University of the Philippines
SCHOOL OF ECONOMICS

Discussion Paper 8301 January 1983

A REVIEW OF MINIMUM WAGE FIXING IN THE PHILIPPINES AFTER WORLD WAR II

by

Rosa Linda P. Tidalgo

ABSTRACT

This study looks at the minimum wage fixing in the Philippines after World War II. The rationale for such a wage policy is discussed, followed by a description of the guidelines observed in the setting of wage differentials in the legislations. Then the coverage and implementation of the minimum wage legislations are assessed. It also presents a theoretical framework for evaluating the impact of minimum wage fixing on employment, output, prices and incomes. The paper concludes with a proposal for an alternative wage policy for the Philippines.

This review of minimum wage-fixing in the Philippines exposes the general weakness of this wage policy in maintaining worker's income at subsistence level because it does not include the incomes of employers and price movements given the productivity changes at the firm level. In addition, the coverage of the wage policy has been limited and its implementation poor. Under these circumstances an alternative wage policy is proposed which takes cognizance of the relative sharing of income between the workers and the employers and which allows the two sectors to negotiate over the minimum wage and other wage supplements at the firm level.

A REVIEW OF MINIMUM WAGE FIXING IN THE PHILIPPINES
AFTER WORLD WAR II

by

Rosa Linda P. Tidalgo*

I. Introduction

Since World War II, the Philippine government has committed itself to planning the country's development especially that of its economy. Its objective in planning has been to hasten development, to compress the process to a shorter time so that poverty is eradicated soonest. Although the government has always recognized the supremacy of private enterprise, its planning activities have been predominantly interventions in the functioning of different input and output markets. Such interventions have changed the distribution of production participation and income distribution among sectors and individuals. As a result, some have benefited while others have been disadvantaged in varying degrees. Because of this, different sectors protect and enhance their interests by lobbying for government to initiate and/or repeal policy measures in their favor.

Planning can be a very complex activity requiring extensive knowledge about the economy. However, the information can never be

---

*Associate Professor, School of Economics, University of the Philippines.

The author wishes to thank the Asian and Pacific Project for Labour Administration, International Labour Office, for its financial support, the National Wage Council research staff (especially Aida Andres), Cyd Tuano and Ellen Payongayong for their research assistance, Regina Madriaga for her editorial assistance, and Remedios Ferranco, Cynthia Ladrazo and Marie Villanueva, for their typing assistance.

complete; hence foresight can never be perfect although it can be improved. The monitoring and analysis of the economy have to be continuing processes--functions which are by now institutionalized responsibilities of some government agencies. Furthermore, the quality of such monitoring and analysis has to be constantly improved.

Planning for economic development after the Second World War has been focused on increasing output which the government encouraged by a system of incentives to capitalists to expand investment. These incentives alter the rates of profit or incomes of the capitalists and most of them lower the costs of production. In this calculation, labor's participation in production is perceived mainly as a component of production costs and therefore best lowered if not prevented from increasing, or if such costs are increasing, these are prevented from increasing too fast from the capitalists' point of view.

At the same time, the labor sector comprises the bulk of society and of the professed recipients of the fruits of development. Its material condition cannot be ignored especially because of its potential political force.

Ironically, its number has worked to its disadvantage, causing its price or income as determined in the labor market to be low. The worst manifestation of this problem is among the unskilled workers. Their large supply relative to demand leaves them with a very weak bargaining position and thus, very low wages or salaries. Their low wages are usually coupled with negligible or absence of ownership of other productive resources or assets in addition to their labor services. Hence the government intervenes to ameliorate the situation of the labor sector by encouraging its organization and increasing and/or protecting the incomes of the unskilled among others. Minimum wage legislations which have been the major policy measures in pursuing the latter concern, provide the focus of this paper.

This study looks at the minimum wage fixing in the Philippines after World War II in section II. The rationale for such a wage policy is discussed, followed by a description of the guidelines observed in the setting of wage differentials in the legislations. Then the coverage and implementation of the minimum wage legislations are assessed. Section III gives a relatively theoretical framework for evaluating the impact of minimum wage fixing on employment, output, prices and incomes. The paper concludes with a proposal for an alternative wage policy for the Philippines.

This review of minimum wage-fixing in the Philippines exposes the general weakness of this wage policy in maintaining worker's income at subsistence level because it does not include the incomes of employers and price movements given the productivity changes at the firm level. In addition, the coverage of the wage policy has been limited and its implementation poor. Under these circumstances an alternative wage policy is proposed which takes cognizance of the relative sharing of income between the workers and the employers and which allows the two sectors to negotiate over the minimum wage and other wage supplements at the firm level.

II. The Minimum Wage Fixing After World War II

Broadly defining minimum wage fixing to cover all legislations on minimum basic wages and other labor payments to low wage workers, one could pinpoint the first such legislation after the Second World War to Republic Act 602 in 1951 which established a minimum wage law among other things. From 1951 to the present, a total of 24 such laws, minimum wage orders and presidential decrees were issued by the government either through the legistive or the executive branch (Table 1). The frequency of minimum wage policy measures by type of labor payment is shown in Table 2.

The first such legislation in 1951 which defined the basic wages for comprehensive sectoral groups was amended in 1963, i.e. 12 years after. This was followed by two other revisions in the 1960s, making a total of three changes for the decade. In the 1970s, five revisions were made with the last four occurring in the last four years. By the 1980s, two changes have already been made by 1982. The increase in the frequency of revisions after the mid-1970s indicates the continuing pressure from the labor sector for wage adjustments in the face of declining real wages.

