

Thus, the payroll tax is one that can be justified on the benefit principle of taxation on the one hand and on the principle that it is an effective means for generating savings and mobilizing them for development.

Table 3 shows the growth of the system in terms of coverage by employers and workers and in terms of funds it has been able to generate. The rapid growth of contributions is an indication of the potential investment funds the system is able to generate for development needs. The yearly growth of the system has been tapering but this is only to be expected since the rapid rise of contributions in the early years is the result of implementing the coverage of the law to existing enterprises. The longer run problem of growth of the system after the coverage of existing enterprises has been completed is one which is inevitably linked with the growth of the economy, of employment, and of labor-intensive economic activities.

There are some questions of economic interest, which will be briefly mentioned, but which will not be discussed. First is the question of how wisely the investment funds of the system have been used for economic development purposes. Second is a question on the distribution of direct benefits by income classes. To answer it, an analysis has to be made of the incidence of the payroll tax burden and of the benefits from the system, whether in terms of member benefits or in terms of those who have benefited from the leadings of the system. These questions are empirical in character, and they can only be answered by some

Table 3. GROWTH OF THE SOCIAL SECURITY SYSTEM

<u>Cumulative Total of Members*</u>		<u>(P1,000) Yearly Contributions</u>	<u>Per Cent Growth of Contributions from Previous Year</u>
<u>Year</u>	<u>No. of Employers</u>		
1957	1,094	224,156	6,583.7
1958	9,745	377,050	26,875.5
1959	10,956	401,769	39,029.7
1960	28,833	484,272	45,924.3
1961	37,958	603,691	59,207.5
1962	47,426	747,988	65,190.1
1963	54,820	947,474	74,885.7
1964	60,373	1,109,313	85,849.8
1965	64,276	1,309,197	97,428.5
1966	67,550	1,519,572	115,223.5**
1967	73,478	1,768,222	124,178.1**
Cumulative contributions from 1957 to 1967		740,376.9	

*Excluding employers who ceased operations, and wage earners who died, or were retired, permanently and totally disabled or refunded their contributions.

**Including penalties on delinquent contributions amounting to P392,146 in 1966 and P392,398 in 1967. The 1966 Annual Report included this item under sundry revenues.

Source: Social Security System, 1967 Annual Report.

further research.²⁰ It may be said, however, that the membership fund which is generated by the System has enabled it to engage in long term lending policies in addition to servicing membership loans, such as salary and housing loans and in absorbing government bonds. In their operations with regard to lending to business enterprises, the SSS has followed substantially the policies of the other long term finance institutions, like the Development Bank of the Philippines and the Government Service Insurance System. There has been, like these agencies, a tendency to lend to larger scale enterprises and to charge the same interest rates as these institutions.

In summary, the social security law has the ill effects that the minimum wage has on employment by raising the price of labor. However, it has some desirable features which probably outweighed its undesirable effects, unlike the minimum wage law which cannot be justified on the same grounds. The payroll tax in general is forced savings on wage earners²¹ which increase resources for development. In turn the provision of investible funds facilitates more employment creation. Secondly, it is able to render a system of benefits to wage earners on the basis of actuarial principles -- benefactors of social insurance pay for the cost of insurance.

²⁰ I am hopeful that some of these questions will be answered by a current doctoral research for economics at the University of Wisconsin by Richard Rosenberg.

²¹ It is possible that although the contributions of employers is higher than those of the wage earner, the payroll tax is shifted back to employees. This is an empirical question, and the answer to it is not yet known.

VI. SUMMARY OF EXPLICIT AND IMPLICIT POLICIES

The key features of the legal structure with respect to labor welfare may be briefly summarized as follows:

- (1) an attempt to shorten the working hours;
- (2) the imposition of minimum wage which is higher than the market rate;
- (3) the explicit recognition of labor unionism;
- (4) the existence of social security system legislation, with its implied payroll taxation.

