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LABOR POLICIES AND PHILIPPINE ECONOMIC DEVELOPMENT

by

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I. INTRODUCTION

Labor policies adopted in the Philippines are relevant to questions of economic development and resource allocation. To relate labor policies with economic development in the Philippines is the concern of this paper. Under the term "labor policies", I shall assume all government policies that have to do with wage determination, employment promotion, and manpower development. This would be an extremely large agenda. But having my limited impressions which have been derived from my research on Philippine economic development in mind as well as my limitations as a non-labor economist, the scope is brought to better focus. We discuss labor policies and Philippine development in relation to issues concerning labor utilization, which have been raised by recent research (including mine) on the Philippine economy.

It will be necessary first to make a distinction between "actual" (or explicit) policies and the "apparent" policies implied by explicit policies. Actual policies are those which are publicly and explicitly stated into law and public action. ^{issues for} ^{2).} For re- ^{of Postwar} ^{Journal, vol. VI} ^{mic Growth in} ^{, IKDR, Univer-} tion of the minimum wage law or the official encouragement are examples of explicit policies. The apparent or are those which can be logically deduced from ^{deviate from Lampman's.}

For instance, the adoption of minimum wages implies a policy designed to raise the price of labor to employers.

II. LABOR AND SKILLS AS SOURCES OF ECONOMIC GROWTH

Quantitative studies of the sources of economic growth have emphasized the role played by traditional inputs, of improved inputs, and of technical progress and efficiency which cannot be associated with the first two factors.¹ Viewed in this light, labor (a traditional input) as well as the growth of skills (an improved labor input) are important sources of economic growth.

Estimates of the sources of growth in the Philippine economy have recently been made. Lampman and Williamson have independently estimated that the contribution of labor inputs to economic growth ranged from 68 per cent of the total growth (Lampman's) to 43 per cent (Williamson's low estimate) during the postwar period. When the shorter period of 1955-1965 is taken in relation to the whole postwar period, it is one of slower growth. The contribution of the increase of labor inputs to growth was about 54 per cent (Lampman's) and 34 per cent (Williamson's low estimate).² In an attempt to isolate the contribution of skills (or

¹See R.M. Solow, "Investment and Technical Progress," K.J. Arrow, et al. (ed.), Mathematical Methods in the Social Sciences (Stanford, California, Stanford University Press, 1960) and E.F. Denison, The Sources of Economic Growth in the US and the Alternatives Before US (Committee for Economic Development, Supplementary Paper No. 13, January 1962). For recent studies in the Philippines, see R.J. Lampman, "Sources of Postwar Economic Growth in the Philippines," Philippine Economic Journal, vol. VI no. 2 (Second Semester 1967), and J.G. Williamson, "Economic Growth in the Philippines, 1947-1965," DP No. 67-8 (September 1967), IEDR, University of the Philippines.

²Williamson's high estimates do not deviate from Lampman's.

education) to the growth of the economy, Williamson has concluded that the rate of increase of the contribution of education (skills, etc.) which may be associated with the labor force was in the range 8 to 10 per cent of the total expansion of Philippine productivity between 1947-1965.³ This is not a negligible magnitude, although Williamson has his specified qualifications.

The proportions of the contribution of labor and of education to growth are not the same as the output growth performance taken by itself. Long run growth problems in the Philippine economy, which seem to have emerged since the 1950's, have been identified. Viewed in terms of employment creation, the economy has not been able to generate a rate of labor absorption into relatively high productivity sectors which is fast enough. This is due in part to the distortions inherent in the industrial import substitution process which is attributable to the growth of a more capital-intensive industry-mix, to capital-labor substitution, and to the failure of capital accumulation and of the economy to grow sufficiently large enough, especially in the last decade.⁴

³Williamson, op.cit., p. 45-49. These are derived from the major conclusions of Williamson.

