

LABOR POLICY ANALYSIS FOR

JOBS Expansion & Development

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OBJECTIVES

Of the Jobs Study

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

Structure of Presentation

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

OVERVIEW OF

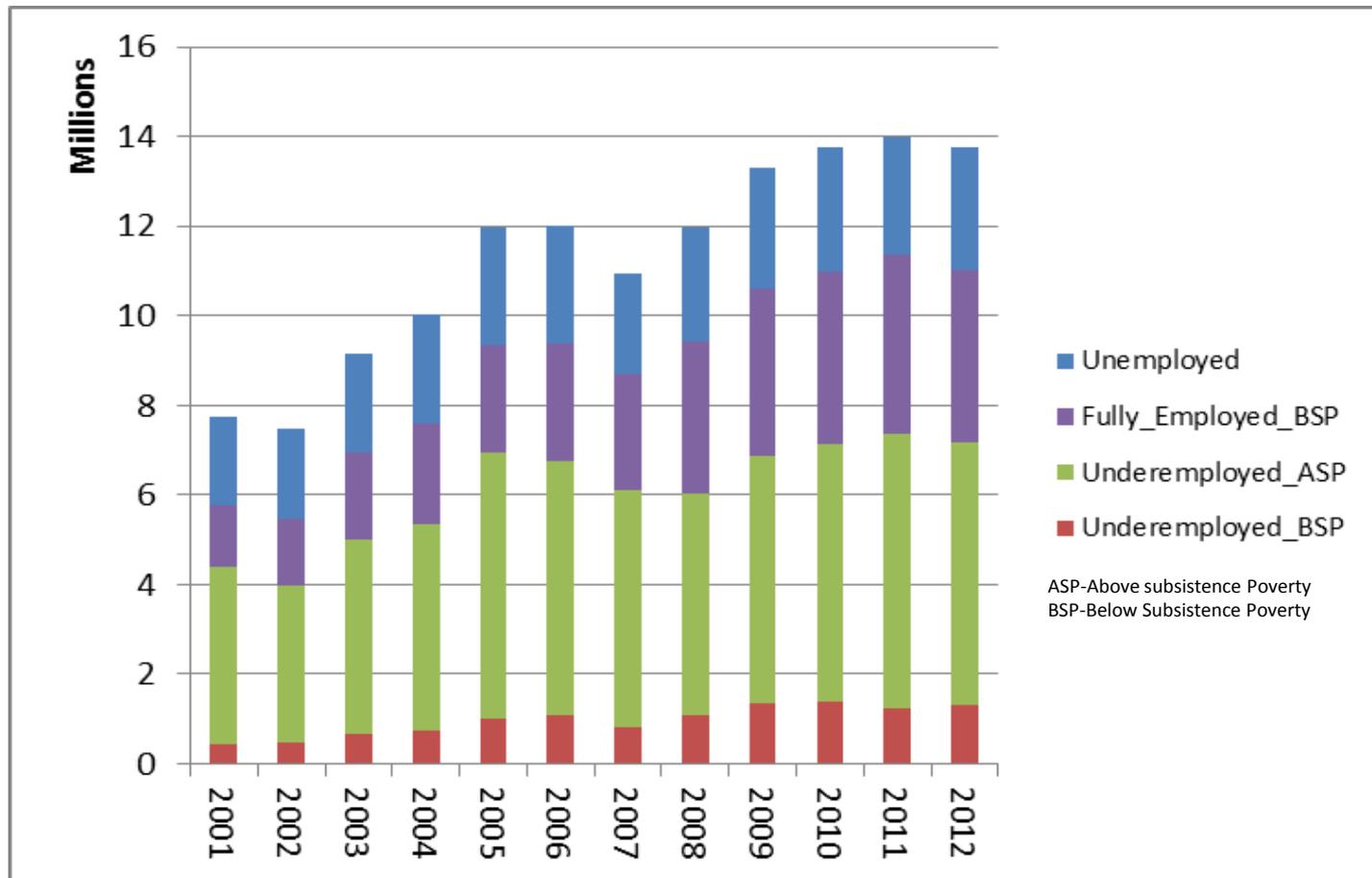
Jobs-Poverty Nexus

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

EXPANDING

Underproductive Workers

Open unemployment is only a small proportion of the underproductive workers



BEWARE

be careful about the interpretation of open unemployment

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

Usual Interventions

ADDRESS JOBS AND POVERTY ISSUE

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

How effective are these interventions?