All the above features of the legal structure concerning labor welfare tend to increase the price of labor to those hiring it. If we could treat all other prices except that of labor constant, then the set of policies which we have adopted concerning working hours and wages is to raise the price of labor relative to all other inputs.

In an economy where the labor resource is very abundant relative to other resources, raising its price artificially tends to help those already employed. But these have a tendency to constrict employment opportunities for those still awaiting job opportunities. A minimum wage, which is out of line with market wage, induces new industries to choose techniques with less labor input per unit of capital and existing industries to substitute capital for labor. In any case, I have argued elsewhere that policies that rely on these set of welfare laws tend to encourage the unexpected -- the bias of policy against labor-use in favor of capital-use.²²

²² G.P. Sicat, "Economic Incentives, Industrialization and Employment in the Developing Economies," DP No. 68-30 (September 1968), IKDR, University of the Philippines.

VII. CHARACTERISTICS OF GROWTH AND EMPLOYMENT POLICIES

Most economic development policies in the Philippines have taken employment creation for granted. For instance, none of the many drafts of economic plans which were proposed or considered publicly after 1946 have contained more than a brief reference to employment creation. After projecting macroeconomic magnitudes of new employment, usually in one table or in one section, the exercise ended there. This apparent lip service to employment creation is due to the basic belief that any new industry or investment would create new jobs. This is, of course, true, since it takes labor, capital, and other inputs to produce an output. There has been, in short, no explicit employment policy. Employment policies are all implicitly derived from the economic policies designed to promote growth.

We should, however, examine more deeply the explicit components of development policies and the implicit employment policies which can be deduced from them. Firstly, the belief was that in order to attract new industries, incentives for investment had to be given. An examination of the economic incentives in the Philippines which were adopted to assist the establishment of new industries shows that they have been tied largely towards cheapestening the price of capital while, as we have shown in the last section, the legislature was busy enacting laws which raised the price of labor. The law on tax exemption of new and necessary industries, the basic industries act, the investment incentives act, interest rate policy, and foreign exchange rate policy (in the days of controls) had all added to the bias against labor-use in the Philippines. After noting the seemingly conflicting objectives of the investment in-

centives act of 1967 in terms of labor use, J. Encarnacion, for instance, suggested an interpretation in order to resolve the bias towards capital-intensity.²³ But nevertheless, the fact is that most of the provisions tend to cheapen capital-intensive processes relative to the labor intensive, because they are tied to the cheapening of capital goods acquisition.

Naturally, these incentives had the following effects. (1) For entrepreneurs looking into investment possibilities among alternative industries, the industry chosen tended to favor those industries that required more capital per unit of labor to those which required less capital. This bias for capital intensity was an obvious result of an economic policy which placed emphasis on specific factor use -- in this case, capital.

(2) The second effect of this setup was that industries already committed to specific activities or techniques exposed themselves more openly to economic forces creating a substitution of capital for labor whenever the demands for expansion of capacity presented themselves.

In the Philippine manufacturing sector, sufficient evidence is now available which substantiates the above analysis.²⁴ As a general rule, and the facts of economic history bear this out, the process of development is accompanied by capital deepening for each economic sector, that is, growing sectoral capital intensities. This is not questioned.

²³ Memorandum to the Board of Investments, March 26, 1968.

²⁴ See Ruprecht, *op. cit.*; Williamson & Sicat, *op. cit.*, and also in this volume, "Manufacturing Sector After Decentralization".

by the comments stated above. However, the economic incentives implied by explicit policies induced capital deepening to grow faster than would have been either socially or economically desirable from the standpoint of efficient resource allocation. The incentive pattern accelerated the establishment of industries which required more capital-intensity and the neglect of sectors which were also more dependent on the economy's resource base, for instance, the agriculturally related manufacturing industries, like food processing and those industries which depended relatively more on labor use, like cottage industries with excellent export potentials. Many such industries had shown vigorous growth only after decontrol, after the price of foreign exchange was freed to move to an equilibrium rate, thereby allowing for more accurate resource pricing.