⁴For the viewpoint reported here, see T.K. Ruprecht, "Labor Absorption Problems of the Philippine Economy," Philippine Economic Journal, vol. V, no. 2 (Second Semester 1966); J.H. Power, "Import Substitution as an Industrialization Strategy," Philippine Economic Journal, vol. V, no. 2 (Second Semester, 1966); J.G. Williamson & G.P. Sicat, "Technical Change and Resource Allocation in Philippine Manufacturing," Discussion Paper No. 68-21 (June 1968), Institute of Economic Development & Research, University of the Philippines; see also the Essay "Manufacturing After Decontrol," in this volume.

try to look
into the foreign
component and technological content
of the industrial sector (particularly in the "shockingly" revealing

VII. A BRIEF HISTORY OF (EXPLICIT) LABOR WELFARE POLICY

The Philippines is one less developed country with relatively advanced social welfare legislation. This legislation has a long history.⁵

We shall briefly review the legal history of this preoccupation with welfare laws. Many of the labor laws in the Philippines had their origin during the period of American colonial administration. The first of these laws was an act passed in 1908 designed to regulate the responsibility of employers for personal injuries and deaths suffered by workers (workman's compensation act). In 1913, an act prohibiting slavery, involuntary servitude, etc. was passed in the Philippines applying only to limited section of the country. Three years later, this act was applied all throughout in the Philippines. These laws represented the transmission of social legislation from the United States to the Philippines.

Some of the first acts of the Commonwealth Government were closely related to labor welfare. President Quazon built his administration around the slogan, "social justice". And all presidents of the Philippines ever since have used the term to advantage in their stress on social welfare laws. Quite a number of Commonwealth acts were passed defining the relationship between workers and their employers, not only in industry but also in tenant agriculture. In 1936, the Court of Industrial Relations which was given the power to adjudicate arbitration between employers and employees was created and an industrial safety act was passed.

⁵See K. Kurihara, Labor in the Philippine Economy (Stanford University Press, 1945), for the "labor" history of the pre-1941 years.

In 1939, the Eight Hour Labor Law was passed by the Commonwealth Legislature.

Since 1946, many labor welfare laws have been enacted. Some of the more important laws were the provisions concerning employment in the Civil Code (RA 386, June 1950), the Minimum Wage Law (RA 602, April 1951 and amended subsequently on April 1965 to raise the minimum wage), the law regulating the employment of women and children (RA 679), the Industrial Peace Act of 1953 (RA 875) otherwise known as the "Magna Charta of Labor", which recognized collective bargaining between labor and management, the Termination Pay Law (RA 1052, June 1954), the Blue Sunday Law in 1953 (RA 946), the Social Security Law in 1954 (RA 1161), and the 40-Hours-5-Day-a-Week Law in 1957 (RA 1880). Many of these laws have been revised, each time 'favoring' the laboring class vis-a-vis the employer.

IV. AN EXAMPLE OF LABOR WELFARE LEGISLATION AND ITS EFFECTS ON EMPLOYMENT: THE MINIMUM WAGE LAW

The enactment of minimum wage legislation was the immediate offshoot of a recommendation by the United States Economic Survey Mission to the Philippines of 1950, otherwise known in the Philippines as the Bell Mission Report. After observing a widening inequality of income distribution because real wages had not adjusted themselves to prewar standards, the Mission made its recommendation concerning the imposition of a minimum wage. I am quoting⁶ their recommendation, since I believe it to

⁶Report to the President of the United States by the Economic Survey Mission to the Philippines, Washington, D.C., October 9, 1950, Section XIII.

be a classic example of poor advice⁷ by a foreign economic mission advising a less developed country:

The first step in ameliorating the economic position of workers is the prompt enactment of minimum wage legislation.... As the purpose of the minimum wage is to improve the living conditions of low-salaried workers, this legislation should not become the occasion for reducing the supplements to income which agricultural workers now have. In non-agricultural employment, the minimum wage should be far higher than in agriculture because of the different conditions under which workers must live; and for this reason it should be higher in Manila than in provincial cities. The minimum wage should be within the economic capacity of employers as indicated by the wage rates now paid by efficient employers. [Underline supplied].

Minimum wage legislation in itself will not solve the problem of inadequate wages; it will provide some relief only for the poorest paid workers....

