From Inequality to Opportunity: Redesigning the Philippine Wage System

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Introduction

The Philippine wage system has played a pivotal role in shaping income distribution, alleviating poverty, and regulating labor market dynamics. However, its systemic shortcomings—persistent regional disparities, stagnant productivity, and weak enforcement mechanisms—have limited its capacity to promote inclusive growth and equitable economic development. Established under the Wage Rationalization Act of 1989 (Republic Act No. 6727), the system introduced a decentralized framework for setting minimum wages through Regional Tripartite Wages and Productivity Boards (RTWPBs). This structure aimed to tailor wages to regional cost-of-living differences, employment patterns, and economic conditions, promoting flexibility and equity within the labor market (Reyes & Sanchez, 1990).

Despite these objectives, the wage system has struggled to fulfill its intended goals. Regional disparities in wage levels remain stark, reflecting broader structural inequalities in the Philippine economy. Wealthier regions, such as the National Capital Region (NCR), consistently set significantly higher minimum wages than underdeveloped regions (Andriesse, 2017). Such disparities perpetuate cycles of poverty and underdevelopment in less-industrialized areas, limiting opportunities for businesses and workers alike.

Moreover, the system's reliance on cost-of-living adjustments rather than productivity-based wage progression has created additional challenges. While cost-of-living adjustments ensure that wages reflect inflation and basic needs, they fail to incentivize businesses to invest in training or workers to improve their skills. This disconnect between wages and productivity has contributed to stagnant productivity levels in key industries, leaving the Philippine labor force ill-equipped to compete in an increasingly globalized, technology-driven economy (Paqueo, Orbeta, & Lanzona, 2016).

Addressing these systemic challenges requires transformative reforms that go beyond the limitations of the current framework. Singapore's Progressive Wage Model (PWM) offers a compelling alternative for addressing the gaps in the Philippine wage system. The PWM links wages to measurable productivity and skills development, providing structured pathways for workers to advance their careers while fostering balanced economic growth (Ng, Ng, & Lee, 2018). Its sector-specific wage ladders ensure that wage progression aligns with both industry-specific conditions and workforce capabilities, creating a win-win scenario for workers and employers alike.

This paper examines the potential application of the PWM in the Philippines, emphasizing strategies to reduce regional disparities, improve workforce development, and strengthen enforcement mechanisms. By adopting a productivity-focused approach to wage policy, the Philippines can foster a more equitable, dynamic, and sustainable labor market that benefits businesses, workers, and the broader economy.

Summary of Facts

The Wage Rationalization Act of 1989 introduced a decentralized framework for setting minimum wages in the Philippines, marking a significant shift in wage policy. Its primary objective was to address regional economic disparities by tailoring wage levels to the diverse economic conditions of the country's regions. Through the creation of Regional Tripartite Wages and Productivity Boards (RTWPBs), the system enabled representatives from labor, employers, and the government to collaborate on determining minimum wage levels. These boards were tasked with considering regional cost-of-living differences, employment conditions, and economic performance to ensure that wage policies reflected the realities of each region (Reyes & Sanchez, 1990). This structure was designed to promote flexibility and equity, acknowledging that a one-size-fits-all approach to wage setting would not effectively address the economic diversity across the Philippines.

However, while the decentralized wage-setting framework sought to balance economic conditions, it has inadvertently contributed to persistent regional wage disparities. Wealthier regions, such as the National Capital Region (NCR), consistently set higher minimum wages compared to economically disadvantaged areas (Dizon & Villahermosa, 2021). For instance, in 2025, the minimum wage in NCR for non-agricultural workers is Php 695.00, significantly higher than the Php 411.00 minimum wage in the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM). This wage gap highlights the structural inequalities that underlie the economic disparity between regions. Wealthier areas benefit from better infrastructure, higher levels of investment, and more dynamic economic activity, while poorer regions struggle with limited resources and opportunities. As a result, the wage system, rather than bridging economic gaps, often reinforces existing inequalities by perpetuating the advantages of wealthier areas and the disadvantages of underdeveloped ones.

