" and "Labor Code of the Philippines."

Map of the Philippines



Philippine labour market outcomes and scenarios: 2000-2015

By

Dante B. Canlas

1 Introduction

This report has two interrelated objectives: firstly to assess labour market outcomes in the Philippines over the period 2000-2006; and secondly, to use this information to project likely scenarios in the labour market for the years 2007-2015. The actual outcomes are then used as benchmarks or reference points from which future possible scenarios may be drawn. The scenario-building done here is not to be construed as a forecasting exercise based on models of behaviour when people are placed in a labour market setting. Instead, the scenarios involve simulated quantities of some variables that— based on the evidence of the modelling outcome— look to be achievable.

The labour market outcomes and scenarios of central interest are the following: (i) employment and unemployment; (ii) labour force participation; and (iii) work income. To have command over work income, a person has to be employed. Being employed, however, does not guarantee that a worker is immune from hardships. Some people are employed at low wages and trapped below poverty income levels. In 2006, work income, whether in the form of wages and salaries and/or entrepreneurial income, constituted about 80 percent of total income. Hence, both employment status and work income are crucial determinants of individual and family welfare.

Labour market outcomes generally reflect the aggregate performance of the economy. A strong GDP growth, for instance, normally translates into employment growth. This tends to be the case since at the most rudimentary level where labour and capital are major inputs into production. Income is created in the production process and distributed as returns to various grades of labour and returns to capital of differing vintages. These various factors of production together with policy rules of the government as well as forces emanating from outside the country tend to influence people's decision about staying in or out of the labour market and whether or not investments in human and physical capital are to be undertaken. It also affects the expansion or streamlining decisions of firms, with labour market consequences.

In this context, the study opens up with a review of the aggregate performance of the economy in the first few years of the 21st century, along with the employment and earnings structure that has emerged. To establish early on the links between growth of real GDP and employment, change in real GDP per worker is disaggregated into change in employment plus change in labour productivity—where the latter is defined as the ratio of GDP to employment. Both the growth in labour productivity and employment exhibit volatility. The ratio of labour income to GDP is estimated and is seen to be low compared to the share of capital and is nearly constant across time.

Since 2001, the Philippines has been experiencing an economic recovery that seems to have gained strength despite being hit, directly or indirectly, by a variety of shocks. These included domestic political turmoil, the global retreat and realignment of the information technology sector following the burst of the dotcom bubble, the 9/11 disaster and the USA's declared war against terrorism, epidemics like SARS and avian flu, as well as natural disasters, such as, typhoons.

Growth in real GDP and employment, however, has been associated with only a slow decline in poverty incidence and high income inequality, a situation that has not gone unnoticed (see, e.g., Canlas, Aldaba, and Esguerra 2006). Most individuals and households derive a significant portion of their income from the labour market. And so to be able to explain this phenomenon of growth with continued poverty and inequality, a look at the labour market status of people and their work income is useful.

In accounting for observed wage, employment and unemployment outcomes, both labour demand and supply factors are considered. This may be a narrow way of interpreting the observations, but let's hold the scepticism for a while and see how far we can go within this framework. Armed with these insights, the labour market scenarios are drawn by simulating the effects of shifts in either the labour demand or supply curve and quantifying the impact on the unemployment rate. The aim is to find out the nature of the shift that can deliver a sustained decline in the unemployment rate over the medium term—that is from 2007 to 2015.

The actual choices made by people, whether as employers or employees; give rise to aggregate observations on employment, unemployment, labour force participation, and earnings. Being employed or unemployed, however, does not yield enough information about those experiencing hardships in the labour market. The state of being underemployed is more informative in this regard, pointing out the usefulness of taking a closer look at work income. The study then proceeds to draw insights about what factors influence labour productivity and the share of labour income to GDP. Data on earnings and earnings differentials by occupation and region are examined. The leading regions in this regard are the National Capital Region (NCR), Region 3 (Central Luzon), and Region 4A (Calabarzon). Convergence, it seems, is not occurring, with the lagging regions showing weak capacities to catch up with the leaders.

Meanwhile, other decisions such as those bearing on occupational choice and human-capital investments influence labour productivity, earnings, poverty status, formal- and informal sector employment, and distribution of employment opportunities by gender, as well as child labour. Some of the observed outcomes are desirable but others are not. Clearly, some collective actions, whether undertaken by the public or private sector, are needed to correct unwanted outcomes.[1]

The exercise is linked to a practical consideration. Are the labour market outcomes and likely scenarios aligned with the country's commitment to the "Asian Decent Work Agenda?" If not, what ought to be done so that the Philippines stands a good chance of realizing the desired outcomes under this agenda? As enunciated in *Realizing Decent Work in Asia: Report of the Director-General (2006)*, the "Decent Work Agenda" is committed to addressing at least five areas of concern: (i) competitiveness, productivity, and decent jobs in a globalizing context; (ii) the "Millennium generation," decent jobs for young people;" (iii) managing labour migration; (iv) labour market governance for realizing decent work in Asia; and (v) extending social protection to the informal economy. The following are considered cross-cutting themes: labour standards, fundamental principles and rights at work; gender equality; and social dialogue.

To be sure, the Philippine government has long declared its commitment to the "Decent Work Agenda." This is spelled out, for instance, in the Medium-Term Philippine Development Plan (MTPDP) for 2001–2004 and in the successor plan for 2004–2010. Both documents are officially published by the National Economic and Development Authority (NEDA), the planning agency of the national government. Sustained growth of income and full employment are major development goals; both are considered crucial in meeting the Millennium Development Goals (MDGs) and the various targets under each goal. The crucial question is whether the Philippines will succeed in meeting these labour market objectives.

The rest of this report is organized as follows:

- Section 2 examines the observed links between real GDP, employment, and labour productivity over the period 2000–2006. Labour market scenarios are then simulated for the period 2007–2015 to see the effects of shifts in either labour demand or supply on the unemployment rate;

[1] The need for labour-market reforms in the Philippines is increasingly being recognized (see, for example, HDN-UNDP 2002, and Felipe and Lanzona 2006).

- Section 3 discusses labour market status and work income and tries to account for the constancy and relatively low income share of labour;
- Section 4 probes the microeconomic underpinnings of the labour market outcomes in the preceding two sections by examining both labour supply and demand factors;
- Section 5 presents some likely labour market scenarios over the period 2007-2015 and suggests some policy adjustments and programmes supportive of the "Decent Work Agenda;"
- Section 6 concludes and summarizes the study.

2 Labour market outcomes and scenarios

This section shows a decomposition of real GDP growth into growth of employment and growth of labour productivity.

Labour market scenarios are then presented, based on a number of quantitative simulations of shifts in labour supply and demand, to find out under what conditions the Philippine economy can come close to full-employment.

Table 1: Real GDP, employment and labour productivity

Real Gross Domestic Product (RGDP), Employment (N), Labour Productivity (RGDP/N), and Per Capita (PC) RGDP

Year	RGDP (in million pesos) (1)	N (in thousands) (2)	RGDP/N (in 1985 pesos) (3) = (1)/(2)	PC RGDP (in 1985 pesos) (4)
2000	972 960	27 775	35 030	12 670
2001	990 042	30 087	32 906	12 598
2002	1 034 094	30 251	34 184	12 900
2003	1 085 072	31 353	34 389	13 252
2004	1 152 174	31 741	36 299	13 789
2005	1 209 473	32 875	36 790	14 186
2006	1 274 415	33 185	38 403	14 653

Source: National Statistical Coordination Board (NSCB), Philippine Statistical Yearbook, Manila, 2006.

2.1 GDP growth, employment, and labour productivity

Between 2000 and 2006, real GDP expanded 1.3 times for an average growth each year of 4.6 percent (see Table 1). Real GDP in 2006 was PhP 1.274 trillion, compared to PhP 972.96 billion in 2000. Employment in 2006 was 1.2 times that of 2000, rising to 33.18 million workers in 2006 from 27.77 million in 2000. Labour productivity (the ratio of GDP in constant 1985 prices to the number of employed workers) expanded a mere 1.1 times over the same period; it was PhP 38,403 in 2006, compared to PhP35,030 in 2000. Per capita real GDP (with population as the denominator) also increased from 12,670 pesos in 2000 to 14,653 pesos in 2006. The per capita increase is much smaller than labour productivity increase because of the rapidly expanding population.

Table 2 shows the sources of real GDP growth over this same period, namely, growth of employment and growth of labour productivity.[2] Excluding 2001, a year marked by domestic political shocks and by the 9/11 disaster, the average growth rate each year of real GDP for 2002–2006 was 5.18 percent. For the same period, the growth rate of employment was 1.99 percent while that of labour

[2] Since Y = (Y/N) (N), taking logs and differentiating with respect to time yields growth rate of Y as identically equal to growth rate of Y/N plus growth rate of Y.

productivity was 3.19 percent. Employment growth accounted for 38 percent while labour productivity growth contributed 62 percent to total real GDP growth.

The growth rates of employment and labour productivity are important to note. Both exhibit high variability. In any event, the average annual real GDP growth of 5.18 percent and the peak labour productivity of 5.58 percent in 2004 are encouraging. They may be viewed as longer-term potentials to which the country should aspire. Understanding the sources of enhanced labour productivity is a key factor in meeting the challenge of enhanced long-term economic growth.

Sustaining high levels of economic growth in the face of a rapidly rising population is a major challenge for the Philippines. There remains room to improve growth in labour productivity, especially, if the major source of that growth comes from total factor productivity (TFP)—or the efficiency in use of both labour and capital. TFP can come from investments in knowledge and technological progress embodied in physical capital. Hence it is human and physical capital accumulation that largely underpins longer-term growth.

Table 2: Relationship between GDP growth and labour productivity

Growth Rate (g.r.) of Real GDP (RGDP), Employment (N) and Labour Productivity (RGDP/N) in percent)

Year	g.r. (RGDP)	g.r. (N)	g.r. (RGDP/N)
2000	n.a.	n.a.	n.a.
2001	1.76	8.32	(6.56)
2002	4.45	0.55	3.90
2003	4.93	4.30	0.63
2004	6.18	0.60	5.58
2005	4.97	3.57	1.40
2006	5.37	0.94	4.43
Ave., 2002-06	5.18	1.99	3.19

Source: Author's calculations

Adopting a Cobb-Douglas production function and assuming competitive conditions in product and factor markets, the growth rate of real GDP is equal to the sum of the weighted growth rates of labour and capital plus growth of total-factor productivity (TFP) or rate of technological progress. That is

$$(1) \quad \text{g.r. (RGDP)} = \alpha\,[\text{g.r. (N)}] + (1 - \alpha)\,[\text{g.r. (K)}] + \text{g.r. (TFP)}$$

Where g.r. denotes growth rate, RGDP is real GDP, N is employment, and K is capital. The share of labour to total GDP is α. Under constant returns to scale, the share of capital is 1 – α. Using data taken from various issues of the *National Accounts of the Philippines* (NSCB, June Release), the income share of labour is estimated to be 0.35. It follows that capital's share is 0.65.[3] These income shares are confirmed by an estimate of a regression model based on a Cobb-Douglas production function that exhibits constant returns to scale (see Cham 2007).

Table 3 shows the real GDP growth rate decomposed into the sum of the weighted growth rates of labour and capital and the growth rate of TFP. The decomposition is based on average annual growth figures for the periods indicated. The numbers in parentheses represent the shares of the weighted factor growth to GDP growth. For example, in 1981–90, average annual GDP growth rate was 1.81 percent, broken down into 1.37 percent from labour, 2.05 from capital, and -0.62 from TFP. For 1991–2000, GDP growth went up to an average of 2.93 each year, with capital growth of

[3] It can be seen that the share of capital is 1.85 times that of labour. This is in contrast to what is observed in developed countries where the income share of labour exceeds that of capital. The share differential is largely determined by relative size of factor endowments, with the abundant factor getting a smaller share of total income.

