Philippine Labor Market Institutions and Inclusive Growth

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What paper is about

- Examines a number of existing labor laws and regulations critical to inclusive growth: minimum wages, laws governing labor contracting, and industrial relations
- Discusses issues in the context of broader literature on labor market institutions and the international evidence regarding their impact on economic performance.
Background

- **Technology** and **globalization** are redefining the locus of production; the “firm” and the “market place” have broadened.
- Increased competition has led to new ways of organizing and managing the production process and greater demands on workers’ capacities.
- Business organizations are under increased pressure to adapt to remain competitive.

Changes in the labor market

- Traditional forms of employment based on long-term contract are eroding.
- New types of labor contracts have emerged (short-term, task-oriented).
- Numerical and functional **flexibility** are on the rise.
- Jobs are less secure and workers more vulnerable to income shocks and loss of entitlements associated with regular employment.
**Key issues**

- Do existing labor market regulations inhibit firms from adjusting to the more competitive environment?
- Is it possible to achieve some measure of labor market flexibility and at the same time provide workers income security?

**General observations**

- Generally, policy has been protective of labor (e.g. 1935 Constitution and subsequent laws)
- Objective of policy was and still is explicitly industrial peace.
- 1973 Constitution added a developmental dimension to labor department functions.
General observations

- Scope of labor regulations and collective bargaining is limited.
- Labor regulations have been biased for the employed (not for increasing employment).
- But eliminating labor market regulation is not the alternative.

Minimum wages

- Main objective is to provide for minimum living standards.
- Main objection is it substitutes government fiat for voluntary contracting and thus reduces potential for more employment.
- But little empirical evidence is available to support either position.
Flexibility vs job security

- Numerical flexibility refers to practice of hiring workers on a non-regular basis, whether directly or through an agency.
- Contracts are associated with shorter job tenures and absence of non-wage benefits enjoyed by regular workers.
- Labor’s view: circumvention of various labor regulations and standards.

Flexibility vs job security

- For employers: minimized costs, greater agility to respond to market conditions.
- For labor: precarious employment, greater vulnerability to economic shocks, loss of entitlements previously enjoyed.
- Tension has created pressure on the government to regulate labor contracting.
Flexibility vs job security

- Government response: define scope for lawful labor contracting (DO 18-02)
- DO assigns responsibility for providing benefits and complying with labor standards to either the labor contractor or the firm.
- Expressly proscribes labor-only contracting (LOC)

What D.O. 18-02 achieved

- Explicitly assigned responsibility for providing workers their due under the law.
- However, instance of LOC or any violation of law on contracting has to be determined by a “competent authority”
- Burden of determining if rules have been breached is shifted to already clogged courts.
**Flexibility vs job security**

- Restricting flexibility could raise costs for workers and employers alike.
- However, current regulations allow employers enough flexibility.
- Need to explore other avenues
  - Publicly provided unemployment income support schemes
  - Re-training
  - Labor market information system

**Industrial relations**

- Existing laws provide guarantees to labor’s exercise of its rights.
- But organized labor is generally weak; no countervailing institution against power of employers over workers in the workplace.
- Workers have to rely on third-party intervention.
- Excessive reliance on courts (e.g. NLRC)
**Industrial relations**

- Dispute settlement is a very costly process; litigious, adversarial, and exasperatingly slow.
- An indication of inefficiency is the clogging of courts and low disposition rates.
- Is the problem a matter of capabilities or incentives?

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**Capabilities or incentives?**

- High case load of NLRC; number of labor arbiters not enough?
- Arbiters not well trained to handle mediation?
- Do the “rules of the game” make it attractive for parties involved to resort to settlement via a third party, as well as for non-principal parties to be involved?
Industrial relations

- Most cases involve terminations and dismissals with money claims.
- Suggests a connection between large number of disputes and inadequacy of provision for retrenched, laid-off, or non-regular workers.
- Provision of separation benefits may reduce incidence of disputes and satisfy social protection objective, too.

What studies show

- Pros and cons of minimum wages depend on the level at which they are set and on whether they are paid.
- Countries with higher minimum wages also have reduced wage inequality in bottom half of the labor market.
- Empirical evidence on the employment effect of minimum wages is mixed.
What studies show

- Employment protection does not unambiguously lead to higher unemployment, though associated with lower employment rates.
- However, it may change the distribution of employment (i.e. favor some groups more than others).
- Employment stability has a positive effect on productivity (e.g. via training, innovation).

What studies show

- Hard evidence on impact of regulation on employment is scanty in developing countries given weakness in data base and enforcement problems.
- While some labor reforms are needed, labor policies are not the main cause of unemployment and persistent underemployment in Asia (ADB, 2006).
- Empirical evidence is mixed; combination of policies and institutions matter.
Recommendations

- Consider first - Conditions for inclusive growth:
  - Sustainable growth
  - Equal opportunities

- How can labor regulation be improved to balance concerns of inclusive growth?

Recommendations

- **On sustainable growth**
  - Prevent macroeconomic instability
  - Improve investment climate and raise investment rate
    - Lower cost of doing business
    - Better infrastructure and information systems

- **On equal opportunities**
  - Balance in regulation between employment protection and competitive production systems
  - Human capital investments
  - Social safety nets
Recommendations

- Develop cooperative mechanisms and a favorable industrial relations climate.
- Develop/strengthen support programs and institutions
  - Unemployment income support
  - Training/re-training programs
  - Labor market information system

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