Compounding these issues is the system's reliance on cost-of-living adjustments in determining minimum wages, rather than linking wage increases to productivity improvements. While cost-of-living adjustments are essential for ensuring that wages reflect inflation and the basic needs of workers, they provide no incentives for businesses to invest in workforce development or for workers to upskill. This disconnect between wages and productivity has led to stagnant labor productivity in key industries, reducing the global competitiveness of the Philippine labor force (Paqueo, Orbeta, & Lanzona, 2016). Without a clear mechanism to tie wages to measurable productivity improvements, the system fails to encourage innovation, efficiency, or skills development, leaving the labor market unprepared for the demands of a rapidly evolving global economy.

Another critical issue undermining the wage system is the weakness of enforcement mechanisms. While wage policies and minimum wage laws are in place, compliance remains a significant challenge, particularly in rural and informal sectors. Approximately 18% of firms fail to meet the minimum wage requirements, leaving many workers without access to wage protections or social benefits (Bacus, 2014).

Informal labor markets, which dominate employment in rural areas, are particularly prone to non-compliance due to limited regulatory oversight and weak enforcement capacity. This lack of enforcement not only violates workers' rights but also undermines the credibility of the wage system as a tool for promoting fairness and equity.

The systemic challenges of the Philippine wage framework also disproportionately affect small and medium enterprises (SMEs), which constitute a significant share of employment in the country. SMEs often struggle to absorb uniform wage hikes due to their limited financial capacity. Unlike larger businesses that can adapt to higher labor costs through economies of scale or automation, SMEs face greater financial strain, which can lead to layoffs, reliance on informal labor practices, or even business closures (Mangaoang, 2021). In rural and underdeveloped areas, where SMEs are often the backbone of local economies, these challenges exacerbate unemployment and economic instability.

The system now faces pressing challenges in meeting the expectations of the younger workforce, particularly Generation Z. This demographic prioritizes stable employment with clear opportunities for career growth—needs that are inadequately addressed by the existing wage framework. Without meaningful reforms, the system risks alienating this generation, whose preferences are increasingly shaping labor market trends (Madrona, 2024).

While the Wage Rationalization Act of 1989 was designed to address regional disparities and foster equitable wage policies, its implementation has exposed critical shortcomings. Persistent regional wage gaps, the lack of a productivity-wage linkage, weak enforcement mechanisms, and the disproportionate burden placed on SMEs underscore the need for comprehensive systemic reforms. These issues are further exacerbated by the expectations of Generation Z, whose demand for stability and career pathways highlights the growing disconnect between the current wage system and the evolving labor market. Unless these challenges are addressed, the Philippine wage system will continue to fall short of achieving its objectives of inclusive growth and equitable economic development.

Statement of Issues

The Philippine wage system faces several critical challenges that undermine its effectiveness in promoting equity, inclusivity, and sustainable economic growth. These issues originate from the structural limitations of the Wage Rationalization Act of 1989, which established a decentralized wage-setting framework. While the system aimed to address regional economic disparities and tailor wages to local conditions, its implementation has exposed significant weaknesses.

These include entrenched regional wage disparities, the absence of a productivity-wage linkage, weak enforcement mechanisms, and the disproportionate burden placed on small and medium enterprises (SMEs). Collectively, these issues hinder the wage system's ability to reduce poverty, encourage economic development, and improve labor market outcomes (Reyes & Sanchez, 1990).

One of the most pressing issues is the regional wage disparities institutionalized by the decentralized framework. The system's reliance on regional boards to set wages based on local economic conditions has inadvertently reinforced inequalities between wealthier and underdeveloped regions. Poorer regions, with limited infrastructure and lower levels of economic activity, set significantly lower minimum wages compared to urbanized areas (Andriesse, 2017). These disparities discourage investment in underdeveloped regions and lead to labor migration, as workers seek better opportunities in wealthier areas. Consequently, rural areas experience talent drains, while urban centers become overburdened with a growing workforce. Without targeted interventions to address these disparities, the wage system will continue to perpetuate inequality and limit opportunities for balanced regional development (Dizon & Villahermosa, 2021).

