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NOTES ON SHORT-RUN PHILIPPINE EMPLOYMENT AND INCOME POLICIES, 1973*

By

Mahar Mangahas

INTRODUCTION

The emphasis of government economic policy in the Philippines has begun to veer distinctly toward employment and income distribution, objectives which are relatively mass-based, and toward instruments which are, or at least appear to be, fast-acting. The shift in direction is amply indicated in the Constitution of 1973 and in the Four Year Development Plan for Fiscal Years 1973-74 to 1975-1977. The reasons are obvious. Reforms in economic policy aimed at mass welfare are an important counterweight to the implementation of marked changes in political structure.

Some of the more important changes which have been instituted by executive action since September 23, 1972 include:

(1) Reorganization of the executive branch of government.

Of high significance here is the new National Economic and Development Authority (NEDA), which amalgamates into one unit the earlier economic planning and advisory agencies. The regional division of the country has also been standardized for all agencies. Regional executives have been designated. They shall bear the responsibility of implementing the government programs and coordinating with agencies in their respective regions.

(2) Restructuring of land reform beyond the stage of rental reduction to the stage of land transfer.

Judging from the rate at which certificates of land transfer have been distributed over the past several months, the rate of implement-

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ation has been far in excess of previous efforts. However, many ambiguities remain, making it difficult to predict the final outcome. The land retention rate for ex-landowners has not been clearly specified and neither has the amortization payment of the farmer tenants. The issuance of the rules and regulations supposed to accompany the tenant emancipation decree of October 1972 was still pending as of August 1972. The main harvest of November 1973-January 1974, at which the first amortization is to be paid, will be a critical testing period.

(3) Reform of the financial sector, allowing greater Central Bank control over various financial institutions and also permitting increases in rates of interest which may be paid to savers.

The implementation of interest rate reforms has bogged down due apparently to Central Bank defense of the banking system through a sort of patron-client relationship.

(4) Tax and tariff reforms.

A large number of decrees have been issued which tend to increase tax collections as well as reduce to a small extent the protection of domestic industries.

OUTLINE OF AN EMPLOYMENT POLICY

The dimensions of the employment problem were outlined in an earlier paper. [1] The solution to the problem might have the following general characteristics. In the first place, the rate of economic growth needs to be accelerated through increases in the rates of both saving and investment preferably to at least 25% of GNP. Given an annual population growth of 3.0%, a growth rate of 6.5%-7.0% for GNP represents a minimum target. The level of investment needs to grow at 11% per annum or more and it is planned that public investment should grow in the neighborhood of 30%, thus substantially raising the share of the government in capital formation. This will require more equitable taxation. The tax effort is increasing discernibly, helped by the collections from tax amnesty schemes, extension of the tax on traditional export commodities, widening of the real property tax base, and increased efficiency in tax collections.

[1] M. Mangahas, "A Broad View of the Philippine Employment Problem," paper read at "Employment Creation Strategies for Southeast Asian Economies," a SEADAG seminar, Atlanta, Georgia, December 1972.

However, the emphasis on employment and on the incomes of poorer families will require that these overall magnitudes of growth be attained by means of a development pattern different from that experienced in the postwar period. We have had an industrial sector which although leading the agricultural sector in terms of growth is predominantly import-dependent. The set of economic incentives led to a capital-biased product-mix insufficiently attuned to the consumption needs of wage-workers, but surviving on a narrow market base with the help of tax, tariff and quota protection. The agricultural and extractives sectors have been forced to bear the brunt of the nation's export requirements so as to fuel the industrial sector. This is becoming increasingly more difficult, as the natural resource frontier peters out and as rural poverty checks the expansion of the market base for industrial products. The result is that the terms of trade facing industry for agricultural products have steadily worsened over time. The policy imbalance favoring the industrial sector over the rural has abetted the migration of workers to an over-concentrated urban base, characterized by a high rate of unemployment simultaneous with declining real wages.

The new development pattern requires, in the first place, government policies designed to raise land and labor productivities in the agricultural sector. The high pay-off from investment in agricultural research has been clearly shown in the success of the high-yielding varieties of rice. (Unfortunately, the early fruitful years of 1966-1969 were followed by a period of successive calamities in 1970-1972. Nevertheless, the HYV have proven to be not inferior to traditional varieties, and there has been no sliding back in the rate of diffusion.) Accelerated investment is also required, obviously, in irrigation, farm-to-market roads, etc.

Encouragement is also required for the establishment of industries in the rural sector. Here the most promising program is that of rural electrification. The Development Plan conceives of the establishment of a rural electrification cooperative in each province within the plan period. The Bicol River Basin Development Project and the Laguna de Bay Development Project, among others, also fall in this scheme.

Coordinated efforts are needed in policies affecting the *costs* of labor and of capital so as to encourage the use of labor-intensive processes in each sector, but especially among the medium- and small-scale industries of the industrial sector. It is necessary to lay stress on the factor prices insofar as they reflect costs to entrepreneurs, not insofar as they reflect *incomes* of workers and capitalists. Appropriate subsidies and incentives can be devised, e.g., double deduction of labor costs from the income tax base, so that a policy which cheapens the cost of labor relative to capital may not be misinterpreted as one which redistributes income away from labor and toward capital.