1.77 accounting for 60.4 percent of total GDP growth. In 2001–06, average annual GDP growth was 4.77 percent and TFP growth was 2.35, which accounted for about 50 percent of total GDP growth.

Table 3: Decomposition of real GDP growth in percent

Period	g.r. (RGDP)	(0.35)g.r. (N)	(0.65) g.r. (K)	g.r. (TFP)
1981–1990	1.81	1.37 (0.76)	2.05 (113.2)	-0.62 (-89.5)
1991–2000	2.93	0.87 (29.7)	1.77 (60.4)	0.29 (9.9)
2001–2006	4.7	1.24 (26.4)	1.12 (23.8)	2.35 (49.9)

Source: Cham (2007)

We note the significant increase in the share of TFP growth over the period 2001–06. In previous periods, much of the growth in real GDP could be traced to growth of labour and capital. The implication of the improvement in TFP to employment growth is worth exploring. For example, what does the rise in TFP growth from 0.29 percent in 1991–2000 to 2.35 percent in 2001–06 mean? From Table 3, it is seen that when TFP growth is equal to 0.29 percent, and (0.35) [g.r. (N)] = 0.87, then g.r. (N) is 2.48 percent. In 2001–06, TFP growth went up to 2.35 percent; since (0.35) [g.r. (N)] = 1.24, then g.r. (N) is 3.54 percent.

To sum up, the increase in TFP growth over the period 2001–2006 lifted employment growth from 2.48 percent to 3.54 percent.

We may interpret an increase in TFP growth as an upward shift in the production function. That is, for any given factor input of labour, an even greater output is obtained. This means an upward shift in labour's marginal product schedule, and accordingly, a corresponding upward shift in the labour demand curve. At the same wage rate, more workers are hired.

Given the positive impacts of TFP growth on employment, a good understanding of the factors that determine TFP is helpful. Such factors may include investments in both human capital as well as in physical capital that embodies knowledge or technological progress. Every time a firm invests in physical capital, it adds to society's stock of knowledge, yielding increasing returns (see Romer 1986). Capital-intensive techniques enhance aggregate capital, allowing continuous growth in real per capita GDP and in employment through a positive scale effect. Capital investments unleash at least two forces for growth: one, directly through investment multiplied by its weight of 0.65 and two, through the contribution to TFP. We use this insight in simulating movements in labour demand and supply in the following section.

2.2 Labour market simulations: 2007–2015

In the scenario-building of this section, the initial employment growth to be used is 3.5 percent, which was the average annual growth rate achieved over the period 2001–06. We note that such a growth rate was attained in 2005, and in back the 1990s. For labour productivity, the initial value to be used is 3.0 percent, which is the average labour productivity growth each year for the period 2002–06 (see Table 2). These values are assumed to hold for three years and then are increased to allow for the positive effects on TFP every time there is an addition to physical capital. Shifts in labour demand are assumed driven by increases in TFP.

Table 4 shows the benchmark values for N and GDP/N growth rates from which other feasible scenarios can be drawn. Employment growth increases steadily from 3.5 percent to 3.75 percent over the period 2007–2015. When added to the assumed growth rate of labour productivity, the real GDP growth rate increases from 6.5 percent to 7 percent.

Table 4: Growth rate assumptions: Assumptions for employment, labour productivity and real GDP in percent

Year	Employment growth	Labour productivity growth	Real GDP growth
2007	3.50	3.00	6.50
2008	3.50	3.00	6.50
2009	3.50	3.00	6.50
2010	3.65	3.10	6.75
2011	3.65	3.10	6.75
2012	3.65	3.10	6.75
2013	3.75	3.25	7.00
2014	3.75	3.25	7.00
2015	3.75	3.25	7.00

Source: Author's assumptions

Turning now to labour supply, the starting point is to assume a growth rate of 2.5 percent for the working-age population 15 years and over. This seems reasonable given that a long line of baby boomers still keeps the growth rate for the working-age group high. Next, the labour force participation rate (LFPR) is assumed equal to 67 percent, a value close to the current average. The assumptions for the growth rate in labour demand are as shown in Table 4. Subtracting the employed from the number of labour participants and dividing by the latter yields the unemployment rate, u = (LFP – N) / LFP.

The results of the simulations are shown in Table 5. The unemployment rate is seen to decline steadily over the period 2007–2015, declining to a low of two percent in 2015. The point to note is that efforts at maintaining labour demand at a rate more rapid than the labour participation rate enables the economy to reach eventually a situation of full employment. The unemployment pattern can change depending on the growth rates of labour demand and supply.

Table 5: Labour market scenario I

Year	WAP	LFPR	N	u
2007	57 016.65	38 201	34 116	0.11
2008	58 442.07	39 156	35 310	0.10
2009	59 903.12	40 135	36 546	0.09
2010	61 400.7	41 138	37 879	0.08
2011	62 935.71	42 167	39 262	0.07
2012	64 509.11	43 221	40 695	0.06
2013	66 121.83	44 302	42 221	0.05
2014	67 774.88	45 409	43 805	0.04
2015	69 469.25	46 544	45 447	0.02

Source: Author's calculations

Notes on the table

Growth rate of Working –Age Population (WAP) = 2.5 percent; Labour force participation rate, LFPR = 0.67; N = employment; and u = unemployment rate

Below are additional simulations done along the lines of comparative statistics. That is, let either labour demand or supply change while holding all other variables constant, starting with a change in the growth rate of labour supply.

A decline in the growth rate of the working-age population, holding all other variables constant, can be relied on to bring a decrease in the unemployment rate in a shorter period of time. Table 6, for example, shows the simulations if the working-age population growth rate drops to 2.25 percent, holding all other assumptions about LFPR, growth of labour demand, and those in Table 4 the same as before.

Table 6: Labour market scenario II

Year	WAP	LFP	N	u
2007	56 878	38 108	34 116	0.10
2008	58 157	38 965	35 310	0.09
2009	59 466	39 842	36 546	0.08
2010	60 804	40 739	37 879	0.07
2011	62 172	41 655	39 262	0.06
2012	63 571	42 592	40 695	0.04
2013	65 001	43 551	42 221	0.03
2014	66 464	44 531	43 805	0.02
2015	67 959	45 533	45 447	0.00

Source: Author's calculations

Notes on the table

Author's calculations are based on an assumed growth rate for the working-age population of 2.25 percent; the rest of the assumptions in Table 5 are maintained.

It is seen that under this scenario the unemployment rate falls to zero in 2015. It's not realistic, but we urge the reader to suspend disbelief. The aim of the simulation is to show what the possibilities are from slowing down the growth of labour supply, say, through a population management programme that reduces the rate of increase of new entrants, age 15 to 19 years, into the labour force, while allowing labour demand to grow at a sufficiently rapid rate.[4]

The significance of shifts in labour demand and supply to the unemployment rate turns on the question of what variables influence these factors. We assumed only one value for labour force participation rate (LFPR) and that is 0.67. But we realize that LFPR can be shifted by both structural and cyclical factors. For example, there could be shifts in taste for market work versus staying out of the labour force, a decision that women workers make all the time. To illustrate the point: World War II saw a spike in women's labour force participation rates in the USA. As men went to war, women took their place in the workforce. One use of these simulations is that they direct us to aspects of human behaviour that call for closer study; the determinants of labour force participation in the aggregate and by sex, is illustrative of this point.

Similarly, labour demand is shifted by a variety of factors. Business cycle fluctuations, commodity-price shocks, natural disasters, droughts, product diversification and technological change come to mind. Labour demand studies are just as important as labour supply studies if we are to shed light on unemployment patterns, whether at the aggregate or disaggregated level.

In 2007, real GDP in the Philippines grew by 7.3 percent. Meanwhile, the unemployment rate in the 2007 October round survey declined to 6.3 percent compared to 7.4 percent in the same period last year. The economy, meanwhile, had been buffeted by commodity price shocks, most significantly in the price of oil. At the same time, the USA, a major destination of Philippine exports, was threatened

[4] It is reported in Section 4 below that the 2007 census estimate of the population puts the annual population growth rate each year in 2000–07 at 2.1 percent. If this growth rate prevails beyond 2007 and the assumed growth in labour demand continues, zero unemployment is reached earlier than 2015. We skip this scenario based on a population growth rate of 2.1 percent as it will show a negative unemployment rate in 2015.

by a recession (and still is) largely on account of the collapse of its sub-prime mortgage market. Doubts, therefore, have been raised about the sustainability of real GDP growth in such a volatile climate. Taking these doubts into consideration, we now undertake some further simulation based on a lower growth rate for labour demand while maintaining first the growth rate of the working age population at 2.5 percent and LFPR at 0.67 percent. For the periods indicated, the assumed growth rates for labour demand are: 3 percent (2007–2009); 3.15 percent (2010–2012); and 3.3 percent (2013–2015).

The results of the simulation are shown in Table 7 as scenario III. The unemployment rate declines steadily from 11 percent in 2007 to 6 percent in 2015. It is seen that on account of reduced growth rates in labour demand, the unemployment rates are higher than those in Tables 5 and 6.

We simulate further, assuming this time the lower growth rate of 2.25 percent for the working-age population and the growth rates of labour demand used in Table 7. The results are shown below in Table 8 as scenario IV. It is seen that under this assumption the unemployment rates are lower—from 11 percent in 2007 down to 4 percent in 2015. The decline in the assumed growth rate of labour supply reduces the unemployment rate.[5] We continue to assume that the shocks that intervened in 2007 and the expected recession in the United States during 2008 will cause a slowdown in real GDP growth in the Philippines. In the process, labour demand is dampened. Some jobs are destroyed, for example, in the oil energy-intensive sectors and sub-sectors of the economy, such as those in the electricity and water utilities. As relative prices of these services rise, the quantity of services demanded slows down.

All of the outcomes of the four labour market scenarios are consistent with intuition. A consistently high growth of labour demand that sufficiently outpaces that of labour supply yields full employment after a reasonable period of time. But if labour demand weakens from unanticipated shocks or if labour supply grows at a faster rate than expected, then the unemployment rate rises.

Table 7: Labour market scenario III

Year	WAP	LFPR	N	u
2007	57 017	38 201	33 951	0.11
2008	58 442	39 156	34 969	0.11
2009	59 903	40 135	36 018	0.10
2010	61 401	41 138	37 153	0.10
2011	62 936	42 167	38 323	0.09
2012	64 509	43 221	39 531	0.09
2013	66 122	44 302	40 835	0.08
2014	67 775	45 409	42 183	0.07
2015	69 469	46 544	43 575	0.06

Source: Author's calculations

Notes on the table

Growth rate of working-age population = 2.5 percent. LFPR = 0.67

[5] The unemployment rate goes down further if we simulate using the population and working-age population growth rate of 2.1 percent derived from the 2007 population census estimate

Table 8: Labour market scenario IV

Year	WAP	LFPR	N	u
2007	56 878	38 108	33 951	0.11
2008	58 157	38 965	34 969	0.10
2009	59 466	39 842	36 018	0.10
2010	60 804	40 739	37 153	0.09
2011	62 172	41 655	38 323	0.08
2012	63 571	42 592	39 531	0.07
2013	65 001	43 551	40 835	0.06
2014	66 464	44 531	42 183	0.05
2015	67 959	45 533	43 575	0.04

Source: Author's calculations

Notes on the table

Growth rate of working-age population = 2.25 percent; LFPR = 0.67

3 Labour force status and work income

The "Decent Work Agenda" goes beyond the labour force status of being "employed" or "unemployed". It is also, for instance, about productivity and earnings. In this section, we begin by looking at actual figures on labour force participation, employment and unemployment. We ask whether the data provides adequate information to the question: who are those that are encountering hardships in the labour market? Let me break it at once with the answer to this question: the answer is "No." This motivates us then to investigate further labour's aggregate income share and earnings.