Another critical limitation of the wage system is its failure to link wages with productivity, which has contributed to stagnant labor productivity and limited career mobility for workers. Currently, wage adjustments primarily consider cost-of-living factors, ensuring that wages keep pace with inflation and basic needs. However, this approach does not incentivize businesses to invest in workforce development or encourage workers to improve their skills. The lack of a clear productivity-wage linkage has left many industries unable to adopt new technologies or improve operational efficiency, while workers lack pathways to advance their careers (Paqueo, Orbeta, & Lanzona, 2016).

Over time, this disconnect has reduced the competitiveness of the Philippine labor market, particularly in industries that depend on low-skilled labor. To address this, reforms must prioritize aligning wage growth with measurable productivity improvements, creating incentives for both businesses and workers to engage in skills training and workforce development.

The weak enforcement of wage laws further undermines the effectiveness of the wage system. Despite the existence of minimum wage policies, many employers fail to comply with wage regulations, particularly in rural and informal sectors where oversight is limited. This issue is compounded by the insufficient capacity of regulatory agencies, which struggle with inadequate funding and outdated monitoring systems. As a result, many workers, especially those in informal employment, are left without the protections they are entitled to. The lack of stricter enforcement measures, such as penalties for non-compliance, allows violations to persist, eroding trust in the wage system and leaving vulnerable workers at risk of exploitation (Bacus, 2014). Strengthening enforcement mechanisms, including expanding labor inspections and adopting digital compliance systems, is essential to ensure that workers receive fair compensation and that employers are held accountable for violations of wage laws (Mangaoang, 2021).

The challenges faced by small and medium enterprises (SMEs) are another significant concern within the current wage system. SMEs, which play a crucial role in providing employment and driving economic activity, often struggle to meet mandated wage increases due to their limited financial resources. Unlike larger corporations, SMEs have fewer opportunities to offset additional labor costs through economies of scale or automation. This financial strain frequently forces SMEs to reduce their workforce, rely on informal labor practices, or, in extreme cases, shut down operations (Mangaoang, 2021). These challenges are particularly acute in underdeveloped regions, where SMEs serve as the primary source of jobs and economic stability.

To support SMEs, targeted interventions such as wage subsidies, tax incentives, and access to workforce training programs are necessary to help them adapt to wage reforms without compromising their sustainability or ability to create jobs.

Consequently, the Philippine wage system faces interconnected challenges that limit its ability to promote equitable and sustainable economic growth.

Regional wage disparities, the lack of a clear linkage between productivity and wages, weak enforcement mechanisms, and the challenges faced by SMEs highlight systemic flaws within the current framework. Addressing these issues through targeted reforms is crucial to ensure that the wage system achieves its goals of reducing inequality, fostering inclusivity, and promoting long-term economic development. By aligning wages with productivity, strengthening enforcement measures, and providing support for SMEs, the Philippine wage system can become a more effective tool for promoting fairness and inclusivity in the labor market.

Outline of Arguments

While the Statement of Issues identifies the key challenges facing the Philippine wage system, this section provides a reasoned framework for addressing the systemic problems previously outlined, emphasizing the rationale, feasibility, and expected outcomes of the proposed solutions. By analyzing these solutions in depth, this section demonstrates how targeted reforms can transform the wage system into a more equitable and sustainable tool for economic growth.

The Philippine wage system, while intended to promote fairness and economic equity, requires significant reforms to address its structural flaws. These include reducing regional wage disparities, establishing a productivity-wage linkage, strengthening enforcement mechanisms, and supporting small and medium enterprises (SMEs). By addressing these issues through carefully designed interventions, the system can better achieve its goals of reducing poverty, fostering economic development, and protecting workers.