The fixing of basic minimum wage in single sectors by wage order was started in 1964 for the sugar industry. It took another eight either years before another sector's minimum wage was fixed by wage order (the jeepney transportation industry in 1972). This was

Table 1. MINIMUM WAGE LEGISLATION
1951 - 1982

Date		Title
August 4, 1951	R.A.[a] 602	- Act to Establish a Minimum Wage Law, and For Other Purposes
August 8, 1963	R.A. 3844	- Land Reform Code (Chapter II, Bill of Rights for Agricultural Labor)
March 17, 1964	M.W.O.[b] 1 (DOL[c])	- Establishing Minimum Wage for the Sugar Industry
April 21, 1965	R.A. 4180	- Act Amending R.A. 602, by Raising Minimum Wage for Certain Workers
June 18, 1966	R.A. 4707	- Act Amending R.A. 602 as Amended by R.A. 4180, to Include Employees of Mining Enterprises
June 17, 1970	R.A. 6129	- Act Amending Further the Minimum Wage Law by Increasing the Minimum Wage, Establishing a Wage Commission and for Other Purposes
April 9, 1972	M.W.O. 1 (WC[d])	- Minimum Wage Fixing in the Jeepney Transportation Industry
August 2, 1972	M.W.O. 2 (WC)	- Minimum Wage Fixing in the Dessicated Coconut Industry
September 16, 1972	M.W.O. 3 (WC)	- Minimum Wage Fixing in the Sugar Industry and/or its Branches
January 17, 1973	P.D.[e] 99	- Minimum Compensation for Household Workers
February 10, 1973	M.W.O. 4 (WC)	- Minimum Wage Fixing in the Coconut Oil Milling and Related Products Industry

a/ Republic Act.

b/ Minimum Wage Order.

c/ Department of Labor.

d/ Wage Commission.

e/ Presidential Decree.

Table 1 (Cont'd.)

Date		Title
February 17, 1974	P.D. 390	- Granting Emergency Cost of Living Allowance to Employees of the National Government and Appropriating the Necessary Funds Thereof
August 1, 1974	P.D. 525	- Making Mandatory the Payment of Emergency Allowances Under LOI[f] 174
December 24, 1975	P.D. 851	- Requiring All Employers to Pay their Employees a 13th Month Pay
May 1, 1976	P.D. 928	- Providing for a New Statutory Minimum Wage
May 1, 1977	P.D. 1123	- Increasing the Emergency Allowances Under P.D. 525
May 1, 1978	P.D. 1364	- Abolishing Exemptions Under Presidential Decrees 525, 1123, 851 and 928
July 1, 1978	P.D. 1389	- Amending P.D. 928 for the Purpose of Adjusting Existing Statutory Minimum Wages
April 1, 1979	P.D. 1614	- Accelerating Minimum Wage Increase under P.D. 1389 and Granting Additional Emergency Living Allowances
September 1, 1979	P.D. 1634	- Providing for Additional Mandatory Emergency Living Allowance for Wage Earners
February 21, 1980	P.D. 1678	- Providing for a Provisional Mandatory Emergency Living Allowance

f/ Letter of Instruction.

Table 1 (Cont'd.)

Date			Title
August 19, 1980	P.D. 1713	-	Providing for an Increase in the Minimum Daily Wage Rates and for Additional Mandatory Living Allowances
January 1, 1981	P.D. 1751	-	Increasing the Statutory Daily Minimum Wage Act All Levels by ₱4.00 after Integrating the Mandatory Emergency Living Allowances under PDs 525 and 1123 into the Basic Pay of All Covered Workers
March 22, 1981	W.O.[g] 1	-	Increasing the Mandatory Living Allowance of Non-Agricultural and Agricultural Workers

[g] Wage Order

ATIONS, 1951 - 1982

1972 1973 1974 1975 1976 1977 1978 1979 1980 1981	Time Interval from Last Change to December 1982
May May Jul Apr Aug Jan 5 yrs, 11 mos 2 yrs 2 mos 9 mos 1 yr, 2 mos 5 mos	1 yr[a]/
Aug Sept Jan Feb os 1 mo 4 mos 1 mo	9 yrs, 10 mos
Feb Aug May Apr Sep Feb Aug Mar 6 mos 2 yrs, 9 mos 1 yr, 11 mos 5 mos 5 mos 6 mos 7 mos	1 yr, 9 mos
	12 yrs, 6 mos
	12 yrs, 4 mos
Dec	7 years

WAGE LEGISLATI...

...r PAYMENT CATEGORY (FREQUENCY)	1951	...	1963	1964	1965	1966	1967	1968	1969	1970	1971	...	197[illegible]
...c Wage: ...rehensive (Non-Agri- ...ure/Agriculture/All ...vate Sector)	Aug	12 yrs	Aug	1 yr, 8 mos	Apr	Jun	1 yr, 2 mos	4 yrs		Jun			
...c Wage: Single sector				Mar				8 yrs, 1 mo.				Apr 4 mos	Aug 1 mo Sept
...t of Living Allowance													
...d and Housing Allowance ...r Farm Workers	Aug	13 yrs, 8 mos			Apr		5 yrs, 2 mos			Jun			
...rtime Pay for Farm Workers			Aug										
...h Month Pay													

...P.D. 1751 (Jan. 1981) stipulates a revision of wages which took effect on January 1, 1982.

...URCE: Specific Minimum Wage Legislations.

followed in early 1973 by minimum wage fixing in three other sectors, namely: dessicated coconut industry, household workers, coconut oil milling and related products industry; and a revision of the minimum wage order for the sugar industry. Since February, 1973, no other single industry minimum wage was set by the government.

The cost of living allowance was started in February, 1974, revised five times in the 1970s, and already revised three times in the 1980s (i.e. up to 1982). This form of labor payment was used more often to adjust the eroding real income of low wage earners, than basic wage adjustments. An increase in the former implies a lower increase in labor cost than that of the latter. It may also indicate government's concern for the resulting production cost increases which may increase unemployment and/or lower output. However by 1981, all such allowances (P.D. 525 and P.D. 1123) were integrated into the basic wage with some sectors getting a grace period of up to January 1, 1982.

Other types of labor payments specifically covering farm workers in the form of meal and housing allowance, and overtime pay were set in 1951 and 1963, respectively. The former was revised once in the 1960s and once in the 1970s. The latter has not been changed since 1963. The last kind of labor payment, the 13th month pay, was first defined in December, 1975 and has not been changed since.

What is most striking in the relative frequency of revisions of types of labor payment is the greater number of changes in the comprehensive sectoral basic minimum wages and the cost of living allowance after the mid-1970s. This seems to indicate a growing sensitivity of the labor sector and of the government to the erosion of the purchasing power of workers' wages during that period.

A. The Rationale of Minimum Wage Fixing

Minimum wage fixing in the Philippines has been guided by a concern for workers' income to be "sufficient to maintain (them)... in health, efficiency and general well-being." Nine legislations state this objective explicitly (Table 3). Many of these legislations revising existing minimum wages upwards cited inflation as the justification.