3.1 Labour force participation, employment, and unemployment

The National Statistics Office (NSO) is the government agency responsible for generating and releasing the basic labour force data. Each quarter, it conducts *Labor Force Surveys* (LFS). These are the January, April, July, and October rounds. The Department of Labor and Employment (DOLE), through the Bureau of Labor and Employment Statistics (BLES), makes a compilation of this data and publishes the annual *Yearbook of Labor Statistics*.

The labour force is defined as the working-age population 15 years old and over who are either employed or unemployed. To be considered in the labour force, the individual must be both actively seeking work and available for work as determined by respondents' answers to a questionnaire.

Table 9 shows labour force data expressed as an annual average of the quarterly rounds from 2000 to 2006. Some researchers prefer to use annual averages to try to smooth out the quarterly fluctuations. The downside from this approach is that extreme values tend to influence unduly the mean measures. Other researchers, particularly, those interested in labour market fluctuations prefer to use quarterly data. Still others use what they consider the most "normal" of all the quarterly surveys and this is the October round (see Table 10). In any event, choice of which labour force data to use—annual average or quarterly—is largely dictated by the purpose of the specific research study.

Table 9: Working age population and labour force data (annual averages)

Year	WAP	LFP	N	U	LFPR	n	u
2000	47 640	31 150	27 452	3 458	65	88.1	11.1
2001	48 929	32 808	29 155	3 653	67	88.9	11.1
2002	50 344	33 935	30 061	3 874	67	88.6	11.4
2003	51 792	34 570	30 635	3 935	67	88.6	11.4
2004	53 143	35 862	31 613	4 249	67	88.2	11.8
2005	54 388	35 381	32 459	3 068	65	91.7	8.7
2006	55 626	35 787	32 962	2 824	64	92.1	7.9

Source: DOLE, Yearbook of Labor Statistics 2005; NSO, Labor Force Survey 2006

Notes on the table

Working age population (WAP), labour force participation (LFP), employment (N), unemployment (U) are annual averages in thousands.

Other units are percentage rates

The lower case letters, n and u, and LFPR are rates and in percent.

Table 10 shows both the levels and rates of labour force participation, employment, and unemployment for 2000–2006 based on the October round survey. In April 2005, the NSCB adopted an availability criterion in the labour force data. The average annual labour force participation rate for 2002–2004 is 66.6 percent and for 2005–2006, 64.4 percent. The average annual employment rates for the two periods are 89.6 percent and 92.65 percent, respectively, yielding the corresponding unemployment rates 10.4 percent and 7.35 percent.

Table 10: Labour force participation, employment and unemployment

Data taken from October round figures

Year	LFP	g.r. (LFP)	N	g.r. (N)	U	g.r. (U)	LFPR	n	u
2000	30 908		27 775		3 133		64.3	89.9	10.1
2001	33 361		30 087		3 271		67.5	90.2	9.8
2002	33 674	0.94	30 251	0.54	3 423	4.6	66.2	89.8	10.2
2003	35 120	4.29	31 553	4.30	3 567	4.2	67.1	89.8	10.2
2004	35 629	1.44	31 741	0.59	3 888	8.9	66.5	89.1	10.9
2005	35 494	(0.37)	32 875	3.57	2 619	(32.6)	64.8	92.6	7.4
2006	35 806	0.87	33 185	0.94	2 621	0.07	64.0	92.7	7.3
Av.		1.43		1.98					

Source: NSCB, Philippine Statistical Yearbook 2006 and Department of Labor and Employment (DOLE), Current Labor Statistics, January 2007.

Notes on the table

LFP, N, and U are levels taken from the October rounds and in thousands. Lower case letters, n and u, and LFPR indicate rates and are in percent.

Averages are for the period 2000–2006

The effects of the new labour force concepts introduced in April 2005, and particularly the question relating to "availability for work" are worth noting. Some of those previously classified as unemployed under the earlier definition were rendered economically inactive under the new one, i.e., they were classified as being out of the labour force. This had the effect of reducing the official unemployment rate.

In consequence, the labour force participation rate dropped markedly in 2005; the employment rate rose significantly; and the unemployment rate declined by 3.5 percentage points from the 2004 rate. Following the adoption of the availability criterion, a significant number of the unemployed were reclassified as being out of the labour force. The availability criterion reduced the number of unemployed that show up in the official surveys, but not the number of jobless.

Quite a number of the unemployed are now being classified as being "out of the labour force" by virtue of the question on their "availability" and it would be appropriate that follow-up questions be asked to probe further on this issue. The correct status in regard to the labour force of non-working people will not be truly revealed unless questions are asked as to why they are not available. This is consistent with the outcome document of the International Conference of Labour Statisticians convened by the ILO, which counsels labour force statisticians to exercise caution before classifying those in the working-age population as being "out of the labour force."

The availability criterion reduced profoundly the labour force participation rate (LFPR). Using the new definition, the average annual LFPR for 2005–2006 decreased to 64.4 percent, compared to 66.6 percent for 2002–2004. The NSCB should have found the downward shift of labour force participation rate to be puzzling given that the aggregate performance of the economy had shown no sign of slowing down in 2005, and should have reassessed its use of the availability criterion (see Canlas 2006).

This study also looks at the October rounds results of the Labor Force Surveys of 2005 and 2006 by region. The figures reproduced in Table 11 shows labour force participation, employment, and unemployment rates by region. It is seen that these figures have limited use in deducing where the employment opportunities are and who among employed individuals and families are hardships.[6]

The highly urbanized regions, namely, the National Capital region (NCR), Region 3 and Region 4A, for example, post the highest per capita incomes among regions. They have, however, also the highest unemployment rates. One reason for this is the high degree of migration from the less developed regions to highly urbanized regions such as the NCR, Regions 3 and 4A.[7]

As a result, a good deal of search unemployment (transient unemployment due to movement between locations) occurs in the highly urbanized regions. Esguerra and Manning (2007) report that between census years 1990 and 2000, Regions 3 and 4A posted positive in-migration rates; the NCR had a positive out-migration rate but those who left headed for the contiguous areas of Regions 3 and 4A. The high unemployment rates in the relatively rich regions are genuine economic concerns since migrants forego earnings in their home region to be unemployed or underemployed in the NCR and other urban areas. In contrast, Region 5 (Bicol), has a relatively high labour force participation rate and employment rate, with a low unemployment rate, and yet is one of the poorest regions in Luzon.

To shed light on who are encountering hardships in the labour market, it helps to look at underemployment and poverty incidence rates by region. Underemployment largely reflects earnings inadequacy; it tends to capture the plight of those who work and yet remain poor.

Underemployment is indicative of weak capacity to earn and meet desired consumption spending levels. An individual is considered underemployed if he or she is employed, whether full-time or part-time, but expresses a desire for additional work. Table 12 shows the underemployment rates and the poverty incidence rates by region in 2003. The latest available poverty incidence figures come from the 2003 Family Income and Expenditure Survey (FIES). The correlation tends to be positive, whereby regions exhibiting high underemployment rates are associated with high poverty incidence rates for households and for the population.

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[6] To get insights about the functioning of regional labour markets, see Esguerra and Manning (2007).

[7] The rural-urban classification is no longer possible following the change in the sampling frame of the LFS July 2003 round, which explains the use of interregional migration rates.

Table 11: Labour force participation rate by region

Region	2005			2006		
	LFPR (1)	n (2)	u (3)	LFPR (4)	n (5)	u (6)
NCR	62.3	86.3	13.7	61.7	85.3	14.7
CAR	65.6	94.4	5.6	65.8	95.3	4.7
1	61.2	93.2	6.8	59.5	93.0	7.0
2	69.6	97.4	2.6	68.4	97.1	2.9
3	61.1	90.9	9.1	60.3	91.0	9.0
4A	64.4	89.7	10.3	63.4	90.8	9.2
4B	70.7	96.3	3.7	68.1	96.7	3.3
5	66.6	95.2	4.8	64.5	94.9	5.1
6	65.4	94.3	5.7	63.4	93.9	6.1
7	65.7	92.3	7.7	64.3	92.5	7.5
8	66.2	95.5	4.5	66.2	95.3	4.7
9	64.7	96.9	3.1	65.1	97.2	2.8
10	72.7	94.6	5.4	73.0	94.9	5.1
11	66.4	94.1	5.9	65.8	94.5	5.5
12	66.8	94.6	5.4	66.1	95.3	4.7
13	67.4	95.7	4.3	68.5	96.3	3.7
ARMM	55.4	96.6	3.4	57.1	96.0	4.0
Phil.	64.8	92.6	7.4	64.0	92.7	7.3

Source: NSCB, Philippine Statistical Yearbook 2006 and
Department of Labor and Employment (DOLE), Current Labor Statistics, January 2007

Notes on the table

Participation rate, employment and unemployment rates by region for 2005 and 2006 in percent

Columns 1–3 are for 2005 and columns 4–6 are for 2006

Legend: NCR, National Capital Region; CAR, Cordillera Administrative Region; Region1, Ilocos; 2, Cagayan Valley; 3, Central Luzon; 4A, Calabarzon; 4B, Mimaropa; 5, Bicol; 6, Western Visayas; 7, Central Visayas; 8, Eastern Visayas; 9, Zamboanga; 10,Northern Mindanao; 11, Davao; 12, SOCCSKSARGEN; 13, CARAGA; ARMM, Autonomous Region of Muslim Mindanao.

See map facing Section 1 for further details.

In Luzon, it may be noted that Region 5 (Bicol) has the highest underemployment rate; it also has the highest proportion of families or population falling below the poverty income threshold.

In the Visayas, Regions 6 to 8 have high underemployment rates and high poverty incidence rates. The same is true in Mindanao. Only the ARMM shows a low underemployment rate, coupled with high poverty incidence rates. But this is largely due to the ARMM having, to begin with, low labour force participation and low employment rates, which may explain the low underemployment rate.

These figures turn on the need to examine labour's income share and earnings. This is discussed in the following section.

Table 12: Underemployment and poverty incidence rate by region, 2003 (in percent)

Region	Underemployment rate	Poverty incidence rate by household	Poverty incidence rate by population
		Luzon	
NCR	9.3	4.8	6.9
CAR	12.0	25.8	32.2
1	13.2	24.4	30.2
2	14.1	19.3	24.5
3	6.7	13.4	17.5
4A	11.4	14.5	18.4
4B	11.9	39.9	48.1
5	30.5	40.6	48.5
		Visayas	
6	21.1	31.4	39.2
7	11.2	23.6	28.3
8	25.7	35.3	43.0
		Mindanao	
9	20.7	44.0	49.2
10	27.8	37.7	44.0
11	19.5	28.5	34.7
12	22.7	32.1	38.4
13	17.9	47.1	54.0
ARMM	7.0	45.4	52.8
Phil.	15.8	24.4	30.0

Source: NSCB, Philippine Statistical Yearbook 2006.

3.2 Labour's income share

The income that labour derives from production is a good starting point for deducing the state of human welfare in the workplace. Increases in work income hinges to large degree on productivity improvements, but the former may lag behind the latter on account of information lags and weak institutional mechanisms for compensation adjustments.

Table 13 shows data on the share of nominal labour income to total GDP. Labour income consists of compensation and other remuneration of workers. For the period 2000–2005, the annual average of the share of labour income was 0.244, ranging from 0.215 in 2004 to 0.262 in 2000. Canlas (1998) reported the same share of labour income over the period 1981–1998; the mean value was 0.25. This, however, may be an underestimate. Compensation of middle to top management, for example, is perhaps not being counted as part of workers' compensation; one reason is it may be confidential. In addition, this income share of about 0.25 is low, compared to that of some other middle- to high-income countries in the region, where the labour income share ranges from 0.50 to 0.70. Hence, in the simulation shown above in Section 2.2, the assumed share of labour is adjusted upward to 0.35.[8]

[8] Gollin (2002) reports the same income share of about 0.35 for the Philippines from what he refers to as "a naïve calculation". Gollin makes some adjustments of income shares for a cross section of countries that tend to lift labour's income share, including that of the Philippines.