The first challenge requiring reform is the persistent regional wage disparities that have emerged due to the decentralized wage-setting framework. While this system was designed to reflect local economic conditions, it has instead institutionalized inequalities by setting lower wages in underdeveloped regions. This disparity discourages investment and hinders the retention of skilled workers, who often migrate to urban centers in search of better opportunities (Andriesse, 2017). To address this, wage policies must integrate regional productivity indicators and align with broader development strategies.

Investments in infrastructure, such as transportation and logistics, can attract businesses to poorer regions, while improving access to education and vocational training programs can empower local workers (Dizon & Villahermosa, 2021). Together, these measures will reduce wage gaps, enhance regional competitiveness, and foster balanced economic growth across the country.

In addition, the absence of a link between wages and productivity represents a fundamental weakness in the current wage system. Wage adjustments primarily consider inflation and cost-of-living factors, neglecting the need to incentivize skills development and workforce training. This disconnect stifles labor productivity, particularly in industries that rely on low-skilled workers, such as agriculture and manufacturing (Paqueo, Orbeta, & Lanzona, 2016). To address this issue, the introduction of productivity-based wage policies is essential. For instance, sector-specific wage ladders, modeled after Singapore's Progressive Wage Model (PWM), can tie wage growth to measurable improvements in skills and certification programs. By requiring workers to complete training and certification to qualify for higher wages, such policies not only improve productivity but also provide workers with opportunities for career advancement (Ng, Ng, & Lee, 2018). Creating a productivity-based system would help build a more competitive workforce and address the country's stagnant labor productivity.

The weak enforcement of wage laws further diminishes the effectiveness of the wage system. Despite regulations mandating minimum wages, non-compliance remains widespread, particularly in rural and informal sectors where oversight is limited (Bacus, 2014). Insufficient funding for labor inspections, outdated monitoring mechanisms, and weak penalties for non-compliance allow employers to evade wage regulations without significant consequences. Strengthening enforcement requires a combination of increased funding for inspections, the adoption of digital compliance monitoring systems, and stricter penalties for violators. Linking business licenses to compliance with labor standards, as practiced in Singapore, can create a strong deterrent against non-compliance (Ng, Ng, & Lee, 2018). These measures would ensure accountability among employers and protect workers from exploitation, thereby restoring trust in the wage system.

Finally, small and medium enterprises (SMEs), which make up a significant portion of the Philippine economy, face unique challenges under the current wage system. Uniform wage increases disproportionately burden SMEs, which often lack the financial capacity to absorb higher labor costs. Unlike larger corporations, SMEs cannot leverage economies of scale or automation to offset these costs, making them more vulnerable to financial strain (Mangaoang, 2021). As a result, many SMEs are forced to reduce their workforce, rely on informal labor practices, or shut down operations entirely. To address this issue, the government must implement targeted assistance programs. Wage subsidies, for example, can offset the cost of wage increases, while tax incentives can reward businesses that invest in workforce development. Additionally, government-funded training programs can enhance SME productivity, enabling them to adapt to wage reforms without compromising their operations (Dizon & Villahermosa, 2021). Supporting SMEs is critical not only for protecting jobs but also for promoting economic resilience, particularly in underdeveloped regions where they are key drivers of employment.

As shown herein, the Philippine wage system requires targeted reforms to address systemic inefficiencies and build an equitable, sustainable labor market. Key priorities include reducing regional wage disparities, linking wages to productivity, strengthening enforcement mechanisms, and supporting SMEs.

Adopting successful models like Singapore's Progressive Wage Model and implementing innovative policies can create a system where both workers and businesses thrive. By tackling these challenges, the government can promote inclusive economic growth, enhance competitiveness, and reduce inequality across regions.

Discussion

While the Outline of Arguments briefly identified and justified the use of Singapore's Progressive Wage Model (PWM) as a framework for reform, this section elaborates on the feasibility, potential benefits, and implementation challenges of adopting the PWM in the Philippines. This section also addresses the practical steps needed to adapt the model to the country's economic and social context, focusing on its implications for productivity, skills development, enforcement mechanisms, and support for small and medium enterprises (SMEs).

