The Crisis of Income and Employment in the Philippines

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In her 2005 State of the Nation Address, President Gloria Macapagal-Arroyo described our country as one whose economy was on the verge of take-off, hindered only by a political system that had become a hindrance to progress. This year, her message is that the government now has the funds to meet our expenditure needs, particularly the Medium Term Public Investment Program.

At the back of the President's confidence and optimism is the growth performance of the economy in recent years. After a dismal performance in 2001 when she was installed to the Presidency, the economy's real gross domestic product picked up. It grew by 4.4% in 2002, 4.9% in 2003, 6.2% in 2004, and 5.0% in 2005. For the first quarter this year, it grew by 5.5%. (See Table 1, Statistical Annex)

On the government funds side, the country's fiscal problem eased in 2005. The deficit in 2005 stood at P146.5 billion, which was lower than the P187 billion incurred in 2004. It was also lower than the P180 billion programmed deficit for that year. The lower actual deficit over programmed deficit was a result of both the higher-than-programmed revenues (P795.7 billion vs. P783.2 billion) and the lower-than-programmed expenditures (P942.2 billion vs. P963.2 billion). (See Table 2. Statistical Annex)

But the President's confidence and optimism is not matched by public perception. In a Social Weather Stations (SWS) survey for the second quarter this year, 59% of household heads in the country rated themselves as poor. (See Table 3, Statistical Annex) In the perception on change in quality of life, past SWS reports show that losers consistently outnumber the gainers. In December 2005, 19% of the population said that

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their lives then were better that it was 12 months ago (the gainers), while 44% of the population said that their lives were worse then than it was 12 months ago (the losers). On expected change in the economy, in December 2005 as much as 47% of the population believed that the economy would be worse in the coming 12 months, while only 16% believed it would be better. In February 2001 when the president just took office, 36% were optimistic about the economy, and only 18% thought it would be worse in the coming 12 months.

One might be tempted to think that the dissonance between the President's assessment of the state of the nation and public perception is a case of a skeptical public refusing to accept the facts. After all, the President cites hard data while the SWS surveys capture perceptions, which can be subjective.

A closer scrutiny of the details, however, exposes deep structural problems in the economy that mere reference to growth and fiscal improvement will not reveal. While acknowledging the economic growth and the better fiscal performance, it also has to be recognized that the negative public perception is no less supported by hard data.

Trapped in Low Productivity

The agriculture, fishery and forestry sector remains a major employer in the economy. In 2005, it employed some 12.1 million individuals, or 37.03% of total employed. Such share has only declined marginally from the 2000 level of 37.45%.

The agriculture sector is characterized by low productivity. For 2005, agriculture output per unit of labor was P63,828.74. This amounts to P5,319.06 average monthly. In 1985 prices this is a measly P18,955.00 per unit of labor in 2005, or P1,579.58 average monthly. Such amount is just P450 higher than what it was in 2000 at 1985 prices.

From such low productivity, and considering costs of inputs, we can only expect very low incomes in the agriculture sector. In addition, frequent calamities, poor infrastructure, unstable prices, and seasonality of employment render agriculture incomes vulnerable.

The outward push from the low productivity, low income from agriculture, makes employment in services and industry attractive. In industry the GDP per unit of labor in 2005 was P357,651.55, or P29,804.30 average monthly[1]. This is 5.6 times greater than agriculture GDP per unit of labor. Even as industry is capital-intensive, we can still expect wages and income to be higher in industry. Aside from the higher wages and income in industry, it is also characterized by high formality, which means labor enjoys far greater adherence to employment standards and regulations.

Regrettably, the share of industry in terms of the people it employs not only has not expanded—it even contracted from 15.72% in 2000 to 14.86% in 2005. In absolute terms, there was only a slight increase in the number of people it employed from 4.4 million in 2000 to 4.9 million in 2005.

With industry failing to expand, it is the services sector that has been picking up the employment of the growing labor force. Its relative share in total employment has increased from 46.5% in 2000 to 48.1% in 2005. In absolute terms it employed 12.9 million people in 2000, which increased to 15.8 million in 2005.

While GDP per unit of labor in services is lower than in industry, it is still a good 2.9 times greater than in agriculture. In 2005 the GDP per unit of labor in services was P183,018.70 or P15,251.56 monthly. In 1985 prices this is equivalent to P36,653 per unit of labor in 2005, or P3,054.42 average per month.