Table 13: Compensation of employees and share to GDP

Year	Nominal compensation of employees (in billion pesos)	Nominal GDP (in billion pesos)	Share of employee compensation to GDP (in percent)
2000	878.880	3 354.727	.262
2001	934.870	3 673,687	.254
2002	1 028.888	4 022.694	.256
2003	1 055.380	4 316.402	.245
2004	1 165.903	4 858.835	.215
2005	1 272.321	5 418.839	.234

Source: NSCB, National Accounts of the Philippines, May 2003 and June 2006.

According to the data, despite the average annual growth of 3.19 percent in labour productivity, labour's income share is declining. One factor behind the declining share of labour income to GDP already noted is the volatility of the growth of labour productivity (see Table 1). The latter declined in 2001 by about 6 percent before recovering by 3.9 percent in 2002. But it weakened in 2003. Such volatility rests on several factors, including, high labour turnover arising from unwanted business cycle fluctuations. Intermittent spells of unemployment and frequent transfer in place of employment disrupts accumulation of skills and experience on-the-job, with associated decline in earnings. Furthermore, less developed countries tend to exhibit greater volatility in real GDP level and growth (see Koren and Tenreyro 2007). Overdependence on a narrow range of manufactured exports—such as semiconductors—can lead to such GDP volatility.

GDP volatility enhances uncertainty, with dampening effects on employment and wages. Firms hesitate to adjust wages and salaries unless convinced that any output increase is permanent.

In addition, demographic factors go a long way towards keeping labour as the relatively abundant factor of production, resulting in adoption of production techniques that are less efficient than capital-intensive innovations, such as those that embody technological progress; computerization is an example. Furthermore, out-migration of skilled workers (the transfer of workers and associated skills overseas), temporarily or permanently, leaves a pool of less skilled workers unable to master the modern production techniques that continue to emerge in a domestic economy that is integrated into the world economy.

3.3 Earnings

The biggest source of labour income is earnings, the product of the wage rate and hours worked. The behaviour of earnings over time is the principle factor in explaining the behaviour of labour's income share. Average hours worked has been fairly constant at about 40 hours per week over a long period of time. Fluctuations in earnings, therefore, largely emanate from fluctuations in the hourly or daily wage rate.

Table 14 shows the nominal and average daily wage rate for both agricultural and non-agricultural workers over three recent years. The daily wage rates of both agricultural and non-agricultural workers, adjusted for the consumer price index with 2000 as the base year, declined in 2005 from the 2004 level. The real wage increased in 2006, but it was still less than the 2004 level. So while labour productivity grew at a sufficiently high level, the real daily wage did not improve commensurately. In 2004, the ratio of the real wage of non-agricultural to agricultural workers was 2.17. This ratio widened to 2.19 in 2005 and went back to 2.17 in 2006.

Table 14: Nominal and real daily wage rates (in pesos)

	2004	2005	2006
	Nominal terms		
All workers	234.09	245.38	262.78
Agricultural (A)	117.83	122.17	132.07
Non-agricultural (NA)	258.08	267.86	287.36
	Real terms		
All workers	194.10	189.04	190.56
Agricultural (A)	97.86	94.63	96.54
Non-agricultural (NA)	213.11	207.48	210.06

Source: DOLE, Current Labor Statistics, July 2006.

Notes on the table

The first three rows are in nominal terms. The last three are in real terms, with the nominal wage of agricultural workers deflated by the CPI outside the NCR and that of non-agricultural workers by the CPI in the NCR.

Who has been gaining and who has been losing? To answer this question, Table 15 shows the daily real wage rate by occupation groups. All occupation groups, bar special occupations, witnessed a decline in average daily real wage rate in 2005 from their 2004 levels. Except for professionals; sales service and market sales workers; and special occupations, the real wage of all occupation groups recovered somewhat in 2006. But even among the occupation groups that recovered, only the clerks, technicians, and special occupations exceeded their respective real daily wage rates recorded in 2004.

The daily real wage of the top occupation group (government officials and corporate executives) was 4.32 times of that of the bottom occupation group (farmers, forestry, workers and fishermen) in 2004. This multiple narrows down slightly to 4.28 in 2005 and declines further to 3.92 in 2006.

Table 15: Real daily wage rate by occupation group (in constant 2000 pesos)

	2004	2005	2006
All	194.10	189.04	190.56
1	463.96	447.40	457.86
2	423.17	388.59	377.06
3	285.30	277.43	301.50
4	236.68	226.77	240.88
5	174.49	163.54	160.56
6	107.26	104.52	116.81
7	180.84	176.33	180.27
8	193.42	191.54	191.54
9	108.58	105.08	106.03
10	321.58	334.56	332.12

Source: DOLE, Current Labor Statistics, January 2007

Notes on the table

Group 1 represents government officials, corporate executives, managers, managing proprietors and supervisors; 2, professionals; 3, technicians and associate professionals; 4, clerks; 5, service workers and shop and market sales workers; 6, farmers, forestry workers and fishermen; 7, trades and related workers; 8, plant and machine operators and assemblers; 9, labourers and unskilled workers; 10, special occupations.

The wage differentials by region are shown in Table 16. In the period 2004–2006, the NCR showed the highest real daily wage with Region 2 (Cagayan Valley) having the lowest. In those years there was no observed tendency for convergence: the lagging regions in terms of the real daily wage were not catching up with the leading regions, namely the NCR, Region 4A (Calabarzon) and Region 3 (Central Luzon). The NCR continued to have the highest real wage, thereby providing an incentive for migration into the NCR.

The NCR has a very high population growth rate, on account of rapid interregional migration particularly, in relation to Regions 3 and 4A (see Esguerra and Manning 2007). In consequence, the NCR has the highest unemployment rate. Lacking the requisite skills for employment in established enterprises, many migrants from the predominantly rural agricultural regions join the unemployed or underemployed in the informal sector. Meanwhile, rapid population growth in the urban areas puts severe pressure on the ability of cities to provide adequate social services, whether education or health.

Table 16: Real daily wage rate by region in pesos

Region	2004	2005	2006
		Luzon	
NCR	261.54	252.68	258.30
CAR	228.14	211.34	219.33
1	176.41	177.69	166.60
2	141.48	147.74	142.29
3	195.68	187.73	205.69
4A	219.50	212.36	214.58
4B	159.67	160.17	168.09
5	165.04	164.31	158.87
		Visayas	
6	152.15	144.94	151.29
7	152.20	150.54	148.06
8	166.99	165.91	157.93
		Mindanao	
9	169.08	160.53	148.28
10	172.07	170.74	163.13
11	163.87	159.38	161.26
12	153.68	150.24	145.38
13	156.15	155.03	148.16
ARMM	166.58	173.08	170.16
Phil.	194.10	189.04	190.66

Source: DOLE, Current Labor Statistics, July 2007.

One feature of the Philippine economy is the relatively weak response of the household poverty incidence rate to real GDP growth. Between 2000 and 2003, real GDP grew by about 11 percent while household poverty incidence declined by the same percentage, suggesting an elasticity measure of only one. Suppose this response of poverty incidence to real GDP growth remains unitary up to 2015 and real GDP grows according to the following assumed values (denoted as moderate in Table 17) for the specified time periods: 6 percent, 2007–2009; 6.25 percent, 2010–2012; and 6.55 percent, 2013–2015.

Under this scenario, the household poverty incidence rate drops to 20.38 percent in 2006; to 16.71 percent in 2009; to 13.58 percent in 2012; and further down to 10.91 percent in 2015.

Suppose, we assume, instead, the high real GDP growth rates shown in Table 4. In this case the household poverty incidence will evolve according to the numbers shown in the third column of Table 17. Household poverty incidence drops to 20.38 percent in 2006; to 16.4 percent in 2009; further down to 13.08 percent in 2012; and to 10.34 percent in 2015.

Table 17: Simulation in household (HH) poverty incidence rate in response to real GDP growth rates (in percent)

Year	HH poverty incidence (moderate GDP growth)	HH poverty incidence (high GDP growth)
2000	27.50	27.50
2003	24.40	24.40
2006	20.38	20.38
2009	16.71	16.40
2012	13.58	13.08
2015	10.91	10.34

Source: Author's calculations

Notes on the table

Assumes elasticity of one in household poverty incidence rate with respect to real GDP growth

The usual correlation between real GDP growth and decline in household poverty incidence rate did not hold between 2004 and 2006; over this period, the growth rate in real GDP averaged about 5.5 percent each year. Normally, that would have resulted in an equivalent decline in the household poverty incidence rate, but this did not happen. Instead, in 2006, the household poverty incidence rate went up to about 26 percent from 24 percent in 2003. The break from the historical experience raises many questions, including the possibility that the real GDP growth is overestimated.

In any event, declining real wage rates and rising household poverty incidence need to be arrested to align the country with its "Decent Work Agenda." With a sustained rise in real wages, which could emanate from improvements in labour productivity, the rise in poverty incidence may be thwarted.

3.4 Aspects of labour mobility and earnings

3.4.1 Interregional migration

The conventional thinking about labour mobility of workers exhibiting similar characteristics is that it helps equalize existing wage differentials. As workers leave low wage occupations or sectors such as agriculture for higher paying ones, they increase the supply of labour to the latter, which normally acts as a force for wage equalization. Unfortunately, the evidence does not seem to support such equalization.

Table 14 for instance, suggests that the real wage differential of agricultural and non-agricultural workers has no such tendency to narrow down.[9] Likewise, occupational wage differentials in Table 15 (*Real daily wage rate by occupation group*) do not indicate convergence. Similarly, regional wage differentials seem to persist over time as we have seen in Table 16 (*Real daily wage rate by region*).

Of course, it must be acknowledged that workers may exhibit similar characteristics but differ in some latent traits such as drive and motivation, contributing to the persistence of wage differentials. Workers leaving agriculture, for instance, may lack the industrial discipline called for by non-agricultural jobs. Potential migrants see only the wage differentials not the latent traits and so still move. They move out of low wage jobs in the lagging regions even if they don't have the eligibility for high wage jobs in the developed regions, banking on the availability of low wage urban jobs as

[9] "Nominal and real daily wage rate, Section 3.3

safety nets. In view of this, migration from the rural agricultural regions to the urban industrial ones continues.

Table 18: Distribution of the population 15 years and over by region in percent

Region	Population share
Luzon	
NCR	14.0
CAR	1.8
1	5.4
2	3.6
3	10.4
4A	12.3
4B	2.7
Visayas	
5	5.6
6	8.2
7	7.4
Mindanao	
8	4.6
9	3.7
10	4.7
11	4.9
12	4.4
CARAGA	2.8
ARMM	3.0

Source: DOLE, Current Labor Statistics, July 2007

Table 18 presents the distribution of the population 15 years and over by region. (Revisions in the sampling frames undertaken in 2003 do not permit rural-urban classification anymore.) The existing wage differentials and perceived availability of low wage urban jobs—regarded as employment insurance—provide strong incentives for migration. The figures tend to support wage differentials as a spur to interregional migration: the three regions having the highest wage rates shown in Table 16 also account for the largest concentration of the working-age population, led by the NCR with 14 percent, followed by Region 4A (Calabarzon) with 12.3 percent, and Region 3 (Central Luzon) with 10.4 percent. Population growth rates in the NCR, Calabarzon, and Central Luzon are above the national average, a situation that can be traced to interregional migration.

The continuing interregional migration is likely to make current regional income disparities worse before they get better in the medium term. Migrants from the lagging to the leading regions get sorted, with the skilled workers getting the better jobs and the unskilled landing the low wage jobs. The result: the lagging regions end up with predominantly unskilled labour as the leading regions attract the skilled; furthermore, formal and informal sector jobs co-exist within the urban centres of leading regions. All this tends to prop up the existing regional income disparities. But over the long run, people increase their human capital investments to raise their chances of obtaining good-paying jobs in the leading regions. Once the number of skilled workers reaches a critical mass nationwide in response to growing demand for skilled manpower, only then will the regional income disparities begin to diminish.