It is of interest to note that lately, from P.D. 1389 in 1978, together with P.D. 1713 (1980) and P.D. 1751 (1981) which were all basic minimum wage revisions of a comprehensive nature, the upward revisions were explicitly qualified to be "taking into consideration the imperatives of development, cost of living, productivity, employment, balance of payments, price stability, the competitiveness of Philippine products in the world market and industrial peace." In the latter two P.D.s these qualifications were summarized thus: "to ensure... the viability of business and industry," and "without unduly impairing the viability of business and industry in the face of the present world economic crisis," respectively. These qualifications in the more recent upward revisions of the minimum wage is indicative of the conflicting

Table 3. OBJECTIVES OF MINIMUM WAGE LEGISLATION, 1951 - 1982

Objective(s)	Legislation
A. Setting Initial Minimum Wages: "to establish minimum wages sufficient to maintain workers in health, efficiency and general well-being"	R.A.[a] 602 R.A. 3844 M.W.O.[b]1 (D.O.L[c]) R.A. 4707 M.W.O. 1 (WC[d]) M.W.O. 2 (WC) M.W.O. 3 (WC) P.D.[e] 99 M.W.O. 4
B. Upward Revisions of Existing Minimum Wages	
1. "To raise the minimum wages of agricultural and non-agricultural sectors."	R.A. 4180
2. "To increase the minimum wages of the following: a. Agricultural workers b. Provincial and Local Government Employees c. Sales and Services Enterprises regularly employing not more than 5 workers d. Non-Agricultural workers (Private and Government)	R.A. 6129
"To ameliorate the living conditions of the workers and their families who are dependent wholly or partially upon the sugar industry."	M.W.O. 3 (WC)
4. "To alleviate the plight of members of low-income groups in order to provide them with the means to cushion the impact of increased prices on their daily lives."	P.D. 390

Table 3 (Cont'd.)

Objective(s)	Legislation
5. "To enable the workers in the private sector to cope with the rising cost of living under the prevailing abnormal situation."	P.D. 525
6. "To further protect the level of real wages from the ravage of world-wide inflation."	P.D. 851
7. "To redress the decline in purchasing power by the Filipino worker as a result of continuing upward price spiral."	P.D. 928
8. "To protect workers and their wages against the ravages of inflation."	P.D. 1123
9. To help fixed-income groups whose earnings are eroded by price increase due to the OPEC oil price increase.	P.D. 1614
10. "To restore the purchasing power of the effective minimum wage as of April 1979"; "To privide timely and adequate relief for working masses in the face of rising costs of living."	P.D. 1634
11. "To protect workers from the effects of inflation to prevent erosion of real wages and sustain their employment."	P.D. 1678
12. "To stabilize the purchasing power in the face of new oil price increase"; "To prevent the erosion of the real income of workers."	W.O.[f]/1

Table 3 (Cont'd.)

Objective(s)	Legislation
C. Upward Revisions With Explicitly Stated Qualifying Constraints	
1. "To provide an upward adjustment of existing statutory minimum wages taking into consideration the imperatives of development, cost of living, productivity employment, balance of payments, price stability, the competitiveness of Philippine Products in the World Market and industrial peace."	P.D. 1389
2. "To ensure a decent living wage for workers and the viability of business and industry."	P.D. 1713
3. "To grant additional benefits to the workers without unduly impairing the viability of business and industry in the face of the present world economic crisis."	P.D. 1751
D. Others	
1. "To establish a Wage Commission which shall conduct a continuing study on wage rates in the various agricultural and non-agricultural industries all over the country."	R.A. 6129
2. "Set an example and suggest to the private sector to undertake measures of their own for the same purpose." (i.e., "to provide them with the means to cushion the impact of increased prices on their daily lives.")	P.D. 390

a/ Republic Act

b/ Minimum Wage Order

c/ Department of Labor

d/ Wage Commission

e/ Presidential Decree

f/ Wage Order

concerns or goals confronting policy-makers. It also explains why the wage/labor payment adjustments were not commensurate to the declines in real incomes of low-wage workers. The same concern for conflicting goals is likely to be also considered by the Wage Commission in its minimum wage setting even if there is no specific mention of national objectives such as price stability, employment, and international competitiveness among the factors to be considered [R.A. 6129 amendment of Sec. 5, R.A. 602]. The question then is: How are these multiple goals prioritized and how are the different sectors affected by such prioritization?

An equally important question is how a preferred prioritization is operationalized into specific minimum wage/labor payment fixing. The different legislations provide some guidelines for minimum wage fixing within the identified set of objectives in terms of factors to be considered such as 1) cost of living, 2) wages established for similar work by collective agreement or wage orders, 3) wages paid for similar work by employers who voluntarily maintain reasonable standards, 4) fair return on investment, and 5) size, location, fertility of agricultural farms, among others [R.A. 6129]. Even these factors may have conflicting influences on the level of labor payment to be fixed.

These are the reasons why minimum wage fixing can become so arbitrary. It is akin to a balancing act--balancing conflicting interests--

on the part of the policy-makers.

This nature of minimum wage fixing therefore requires consultation or dialogue among the different sectors to minimize conflicts wherever possible. The consultation by government of the labor sector and the capitalists/employers is called tripartism and has been adopted officially by the government in minimum wage fixing among other areas. But one cannot be optimistic about tripartite dialogues since the outcome will really depend on the relative bargaining strength of the labor sector and that of the capitalist sector, and on government's perception of what national interest is, relative to each of the two other sectors' interests.

B. Guidelines in Minimum Wage Fixing

A review of minimum wage/labor payment fixing by government fist reveals a number of guidelines observed by policy-makers. This review focuses on the differentials stipulated in the legislations.

Three main factors emerge as bases for the differentials (Table 4). The first is the relative ability to pay among employers, industries, or regions. This factor seems to implicitly assume a) an expectation of higher productivity in the relatively modern, formal or organized, and large firms which tend to be found in urban areas, and in plantations; and b) higher household incomes for those residing in upper income city/province/municipality categories. Table 4 cites

Table 4. WAGE AND SUPPLEMENT DIFFERENTIALS AND THEIR BASES IN MINIMUM WAGE LEGISLATION, 1951-1982

I. Relative ability to pay among employers/industries/regions.

A. Agriculture:

1. Plantation workers covered by legislation starting 1951 (R.A. 602) while non-plantation workers were covered starting 1976 (P.D. 928).