The relatively greater ability of the services sector to employ people, however, must be appreciated with caution. While many service sector jobs share similar levels of formality with industry, there is also a large section of the services sector that will not be far ahead of agriculture in terms of formality, seasonality of employment, and adherence

1 In 1985 prices this was P81,677.00 per unit of labor for the year, or P6,806.42 average monthly.

to employment standards and regulations. Thus even as we see more people employed by the big malls and new branches of banks and restaurants, for instance, there are also people being employed in private households, and people doing odd jobs such as “wash-your-car boys”, “pedicab” drivers, “park-your-car boys”, street vendors, and so on. (See Tables 4, 5-A and 5-B, Statistical Annex)

Unemployment and Poverty Wages

From 2000 to 2005, the country’s labor force grew at an average rate of 2.3% per year. This was outpaced by the real GDP growth average of 4.45% for the same period. Still, the higher pace of economic growth than labor force growth has not made a dent on the country’s unemployment. In 2000, 10.14% of the labor force, or 3.1 million individuals, were unemployed. In January 2006, the unemployment rate was even higher at 10.7%, with 3.9 million individuals unemployed. Employed, under these statistics, are those 15 years or older as of their last birthday, who are either: (a) *at work*, that is, *have done any work within the past week of the survey even for one hour for pay or profit, or even without pay if work done is on the farm or business enterprise of the same household*; or (b) *with a job but not at work* because of temporary illness/injury, vacation or other reasons, or only about to report for work or start operation of the business within two weeks from the survey.

The very low threshold to be considered employed means that there will be a considerable number of underemployed. Underemployed persons are those considered employed but express the desire to have additional hours of work in their present job, an additional job, or a new job with longer working hours. Of the 27.8 million employed in 2000, some 5.5 million or 19.9% were underemployed. In 2004, of the 31.7 million employed, 5.4 million or 16.9% were underemployed. (See Table 6, Statistical Annex)

Beginning 2005 the government released lower unemployment figures following a newly adopted definition of the unemployed. This added another criterion—availability for work within two weeks after the survey interview date—to be considered unemployed.

Using this definition, the April 2005 unemployment was 8.3%, and the April 2006 unemployment was 8.2%. But underemployment was very high at 26.1% and 25.4% for these periods.

Whichever definition is used, the fact remains that the economic growth being cited by government is really not able to generate a sufficiently high number of new jobs to address unemployment and underemployment.

Aside from high underemployment, a large number of the employed are earning poverty-level wages and income. Some 6 million of the 31.7 million employed persons in 2004 are farmers and fishermen by occupation. As noted earlier, incomes in agriculture are low and rendered vulnerable by informality, seasonality of work, natural calamities, unstable prices, and poor infrastructure. In addition to the low income of farmers and fishermen, the bulk of the employed are laborers and unskilled workers by occupation. They numbered 10 million in 2004, and comprised 31.9% of the employed. Using the level of wages in select industries as indicator, a worker in this occupation group earns an average monthly wage ranging from about P5,000 to P8,000. At the exchange rate of P55.83 to the US dollar in that year, the average daily wage for this occupation class ranges from 3 to 5 US dollars. Clerks, numbering 1.36 million, earn about the same. (See Tables 7 and 8, Statistical Annex)

Such level of income would put these workers well above the US$1 a day international poverty line, but only if they are supporting only themselves. However, there is a good chance these wage earners support a family. In 2003, 14.6 million or 88.4% of the 16.5 million total number of families consisted of at least three members. Some 8.9 million families, or 54.2% of total, had family sizes of five or more members. (See Table 9, Statistical Annex) These figures relate very well with the SWS survey that finds 59% of household heads rating themselves as poor. Indeed with a daily wage rate of 3 to 5 US dollars, one would easily fall under the dollar-a-day international poverty threshold if he or she is supporting four or more people.

In contrast, official poverty estimates placed the incidence of poverty among families at a much lower 24.4%, or 4 million families out of the total 16.5 million families in 2003. In terms of population, the official poverty incidence was 30%, or 23.8 million Filipinos out of the total 79.4 million. The official poverty estimates, however, are based on a low annual per capita poverty threshold of P12,309 in 2003, equivalent to P33.72 or US$0.63 per person per day. (See Table 10, Statistical Annex)

Income and Investment

From the Family Income and Expenditure Survey (FIES) in 2003, almost half the number of families (7.6 million or 46% of total) would have average income surplus between zero to P9,000 for the year. Another 4.8 million, or 29% of total, would have average income surplus between P13,000 to 20,000 for the year.