Singapore's PWM offers a structured and innovative approach to addressing key wage system challenges. By linking wages to skills development and productivity, the PWM provides a model that can help reduce regional wage disparities, enhance labor force competitiveness, and strengthen enforcement mechanisms. However, its implementation in the Philippines requires careful adaptation to account for differences in labor market conditions, regulatory capacity, and economic structures (Mair, Druckman, & Jackson, 2019).

Sector-Specific Wage Ladders: A Foundation for Skills and Productivity

A defining feature of Singapore's PWM is its sector-specific wage ladders, which ensure that wage policies are tailored to the realities of different industries. These ladders incentivize workers to pursue skills training and certifications, offering clear pathways for career advancement. Simultaneously, businesses are encouraged to invest in workforce development to meet industry-specific standards, creating a mutually beneficial system that fosters productivity and competitiveness (Mair, Druckman, & Jackson, 2019).

For instance, in Singapore's cleaning sector, workers are required to complete mandatory training and certifications to qualify for higher wages. This approach not only improves the quality of work but also enhances workers' employability and career prospects (Ng, Ng, & Lee, 2018). If applied in the Philippines, sector-specific wage ladders could address the lack of a productivity-wage linkage while creating opportunities for economic mobility.

Tailoring these wage ladders to key industries in the Philippines—such as agriculture, services, and manufacturing—would help align workforce development with economic needs. For example, in agriculture, wage ladders could be linked to training in modern farming techniques, improving both productivity and incomes. This is particularly critical, as agriculture employs a significant portion of the Philippine workforce yet remains one of the least productive sectors (Paqueo, Orbeta, & Lanzona, 2016). Similarly, in the services and manufacturing industries, skills training programs could focus on emerging technologies, ensuring that workers remain competitive in a rapidly globalizing economy (Dizon & Villahermosa, 2021).

Challenges and Considerations for Implementation

While the PWM's sector-specific approach has clear benefits, its implementation in the Philippines faces several challenges. Unlike Singapore, where the labor market is highly formalized and well-regulated, the Philippine labor market includes a significant informal sector, with informal workers often lacking access to training programs and social protections. This makes it difficult to implement productivity-linked wage policies in certain sectors (Mangaoang, 2021).

To address these challenges, the government could pilot the PWM in industries with more formalized labor structures, such as business process outsourcing (BPO) or manufacturing, before expanding it to other sectors. Simultaneously, complementary policies should aim to formalize the labor market gradually, providing informal workers with access to training and opportunities for wage progression. Such an approach ensures a gradual yet inclusive transition to a productivity-linked wage system (Andriesse, 2017).

Strengthening Enforcement Mechanisms

One of the primary weaknesses of the Philippine wage system is the absence of effective enforcement mechanisms, which has resulted in widespread non-compliance with wage policies. About 18% of firms fail to adhere to minimum wage laws, with non-compliance especially common in rural and informal sectors (Bacus, 2014). Singapore's PWM provides a useful model for strengthening enforcement, as it integrates digital compliance monitoring systems and ties business licensing to compliance with wage regulations. These measures create powerful incentives for employers to adhere to labor standards (Ng, Ng, & Lee, 2018).

In the Philippine context, government agencies such as the Department of Labor and Employment (DOLE) could adopt similar measures to ensure transparency and accountability. Digital tools, such as online wage reporting systems and compliance dashboards, could streamline monitoring efforts while reducing opportunities for corruption and inefficiency. Stricter penalties for violators, coupled with awareness campaigns to educate both employers and workers about wage policies, would further strengthen enforcement and restore trust in the labor system (Reyes & Sanchez, 1990).

Supporting Small and Medium Enterprises (SMEs)

The successful implementation of the PWM in the Philippines also depends on targeted support for small and medium enterprises (SMEs), which are particularly vulnerable to the financial strain caused by wage reforms. Unlike larger corporations, SMEs often lack the resources to invest in training programs or absorb higher labor costs. Without adequate support, many SMEs may resort to layoffs, informal labor practices, or even closures, particularly in underdeveloped regions where they are key drivers of employment (Mangaoang, 2021).