I believe it is fair to say that the consequence of this ill-advised recommendation rushed the Philippines into adopting a most advanced labor legislation unsuited to the solution of employment creation in the Philippines. The recommendation helped to focus on social amelioration and equity problems through a stress of "welfare" policies which divide a given income. The appropriate focus of the Mission's policy recommendations should have been on those policies which promoted new industries which took advantage of cheap labor in order to raise, in due time, both employment and wage levels through the operation of market forces.

⁷This should not detract us, however, from the fact that the Mission had its many useful recommendations, especially those pertaining to fiscal reform.

In fairness to the Mission, it carried useful recommendations, especially those related to public finance.

"The enactment of a minimum wage law⁸ pushed forward a price constraint on labor to "organized" economic activity, which helped those who were currently employed but in general worked against the employment of more labor. We may define the organized sector as any establishment employing more than perhaps 10 workers. Such an establishment would normally comply (or be made to comply) with labor laws.

✓ The effects of the minimum wage operated along two economic forces: (1) at higher wages, relatively less laborers would be hired by any firm and (2) by pricing labor beyond the hiring cost at the market, employers are given the incentives (a) to choose techniques, when they had a choice, which required relatively less labor and (b) to substitute capital for labor. The second economic reason has been aided by many other labor laws (such as labor unionism, social security legislation) and by industrial promotion incentives, which will be taken up later. *

Thus, the institution of a minimum wage law shortly after, in 1951, has worked against the long run potential of rushing a high absorption rate of new labor into industry and commerce and tended to

⁸ The minimum wages were set at 4 pesos a day for non-agricultural workers and 2.50 pesos a day for agricultural workers in farm enterprises exceeding 12 hectares. In 1965, by virtue of an amendment to the law, the minimum wages were increased by 50 per cent for industrial workers to P6 per day. The current minimum wage for agricultural workers is P3.50 per day.

create an aristocracy of employed workers together with large labor force not receiving gainful employment at the "minimum wage".

The above conclusion on the large number of those receiving at least the minimum wage should be supported by evidence. I offer the following as proofs of this statement.

(1) In 1966, the Social Security System reported that 1.5 million workers are covered by the law. We may generously assume that all workers covered by the System are paid at least the minimum wage and are each employed during the full-time equivalent of one man-year of employment. These workers cover those engaged in agriculture, manufacturing, commerce and other service industries. Assuming further that (a) another 1/2 million persons are either direct government employees, executives, or landowners and that (b) another 1/2 million are individuals, who have been left unaccounted for with incomes exceeding the minimum wage, then we have a total of 2.5 million workers with incomes at least equivalent to the minimum wage. A conservative estimate of the labor force in 1966 is 10.2 million, or simply, 10 million. Considering that many small owner-operated and tenant-operated establishments in commerce or in farming do not yield a net earning of the money equivalent of a full-year's minimum wage in commerce and industry, then our estimates imply that roughly 75 per cent of the labor force are not receiving the minimum wage. In this estimate, I have tried to be on the conservative side of things. If we assume that my estimate is still high, we further assume that another 10 per cent of the labor force may be recipients of incomes equivalent at least to the minimum wage. That

still leaves 65 per cent of the labor force with incomes lower than the statutory minimum wage equivalent of a full-year's employment.

(2) On the basis of evidence from surveys of households expenditure and income, the same conclusion may be reached. If we take as a cut-off point P1,500 as the full-year equivalent of minimum wage income earned by a family of six,⁹ including the earnings of the breadwinner and supplemented by other family income earned by "dependents", then in 1956-1957, 71.4 per cent of families had family incomes lower than P1,500. In 1961 (uncorrected for any price changes), 64 per cent of Philippine families earned incomes less than this cut-off point.¹⁰

(3) On the basis of employment statistics, separating those who are receiving wages and salaries from the actual estimates of the labor force, we may assume further that only those reported as receiving salaries and wages are all receiving at least the minimum wage. Table 1 shows employment in October 1966, conducted by the Bureau of the Census and Statistics. The assumption that all wage and salary-earners receive the minimum wage is certainly untrue, but this makes our estimates of those with incomes at least equal to the minimum wage optimistic. The result is that of the total labor force employed, only 37 per cent re-

⁹Based on a P4 per day minimum wage, a worker with 315 working days would receive an income of P1,260. The rest would be contributed by work presumably performed by other members of the family. In agriculture, the sharing of work by members of the family would be less centered on the breadwinner, since wife and children who are old enough to serve as farmhands will be helping somehow or other. Of course, more imputations have to be made for agriculture, esp. for self-consumed output.