This brings us to the (second point) about the growth policies and the implicit employment policies that can be derived from them. The industrial import substitution process was encouraged by multiple protection policies that gave manufacturing exceedingly high rates of effective protection. This industrial promotion policy encouraged new industries established which depended only on import replacement of the final produce. This type of development has led to the establishment of inefficient, import dependent manufacturing enterprises and has failed to generate further growth for the industrial sector.

One of the important consequences of the industrial policy was the growth of interest groups which fed upon this protection mechanism. Many have observed the growth of the Philippine entrepreneurial class

which was nurtured by the industrial import substitution program of the 1950's. This policy pattern fostered a highly protection-minded entrepreneurial class, which is predisposed to seeking protection from competition and thereby shies away from the competitive challenge, especially in new export activities.

A major result of this entrepreneurial development is the rather restrictive view that Philippine nationalism has taken. This view tended to discourage foreign participation within the Philippines.²⁵ This restrictive view of nationalism is defeatist and unhealthy for Philippine growth, to say the least. It emphasizes protection from foreign competition rather than stressing vigor in competition. Yet, it is probably the only logical consequence of the economic policies which were adopted.

The effects of this restrictive nationalism on employment absorption policy are quite obvious. Because of the inward looking character of the industrial process, the expansion of the economy had not been as fast as would have been desirable, especially in industry. Therefore, labor absorption had not been satisfactory. If the attitude towards foreign investment had been more permissive, especially in areas where exports were emphasized, the increase of employment would certainly have been larger. The best example of an export-oriented industry owned by foreigners, which also had the characteristic of having a high domestic resource base, including a relatively higher labor-in-

²⁵See "A Design for Export-Oriented Industrial Development" and "Economic Incentives and Foreign Investments," both in this volume.

tensity, is the canned pineapples industry.²⁶ It is very unfortunate that the list of examples almost stops there after more than two decades of independence. But, as I have argued in many places, the Philippines placed too much emphasis on import substitution and encouraged foreign investments largely in that area.

✓ Employment and growth policies cannot be discussed without mentioning small scale industries. When we assess the whole postwar period, it can be said that not enough attention has been given to the growth of small scale industries. Lending policies have tended to be biased in favor of larger enterprises (larger loans). This is obvious from an examination of the record of the large government financial institutions. Yet, these industries have very high employment potentials.

The development of cottage industries exports, which have increased phenomenally in recent months, reaching a volume of \$12 million recently, has focused more attention to the importance of the small scale manufacturing enterprise. The incentives given to small scale industries are still insufficient. For instance, the NACIDA (National Cottage Industries Development Administration) Bank still has to begin in earnest operations for lack of sufficient capital.

A consideration which should be foremost in policies concerning small scale industries is that industrialization is not inconsistent with the encouragement of small scale industries. In fact, a lot of capital-

²⁶ Even in this case, I feel that with incentives for labor use being in line with true market values, more labor-intensity would have arisen.

saving can be effected by encouraging setups in which large companies are able to subcontract their work to small industries. This is the very basis of the industrialization pattern of Japan, which should immediately convey to many that the setup can be done and has happened.

VIII. LABOR UTILIZATION (OR FOREST EXPLOITATION POLICY) AS A SOURCE OF LABOR ABSORPTION

What we have said previously should be qualified by the fact that land in the Philippines has been a source of labor absorption in recent decades. Government policy, especially in the postwar period, of disposing of large tracts of forest lands for agricultural purposes has for a time provided a source of labor absorption through internal labor migration.

The opening for cultivation of sparsely populated regions, together with the push and pull of other forces due to regional economic growth, had led to migration of people from areas of low productivity to those of high productivity.