To mitigate these risks, the government must provide financial and technical assistance to SMEs. Wage subsidies, for instance, could offset the cost of wage increases, ensuring that SMEs remain compliant with wage policies without compromising their operations. Tax incentives could encourage businesses to invest in workforce development, while technical assistance programs could provide SMEs with tools to improve efficiency and productivity (Dizon & Villahermosa, 2021). These measures would enable SMEs to adapt to the PWM framework while maintaining their competitiveness and sustainability.

Collaboration Among Stakeholders

Implementing the PWM in the Philippines will require collaborative efforts among government agencies, training institutions, and private-sector organizations. Government agencies, such as DOLE, can play a central role in developing and regulating sector-specific wage ladders. Training institutions, including both public and private providers, can design and deliver the necessary skills programs to support worker development. Meanwhile, private-sector organizations can contribute by investing in employee training and ensuring compliance with wage policies (Ng, Ng, & Lee, 2018).

This multi-stakeholder approach ensures that the PWM is not only effective but also sustainable in the Philippine context. By fostering partnerships among key actors, the government can address systemic challenges while promoting inclusivity and shared responsibility in the labor market (Mair, Druckman, & Jackson, 2019).

The Broader Implications of the PWM for the Philippine Wage System

The adoption of the PWM in the Philippines offers a pathway to addressing systemic issues such as regional wage disparities, stagnant productivity, and weak enforcement. By linking wages to skills development and productivity, the PWM ensures that wage growth benefits workers while also driving economic competitiveness. Additionally, its focus on sector-specific policies allows for flexibility and adaptability, ensuring that the system can respond to the unique needs of different industries (Paqueo, Orbeta, & Lanzona, 2016).

However, the success of the PWM depends on the government's ability to address underlying structural challenges, such as the informal labor market and limited enforcement capacity. By piloting the model in formalized sectors, strengthening enforcement mechanisms, and providing targeted support for SMEs, the Philippines can lay the groundwork for a more equitable and dynamic labor market (Andriesse, 2017).

The PWM provides a comprehensive framework for addressing the systemic flaws in the Philippine wage system. Through collaboration among stakeholders, careful adaptation to local conditions, and sustained investments in skills development and enforcement, it has the potential to create a more inclusive and sustainable wage system that benefits workers, businesses, and the broader economy.

Conclusion

The Wage Rationalization Act of 1989 introduced a decentralized framework to address regional economic disparities and provide flexibility in wage determination (Bacus, 2014). While progressive in intent, the law has fallen short in resolving systemic issues such as regional wage inequalities, stagnant productivity, weak enforcement mechanisms, and the heavy burden on small and medium enterprises (SMEs). These challenges have hindered the wage system's ability to promote equity, inclusivity, and sustainable growth (Andriesse, 2017).

To overcome these limitations, the Philippines can draw inspiration from Singapore's Progressive Wage Model (PWM), which links wage growth to skills development and productivity. This structured approach ensures mutual benefits for both workers and businesses. By adopting similar principles, the Philippines can build a wage system that fosters fairness, competitiveness, and inclusive economic growth.

This section explores five critical areas of reform: *sector-specific wage ladders, productivity-linked wages, strengthened enforcement mechanisms, targeted support for SMEs, and strategies to promote regional equity*.

Sector-Specific Wage Ladders. A key element of Singapore's PWM is sector-specific wage ladders, which align wage progression with industry-specific needs (Mair, Druckman, & Jackson, 2019). These ladders encourage workers to pursue skills training and certifications, creating clear career pathways while fostering a more skilled and productive workforce. Adopting this approach in the Philippines would involve tailoring wage policies to the productivity demands and skill requirements of industries such as agriculture, services, and manufacturing. In agriculture, linking wages to training in modern farming practices can enhance productivity and efficiency, addressing long-standing sector challenges (Paqueo, Orbeta, & Lanzona, 2016). For services and manufacturing, tying wages to certifications in advanced technologies and specialized skills would help workers remain globally competitive. Such reforms drive industry growth while enabling workers to enhance their skills and earning potential (Ng, Ng, & Lee, 2018).