While low-income families have been shown to in fact generate income surplus, such low amounts of income surplus can hardly give them capacity to invest. Gardiol, et al. (2005) cite a recent survey by Karlan, D. S., N. Ahraf and Y. Wesley which suggests that the majority of the people save for emergencies (42% of sample) and children's education (34% of sample). Only 3.4% of the sample reported "capital to start or expand business, buy land" as reasons for saving. The savings of these households are also not necessarily mobilized by the financial sector. The same survey suggests that a large proportion of these low income savers (63.5% of sample) keep their savings at home.

From the same 2003 FIES, 3.9 million families, or 23% of total, would have a fairly substantial average surplus of P36,000 to P75,000 for the year. It is from the ranks of these families where investors in small-scale investment activities can be expected to come from. Beyond this, only a very narrow 281,000 families, or 2% of total, would earn more than P500,000 per year and generate appreciable surplus to be able to invest in more substantial activities.

While the FIES data is susceptible to under-reporting or over-reporting of income and expenditure, it does tie in with the reported wages in the major occupational groups.

It also ties in with the structure of ownership and control in the country's corporate sector. Claessens, et al. (1999) analyzed control in 2,980 publicly-traded corporations in Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand and Taiwan. The sample typically covered about 75% of total market capitalization in the countries studied. For the Philippines their study suggests that as much as 52.5% of total market capitalization is controlled by the country's top 10 families. A large 17.1% is controlled by one family, the Ayalas. Indeed, given the general incomes crisis, and the concentration of wealth, the country can only look to the richest families for the biggest part of domestic capitalization.

Aside from the very narrow elite, we also rely on the government and on foreign capital for the big part of our investments. The government, however, has long been hobbled by a large public sector debt and poor revenue performance, thus affecting its ability to lead in capital spending. Foreign investment has also been tight. The country saw a fleeting surge of portfolio investment in the early 1990s, but with near-disastrous results in the wake of the Asian financial crisis. Foreign direct investment, on the other hand, has been on and off, and generally fails to show sustained and dramatic inflows.

The OFW Safety Valve

Given the depressed employment and income, overseas work has been an important safety valve for the Philippine economy. The Overseas Filipino Workers (OFWs) have mitigated the employment problem in the country, with yearly deployment continuing to increase. In 1995 the country deployed 654,022 OFWs (488,621 land-based and 165,401 sea-based). This increased to 841,628 (643,304 land-based and 198,324 sea-based) in 2000, and to 981,677 (733,970 land-based and 247,707 sea-based) in 2005. While many of these OFWs go back and forth to their country destinations based on contract, a considerable number choose to stay overseas on a more permanent basis. As of December 2004, the POEA estimated the stock of overseas Filipinos to total 8 million, of which 3.2 million were permanent (immigrants or legal permanent residents), 3.6 million temporary (stay is under an employment contract) and 1.3 million irregular (not properly documented or without valid residence or work permits, or are overstaying). (See Tables 12 and 13, Statistical Annex)

The OFWs have certainly helped us squeeze through threats on the balance of payments. No doubt the OFW remittances cushioned the impact of the portfolio capital flight during the Asian Financial Crisis. Now it is helping us cushion the higher deficit in trade in goods (US$7.5 billion in 2005, from US$5.7 billion in 2004). In 2005, OFW remittances through formal channels stood at USS10.7 billion. Of this, US$6.6 billion came from the Americas, primarily from the United States. The other major sources were Asia (US$1.17 billion), Europe (US$1.43 billion), and the Middle East (US$1.42 billion). (See Table 14, Statistical Annex)

At its present levels, the OFW remittances have provided an important source of income for a considerable number of Filipino families. From the 2003 FIES, cash receipts, gifts and other forms of assistance from abroad was the main source of income for 1.3 million Filipino families. It has boosted personal consumption, which has been the main driver of economic growth in recent years. The World Bank (2006) estimates that removing remittances in 2000 would increase headcount poverty by 3 percentage points (using per capita GDP as basis) to as much as 10 percentage points (using survey mean income as basis). Aside from reducing poverty, the same study suggests that remittances help smooth household consumption in the face of adverse shocks (such as crop failure, job loss, or health crisis), ease working capital constraints, and lead to increased household expenditures in key areas such as education, entrepreneurship and health.

Need for Emergency Measures

The domestic problem in income and employment is of crisis proportions. Recognizing it is a crucial first step in addressing this crisis, similar to our experience with the fiscal crisis. The next step is to identify its root causes, and address them head-on with emergency measures that are doable and can provide immediate and dramatic results.

Address the problem in education. The problem in education is generally acknowledged, but addressing it is always considered to be a long-term response. But if we look closer at the state of education and its direct link to the crisis of income and employment, the need for emergency measures will be readily apparent.