A study of the growth of output from 1902 to 1961 from a long term view by Hooley has shown that the increase of land inputs was quite impressive. The Hooley study suggests that land inputs had grown much faster than the rate of growth of output.²⁷

At the beginning of the 20th century, the Philippines, with a land area of 115,000 square miles, had sizable frontier lands located especially in the Mindanao area and some part of the Visayas. The re-

²⁷ This has induced George L. Hicks and Geoffrey McNicoll to call the Philippines a "land-surplus" economy. See their "Foreign Trade and the Growth of the Dual Economy: A Study of the Philippines, 1950-1966" (forthcoming).

gions of population concentration had been Luzon. Table 4 shows the indexes of output and input taken from Hooley's study. Viewing the economy of 1961 from the standpoint of a long run perspective, the expansion of land inputs was almost twice the expansion of labor inputs, using 1902 as a base. When we compare the situation in the postwar period, the growth rate of land inputs, taking 1948 as a base, exceeded slightly the growth of output in agriculture. Although this would suggest that labor transfer to new lands has not been very impressive, the opening of new land certainly helped to absorb labor that would have been otherwise left in densely populated agricultural regions or that would have potentially migrated to overcrowded urban regions.

No doubt these data are a reflection of the extensiveness of the land margins of the Philippines during the period under consideration. But this situation will not definitely continue in the future since all the frontier lands had almost been opened up. In the earlier years, until the 1960's, the opening of new lands for agriculture has provided a fruitful source of labor force absorption into productive undertakings. With the 1970's and thereafter, new frontier lands can no longer be opened at the rate experienced in the last six decades. Thus, the only growth that can be expected is one which depends on intensive cultivation of agriculture. This will require relatively more capital formation in agriculture and a higher rate of transfer of the excess agricultural labor force into manufacturing industries.

IX. MANPOWER DEVELOPMENT POLICIES

Manpower development covers a wide ranging set of policies.²⁸

²⁸ See F. Harbison and C.A. Myers, Education, Manpower and Economic Development (McGraw-Hill Company, 1964).

Table 4. TOTAL AND PARTIAL PRODUCTIVITY INDEXES FOR PHILIPPINE AGRICULTURE, SELECTED YEARS, 1902-1961

	<u>1902</u>	<u>1918</u>	<u>1938</u>	<u>1948</u>	<u>1961</u>	<u>1948=100</u> <u>1961</u>
Output	100	224	251	254	410	161
Inputs:						
Land	100	227	340	359	603	168
Labor	100	161	256	243	350	144
Machinery	100	187	313	231	579	251
Animals	100	267	511	301	605	201

Source: R.W. Hooley, "Long Term Economic Growth in the Philippines, 1902-1961" (December 1966), Conference on Growth of Output in the Philippines.

These policies include those on population, on education, and on labor training. I shall concentrate only on the last aspect.²⁹

In a larger context, these policies cannot be isolated from employment and wage questions. But taken alone, manpower development policies are better posed than those designed ostensibly for labor welfare. As we have emphasized earlier, labor welfare policies usually define specific constraints on the manner of utilization of labor as well as on the pricing of labor's share in any productive activity. Manpower policies concentrate on the more positive issues like improving skills and utilization of labor. This is especially true of programs which are tied to the training of labor skills in formal educational institutions and in other forms of company or intercompany in-service training.

One of the consequences of economic development is specialization. In a growing economy, it is to be expected that labor skills and technological processes applied in production also change from the relatively simple to the more complex. It is almost tautological to say that new development requires new skills, if not more experienced manpower. The direction of bias of any growth in skills results from specific development strategies. An economy which encourages highly imitative import substitution of many imported goods or whose growth policies are tied to cheapening capital-use is likely to attract industries which create serious skill bottlenecks more quickly.

²⁹ On the first two policies, some extensive discussion has already been made. See, for instance, the seminar on population and economics in the Philippine Economic Journal (vol. VI, No. 1, 1967), with contributions by R.J. Lampman, J. Encarnación, and T. Ruprecht and the First Conference on Population, 1965 (U.P. Press, 1966); also, see the the proceedings of the Second Conference on Population, 1967, (forthcoming).