2. plantation > non-plantation:

a. P.D. 928 - ₱ 7.00 : ₱6.00
b. P.D. 1389 - ₱ 8.00 : ₱7.00
c. P.D. 1614 - ₱10.00 : ₱9.00; COLA: ₱40.00 : ₱20.00
d. P.D. 1713 - ₱11.00 : ₱10.00; COLA: ₱45.00 : ₱30.00
e. P.D. 1751 - ₱15.00/14.50/13.97 : ₱14.00/13.56/12.97
f. W.O. 1 - ELA: ₱1.50: ₱1.00

B. Non-Agriculture > Agriculture:

1. R.A. 602 - ₱ 4.00 : ₱1.75/2.00/2.50
2. R.A. 3844 - ₱ 4.00 : ₱ 3.50
3. R.A. 4180 - ₱ 6.00 : ₱ 3.50
4. R.A. 6129 - ₱ 5.00/6.00/8.00 : ₱4.75
5. M.W.O. 3 - ₱11.00 : ₱6.00/7.00/8.00
6. P.D. 1614 - ₱11.00 : ₱7.00/8.00/10.00;
COLA: ₱75.00/90.00/110.00 : ₱20.00/40.00

C. Metro Manila > Outside Metro Manila:

1. R.A. 602 - ₱4.00 : ₱ 3.00
2. P.D. 928 - ₱10.00 : ₱ 9.00
3. P.D. 1389 - ₱11.00 : ₱ 10.00
4. P.D. 1614 - ₱13.00 : ₱ 12.00

Table 4 (Cont'd.) 2

5. P.D. 1713 - ₱14.00 : ₱13.00

6. P.D. 1751 - ₱18.00/17.56/16.97 : ₱17.00/16.56/15.97

D. Other regional differentials:

1. R.A. 4180 - ₱ 6.00 : ₱5.00, for different city/province/municipality income class

R.A. 4707 - ₱ 8.00:₱6.00:₱5.00, for same categories as in R.A. 4180

2. P.D. 99 - ₱60.00:₱45.00:₱30.00, for different cities and municipalities

3. M.W.O. 3 - ₱ 7.00 : ₱8.00:₱6.00 } for different
P.D. 1614 - ₱ 7.00 : ₱8.00 } sugar areas

E. Firms capitalization size:

Large (> ₱1 million), medium (₱100,000- ₱1 million), and small (< ₱100,000)

1. P.D. 525 - ₱ 50.00/30.00/15.00

2. P.D. 1123 - ₱110.00/90.00/75.00

II. Relative Cost of Living - Metro Manila > Outside Metro Manila (See I.C)

III. Relative need of worker for income protection and supplement (ELA and COLA) as determined by income level

A. P.D. 525 - for those receiving ≤ ₱600/month

B. P.D. 851 and P.D. 1614 - for those receiving ≤ ₱1000/month

C. P.D. 1634 - for those receiving ≤ ₱1500/month several differentials which can be explained by this consideration. In agriculture, plantation workers were covered by minimum wage legislation as early as 1951 whereas non-plantation workers were only covered starting in 1976. Several P.D.s maintain a differential between plantation and non-plantation minimum wage levels with the former always greater than the latter. Between non-agriculture and agriculture sectors, the minimum wage in the former is always greater than that in the latter. A consistent ₱1.00 differential is observed in the minimum wage for Metro Manila relative to that outside Metro Manila. Other regional differentials are also indicated for 1) employees in the government service according to location as characterized by the income category of the city/province/municipality; 2) domestic workers in different cities and municipalities; and 3) for sugar workers in different locations. The relative ability to pay based on firms' capitalization size is categorized into large (capitalization of greater than ₱1 million), medium (capitalization of ₱100,000 to ₱1 million), and small (capitalization of less than ₱100,000). Firms with larger capitalization are required to pay higher wage supplements.

A second basis for wage differentials observed in the legislations is the relative cost of living. This would explain the wage differential indicated between urban (higher cost of living) and non-urban as captured by the Metro Manila versus the outside Metro Manila wage differentials.

A third basis for differentials is the relative need of the worker for income protection and supplement as determined by his income level. Hence, the wage supplements provided for in P.D. 525 in 1974 applied to those receiving a monthly income of ₱600.00 or less. By 1975 (P.D. 851) and 1979 (P.D. 1614), additional supplements were stipulated for those receiving ₱1,000.00 or less per month. As prices continued to erode incomes, P.D. 1634 which was decreed a few months later in 1979 provided for additional living allowances for those receiving less than or equal to ₱1,500 per month.

The bases for these wage differentials seem rational. However, the problem is what should be the appropriate magnitude of the differentials. The setting of these differentials as well as the individual wage levels is subject to arbitrariness. How the amounts are determined and the reasons for stipulating such amounts remain vague. For example, when setting the minimum wage which would "maintain the worker in health efficiency and general well-being," how many family members should be included in that computation? The usual computation uses the average family size. Why should this be the number to consider? In addition, estimations of required income can be so varied. The many estimates of subsistence income differ because of differing assumptions. Which one is to be chosen and why? Therefore, there will always be criticisms of any minimum wage level set since people have different views on the conditions under which a minimum wage ought to be defined.

C. Coverage of Minimum Wage Fixing

The coverage of minimum wage legislations may be described in terms of the sectors which are exempted from paying the minimum wages and other wage supplements. In general, all workers who are non-wage earners, i.e., paid by piece, commission, boundary system, and other contractual arrangements are exempted. In addition, there are other specific considerations for exemptions which can be deduced from the legislations. First is the policy of encouraging small enterprises which may be characterized as traditional and informal in addition to their smallness. These types of enterprises characterized by low productivity may pay wages lower than the minimum stipulated by the law. Domestic help, family drivers, workers in retail and services enterprises with less than five employees, home workers or homeowners engaged in needle work, and agricultural enterprises with less than 12 hectares were exempted from many of the laws. Later, the provision on exemptions with regard to employment size was further relaxed to include enterprises with less than or equal to ten workers. This was further qualified by location such that an enterprise in Metro Manila could be exempted if it had less than or equal to 15 workers. In the case of the agricultural enterprises, exemption was extended later to include those involving areas of less than or equal to 24 hectares, or those not employing more than twenty workers.