3.4.2 Interregional migration and the informal sector

Evidently, interregional migration contributes significantly to the growth of informal work in major urban centres. Regional wage differentials are an impetus to migration from the low wage to the higher-wage regions. Unemployment emerges if migrants are subjected to skills tests by firms in the high wage regions. Lacking the preparation and discipline for industrial work, they initially join the unemployed. To support themselves in the cities, they then often take up menial work, such as hawking and vending, ending up as underemployed workers.

The informal sector is not well-defined in the Philippine context. If ever some of its workers get captured by labour force statistics, they tend to be classified as self-employed or own-account workers. Hence, the statistics on underemployment and on the self-employed allow some inference to be made about the size of the informal sector. But if the informal sector is defined in broader terms to include underground work, or to include workers and enterprises that do not pay taxes and other government fees, then it would be difficult to determine its actual size and extent.

If we adopt the view that informal work is prevalent among the self-employed, there is some evidence suggesting that informal sector work is growing. Based on data taken from the FIES, the proportion of entrepreneurial income (which is the return to self-employment) went up from 31.1 percent in 2003 to 32.3 percent in 2006. Entrepreneurial income from crop farming and gardening is notable in that it posted an increase from 6.7 percent to 13.6 percent in that same period. But the share of wages and salaries (which are returns to employment), dropped from 52.1 percent in 2003 to 48.7 percent in 2006.

It is insightful to note that wages and salaries in non-agricultural activities, of which the biggest is manufacturing, fell from 49.1 percent in 2003 to 41 percent in 2006. The share of other sources of income, the biggest of which is income transfers from abroad, fell from 22.9 percent in 2003 to 20.2 percent in 2006. Income transfers from abroad declined from 11.1 percent to 7.9 percent over the same period.

Informal sector work, judging by the rise in entrepreneurial income, particularly from agricultural activities, is expanding. Meanwhile, formal sector work, going by the decline in the share of wages and salaries from non-agricultural activities, is diminishing in importance. These developments pose a challenge to the country's "Decent Work Agenda," considering that informal sector work generally lacks employment protection and safety-net features, such as health and medical insurance.

3.4.3 Temporary overseas work

Another important aspect of Philippine labour mobility is temporary overseas work. The persistence of low earnings from domestic jobs relative to those from overseas employment motivates workers to search for work abroad. The expected earnings from temporary overseas employment make seeking such type of employment a fair gamble for most people. Historically, the growth of overseas employment was triggered initially by the oil-price shocks of the 1970s, which created fiscal surpluses in the oil-producing countries in the Middle East. Partly to dispose of the surplus, the countries with excess petrodollars engaged in massive infrastructure projects, resulting in an upsurge of demand for construction workers. The Philippines has since emerged as one of the major supplier-countries for construction and other types of workers in the Middle East.

Another force for overseas employment is changes to the global demographic. It stems from the aging of the population in the mature industrial countries. The latter need care givers and health workers, resulting in an excess demand for such workers, a need to which the Philippines is able to respond positively. Philippine nurses, for example, have been in great demand in countries such as the USA and the UK for several years now.

Recent figures from the *Philippine Statistical Yearbook 2003 and 2007* suggest a growing "feminization" of temporary overseas work. This has been brought about largely by the growing demand for personal service workers, including domestic helpers and care-givers. In 2000, the number of overseas workers 10 years old and over totalled 992, 397, of which 498,843 were males

and 493,554, females. In 2004, overseas workers 15 years and over numbered 1,063, 000, of which 524,000 were males and 539,000, females. One downside from this trend is that many female workers from the Philippines with academic degrees, such as, teachers downgrade their expectations and take on personal-service jobs in the host country. The earnings of the overseas worker still represent an increase over the domestic pay, but there has been a skill downgrading in the overseas job. In this sense, the drive for decent work is not served.

Accurate statistics about the stock of Filipino temporary overseas workers are difficult to generate. Nonetheless, the number may be huge, judging by estimates of overseas income remittances. According to the *Bangko Sentral ng Pilipinas* (BSP), in 2006, income remittances of overseas Filipino workers amounted to US$12.76 billion and increased by a further 13.23 percent in 2007 to US$14.45 billion. Remittances from overseas workers represent the largest single foreign-exchange earner of the country. Transforming these remittances into productive opportunities is a major concern of the BSP and the banking system.

Any gain arising from remittance income must, however, be tempered by the loss of skilled workers and foregone labour productivity in the home country.

3.5 Inequality and education

Apart from the slow decline of poverty, another feature of Philippine economic growth is the high inequality in the distribution of family income. This may be inferred from the Gini Coefficient—a measure of the size distribution of household income by decile. In 2006, the Gini was 0.45. (It ranges from 0 to 1 where 1 is perfect inequality.)

One source of inequality is the distribution of personal earnings. More educated workers have higher earnings than those who are less educated. Table 19 shows rates of returns to education at various levels. The rate for higher education far exceeds the rates for primary and secondary education. In 2003, for instance, the rate of returns to tertiary education was 16.6 percent, compared to 2.2 percent and 5.1 percent for primary and secondary, respectively.

Individuals able to access college education end up high in the income ladder. The emergence of new growth areas such as those of business contact (or call centres) and business process outsourcing (BPO) tends to accentuate the income differentials. Some business surveys, for instance, report that salaries of professional workers—generally with college degrees—in these sectors earn three to four times more than their unskilled counterparts.

Table 19: Rate of returns to education (in percent)

Level	2000	2003
Primary	2.42	2.22
Secondary	5.57	5.16
Tertiary	17.62	16.57

Source: Asian Development Bank, Asian Development Outlook 2007

Between 2000 and 2003, a decline in the rates of returns to education was noted. But this occurred across all levels; hence, there would only be a minor effect, if any, on income distribution. The decline in the rates may be attributed to upward adjustments in tuition fees and other charges that have been liberalized. The stream of earnings, meanwhile, has not gone up commensurately, as suggested by the decline in wages noted in the previous sections.

The relatively high rate of returns attained by those with a higher education raises the demand for education services. Using census data, Orbeta (2003) has noted the increasing share of the working-age population with college education, whether graduate or undergraduate. In 1995, for instance, the 20.8 percent of employed individuals had college degrees, compared to 19.3 percent in 1990.

From the LFS surveys as reported in DOLE (2005), the share rose to 24 percent in 2000 and to 26 percent in 2003. The increasing share of the college educated among the working-age population and labour force participants may help explain the recent increase in TFP noted in the preceding section.

It should, however, be noted that higher education is largely self-financed. With the absence of a private or government-funded loan market for those seeking higher education, able but poor students find it difficult to enrol in college. Given the relatively high rate of returns to tertiary education and the preponderance of self-finance, income inequality is bound to persist across generations unless access of students from low-income families to college education is improved.

Other earnings differentials in the labour market that are traceable to differences in educational attainment include those between the employed and self-employed. Earnings of the employed, with higher educational attainment, are higher than those of the self-employed. Likewise, earnings of skilled professionals exceed those of, say, sales workers.

Regional income disparities are also on account of the concentration of skilled and more educated workers in the leading regions, e.g., NCR, Regions 3 and 4A.

The distribution of personal income is also likely to get worse before it gets better. Reducing disparities in personal income distribution requires expanding and improving access of low-income individuals to higher education. For this to happen, participation rates at the basic education level must increase while dropout rates need to decline. One corrective action involves overcoming the absent loan markets for education. Failing this, education will continue to be self-financed. Financially constrained pupils and students will find it difficult to enrol, resulting in the transmission of poverty and inequality across generations.

4 Accounting for labour market outcomes

The preceding sections have discussed employment, unemployment, underemployment and earnings outcomes largely in the aggregate. To shed further light on these outcomes, we now look at labour supply and demand factors in some detail. It is well-understood that labour force status and earnings outcomes are mainly influenced by the interactions of labour supply and demand factors in a various occupations and locations.

We start with labour supply, focusing initially on the role of demographic factors. Estimates of the country's population size and growth rates are taken from the *Census of Population.*

Basic population figures are reported in the *Philippine Statistical Yearbook.* The 2000 census placed the population size at that time at 76.5 million and the annual growth rate between 1995 and 2000 at 2.36 percent. Based on the year 2000 data, by 2010, population size was projected to be 93.9 million and 102.8 million in 2015.

The most recent census was conducted in 2007 and the results were published in April 2008; the population estimate is now 88.5 million (mid 2007), for an annual population growth of 2.1 percent between 2000 and 2007. At this growth rate, the population doubles in 33 years.

4.1 Age distribution of the working-age population

At a 2.36 percent rate of population increase, the distribution of the working-age population 15 years and over tends to be concentrated within the younger age cohorts. In 2003, the estimated size of the working-age population was 51.8 million, distributed as follows: age 15–19, 17 percent; age 20–24, 13.3 percent; 25–34, 21.4 percent; 35–44, 18.3 percent; 45–54, 13.8 percent; 55–64, 8.7 percent; and 65 years and over, 7.3 percent. The proportion of those with age not reported is negligible. Age cohorts, 15–19 and 20–24 account for about 30 percent of the working-age population.

The consequences of rapid population growth are many, including a high dependency ratio. Low savings and limited credit markets make it difficult for low-income families to invest in human and

physical capital. Although, the proportion of the working-age population with educational attainment of high school and below has been declining over time, some recent enrolment figures are a cause for worry. Based on data from the Department of Education, participation rates in elementary education, both public and private, appear to have once again declined in recent years. In school-year 2002–03, this participation rate was about 90 percent. In 2005-06, the participation rate dropped to 84 percent (see NEDA-UNDP 2007). This slows down the increase in skilled labour, with adverse consequences on employment, earnings, and living standards in the future.

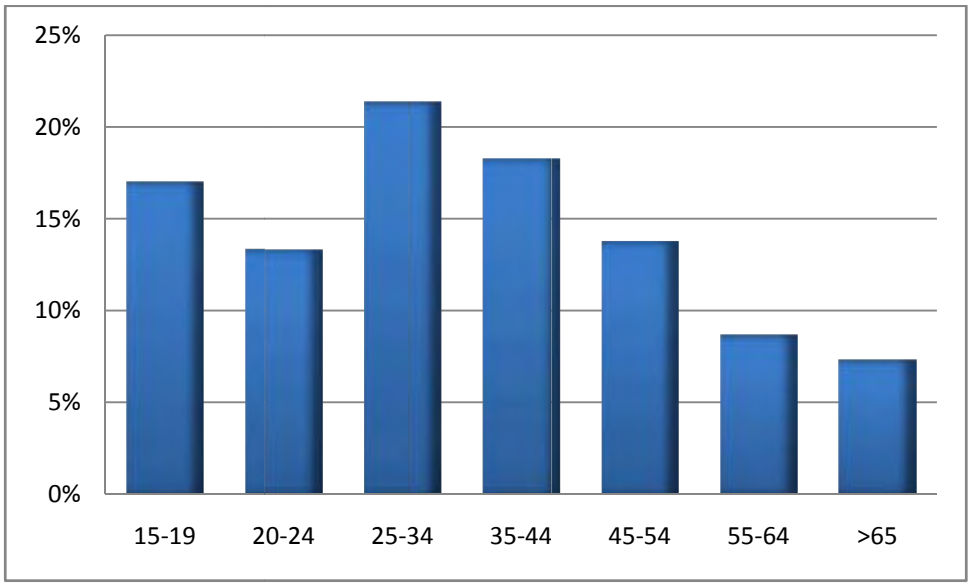

Figure 1: Age distribution of working age population (2003 data)

These figures are disturbing. In particular, this is because rapid population growth and weak ability of households to invest in education result in a preponderance of young unskilled labour with high turnover rates and long spells of unemployment. Youth joblessness has been a persistent concern to which we now turn.