Let me illustrate this connection between manpower development and industrial policy. Consider a nation which has a relatively good supply of good furniture makers, dressmakers, or shoemakers, and the corresponding sewing and shoe machine mechanics. The supply of these skills can be easily developed, since they require little formal training and perhaps less than one year of the job training or apprenticeships. If economic policies do not favor the expansion of the industries requiring these labor inputs compared to other industries requiring different skills, the flow of investment resources away from carpentry, shoe making and tailoring would mean that the potential resource would not be adequately tapped.

Something very much like this has occurred in the Philippines. These industries have not developed into significant export industries when evidently they should have -- if only development policy were appropriately advantageous to them. The overvalued exchange rate, the existence of rigid exchange controls, and the high protection of other less socially desirable (because they were not employing as much labor) industries have all combined together to stifle their potential growth.³⁰ And in the case of the shoe industry, it appears that it is only in the present, through the encouragement provided by the incentives to cottage industries and the relative cheapening of the peso after decontrol, that some truly promising export expansion is in sight.

³⁰ The mirror counter-example to this case is Hongkong. In the early postwar development of Hongkong, handicrafts men in tailoring had provided a sizeable employment in view of the favorable policies which took advantage of this particular skills to be tapped.

The Philippine government recently has taken strong interest in manpower development training. Thus, it has undertaken a manpower development training program which is intended to accelerate the training of laborers for skilled and semi-skilled activities. Although it failed to enact a manpower development act in 1968, considering the commitments of the present Philippine government, there is little doubt that this act will be passed in the future. The Department of Labor has busily established training centers within the Philippines which are supposed to have three-month training sessions. A little over 100 training centers have been established as of this time of writing. The program is built around a local government structure which may apparently be the best organizational setup for such activities.

A request by the government to develop a manpower training center for trainers has been favorably received by the United Nations Development Program. Thus, the United Nations Development Program has supported the Philippine government to equip and assist a training center in the sum of \$1.5 million. This center is expected to be established in 1969.

Any steps which improve the quality of labor skills especially by emphasizing the types of skills that are currently in demand by the growing economy would be a very laudable approach to planning manpower needs. If the manpower development training program emphasizes those skills which are already short in demand, then the immediate production of new supplies of skilled labor for the skill-short sectors will be a very important contribution to manpower utilization and development. However, one of the weaknesses of manpower programs directly run by the government is that very

often, the approach fails to give an answer to fundamental economic questions concerning the allocation of resources.³¹

[Specifically, the manpower development program in operation is virtually undertaken by the government. In view of the often divergent views between the government-run programs which are designed to serve private ends, it is very likely that these programs may be able to complement the specific manpower needs of the private sector. Moreover, because such programs depend very heavily on the government's budget and thereby compete with other essential government functions, its prospects of long run durability and long run effectiveness are subject to doubt. (I may be mistaken, and I hope I am).

The point which is stressed is that generally, the private sector would be able to estimate much better than government bureaucrats the demand for some types of skills. Thus, programs for labor training should be decentralized as much as possible to the level where a major part of the decision making for labor training depends on the private firm or industry, rather than on the part of the government.]

For instance, it may be easy enough for a government committee to decide that sewing, electronics repair, carpentry and baking are desirable courses to put in a manpower development program curriculum. However, the requirements of industry may be for men who can turn lathes, operate machinery, etc., or men who understand simple physical principles

³¹See Mark Blaug, "Approaches to Educational Planning," Economic Journal, vol. 77 (June 1967), pp. 262-287. Blaug criticized manpower projection approaches and the relevance of these for educational planning.

applied in the operation of plant equipment. This may be an extreme example, but it does point out the danger of having a manpower training program which has a decision locus located in government hands than in private.