Another basis for exemption concerns distressed industries or losing enterprises defined in terms of decline in working days, decline in income, decline of personnel,or some formal certification of bankruptcy, receivership or trusteeship. This basis for exemption was further relaxed in a later legislation to include firms which need not be losing at the moment but may become temporarily distressed or dislocated with compliance of the minimum wage law. Some firms may have less flexibility in recovering an increase in labor cost as a result of an existing contract, or inability to adjust prices as in the case of educational institutions, or in some newly established enterprises.

Other bases for exemptions cover industries or cases which the government would like to encourage such as labor-intensive industries, export-oriented industries, those which employ learners and apprentices, labor-intensive enterprises in depressed areas, and employment-intensive export industries using local raw materials. In some cases, the exemptions provide a grace period of non-observance of a provision of a law for a few months or years.

The government also tends to exempt government employees in some cases, but eventually includes them in other laws that are enacted later. In one case, it even provided for a supplement ahead of the private sector.

On the whole, most of these exemptions are attempts to pursue simultaneously several objectives such as employment expansion, output increase and export promotion together with the objectives of minimum wage legislation. This manner of coping with contradictory objectives entails a large bureaucratic cost of processing applications for exemptions each tim a revision of the minimum wage or wage supplement is enacted. These exemptions may also be of substantial coverage.

D. Implementation

Even more critical than the issue of how substantial the exemptions are from minimum wage legislations, is the implementation of these laws. An unobserved law is tantamount to the absence of such a law.

The first minimum wage law (R.A. 602) provided for the creation of the Wage Administration Service in the Department of Labor whose function was to enforce the provisions of the Act and issue other related orders and regulations. In addition, the jurisdiction of the courts was defined in cases of violations or conflicts arising from the implementation of the Act. It also provided for relevant record-keeping by employers for examination by the Secretary or Labor or his representative and the latter's right to investigate any possible violation of the law. The penalties were also specified in terms of "a fine of not more than ₱2,000, or, upon second conviction, to imprisonment, in the discretion of the court," in addition to recovery of unpaid minimum wage due a person under the Act. Finally, an appropriation of ₱150,000 was provided to carry out the provisions of the Act for that year, with expenses for succeeding years to be provided in the respective annual appropriations. The rules and regulations implementing the R.A. 602 was subsequently released by the Wage Administration Service in February, 1952. In addition, interpretative bulletins explaining the provisions of R.A. 602 were also issued by the same office. These accompanying publications were intended to guide the government agency involved in its implementation of the Act and to inform the public of the interpretations of the law.

The Department of Labor was renamed Ministry of Labor and then Ministry of Labor and Employment (MOLE). At present, the functions of the Wage Administration Service are assigned to the Bureau of Working Conditions.

The conduct of inspection of firms with regard to their compliance with minimum wage legislations is guided by a set of policy instructions issued by the MOLE. The set of instructions usually cover the industries, together with a prioritization by type of establishments, to be inspected. Inspection is usually done by a one-man team using the zone approach. In accordance with the industries listed for inspection and the prioritization of establishments in such industries, an inspection program is usually prepared for approval and once approved, strictly followed.

The latest policy instruction was No. 48, Series of 1981, issued April 13, 1981. In this policy instruction, the industries included and prioritized, based on the order of enumeration are as follows: manufacturing, construction, transport, storage and communication, agriculture, services and commerce. The same industries also comprise the priority list in the preceding policy instruction on the same area (Policy Instruction No. 23, Series of 1977), although ranked differently. The listing does not include mining and quarrying and public utilities. Establishment in these excluded industries may be inspected on the basis of a written complaint or by authorization by the Minister of MOLE rather than as part of the regular inspection program of the Ministry.

Further prioritization of establishments for inspection is defined according to particular characteristics. Priority is given to establishments that are likely to violate minimum wage legislations such as sweatshops, those characterized by substandard conditions, those whose workers are unorganized or not covered by collective bargaining agreement, those employing women and minors, apprentices and learners, and seasonal workers. At the same time, a more lenient interpretation of smallness of employment size is specified. In services, priority in inspection is given to establishments with ten or more workers; in agriculture and in commerce, 30 or more workers. Also, establishments which are found to be without violation in a given year are not to be inspected in the succeeding year.

In summary, the policy instruction covering the inspection of compliance by establishments of minimum wage legislations relaxes further the coverage and enforcement of these laws.

The compliance with labor standards on minimum wages and other wage supplements depends on the employers' sense of fairness to their workers, productivity and profitability of the enterprise, and degree enforcement. Under conditions of a large unemployment and under-employment especially of unskilled or low skilled workers, voluntary compliance is likely to be low if not dubious. The government therefore must accompany its setting of labor standards with a vigorous enforcement program.

Enforcement has been governed by a system of inspection to find out if firms are complying with the labor standards or not. In cases of violations, conviction involves penalties of a fine of not more than ₱2,000 and upon second conviction, imprisonment, depending on the discretion of the court. The chances of conviction depends on the chances of being foud out, and this is determined by the size of the inspection staff and the quality of inspection. The inspection of minimum wage and wage supplements standards is done by labor regulation officers (LROs) of the Bureau of Working Conditions. In January, 1971, there were 150 labor regulation officers. By November, 1982, they numbered 172. No dramatic fluctuations in their number occurred for the years in between. The number of LROs is definitely too small relative to the number of establishments to be inspected. Table 5 gives a description of the number of establishments inspected during the period 1976 to 1981. Taking the 1978 inspection coverage of 11,314 establishments as an example, this coverage comes to 62.7% of