An increase is required in the export-orientation of the industrial sector so as to supplement its market base as well as to relieve the agricultural sector of part of the export burden and to permit it to put more resources into producing wage-goods for domestic use. This will require some dismantling of government protection over local industries so as to encourage production at prices competitive in the world market.

WAGE POLICIES

The Philippines has had minimum wage legislation for several years. The last time that the minimum was raised was in June 1970. At that time, a Wage Commission was also organized and given the power to establish higher wages than the minimum in selected industries on a case-to-case basis. Thus organized labor looked upon the Wage Commission as a special body through which minimum wages might be constantly raised. However, the Wage Commission contributed to the generally skeptical aptitude held by organized labor regarding the government attention being given to employment creation. The fear was that the government is contemplating a reduction in wages as an instrument of increasing employment.

The empirical evidence on the response of employers to a reduction in the wage is not too clear. However, the existence or the non-existence of a strong wage elasticity of demand for labor does not appear to be a very important point. Suppose it is possible for more to be employed, at the expense of those already employed, by means of a reduction in the real wage. This in effect will be a redistribution of income to a class which is very poor from a class which is almost as poor. In such a case, the reduction in income inequality, as measured by any index which is sensitive to large deviations from the mean, will be very small and probably not worth the dissension which organized labor is in a position to create. If this is understood, then there is little to say and little ground for apprehension, regarding reduction in the minimum wage.

PRICE CONTROL OVER WAGE-GOODS

The chief wage-good is of course rice and, as in several other countries, there is currently a national emergency. Shortages in other countries have prevented the government from simply supplementing the domestic insufficiency with as much imported rice as would have been desirable. At the same time, rationing via the price system during the several months before the next harvest would obviously be contrary to the income redistribution objective. There remains no alternative but rationing on a basis not linked to income or wealth, as is being currently attempted through the barangay network. Simultaneously, the government is currently undertaking an immense credit distribution scheme (Masagana 99), funded heavily by USAID, which is designed to offset the pull-out of landlord credit from rice and corn due to the new land reform.

In the cases of those goods of which the Philippines has an export surplus, price control is being effected by the establishment of export quotas. This has been the case for sugar and for coconut oil, both of which are currently high-priced in the world market. For goods without export surplus (e.g. milk), price ceilings are simply imposed by fiat/moral suasion.

Fertilizer is not ordinarily an export surplus commodity, but with the world price extremely high this year, domestic manufacturers have attempted to export fertilizer. However, in view of the urgent domestic need for fertilizer for agricultural production the government stopped such exports. In addition, it has instituted a so-called "socialized pricing" scheme, whereby the fertilizer price for food crops (rice and corn mostly) is much lower than that for export crops (sugar mostly). The government has made arrangements to compensate a major fertilizer company for the implicit subsidy by means of an ad hoc arrangement whereby the subsidy is in effect being charged against a current liability of the firm to the government.

PUBLIC WORKS PROJECTS

The government has attempted to learn the cost and employment implications of applying labor-intensive techniques in pilot public works projects. Preliminary estimates indicate that, in the case of road building, a labor-intensive process can have a lower cost even when labor is costed at the market price. For an average gravel road, it was found that the labor intensive process was about 10% less costly and would absorb more than seven times more employment than the equipment-intensive process used for comparison. The wage-bill component of cost was only 7% of total cost in the equipment-intensive process, but 63% in the labor-intensive process. It is estimated that the use of labor-intensive processes on public works projects conceived within the NEDA Four-Year Plan will provide direct employment to about 72,000 persons per year. The derived demand for labor to produce the material inputs required in the projects will imply nine additional jobs indirectly created for every ten directly created.

MANPOWER TRAINING

There are two policies of immediate interest here: (a) the National College Entrance Examination, and (b) the training centers being established by the National Manpower and Youth Council. It has been decreed that any student intending to enter college must pass the National College Entrance Examination (NCEE) to be given for the first time in November 1973. The NCEE, which will be administered by the Fund for Assistance for Private Education, is a general scholastic aptitude test for college performance. It is reportedly a sensitive instrument for differentiating dull students from bright ones, although it is not suited for distinguishing among degrees of excellence. The problem is that there has been no clear statement as to what the NCEE intends to do, i.e. whether there will be an absolute quota on college entrants, whether there will be a quota for certain fields of specialization, whether there will be regional quotas, etc. Apparently such quotas have not been set for fear of antagonizing families who look forward to college education for their children as one of their few means to gain upward economic mobility.

The National Manpower and Youth Council has been directed to establish ten regional manpower and development training centers, each with an annual capacity of 6,000-8,000, plus three technical institutes. Thus far the council has established one pilot training center in Taguig, Rizal. One indication of the apprehension which the government is feeling concerning the setting of quotas for college admission is the fact that the NMYC has been asked to develop programs by which those who fail the NCEE may be accommodated.