Two education-related problems need immediate intervention: the low completion rates as well as the low quality of education. The 2001-2002 national completion rate at the elementary level is a low 66.3 percent. By region there are particularly critical areas, such as the ARMM (Autonomous Region of Muslim Mindanao) with an elementary completion rate of only 34.5%, Region IX with 44.4%, Region XII with 56.1% and Region VIII with 57.3 percent. The students completing elementary education will be further whittled down when they reach the secondary level. Completion rate at the secondary level based on Grade I is only 48.4 percent. In the critical regions mentioned, completion rate at the secondary level based on Grade I is 11.3% for ARMM, 32.5% in Region IX, 36.2% in Region XII, and 37.1 in Region VIII. Only in the NCR, CAR, and Regions I, II, III and IV are secondary level completion rates based on Grade I higher than 50%. (See Tables 15 and 16, Statistical Annex)

The quality of education is also very disturbing. Students score very low in diagnostics tests for core subjects. In school year 2002-2003, the national mean percentage scores (correct answers divided by the total number of items) for Grade IV pupils were 38.45% in Mathematics, 42.14% in Reading Comprehension, and 39.38% in Science. It gets worse when they reach First Year High School. For the same school year, the national mean percentage scores of First Year High School Students in the National Diagnostics Test were 26.71% in Mathematics, 29.67% in Reading Comprehension, and 27.75% in Science. (See Tables 17 and 18, Statistical Annex)

The low level of completed education, as well as the low quality of education, relates directly to income and employment. The elementary and high school drop-outs are concentrated in the low productivity sector of agriculture and fisheries, as well as the low-income and low-quality occupation group of laborers and unskilled workers. From the NSO's (National Statistics Office) January 2004 Labor Force Survey, of the 5.9 million farmers and fishermen, 6.35% did not have any education at all, 34.4% did not complete the elementary level, 25.2% completed only the elementary level, and another 12.57% completed only some high school. This means 66% of farmers and fishermen completed at most only the elementary level, and 78.5% completed at most some years of high school.

Laborers and unskilled workers, the occupation group earning poverty-level wages, share a similar education profile. Of the 9.8 million employed as laborers and unskilled workers, 48.9% completed at most the elementary level, and 68% completed at most only some years of high school. (See Tables 19 and 20, Statistical Annex)

The education profile changes for the higher-income and quality-occupation groups, with more having completed at least the high school level, and a considerable number completing college.

The same higher education profile obtains for OFWS. Of the OFWs working or had worked abroad in the past six months in October 2002, 33.8% are college graduates, and 87.7% finished at least high school. (See Table 21, Statistical Annex)

To be sure intervening to improve education completion and quality will no longer be able to address the education profile of those currently employed. But not addressing this problem at this point swells the ranks of these immobile and uncompetitive labor, and makes the structural crisis in employment and income even more intractable.

Marginal improvements in completion and quality will not be enough. The situation calls for dramatic gains. This is not merely a financing problem as many believe. It requires a determined campaign by the education department to signal its focused analysis and response to these issues, and mobilizing collective action involving not only the government but also the private sector and local communities.

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Give Relief to Domestic Production Through Tariff Protection. Beginning in the 1980s the Philippines has been implementing a unilateral trade liberalization program. Tariff Reform Program—I (TRP-I), implemented in 1981 to 1985, had the stated objective of rationalizing the country's import substitution strategy. The aim was to bring down excessive protection that stunted the competitiveness of domestic industries as well as to reduce the bias of protection in favor of manufacturing and finished consumer goods and against agriculture. TRP-I narrowed the tariff band from 10% - 100% to 10% - 50%. Average nominal tariff went down from 42% in 1981 to 28% at the end of TRP-I.

But subsequent tariff reform turned highly ideological. The government adopted a deep, universal and unilateral trade liberalization strategy based on the belief that by exposing our economy to competition, our industries would be forced to be competitive, or otherwise die and in the process force the factors of production to seek their more productive uses.

TRP-II, implemented through EO 470 (signed on 20 July 1991), brought down the average nominal tariff from 28% to 20% by 1995. The tariff for manufacturing fell from the 27% pre-E.O. 470 level to 19% by 1995. For agriculture, average tariff declined from the pre-E.O. 470 level of 35% to 28% in 1995. TRP-III, implemented through EO 189 and subsequent Executive Orders, sought to radically reduce the tariff further to a uniform level of 5% in 2004[2]. By 1997, average nominal tariff was already at 13.43%.