4.1.1 Youth joblessness

The youth, by definition, consists of persons belonging to age groups 15–19 and 20–24. The age cohort 15–19, referred to as teenage; shows labour market activities that generally differ from those in age group 20–24. Teenagers, for instance, tend to engage in sporadic job search since many of them are still in school. In the summer months, during school break, many of them look for part-time jobs, lending seasonality to the unemployment rate, which tends to be highest in the April round of the *Labour Force Surveys*. Due to inadequate skills and job experience, teenagers normally go through long periods of job search to no avail, which may discourage many of them from doing further job search. Once they stop, they are considered out of the labour force. But even if they are out of the labour force, they are still jobless. Hence, it seems clear that the problem of youth joblessness is of greater magnitude than the reported youth unemployment would suggest. In addition, many teenagers are typically minimum wage workers. They are the first to be laid off when new wage orders are issued, particularly, if employers choose to retain only workers with enough experience once the legal minimum wage is raised.

Table 20 shows the unemployed by age group in 2003. Those in age bracket 20–24 have the highest unemployment rate at 23.3 percent followed by those in age group 15–19 at 23.1 percent. The unemployment rates of the older groups from 25–34 years and above are significantly lower than those of younger workers.

Moreover, the youth unemployment rate has a high cyclical component. During downturns in the business cycle, the labour market slackens. The young and the unskilled are among the first to be laid off. In the course of an economic recovery, firms tend to take some time before rehiring; they need to

be convinced that the recovery will be sustained before recalling or replacing the workers that they had earlier let go.

Table 20: Unemployment rate by age group (2003 data)

Age group	Unemployment rate (percent)
15–19	23.1
20–24	23.3
25–34	11.3
35–44	5.8
45–54	5.8
55–64	6.9
65 and over	7.7
All	11.4

Source: DOLE, 2004 Yearbook of Labor Statistics, Manila.

From a policy standpoint, public programmes that are expected to benefit younger workers include training and related skill acquisition programmes. Furthermore, efforts to increase the quality of high school education and enhance the retention ability of public high schools are well-advised. In contrast, teenage workers are not likely to be helped by minimum wage orders, many of whom are likely to be in the sectors not covered by such wage orders.

4.1.2 Child labour

Child labour is another dysfunctional condition observed in the Philippine labour market. The Philippines is committed under its Millennium Development Goals (MDGs) to eliminate all forms of child labour. The latter consists primarily of workers in age group less than 15 years, working either as hired workers or as unpaid family workers. Those below 18 years engaged in hazardous occupation are also classified as child workers by the Department of Labor and Employment (DOLE).

There is a preponderance of child labour in countries with rapid population growth. Two major reasons are low household savings and high poverty incidence rates. Child labour is widely regarded as due largely to household poverty. The inability of adult workers in the household to generate adequate earnings in the workplace is an incentive to let children work. In addition, on the demand side, some enterprises may regard child labour as a substitute for adult labour. Furthermore, the existence of child labour is not reduced in the presence of a high degree of inequality in non-labour income as Grootaert and Kanbur (1995) have pointed out. It is argued that non-labour income is largely returns from physical capital. But if such returns are not equitably distributed among households, the incentive to send children to work is reinforced.

The inequality in the distribution of non work income gets worse if access to affordable credit by the poorer members of society is limited. If entrepreneurship or self-employment is financed solely by personal savings, then it is the high-income individuals who have the ability to take advantage of potentially productive opportunities. But if there are well functioning credit markets, individuals with no funds but with productive opportunities can borrow and use their stream of expected future earnings to repay their loans. Limited credit markets and inequitable distribution of non-labour income are thus conducive to child labour. Consideration of the interactions among commodity, financial, and labour markets offers a general-equilibrium perspective to the labour market phenomena that are of interest under the "Decent Work Agenda."

To obtain an understanding of the extent of child labour in the Philippines, some simplifications in definition are needed. First, we limit child labour to those persons belonging to age group less than 15 years of age working for pay or profit or as unpaid family workers. The population less than 15 years in 2000 is shown in Table 21 together with the total population.

Table 21: Population less than 15 years of age in 2000 in millions

Age group	Both sexes	Male	Female
< 1	1.917	0.986	0. 930
1–4	7.752	3.965	3.786
5–9	9.694	4.962	4.732
10–14	8.949	4.541	4.408
Sub-total <15 years)	28.312	14.454	13.856
Total Phil.	76.504	38.524	37.979

Source: NSCB, 2006 Philippines Statistical Yearbook.

The population of age less than 15 years accounted for 37 percent of the total population in 2000. For this subgroup of children, the male-female ratio is 51 percent in favour of males. Current labour concepts consider only the working-age population that is 15 years and over. Esguerra (2003) reports that, based on information from the labour force surveys, some 700,000 workers in the Philippines belong to age group 10–14. Child labour incidence is higher for males at about 15 percent compared to 10 percent for females.

The Philippines is committed to the elimination of all forms of child labour. It is obvious why this is the case. Children, at the stage of their mental and physical development, are in no position to assess properly any contractual arrangement in the labour market that impacts profoundly on their current and future welfare. In choosing to work and staying out of school, they are foregoing human capital that can improve their productivity when they assume their future roles as adult workers.

4.1.3 Female labour force participation rates

Labour force participation decisions of women, particularly married ones, are often taken in the context of time allocation within the household. A household choice model is appropriate even if the objective function to be optimized is not shared by the couple, provided exit from the union is a feasible option for either partner. This perspective has been formalized by Gary Becker (1964, 1965). Viewed through the lens of human capital theory, women's labour force participation decisions affect both their economic and social status. It would be wrong, therefore, to view labour force participation decisions of women as limiting in terms of assessing women's overall status in society.

If the value of time spent in say, childcare or other non-market uses of the wife's time exceeds the value of time spent in the workplace, then women may choose to stay out of the labour force and specialize in household production. Otherwise, they chose to participate in the labour force. Staying in the labour market raises women's economic status since the work experience they gain compared to their counterparts who drop out intermittently from the labour force puts them within a higher earnings bracket. That the labour market rewards work experience and seniority is an empirical regularity. In contrast, women who prefer to allocate a great portion of their time to, say, community or church-related activities may achieve a higher social standing in the community.

For most married women, children become a major consideration when deciding whether or not to join the labour force. The Philippines has not made the demographic transition, described as a shift from a high-fertility to a low-fertility rate regime. Average family size is still relatively large, which suggests that many women still prefer household production to the workplace. Within the household, the wife tends to specialize in household production while the husband engages in labour market work. Consistent with this thinking, Table 22 shows labour force participation rates of men and women. Over the period 2001–2006, excluding 2005, the average male labour force participation rate was 81.9 percent compared to 51.4 percent for females. The former is 1.6 times the latter. This ratio has been relatively stable, in spite of the fact that average education enrolment and attainment of women tends to exceed that of men. This is confirmed by the Philippines mid-term progress report on the MDGs; the country is on track with its targets on promoting gender equality and empowering women (see NEDA-UNDP, 2007, for a wide array of gender and development issues).

Many women of working age constitute potential additions to the labour force. If more women can be encouraged to join the labour force, the number of two-income families increases. This double income may reduce the incidence of household poverty. Over time, as the opportunity cost of a woman's time is enhanced by investments in education and training and from on-the-job experience, the demographic transition is ushered in. Women shift their demand from child quantity to child quality, resulting in fewer children but the end result is children who are properly nourished and educated. This is evident from demographic surveys of average family size by household income (see Pernia 2007). High-income families have a smaller average family size than the low-income groups. As family size is reduced, the need to drop out of the labour force at some stage of the wife's life cycle is dampened, with salutary effects on earnings over her working life.

Table 22: Labour force participation rate by sex in percent

Year	Male	Female
2001	82.4	51.8
2002	82.0	52.8
2003	82.2	51.4
2004	83.8	51.2
2005	n.a.	n.a.
2006	79.2	49.6
Average	81.9	51.4

Source: DOLE, Current Labor Statistics, various years.

Notes on the table

In April 2005, the NSCB adopted the criterion based on availability for work and was unable to report labour force participation rates that year.

The economic and social status of women is enhanced if once employed, they attain work in the top occupations. In this regard, the continuing dominance of women in the leading professions is noteworthy. Since the 1950s, the proportion of women in the higher-paying occupations has exceeded that of men. As the Philippines entered the 21st century, that dominance shows no sign of slackening.

Table 23 shows for selected years the number of men and women occupying the top three occupational groups. In 2006, these groups are (i) officials of government and special interest organizations; corporate executives, managers, managing proprietors and supervisors; (ii) professionals; and (iii) technicians and associate professionals.

Within these occupational groups, in 2006 the proportion of women exceeded that of men, 59.3 percent vs. 40.7 percent, continuing the pattern seen in 2001 and 2003. One major factor behind this phenomenon is that women have been investing in higher education at a more rapid rate than their male counterparts. Based on data obtained from the *2007 Philippine Statistical Yearbook*, in 2000, female academic degree holders numbered 1.66 million, compared to 1.21 million among men.

Moreover, several other forces have emerged that allow many women to shape their career choices away from their traditional roles as housewives. Receptive attitudes towards family planning among educated women has certainly been a contributory factor. At the same time, growing flexibility of labour markets and the information-technology revolution have allowed women to take on jobs with flexible working hours (flexi-time) as well as jobs that allow working from "home" offices.

The top three occupations in Table 23 are also the top three paying ones. Table 24 shows the average daily basic pay in pesos of these occupations and each in proportion to the average daily basic pay for all occupations. The top occupational group pays an average of 620 pesos daily and is 2.36 times that of the average daily basic pay for all occupations. The second-ranking occupational group pays 541 pesos each day, representing 2.05 times that of the average pay for all occupations. The third ranking yields 466 pesos daily and is about 1.78 times that of the average for all.

Table 23: Number and ratio of men and women in the top three occupational groups

Year	Male (,000)	Percent	Female (,000)	Percent	Total (,000)	Percent
2001	2 114	40.4	3 121	59.6	5 234	100
2003	2 485	40.7	3 395	57.7	5 880	100
2006	2 532	40.7	3 694	59.3	6 225	100

Source: NSCB, Philippine Statistical Yearbook, 2003, 2007

Notes on the table

See notes to Table 15 for definitions

Table 24: Average daily basic pay of the top three occupational groups

Occupational group	Daily basic pay (in pesos)	Ratio of daily pay to average for all workers
1	620.02	2.36
2	541.11	2.05
3	466.84	1.78
Average, all occupations	262.95	1.00

Source: DOLE, Current Labor Statistics, July 2007.

Notes on the table

See notes to Table 15 for definitions

4.2 Labour demand by sector

The other important determinant of the labour market outcomes described in Section 2 of this report is labour demand by firms and industries. In economies where labour is the abundant factor of production, labour demand largely determines the employment level with supply fixing the wage rate. But in so far as output growth emanates from technological progress (i.e., shifts in labour productivity), then we can also expect an upward shift in the demand for skilled labour, generally accompanied by a rise in real wages. The point is that with labour being a derived demand, the pattern of economic growth—whether technology-based or otherwise—largely determines the demand for labour of various skills and occupations.

To get some ideas about the nature of labour demand in the Philippines, the distribution of employment by industry sector is examined first (see Table 25). These employment figures compared over time, show where job creation and (destruction) is occurring in the course of economic development. For example: the employment share of agriculture declined from 37 percent in 2001 to 36 percent in 2006. Similarly, the employment share of industry went down in the same period from 16 percent to 15 percent. Meanwhile, the share of services picked up from 47 percent to 49 percent.

Table 25: Employment share by industry sector, 2001 and 2006 in percent

Sector	2001	2006
Agriculture, forestry, fishing	37	36
Industry	16	15
Services	47	49
Total employment (,000)	29 156	32 962

Source: DOLE, Current Labor Statistics, July 2007.

The decline in the employment share of industry is due to the limited employment generating capacity of manufacturing, the largest sub-sector within industry. In services, the largest sub-sectors are wholesale and retail trade, along with transport, storage, and communications.