Labor Regulatory & Policy Environment

OBJECTIVES OF LABOR REGULATIONS

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

REGULATIONS AND PRACTICES

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

MORE ON

Labor Environment

More labor regulations and practices:

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

Labor regulations can have **positive or negative effects**

- What is their net impact on the welfare of the common man and the disadvantaged?

- That generally, MW *is not always helpful* to the common man and the disadvantaged
- We found clear evidence from impact studies on
 - Household income and poverty incidence, using APIS panel data
 - Employment of enterprises (Survey of Enterprises)
 - Employment of individual workers from disadvantaged population groups (LFS)
 - Hours of work (LFS)

Minimum Wage Study

Key Findings

- 1. Minimum wage reduces the demand for workers in small firms.***

Minimum Wage Study

Key Findings

2. Minimum wage decreases the chance of the young, female, low educated and inexperienced workers being hired.

Minimum Wage Study

Key Findings

3. The rise in minimum wage results in lower household income (20 percent reduction based on our computation).

Minimum Wage Study

Key Findings

Why would household income decline with a higher minimum wage on average?

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

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

Investment In HUMAN CAPITAL

- Investments in education have a high rate of return (Paqueo, Orbeta, Castaneda and Spohr 2013):
 - *income* of households headed by high school graduates is *more than double* than that of households with heads that only have elementary education
- *Rising wage premium* for educated labor (Di Gropello et al. 2010)
- *Improved nutritional status* has a positive effect on the wages of agricultural workers (Haddad and Bouis 1991)
- However, training programs were found to have mixed effects (J-PAL, 2013; Betcherman et al, 2004).
- There is also low percentage of training done on-the-job and in-plant (less than 10%).

General Strategy

PROPOSAL

Jobs Expansion and Development Initiative (JEDI) for poverty alleviation

TWO BROAD OBJECTIVES:

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

JEDI's Predicates

- Clear evidence of the *damaging impact of minimum wage* on employment, income and poverty status of households, particularly those belonging to the disadvantaged population groups
- **Minimum wages and other current labor regulations should NOT be looked at as the only options to address the plight of workers.**
 - *Better alternatives* are education, increasing quality job opportunities through the manufacturing sector (which can provide higher wages), and increasing opportunities for training on the job
 - Helping the poor *directly with their subsistence needs* – e.g., direct and temporary income subsidy

Time to leave the beaten path and try new approaches

Labor Reforms and the 12-point JEDI Program

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

Labor Reforms and the 12-point JEDI Program

3. Experimenting with a ***Singaporean style scheme*** providing ***income supplement to targeted ultra poor workers*** to close the gap between market wage and decent wage norm society wants
4. Transforming the consultation process from a ***tripartite into a quadripartite system*** that would give the poor, unemployed, underemployed and self-employed ***direct representation*** in the determination of labor regulations and policies;

Labor Reforms and the 12-point JEDI Program

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

Labor Reforms and the 12-point JEDI Program

7. ***Simplifying labor dispute resolution processes*** to cut the time, cost, inconvenience, and uncertainty involved;

8. Making the rules on hiring and firing decisions ***more flexible***, leaving the firms and workers to negotiate and work out agreements that are mutually beneficial;

Labor Reforms and the 12-point JEDI Program

9. Accelerating the accumulation of skills

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

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

Labor Reforms and the 12-point JEDI Program

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

To summarize

- Moderation of minimum wage increases and adjustments in its application for the poor unemployed/underemployed, not call for abolition of MW
- Focus on labor productivity growth

Comments on Critics' Response

- Slavery, if no minimum wage
 - Scare tactic
 - Counter-example of Singapore and Malaysia
- The findings are not believable because micro enterprises are exempted from MW
 - Exemptions refer to very small enterprises
 - Bulk of small and medium scale firms are not
 - Growing the latter and expansion of their employment of are critical for poverty reduction and development
- No MW means race to the bottom
 - Scare tactic
 - Counter-example of Singapore and Malaysia
- Other binding constraints are more important
 - No magic bullet
 - Combination of measures necessary: rationalization of labor regulations a key component
- A tool of local and foreign businesses?
 - An independent think tank, concerned about inclusive growth
 - Critics: how can they have the moral high ground, when the impact of their policy prescription is anti-poor and discriminates against disadvantaged groups?

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