Table 5. PERCENT DISTRIBUTION OF ESTABLISHMENTS WITH VIOLATION, BY TYPE OF LABOR STANDARD VIOLATION, 1976 - 1981

EAR	Establish-ments Inspected	Establishments Found with Violations on General Labor Standards		Percent of Violating Establishment by Type of General Labor Standard Violate						
		% of Total Inspected	Number	Minimum Wage	Emergency Cost of Living Allowance	13th Month Pay	Regular Holiday Pay	Special Holiday Pay	Overtime Pay	Record-Keeping
976	11,801	65.5	7,730	13.5	24.1	11.0	a/	a/	33.8	35.7
977	14,291	50.3	7,188	9.1	20.6	13.1	8.9	2.6	7.0	17.5
1978 b/	11,314	46.3	5,238	5.8	15.2	11.6	7.2	4.0	3.2	16.1
979 b/	10,057	46.0	4,626	6.6	13.3	9.9	4.3	2.1	1.9	15.6
1980 c/	504	85.9	433	23.4	44.3	19.4	13.8	8.6	12.4	3.0
1981 c/	367	80.9	297	27.7	52.4	23.8	11.0	16.1	15.2	4.8

a/ Included in overtime pay.

b/ All regular inspections were suspended effective February 20 to April 11 as per Memo Circular dated February 20, 1978.

c/ All regular inspections were suspended per Memo Circular dated August 14, 1979. Data for 1980 and 1981 are all based on complaints inspection only

RCE: MOLE, 1981 Yearbook of Labor Statistics, Table 19.2

the total number of establishments in the industries included in the priority list of Policy Instruction No. 28.[1/] Such an inspection coverage is still low especially if we consider the limited population of establishments as per Policy Instruction No. 28, which excluded mining and quarrying, public utilities, commerce and services. If the establishments with 10 or more employees in commerce and services are included (as per Policy Instruction No. 48 in 1981) in the count of the total establishments, the rate of inspection would drop to 13% of the total only.

As regards the quality of inspection, one point is worth noting. Inspection of establishments being a regulatory function, it is exposed to many/ instances of bribery. Such temptations inevitably confront the LROs and would prove more irresistible the lower their pay. The LROs receive ₱1,477 monthly at the supervisory level, ₱1,272 monthly at the senior level and ₱1,043 monthly at the regular level. In addition they receive a ₱45.00 per diem for field work in Metro Manila and a ₱35.00 per diem in the case of places outside Metro Manila. These salaries are low given the present cost of living. The possible influence of this economic condition of LROs cannot be overcome by

---

[1/] Based on a count of total establishments with 10 or more workers as follows: manufacturing - 9,976, agriculture, fishery and forestry - 4,206, construction - 836 and transport, storage and communication - 3,016, totaling 18,034 establishments. (NCSO, 1978 Census of Establishments.)

measures such as raffling establishments for inspection among LROs or rotating LROs among regional assignments.

The existence of corruption in the inspectorate is revealed by the suspension of regular inspection in August 14, 1979 "in the interest of the service."[2/] Policy Instruction No. 48 (Series of 1981) dated April 13, 1981 provided for the resumption of regular inspection activities effective April 15, 1981. However, they have not yet been resumed up to now.

Finally, the penalty or penalties for non-compliance may also serve as a deterrent to violations of the labor standards. However, penalties stipulated by the law do not seem harsh enough to have a preventive impact.

Given the above description of enforcement by inspection, one can better interpret the inspection performance summarized in Table 5 for the period 1976 to 1981. Of the limited number of establishments inspected during the period 1976 to 1978 when regular inspection was not suspended, 46.3% to 65.5% were found violating general labor

---

[2/] Inspection activities were suspended once during 1974-75, as a result of the Department of Labor's reorganization and again in February 20, 1978, "in the interest of the service and in order to safeguard the integrity of our field personnel and to place the DOL beyond suspicion... in view of the political campaign for the interim national assembly effective February 20 to April 11, 1978."

standards which include the payment of minimum wage and other wage supplements. For this group of labor standards, the highest percentage of violating establishments for the same three-year period was in the payment of emergency cost of living allowance. The relative percentage of establishments violating other types of general labor standards vary by year although more were not paying the required 13th month pay, minimum wage and regular holiday pay. During the suspension of regular inspection in 1980 and 1981 complaints formed the basis for the limited number of inspections done. This readily explains the high percentage of violating establishments. The highest number of violations was in the payment of emergency cost of living allowance during these two years.

III. A Framework for Evaluating Minimum Wage-Fixing

The minimum wage legislation which may be considered as the Philippine wage policy can be evaluated in terms of its different impacts on the economy. These impacts may be classified into the allocative effects of changes in relative factor prices on resource use, other market effects on the prices of output, quantities of output, number of firms, industrial distribution, location of industries, and income level and distribution effects [Peterson, 1962].

This evaluation is a relatively theoretical rather than an empirical assessment of the likely effects of wage policy. Such an approach is chosen in view of the limited coverage and implementation of the wage policy which is deducible from the description of minimum wage fixing in the preceding chapter. This assessment is intended to serve as a guide in the reshaping of the wage policy as a component of an income policy.

Given the abundant supply of unskilled or low-skilled labor relative to the demand for it, the labor market if left alone would set a low price for labor. A minimum wage law acts as a price control in the form of a price floor below which the wage of this type of labor skill cannot go. This manipulation of the price of a type of labor skill which alters the relative prices of different types of labor and that of labor relative to other non-labor inputs will therefore influence relative resource use in production.

The wage effect can have several components. First, the wage policy would have a direct wage effect in terms of an increase in the payroll that firms have to pay the workers affected by the legislation. Second is an indirect wage effect which may take sometime to occur. It results from the need to readjust the rest of the wage structure if only to try to maintain the wage differentials among different types of labor skills before the minimum wage legislations took effect. Otherwise, there would be dissatisfaction among other workers in the upper wage levels as the wage differentials are compressed from below. A third effect which may be termed as an outward wage effect can be found in relatively tight labor markets. These are wage increases which non-covered firms or plants in the same labor market will have to give to hold their workers or recruit new ones. A fourth component may be the competitive effect which arises when former high-wage firms or plants are released from the competitive advantage enjoyed by former low-wage firms. This situation may lead to union pressures or labor-market demands for increase in wages of workers in the high-wage firms as the employment and/or profits of these firms increase. These wage effects tend to increase labor cost and may therefore adversely affect or lower the level of employment.