There is one provision in the bill presented in the 1968 Congress which is of interest in this context:

"Nothing in this Act shall allow grants of subsistence or travelling expenses or make grants or loans in any manner and under any form to persons or entities attending training or courses under this Act: Provided, that only those persons, firms, companies, corporations or associations, who are undertaking or will undertake in-plant training, may be levied contributions and/or could give voluntary donations; and no such contributions and/or donations in any manner and under any form shall be collected and shall not be more than fifty per cent of the total expenses to be incurred in the in-plant training to be assessed by both the person, firm, company, association, or corporation, and the representative of the Bureau of Manpower Research and Training: Provided, finally, that this provision will not affect contributions from the International Labor Organization and other organizations.

From this, it would appear that private companies may be asked to contribute but are limited to one-half the cost of the manpower training per man. In other words, the government shares at least 50 per cent of the burden of training costs. While this would be laudible in the sense that it reduces the cost of training from the standpoint of private sector, it probably misses the heart of the matter. The program requires that if the firm wishes to take advantage of training labor, it may send trainees to the training program at most at half the cost. But if the firm were to engage in in-service training, more relevant to the type of labor supply it requires, which is independent of

governmental training facilities, it assumes the full cost of the program.

This is where I feel the proposal I have outlined in another paper³² is superior to the presently proposed scheme. If labor is high-cost in the Philippines (in view of all the policies I have already enumerated), a cheapening of training costs for retaining labor or improving its productivity is a labor-using inducement within the firm. The total cost to any firm of retaining an employed person, improving his productivity through time, and rewarding years of service is not only equivalent to the cost of wages plus the social security contributions. There are associated labor costs which are not expressed in wages paid, and training costs would be one of them.

In the paper referred to, it is proposed that, together with the wages of export-related labor, productivity-related expenses be allowed double deductions for purposes of the corporate income tax. However, such deductions are not to exceed 10 to 15 per cent of the total wage bill of all production-related workers. Activities that may be classified under productivity-related expenses are: programs of apprenticeships and of within-firm productivity training sessions, and donations and scholarships to vocational schools. This type of manpower training program shifts the burden of labor training to the public sector in terms of taxes forgone, since the firms sponsoring the programs are able to dictate their skill requirements and, presumably, succeed in getting them.

³²"Towards Industrial and Employment Expansion: Alternative Proposals for Economic Incentives Legislation Applied to Export and Industrial Promotion" (July 1968), DP No. 68-22, IEDR, University of the Philippines, this volume.

It is important that direct manpower development policies are seriously considered in the Philippines. This is an important policy step. However, I have stressed some reservations concerning the long run effectiveness of such programs if done directly under government supervision and control. The types of training supplied may not be directly related to the requirements of the growing economy and to the demands of the private sector in a private enterprise economic system. An alternative approach is one in which the locus of decisions on manpower training depends on the firm and the main incentive device is double-deduction, up to a certain point, of expenses incurred in trying to promote labor-productivity within the plant.

X. CONCLUSION

It is my conclusion that the Philippines has concentrated its labor laws on those which emphasized "labor welfare", which have in general played a negative role in promoting employment creation. Her growth and employment policies have been premised on policies favoring capital-use. In view of this, there has been no explicit employment policy to speak of.

Labor welfare policies combined with other forms of industrial promotion incentives have in general worked against employment creation in the Philippines. This is also the general conclusion found in other less developed countries which have adopted very advanced labor legislation. In the case of the minimum wage law at least, it can be said that it has failed to achieve its goal of a more equitable income distribution. In spite of this, there is a strong undercurrent of opinion

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in favor of labor welfare legislation. In view of the disappearance of our land frontier in the future which for a time took care of labor absorption, concern for employment policies should become a major agenda.

Employment and growth policies together with manpower development policies are better posed than policies which are directly designed to provide labor welfare. This is especially more so in a country like the Philippines where large unemployment and underemployment of the labor force has been discerned. The emphasis on labor welfare policies have distracted us from the problems of creating more employment. It is therefore encouraging that manpower development policies are now receiving relatively more attention than before in government. The best manpower development program should be able to give flexibility for the private sector to train its employed labor while reducing the cost of training. To do this, the decision locus for manpower training should be essentially based on the private sector, not on the government. This can be attained through labor-use oriented incentive legislation.