But the trade liberalization program has failed to deliver on its promises. Agriculture and industry are finding it difficult to stand up to foreign competition, and have not produced new modern, high productivity and high value-added products. Trade liberalization has failed to make a dent on the crisis of income and employment in the country.

Even the determined efforts of unilateral liberalizers to show the brighter side of the strategy cannot escape the ugly side. For instance, Cororaton and Cockburn (2005),

2 A modification in 2001 provided for the implementation of a tariff band of 0% - 5% by 2004, except for a limited range of sensitive agricultural products with a 2004 tariff rate of 30%.

using an integrated CGE-micro-simulation, concludes that the tariff cuts implemented between 1994 and 2000 were generally poverty-reducing. However, this is primarily through the "substantial reduction in consumer prices they engendered." But elsewhere in their study, we also see the following:

- Domestic producers experience reduced volume and prices for local sales.
- Volume of exports increase, but so does volume of imports
- Total output in almost all sub-sectors decline, except for non-food manufacturing which marginally pulls up overall output.
- Labor and capital income from agriculture declines.
- While labor and capital income from non-agriculture increases, this was pulled up by the large increase in the rate of return to capital in capital-intensive non-food manufacturing.
- Income inequality worsens.

Swamped with petitions for upward adjustment in tariffs, there has been an adjustment in rhetoric, such as the Tariff Commission taking measures "to level the playing field for domestic industries vis-à-vis unbridled globalization." In terms of actual policy, in January 2003 President Arroyo signed EO 164 that froze the 2002 levels of the tariff rates on products that were scheduled for tariff reduction in 2003. In April 2003, E.O. 197 raised the tariffs on certain vegetables from 7% to 20% and 25%. Still the overall average nominal tariff in 2003 stands at a very low 6.10%, with 12.64% for agriculture, fishery and forestry, and 5.04% for manufacturing. (See Table 22, Statistical Annex).

Given the negative impact of the liberalization program on output and income for most sectors, these levels must be adjusted upwards to provide immediate relief to domestic production, employment and income. This will also help government recover some of its revenue losses from the liberalization program. An across-the-board increase at this time avoids the danger of protection falling prey to politically powerful rent-seekers that goes with the present case-by-case approach to tariff recalibration.

<u>Audit the Institutions of OFW Welfare and Protection.</u> Because of its attraction that results from the domestic crisis of income and employment, overseas work will continue to be a major safety valve for the Philippine economy. The pressure to leave the country will remain, the growth in deployment limited only by demand and supply constraints. In Pulse Asia's July 2006 *Ulat sa Bayan* survey, 30% of all Filipinos say they would now migrate if it were only possible, while another 32% are vacillating and will also not rule out the possibility of migrating if it were possible.

While overseas work represents better income and opportunity, the recent experience of OFWs in Lebanon puts into perspective the risks, vulnerability and suffering that can go with it.

The Lebanon experience, like that in Iraq, will not be the last. The Middle East, a perennial security and conflict flashpoint[3], is a major destination for Filipino OFWs. In terms of stock estimate in December 2004, 1.6 million overseas Filipinos are in the Middle East.

The Lebanon experience called attention to questions on the use of OWWA funds and the crisis-preparedness of government agencies tasked with overseas protection and welfare. There will certainly be other problems that need to be addressed, and a wide area for improvement. Responding to this will require no less than an independent audit (in conjunction with the Senate investigation) of the funds, performance and accountability of the institutions and mechanisms for overseas protection and welfare. Among the institutions that need to be audited are the relevant programs of the Department of Labor and Employment (DOLE), the relevant programs of the Department of Foreign Affairs (DFA), the Philippine Overseas Employment Administration (POEA), and the Overseas Workers Welfare Administration (OWWA).

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3 Other danger zones include the African region, where sea-based workers sometimes fall prey to piracy and kidnapping for ransom.

The Perils of a Selective View

With legitimacy problems, and with the SWS second quarter 2006 survey showing 48% of Filipinos dissatisfied with her performance, President Gloria Macapagal-Arroyo couldn't resist looking only at the bright side of the state of the nation. Thus in terms of policy direction, she can only focus on the need to upgrade infrastructure. And this strategy was presented uncritically, forgetting the complications of public debt, corruption and government and consumer guarantees that go with infrastructure projects.

Indeed upgrading infrastructure is consistent with the sense of an economy poised for take-off. In contrast, the education crisis, precarious production, and a grim state of employment and income, are not.

Unfortunately for us, looking only at the bright side hides the crisis from view. Even more tragic, this sweeps the need for emergency measures under the rug.

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