The impact on employment of minimum wage legislation is an empirical question. The estimation of this impact would require information concerning the elasticity of demand for the types of labor skills affected by the legislation and the elasticity of substitution among different types of labor skills and labor relative to non-labor inputs for different firms and industrial sectors. An empiricial estimation of the employment impact of minimum wage legislation would require isolating the influence of other factors on employment changes in a given period.

The increase in labor cost may be countered by the legislations efficiency effect. An increase in the minimum wage of workers who used to receive lower wages may now enable them to afford better food and improve their health thereby raising their efficiency levels in work. In addition, the higher wage may serve as an additional incentive which would also lead to an increase in their efficiency. Another source of improved efficiency in firms affected by the legislation may come from laying off the least efficient workers which may increase the average productivity of firm resulting in lower cost. An empiricial estimation of this efficiency effects would again require discriminating among possible factors that might cause productivity changes in a firm. It is difficult to tell a priori what the net efficiency effect on employment in affected firms might be.

There are other market effects of wage policy. First, if the increase in minimum wages or increase in cost of production leads to an increase in the price of the output, then the affected firms are likely to be less competitive relative to firms or industries ~~who~~ which are not equally affected. Second, there may also be a tendency for affected firms to react to the increase in labor cost by lowering the quality of their output if they belong to highly competitive industries. Another reaction may be a decline in the output of affected firms and/or a shift to production of cheaper product lines. These reactions will have welfare implications on the consumers. Third, the increase in cost from labor may be shifted to suppliers of materials to the firms if the firms attempt to get their supplies at lower cost. A fourth effect may be a decline in the number of firms or in the number of plants for some firms as they try to adjust to the higher labor cost in production. The least efficient producers are likely to close shop thereby reducing the number of firms in an industry and lowering employment. There can also be changes in industrial distribution as more firms enter industries that are not covered by the legislation. A fifth effect has to do with the industrial dispersion in the country. The regional dispersion of industries has been encouraged by the government to slow down the migration of population to urban areas. A major attraction for industrial dispersion would be the lower relative labor cost in less urban areas. Minimum wage legislation affecting these workers may therefore run counter to this objective.

The wage policy will also yield income level and distribution effects. First among these effects is the increase in money income of laborers who are covered by the legislation and are not laid off. Conversely, there will be a loss of income for those who get laid off. To go back to the first group whose money incomes increased, it is even more important to find out if their real incomes also increased. Real income is a function of money income and consumer prices. Consider how an employer may react to the increase in labor cost resulting from a minimum wage legislation. An employer may absorb this increase in cost by a) lowering his profits, or b) by increasing the price of his output thereby passing on the cost increase to consumers, or c) by increasing productivity so that the increase in cost may be compensated for by an increase in output and profits need not fall and output price need not rise, or d) a combination of these three possible reactions. These variables will have to be monitored in an income policy, otherwise a minimum wage revision may be negated by an increase in consumer prices. At present, the profits of capitalists are not monitored, much less controlled, unlike that of wages and salaries. Productivity improvements has become a policy concern and therefore a monitoring system is now being developed. The present wage policy embodied in minimum wage fixing limps on one leg because there is no corresponding policy on profits, prices and their relationship to productivity. Many studies on minimum wage legislation (e.g., Sariro, 1978, Fidelino, 1978, Bagtas, 1978, Carpio, 1978 and Panganiban, 1981) assess the extent to which the effective minimum wage levels enable minimum wage earners to maintain a subsistence or a decent level of living. Hence, this study does not go into this evaluation. It looks instead on the ability of this wage policy to reduce poverty.

Minimum wage legislation as a poverty measure may be assessed in terms of the following criteria. First, how does the minimum wage increase affect the poor. Do the poorest receive the increase in wage or wage supplements? If the minimum wage legislation causes the lay-off of the least efficient who tend to be the lowest wage earners, then it is biased in favor of the less poor rather than the poorest. If minimum wage legislation does not affect those who are unemployed then it is biased against the poorest. And thirdly, to the extent that it does not cover those who are employed in the informal sectors which are characterized by lowest wages then it is biased against the poorest. One therefore, is led to ask if there are better measures to alleviate poverty - poverty measures which can be so designed that the poorest get to be helped the most.

The wage policy may also have effects on the distribution of income among sectors, particularly between labor and the capitalists or employers. Whether the effect is to increase the share of labor relative to that of capitalists is an empirical question and may be determined by the elasticity of demand for labor and the extent to which the increases in labor's income is compensated for by increases in productivity and/or increases in prices for consumers and/or lower income for raw material suppliers. Moreover, the income distribution effects may have an impact on aggregate demand which in turn may affect the level of employment.

This section outlines a framework for evaluating the minimum-wage fixing and points out the research needs in empirically estimating its impact on employment, output, prices, and income levels and its distribution.

IV. Towards an Alternative Wage Policy for the Philippines

The evaluation of the minimum wage fixing in the Philippines reveals its limited coverage, ineffectual enforcement and hence a likely minimal impact on the reduction of poverty. Its most important function may be the setting of a standard subsistence wage level against which people may compare their earnings and which can guide their negotiations with their employers over wage levels. Also, the tripartite dialogues periodically held on minimum wage adjustments may be a good forum for the exchange of views among the different sectors. It further provides a vent for grievances, which the labor sector really needs more than the capitalists. The problem might lie in the expectations arising from such dialogues, which if not realized, could lead to more frustrations for the labor sector.

Negotiations over wages may be done on an individual worker to employer basis or on a union to employer basis. A worker's chances of success is better in the latter than the former set-up. However, even the union negotiation with an employer may be hampered by government intervention favoring the employer for one reason or another. In such a case, minimum wage-fixing serves to set a standard which employers may voluntarily subscribe to or not. It is as if the function of the government through the National Wage Council is to provide information on how wages have been eroded by inflation and how much they ought to be adjusted. This kind of information generation and dissemination can be done in a more straightforward manner without going through a tripartite dialogue and a formal law or presidential decree.

What conditions would make the present format of minimum wage-fixing work for the benefit of the labor sector for whom such legislation is intended. The government will have to prioritize the national goals in favor of the labor sector. It has to design a total income policy rather than the current wage policy it has been adopting in isolation. It has to decide what the distribution of income between workers and capitalists ought to be, and where the increases in workers' income should come from. Should they come from the capitalists' profits, from consumers or from productivity increases? Individual firms will have to be monitored with regard to these different dimensions. In such a system, how can the government make individuals comply with what it sets? Would the government have the political will to decide on the sharing of income among sectors and confront conflicting sectoral interests? Would it have the bureaucracy to enforce such an income policy? These tasks seem to take on heroic proportions.