Table 26 shows the percentage changes in employment for these sub-sectors between 2001 and 2006. Manufacturing showed a mere growth of 5.2 percent—slightly more than one percent years year; wholesale and retail trade grew 19.5 percent while transport, storage, and communications, grew 17.6 percent.

Table 26: Employment level and growth in some industry sub-sectors: A comparison of 2001 and 2006 data

Sub-sector	2001 Employment ('000)	2006 Employment ('000)	Percent change
Manufacturing	2 906	3 058	+5.2
Wholesale and retail	5 255	6 283	+19.5
Transport, storage, and communication	2 118	2 492	+17.6

Source: DOLE, Current Labor Statistics 2003 and 2007

The decline in some sectors and the emergence of new ones are bound to impact on wages. For example, using figures from the *2007 Philippine Statistical Yearbook*, in an emerging sector like communication and information technology, the average monthly wage of system analysts increased from 23,252 pesos in 2004 to 41,305 pesos in 2006. This represents an increase of 77 percent over a two-year period. Another emerging sector is wholesale trade; the average monthly wage of sales supervisors herein went up from 19,405 pesos to 22,250 pesos over the same period for an increase of 15 percent. Meanwhile, food manufacturing, which is the largest sub-sector in manufacturing, has been declining; the average monthly wage of production supervisors fell from 16,797 pesos in 2004 to 16,209 pesos in 2006, a decline of about 4 percent. Members of the labour force are heterogeneous and are conscious of labour market dynamics, based on wage-price, signals whereby mature sectors ebb, while new ones emerge and expand. Workers self-select and sort themselves in line with their respective comparative advantage in some occupations. Labour market policies that try to overcome limited information and improve job-worker matches, while lessening rigidities on the demand side, are thus helpful in the attainment of decent work.

Evidently, on the supply side, various occupations in the emerging service trades differ in their skill requirements. One of the rapidly growing sectors is the retail and wholesale trade; labour scarcity is not evident here. But there seems to be a growing shortage in the information technology-based service trades, such as, finance, business contacts, and business process outsourcing (BPOs). Recent business and investment climate surveys tend to confirm the growing scarcity of skilled labour in these sub-sectors. As a result, we observe wide income differentials between skilled and unskilled workers in these emerging service trades (see ADB-ERD 2007).

Within the service sector, at the highest occupational level, it is seen that in 2006 the average monthly wage of a systems analyst in information technology was 1.4 times that of a sales supervisor in wholesale and retail trade. In the meantime, within information technology, the average monthly wage of a system analyst was 4.6 times that of a data entry operator, which is low in the occupational ranking in this sub-sector. These wage differentials between sectors and within are due largely to schooling and skill differentials. All figures come from the *2007 Philippine Statistical Yearbook.*

The question is often asked whether a developing economy such as the Philippines can pin its hopes on services as it aims for full-employment and continuous improvement in the country's real per capita income and living standards. In principle, such a strategy can pay off. This involves raising capital accumulation sufficiently high in the service trades so that workers released from agriculture and industry can be absorbed by newly emerging industries. It is well-known that as productivity in agriculture rises, some workers therein are rendered redundant. With globalization ushering in an

international division of labour, some workers in manufacturing are also being released as some processes move to other markets.

Skills must be accumulated so that productivity in services rises, thereby creating enough high-wage, high-skill jobs to offset the jobs destroyed in agriculture and industry. However, for such a transition to happen training and retraining of workers released from agriculture and industry are mandated.

4.2.1 Outsourcing and off-shoring

Weak job growth in manufacturing is due to several factors, including, the internationalization or regionalization of production. Many manufactured goods involve several stages of production. Producers in the developed countries locate a particular stage of production to countries where least-cost production techniques can be undertaken. Low wage countries, for example, attract the labour-intensive stages of production. In this context, the Philippines is losing out to countries such as China, Indonesia, and Bangladesh in getting manufacturing industries with labour-intensive production techniques to locate or stay in the country.

In addition the formation of preferential trading arrangements with low or zero tariffs among member countries in the ASEAN and ASEAN+ groups has led to relocation of production to countries where it is more efficient to manufacture spare parts and components. Under the ASEAN Free Trade Area (AFTA) anchored on the Comprehensive Preferential Tariff Arrangement (CEPT), many manufacturing industries in the Philippines have relocated to other AFTA member-countries where wages are relatively low and where the size of the market permits economies of scale to be realized. Only distribution outlets need to be maintained in the Philippines.

The past few years have also seen the emergence and rise of outsourcing and off-shoring of some business activities and intermediate goods. In international trade, these production arrangements have given rise to a significant increase in the trade of intermediate goods. Meanwhile, the business-process outsourcing (BPO) sector has emerged as a major growth driver of the entire services sector and with huge potential for further expansion. The labour market implications have been profound. The Philippines, for example, is witnessing strong job creation in call centres that the information-technology revolution has bred.

One key issue is whether the current industry and investment promotion policies of the government, which rest largely on setting up industrial and export zones, are capable of attracting foreign direct investments that have potentials for technology and scale upgrading. At this stage, the evidence suggests slow technological progress in the content of the country's manufactured products, whether for exports or for the domestic market. Manufactured exports are heavily concentrated in semiconductors and electronic components. How to increase the value-added is a major goal. This suggests a rethinking of the government's existing investment and industrial policies (see ADB-ERD 2007).

4.2.2 Contingent workers

Globalization has brought a number of changes in labour market contractual arrangements. The imperatives of international competitiveness motivate the search for flexible arrangements in the employment relationship. The new contractual arrangements are giving rise to non-regular or contingent workers. Independent contractors, for example, are often hired for outsourced activities. At the same time, some employers resort to temporary and seasonal workers with reduced pay and often without benefit of protection from existing labour laws.

Contingent employment gyrates with the business cycle. When business is slow and the labour market slackens, only a few contingent workers are hired. When business recovers and the labour market tightens, there is an increase in the demand for contingent workers.

4.3 Internal labour markets of hierarchical firms

Globalization is also seeing the rise of hierarchical firms with internal labour markets in the sense of Doeringer and Piore (1971). Career movement within the firm tends to be vertical. At entry level, job applicants are tested for skills. This is a form of non-price filtering. The firm offers a wage higher than the market-determined wage in order to attract skilled workers, the ones with high probability of passing the skill test.

College graduates, with high reservation wages or supply prices, are frequently the ones who apply for such positions. They are attracted by the higher-than-market wage offers. Not all of them will be taken, however. Many of the applicants are rendered unemployed. The educated unemployed are, to a great extent, the result of a combination of high reservation wages and internal labour market policies of large hierarchical firms. Viewed in this context, the educated unemployed do not pose a major social problem, compared to the structurally unemployed. The latter, lacking the required skills, cannot fill up the jobs that are opening up in the course of globalization.

The salary and compensation structure within large hierarchical firms has little in common with the wage policy of small firms which are price and wage takers. What is observed is that as one moves up the hierarchy, the compensation differentials widen considerably. Top management, for instance, is typically accorded performance bonuses, stock options and other incentive payments.

4.4 Institutional factors

Aside from labour demand and supply factors, institutional factors are at work, affecting the wage and employment dynamics. We now turn to these factors that include (i) minimum wage legislation; (ii) unionization; and (iii) public sector employment.

4.4.1 Minimum wage legislation

The standard thinking about minimum wage legislation, under universal coverage, is that it leads to unemployment. Based on this notion, workers whose wage rates fall below the legal minimum wage stand to lose their jobs, replaced by workers more skilled than them. Usually, minimum wage workers belong to the young age cohorts; they are vulnerable to being laid off if there is universal compliance with the minimum wage.

But if there is a sector that is not covered by the legal minimum wage, unemployment may not increase. Those laid off in the covered sector may seek jobs and be employed in the uncovered sector, depressing wages there. So while the unemployed do not increase, the wage differential between the covered and uncovered sectors widens.

Minimum wage legislation in the Philippines has had a long history. It started in 1951 and has been evolving since then. At present, the Labor Code authorizes the Regional Wage and Productivity Boards (RWPB) to accept petitions for minimum wage orders. The RWPB has tripartite representation, consisting of labour, management, and government. Exercising oversight over the recommendations of the RWPB is the National Wage and Productivity Commission, which also has tripartite representation. The Secretary of Labor and Employment serves as chairman.

The minimum wages set by the RWPB differentiate workers by industry. In the NCR, for instance, the minimum wage for non-agricultural workers as of July 2006 was 350 pesos per day; for agricultural workers the daily rate was 313 pesos. Comparing these minimum wages with the actual nominal daily wage rate as shown in Table 8, it is seen that the latter fall short of the minimum wages. At one level, this suggests a good deal of non-compliance with the wage orders. On another level, since some wage orders exempt selected sectors or firms from their provisions, the wages actually paid, on the average, end up lower than the wage orders dictate.

It is reasonable to believe that minimum wage orders are neutral on earnings differentials. That is, they do not help narrow the wage gap between skilled and unskilled workers. In fact, the tendency of firms and organized workers is to use the minimum wage orders as a reference point when seeking

wage adjustments following the imposition of new wage orders. Wage differentials between low- and high wage workers are thus preserved as nominal wages assume an upward drift.

The main drawback to the legislation comes from the risk and uncertainty generated by the imposition of a legal minimum wage. The probably of being caught not complying with the law deters firms from hiring minimum wage workers, often, teenage workers.

4.4.2 Labour unions

One goal of unionism is to raise the real wages of union members relative to non-union workers. If unions succeed in this goal, the resulting union-non union wage differentials exert important allocative and welfare effects on all workers. Positive welfare effects are realized if union members receive a wage premium or non-monetary benefits such as health insurance and commodity subsidies that exceed the cost of joining a union.

Unions also seek tenure or employment protection. Generally, however, unions cannot have both wage adjustments and employment protection. Employers may give in to wage demands, but they will insist on keeping their prerogative to hire and fire. Unions, realizing that they cannot dictate both wage and employment on their terms, then seek favourable legislation, such as, having a legal minimum wage that is applicable nation-wide, and embodying employment protection, paid leave, and related benefits in the Labor Code.

So far, unions have not been successful in having the minimum wage legislated on a national scale. The mechanism is still based on the RWPBs' having mandate over wage orders. But the Labor Code provides for some form of employment protection, For example: there is a "just cause" provision in terminating workers. Employers who want more flexibility in the labour market counter by resorting to contingent workers. One goal of research is to determine the merits (or demerits) of alternative contractual arrangements in the labour market.

Aside from the provisions of the Labor Code, a look at some existing government programmes may be viewed as a response to union demand for worker protection and welfare enhancement. These include labour standards and occupational safety, workers organization education, and livelihood, to name a few. At this stage evaluation studies are indicated to determine the magnitude of the transactions costs involved and whether these programmes are delivering on their expected results.

4.4.3 Public sector employment

What do we know about wage and salary differentials between public and private sector employees? A cursory look at the figures by occupation groups shows that private sector workers in the top occupation groups (CEOs, managers, etc.) have salaries, compensation, and other benefits that far outweigh those of their counterparts in the public sector. The opposite is observed at the bottom rungs of the occupation ladder, wherein public sector employees hold a seeming pecuniary advantage. One allocative effect of these public-private salary differentials is that highly skilled public sector employees seek transfer to the private sector once they spot employment opportunities in the latter. Indeed in situations of tight labour supply, the public sector becomes a fertile recruiting ground for head-hunters. In contrast, at the low-end occupations, there is a queue for the limited government positions. There are clearly inefficiencies from this situation that need to be corrected.

At this stage, the government evidently has not been able to address the salary differential issue and its associated inefficiencies. Its main instrument is the salary standardization law (SSL), which has been undermined through the years by inflation, in spite of which no adjustments in real terms have been made. Some government corporations and other agencies, in response, lobby to be exempted from the SSL, which results in further inefficiencies within government. Lobby costs are incurred and scarce time is wasted in queuing for the plum jobs in government agencies exempted from the SSL.