Linking Wages to Productivity. The Philippine wage system lacks a productivity-wage linkage, as adjustments are primarily based on cost-of-living changes rather than efforts to enhance labor productivity or skills development. Establishing this linkage would require tying wage progression to mandatory skills training and certifications, ensuring increases reflect measurable improvements in worker capabilities (Mair, Druckman, & Jackson, 2019). This approach benefits workers by providing career advancement opportunities and businesses by creating a more skilled and efficient workforce. Singapore's Progressive Wage Model demonstrates how linking wages to productivity can drive economic growth and improve worker welfare. For the Philippines, such reforms could address stagnant productivity in key sectors like manufacturing and agriculture, which are crucial to national development (Dizon & Villahermosa, 2021).

Strengthening Enforcement Mechanisms. Weak enforcement of wage laws is a persistent issue in the Philippines, especially in rural and informal sectors where non-compliance is rampant. Limited resources and insufficient labor inspection capacity have allowed employers to bypass wage policies with minimal consequences, weakening the system's effectiveness (Bacus, 2014).

To address this, the government must bolster regulatory agencies like the Department of Labor and Employment (DOLE) by increasing funding for labor inspectors and adopting digital compliance systems, such as online reporting platforms, to streamline monitoring and improve transparency (Reyes & Sanchez, 1990).

Stricter penalties, including heavy fines and business sanctions, would also deter violations. Drawing from Singapore's model of linking business licensing to wage policy compliance, the Philippines can promote employer accountability and better protect workers from exploitation (Ng, Ng, & Lee, 2018).

Supporting Small and Medium Enterprises (SMEs). Small and medium enterprises (SMEs) are vital to the Philippine economy, driving employment and economic activity. However, uniform wage hikes often disproportionately impact SMEs, which may struggle to absorb higher labor costs. Without targeted support, such reforms risk triggering layoffs, informal practices, or business closures, particularly in less developed regions (Mangaoang, 2021). To mitigate these effects, the government should offer financial and technical assistance, such as wage subsidies to offset immediate costs and tax incentives to encourage investments in workforce training and technology. Government-funded training programs can further enhance SME efficiency and competitiveness, enabling them to adapt to wage reforms while fostering inclusive economic growth (Dizon & Villahermosa, 2021).

Promoting Regional Equity. Regional wage disparities remain a significant obstacle to inclusive growth in the Philippines, with the decentralized wage-setting framework of the Wage Rationalization Act often resulting in lower wages in poorer regions due to limited economic opportunities (Andriesse, 2017). Addressing these disparities requires integrating wage policies with broader regional development strategies. Investments in infrastructure, such as transportation and logistics, can attract investors and stimulate economic activity in rural areas. Expanding access to quality education and vocational training can also equip workers in underdeveloped regions with skills to compete in the labor market. Aligning wage policies with these initiatives can reduce regional inequalities

and foster a more balanced, inclusive economy (Paqueo, Orbeta, & Lanzona, 2016).

A Path Toward a Fairer and More Dynamic Wage System

The systemic challenges of the Philippine wage system demand bold and comprehensive reforms to ensure that it fulfills its intended goals of promoting equity, inclusivity, and economic growth. Adopting sector-specific wage ladders, linking wages to productivity, strengthening enforcement mechanisms, supporting SMEs, and promoting regional equity are critical steps toward achieving these objectives. These reforms, inspired by Singapore's Progressive Wage Model, offer a sustainable framework for addressing wage inequalities while enhancing the country's competitiveness in a globalized economy.

By implementing these recommendations, the Philippines can build a labor market that is not only fairer but also more dynamic and resilient. Such a system would empower workers, support businesses, and foster inclusive economic growth, ensuring that the benefits of development are shared across all sectors and regions of the country.

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