An alternative system is to leave the different sectors to negotiate with each other on an individual or case by case basis, i.e., at the firm level. What is critical in this set-up is the relative bargaining strengths of the negotiating sectors. At present the looseness of the labor market indicates a weak bargaining position for the labor sector vis-a-vis the capitalist sector. Under the present system, there is no viable immediate or even short-run solutions to the high unemployment and underemployment, which can sufficiently strengthen the bargaining position of the labor sector to approximate that of the capitalist sector. The solution bearing on the supply side are long-run solutions. The demand for labor is mainly based on private calculations of the capitalists and the government may not have the resources to mop up the excess supply of labor.

The best alternative at this time is to encourage labor organizing, strengthen labor unions and develop their capacity to negotiate with employers. This system will require a dismantling of existing controls on labor organizing and on union bargaining instruments. There is already enough historical experience to guide a program of strengthening labor organization toward raising the labor sector's bargaining power to a level that approximates that of employers. If the labor sector has adequate bargaining strength at the firm level, then negotiations can be undertaken at that level by industry and by region, to take better stock of the economic viabilities of firms.

The other critical role of the government in this system is information-generation on variables which are covered in the negotiations. Hence, it has to generate time series data on relevant variables such as: (1) subsistence income, (2) relative cost of living by location, (3) productivity at the firm level and at the industry level, by location and by other relevant characteristics of producing units, and

(4) profit rates of firm by industry for different locations. This information will have to be generally and conveniently available. It is the labor sector that needs this independent source of information more than the employers. This function of the government requires the agency or agencies involved to maintain a high credibility because it is the source of objective information against which claims of sectors with vested interests can be compared.

The government will still have the function of providing a system of arbitration not only between the workers and the employers but also including consumers, as wages, profits and prices given productivity levels are determined. The arbitration may be guided by some generally accepted rule on sharing productivity changes which will have to be established. The MOLE through its instrumentalities will have to collect and disseminate information on the relevant variables. It will have to define the different concepts and develop expertise in the regular collection of such data. It has to acquire considerable knowledge on every industry, also arbitration expertise, and knowledge concerning business operations and general economic conditions. These activities may require more from the government bureaucracy than what the current system does. But it is a different kind of demand on the bureaucracy; it is not a police function but an attempt to equalize the relative bargaining powers of participating sectors in production.

For this alternative system to work, i.e., to give workers a fairer share in production without causing a general disruption in the economy, a re-education of workers, employers and the government is required. Are we ready for this? Would this be another attempt to force the society into a system requiring values and attitudes which have not yet taken root? Will such a system evolve naturally? If so, should we just wait for it?

This is a very general picture of an alternative income policy which includes wage determination. It is a system that will have to be pondered on more seriously, to be given flesh and to be tested. Like any other new way of doing things, it will inevitably encounter a lot of resistance. And like any change, it will dislodge some from their favored positions and bestow benefits to others. But, a choice has to be made.

R E F E R E N C E S

Alix, J. C. and G.R. Rodriguez, Jr. "Wages in the Agricultural Sector: A Simulated Approach," Philippine Labor Review, Vol. 3, No. 3, 1978, pp. 63-79.

Bagtas, Cedric R. "Living Costs and Daily Wages," Philippine Labor Review, Vol. 3 No. 3, 1978, pp. 81-9.

Bronfrenbrenner, M. "Minimum Wages, Unemployability, and Relief: A Theoretical Note," Southern Economic Journal, Vol. 10, pp.52-59.

Brown, Weir M. "Effects of Minimum Wage," American Economic Review, Vol. 30, No. 1, March 1940, pp. 98-107.

Carpio, Ma. Teresita, "Wages and Working Conditions of Public Utility Drivers," Philippine Labor Review, Vol. 3, No. 3, 1978, pp. 141-155.

Castro, Judy S. "Wages in the Informal Sector," Philippine Labor Review, Vol. 3, No. 3, 1978, pp. 93-126.

Development Academy of the Philippines. "The Effects of Minimum Wage Legislation on Employment and Industry Viability: A Report on the Survey of Firms," RFD Paper, April 30, 1982.

Development Academy of the Philippines. "The Effects of Minimum Wage Legislation on Employment: Report on a Survey of Metro Manila Workers," RFD Paper, March 31, 1982.

Fidelino, Rachel E. "The Minimum Wage Policy," Philippine Labor Review, Vol. 3, No. 3, 1978, pp. 39-53.

International Labour Office. Wages: A Workers' Education Manual. (Geneva: International Labor Office, 1968).

International Labour Office. Minimum Wage Fixing Machinery and Related Problems, with Special Reference to Developing Countries. (Geneva: International Labor Office, 1969).

King, Allan G. "Minimum Wages and the Secondary Labor Market," Southern Economic Journal, Vol. 41, No. 2, October 1974, pp. 215-219.

Mijares, Tito and Felisa R. Barreto. "Price and Wage Indices," Philippine Labor Review, Vol. 3, No. 3, 1978, pp. 55-62.

MOLE. 1981 Yearbook of Labor Statistics.

NCSO. 1978 Census of Establishments (preliminary report).

Panganiban, Leah R. "Philippine Minimum Wage Policies: 1951-1981," University of the Philippines School of Economics, 1981. Unpublished M.A. Thesis.

Peterson, John M. "Research Needs in Minimum Wage Theory," The Southern Economic Journal, Vol. 29, No. 1, July 1962, pp. 1-9.

Sarino, Cesar. "The Economics of Wage," Philippine Labor Review, Vol. 3, No. 3, 1978, pp. 1-37.

Stigler, George J. "The Economics of Minimum Wage Legislation," American Economic Review, Vol. 36, No. 3, June 1946, pp. 358-365.

Wage Commission. "Report on the Sugar Industry," Technical Report on the Sugar Industry, 1972.

Watanabe, Susumu, "Minimum Wages in Developing Countries: Myth and Reality". International Labour Review, Vol. 113, No. 3 May - June 1976, pp. 345-358.