5 Labour market scenarios and policy adjustments: 2007–2015

The question that emerges at this juncture is whether the observed labour market outcomes described in the preceding sections put the Philippines on track with its "Decent Work Agenda" commitments.

Based on aggregate measures of output, employment, and labour productivity growth as of 2006, the employment prospects for 2007–2015 appear promising. The economy is riding high today on its longest running recovery since 1986. The average annual total factor productivity has risen over the period 2001–06. If the trend continues we can expect a significant improvement in the growth of labour demand in the near-term. Assuming a moderate increase in the size of the working age population, the simulations done in the course of this study provide some grounds for optimism that full employment can be realized in the medium term.

One worrying feature of the growth process is the slow decline in poverty incidence and the persistence of high income inequality. The household poverty incidence rate in 2003 was about 24 percent while the Gini ratio in 2006 was still around 45 percent, suggesting high income inequality. The recently released 2006 FIES shows that the poverty incidence rate took a turn for the worse, increasing to 26 percent. Likewise, decreasing real wages and a growing importance of an informal sector that lacks social protection are also disturbing observations.

To sum up, the "Decent Work Agenda" goes beyond employment and labour productivity growth. It calls for growing and adequate real earnings, acceptable income differentials as well as declining low wage employment and the poverty that goes with it. In addition, it means improvements in the quality of life in the workplace, and instituting social dialogue and social protection for workers. In this context, the Philippines seems to be lagging behind its neighbours in many aspects of the employment and wage relationship. It is thus important to address the challenges, issues and concerns that have emerged.

Herewith, are the priority concerns that deserve urgent attention:

- Declining real earnings;
- Large disparities in earnings by region;
- High inequality in income distribution;
- Weak institutional framework for workplace productivity.

Further examination of the above outcomes at a disaggregated level has resulted in a number of observed labour market attributes, including:

- High rate of youth joblessness;
- Persistence of child labour;
- Rapid interregional migration;
- Large informal sector without social protection;
- Slow and tenuous decline in poverty incidence.

The above labour market conditions are expected to persist over the medium-term (2007–2015) unless some policy adjustments and appropriate programmes and projects are put in place. At the most fundamental level, the population growth rate has to be slowed down so as to lessen the preponderance of young minimum wage workers. A strong commitment from the national government in partnership with LGUs and the private sector to slow the population growth rate is desirable.

In dealing with the various concerns, the Philippine has enough experience and lessons on which to draw. The approaches can be classified into: (1) improving the functioning and operations of the labour market amid the growing internationalization of the economy; and (2) reforming the institutional framework conducive to workplace productivity and worker-employer cooperation. In line with these approaches, the following are crucial:

- Raising the quality of the labour force through investments in education, training and health:
  - Human capital addresses both earnings inadequacy and income inequality. Through investments in quality education, training, and health, the efficiency units that labour brings to the marketplace are enhance;
  - Education must, however, be life-long: from preschool (the rate of return from which is well understood), through to adult education. Life-long education permits workers to master new production techniques that continue to emerge as a consequence of technological progress. Financing education meanwhile, needs to be improved; it should be based on a burden-sharing principle between individuals and households, on the one hand, and the government on the other, so as to provide social mobility for the disadvantaged sectors of society;
  - Institutionally, the government and the private sector have had long-standing partnerships in training. Government interventions may be a combination of subsidies and loans, the relative shares of which can be dictated by the extent of private appropriability of returns and the existence of positive externalities at a particular education level;
  - Health investments must also be life-long: from pre-natal care for pregnant women, ensuring proper nutrition in infancy and sound medical care throughout the life cycle. For government, a proper division of responsibility between the LGUs and the national government is indicated. In so far as getting sick is a genuine risk, strengthening the health and medical insurance system is essential. The vision for this system must continue to be universal coverage, including, informal sector workers.
- Strengthening labour demand by improving the investment climate:
  - The increase in productivity of every unit of labour can be trusted to increase the demand for labour. This can happen from increased investments. Additions to the capital stock embody new technologies. Once labour is equipped with such capital equipment, its productivity rises and so does the demand. Earnings rise as a matter of course;
  - Improving the investment climate requires accelerating the government economic policy reform process and enhancing the public investment programme in physical infrastructure;
  - The remaining policy reforms include tariff reduction and import liberalization, and further liberalization of foreign direct investments. Accelerating financial and capital market reforms is vital to transform savings, particularly, the income remittances of overseas Filipino workers, into productive business and economic activities;
  - To improve the integration of markets, heightening public investments in infrastructure, e.g., highways, ports, and airports are essential. A network of rural and secondary roads is needed to connect the periphery to the centre and reduce spatial income disparities;
  - Underpinning all this is a sound institutional framework for development. The legal, judicial, and administrative framework for contractual performance and adjudication of any contractual dispute must be invigorated. Corruption, it goes without saying, must be eliminated;

- The World Bank (2007) recently conducted a survey of firms bearing on the investment climate in the Philippines. The findings are insightful. The top five factors that firm-respondents considered serious constraints to investment are: macroeconomic instability, corruption, high cost of electricity, inefficient tax structures, and regulatory/policy uncertainty.

- Strengthening the institutional framework for improved quality of life in the workplace and productivity therein:

  - The employment relationship is more than a wage contract. To raise productivity in the workplace, the quality of life in the workplace must be appealing. These aspects of the employment relationship are better taken up in collective bargaining agreements (CBAs);

  - At this point, only a small proportion of workers are covered by such agreements for various reasons: many are not unionized and some existing unions have not been successful in forging such agreements (CBAs) with their employers;

  - The Labor Code upholds the exercise by workers of full freedom of association and encourages the practices of CBAs. Based on data reported in the DOLE's *Current Labor Statistics* (Jan. 2007), the number of registered unions declined from 777 in 2004 to 492 in 2005. Workers covered by existing CBAs went up only by 1,000, from 555,000 in 2004 to 556,000 in 2005. The decline in unionization invites some further study. The various shifts in the labour market—demographic, industrial, and occupational on the demand side and attitudinal change of non-union workers about union membership on the supply side—must be well-understood if unionization is to be strengthened in the future. It is useful to find out if unions are able to have more than modest impact on wages and on non-wage benefits of their members, tenure protection for senior members, and on the creation of grievance systems. The extent to which unions are able to level the field between workers and employers and to extract additional wage and non-wage benefits for their members determines whether workers will opt for union representation and whether unionization helps contribute to the improvement in the overall quality of life;

  - Occupational safety and health programmes for workers are needed to minimize injuries and illnesses. Costs associated with these health problems are burdensome to workers, their families, and to the overall economy. It is thus in the interest of all parties concerned, e.g., workers, employers, and the government at various levels, to ensure the establishment of programmes for occupational safety and good health. A proper documentation of accidents and health hazards in the workplace is helpful. First aid, emergency preparedness systems, and medical referral services are equally important and must be instituted;

  - Meanwhile, existing welfare programmes of the government designed to raise the quality of life in the workplace must be subjected to evaluation and impact analysis to find out whether or not they deserve to continue or if some mid-course corrections need to be carried out.

- Extending social protection to informal workers:

  - We simplify the definition of informal workers and refer to them as those not currently covered by the government's social protection programmes, namely, the Social Security System and Phil Health. Statistics about informal workers are not easy to generate from the LFS. To get some idea of the extent of informal work, a useful starting point would be the own-account and unpaid family workers in the Labor Force Survey. In 2005, according to the *Current Labor Statistics* (Jan. 2007), some 12.1 million workers were classified as own-account; they represent 37.4 percent of total employment. Two issues are indicated: (1) what is the attitude of informal workers to SSS and Phil Health membership? And (2) how capable are SSS and Phil Health in recruiting and retaining

informal sector workers? On the first issue, if the workers reveal their preference for membership, then the price they are willing to pay to be a member may be extracted, to which the two institutions in charge of social protection may respond. If a price is agreed upon, then membership of informal workers may increase and be sustained over time.

- Enhancing social dialogue:
  - At this stage, tripartite representation in some institutions offers a forum for social dialogue among workers, employers, and government. This is inadequate and attempts to expand it must overcome existing obstacles which include the lack of a level playing field between workers and employers. Contractual performance, whether written or unwritten, must proceed smoothly. If any dispute arises, mediation and voluntary arbitration must be encouraged, instead of resorting immediately to litigation by the courts;
  - Minimizing court litigation requires a review of the Labor Code with a view towards easing provisions that overly invite litigation.[10] The nature of labour market regulation and how it has been evolving over time is useful information in this regard. If such regulation leads to a proliferation of court litigation, then possibilities for easing ought to be considered.

6 Concluding remarks

This study represents an attempt to assess labour market outcomes for the period 2000–2006 with a view towards evaluating likely scenarios in the labour market for the period 2007–2015. A practical consideration is whether these outcomes and emerging trends in the labour market indicate that the Philippines is on track with its "Decent Work Agenda" commitments. If not, what measures, whether policies or programmes, stand a good chance of correcting the situation?

The aggregate employment outcomes are encouraging but there are disturbing findings, particularly with regard to low-income labour's income share, declining real earnings, unequal income distribution, and large income disparities by region. Corrective actions are indicated.

The corrections should address concerns bearing on labour supply, demand and on some institutional factors. At the most fundamental level, investments in human capital are called for to raise the amount of efficiency units that workers bring to the marketplace. At the same time, it is vital to ensure a favourable investment climate conducive to enhancing labour demand.

Regarding institutions and some aspects of governance, a review of past experience with the end in view of raising the quality of life and increasing productivity in the workplace is essential (see Bitonio 2007). In addition, a rigorous evaluation and impact analysis of existing programmes and projects of the government, implemented by the DOLE, would be helpful. Regular monitoring of labour market developments is instructive. In this regard, accelerating the adoption of the study on labour market index (see DOLE-ILS 2007) and linking it to policy reforms is essential.

Furthermore, a review of the legal framework—the Labor Code—is necessary to minimize resort to court litigation and to facilitate adjudication when contractual disputes in the labour market emerge. The overall health of the economy improves if litigation and other associated transaction costs from contractual disputes are reduced to a substantially low level. It appears that the DOLE is starting to be aware of the need for this with greater emphasis now being given to the concept of human resources management within the workplace.

[10] It has been asserted that the Labor Code tends to be restrictive and that flexibility is needed (see, e.g. Sicat 2004). Imperial (2004) argues that a historical perspective is essential to understanding existing labour-market policies and institutional changes; the latter were not arbitrarily imposed but evolved in response to some felt needs.

Deducing policy implications has taken us far afield. But this is to be expected given the scope of the "Decent Work Agenda." In the tradition of public finance, some cost-benefit analyses need to be carried out to determine the order of priority among many candidate policy reform measures.

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Philippine labour market outcomes and scenarios: 2000-2015

The study asseses various labour market outcomes for the period 2000–2006 , and with this information, paints likely scenarios for the philippines for 2007-2015. the exercise seeks to determine whether observed outcomes and the scenarios they yield are aligned with the Philippine commitment to the Asian Decent Work Agenda. Based on aggregate indicators of labour-market performance, prospects for income and employment 2007-2015 appear promising. The Decent Work Agenda, however, goes beyond mere employment. It has several dimensions, including, increased real earnings, declining poverty status, social protection, and quality of life in the workplace. In fact the outcomes reveal episodes of declining real earnings, slow poverty reduction, and high income inequality, all of which are contrary to the vision of the Decent Work Agenda.

Corrective measures aimed at raising skills and human capital of workers, improving the investment climate conductive to creation of high-wave high-skill jobs, and strengthening existing institutional mechanisms for workplace productivity and cooperation between workers and employers are indicated.

International Labour Organization
Subregional Office for South-East Asia and the Pacific
Manila, Philippines
Tel. (63-2) 580-9900, Fax. (63-2) 856-7597
E-mail: manila@ilo.org
www.ilo.org/manila