¹⁰See Bureau of the Census and Statistics, The Philippine Statistical Survey of Households Bulletin, Series No. 14, especially Table A, p. xi, "Family Income and Expenditures, 1961".

Table 1. EMPLOYED PERSONS BY MAJOR INDUSTRY GROUP, BY CLASS OF WORKER,
AND ESTIMATE OF RECIPIENTS OF "AT LEAST MINIMUM WAGE INCOME"

Major industry group and sex	Wage and salary		Proportion of employees receiving "at least minimum wage income" in per cent
	Total (1,000)	workers (1,000)	
PHILIPPINES	10,936	4,088	37 ✓
Agriculture, forestry, hunting and fishing	6,290	1,102	18
Mining and quarrying	26	25	96
Construction	283	262	92
Manufacturing	1,229	668	54
Electricity, gas, heat, water and sanitary services	37	37	100
Commerce	1,126	295	26
Transport, storage and communication	384	325	85
Government, community, business and recreational services	788	744	94
Domestic services	502	498	99 ^a
Personal services other than domestic	242	127	52
Industry not reported	30	-	-

Source: Office of the Director, Bureau of the Census and Statistics Special Release No. 53, Series of 1968, month of January.

^aThe assumption here for domestic services is probably most doubtful, since domestic help, even when we impute the cost of lodging and board, would probably earn on the average much less than the minimum wage.

ceive salaries and wages, and consequently the minimum wage. The self-employed with income higher than the minimum wage are not accounted for, but this may be added to correct the estimate. Perhaps the more correct figure, when these are taken into account together with the overstatement that we expect from the assumption we have made that could bring the amount not higher than 40 per cent of the total labor force.

(4) Another evidence is provided by the Manila Health Department and National Science Development Board study, which recently came to my attention.¹¹ A survey conducted in 1965 yielded the following results. Of Manila's labor force of 425 thousand, 91.3 per cent were employed and 8.7 per cent unemployed. Of the employed, 57.5 per cent received incomes at least of P120 per month (the minimum wage cut-off level in that year). On the basis of this study, 52.5 per cent ($= 91.3 \times 57.5$) labor force of Manila received monthly incomes which were below the monthly minimum.

It is, of course, foolish to attribute these statistics of the relative largeness of income recipients with less than minimum wage income to the passage of the minimum wage law. Together with other factors to be cited later, the imposition of the minimum wage law, however, helped to increase the adoption of more capital-intensive techniques in organized manufacturing and commerce. Consequently, it worked against greater employment. What we have shown above helps to dramatize the point that passing a corrective law which raises the price of labor through a floor wage

¹¹ See the PNS report "Manila Survey: Many Unemployed," The Manila Times, December 31, 1968, p. 12-A

does not make wage earners get employment at that minimum wage.¹² Thus, the law fails to uplift workers' condition as a general rule.

I offer as a hypothesis that minimum wage legislation in an economy where unskilled workers are available at much lower prices results in a discrimination against skills in the short run. Skill differentials do not get wide enough to reflect true differentials in learning, experience, and importance. Skilled workers' wage rates are pulled down by the decisions of management to accommodate less skilled workers at higher wages. Thus, the salaries of skilled workers tend to be closer to the minimum wage, and therefore, to the unskilled than they would otherwise be. The wage structure turns against the skilled workers; it can almost be said that in this situation the skilled laborer is exploited, because he is not rewarded his due compensation while the unskilled is over compensated because he is paid a higher wage than his true market wage. In a longer run context, skilled workers, however, may become more scarce because the economy is induced to prefer more machine-using techniques which thus increase the demand for skilled workers relative to unskilled. This development favors skilled workers more than the unskilled. "

A logical consequence of the above discussion is that minimum wage legislation fails to achieve its major objective of a more equitable income distribution. The evidence that we have cited lends support to the hypothesis that the proportional wage bill (relative to the claims of capital and other non-labor inputs) in production activities have not

¹²I discuss this further in my "Analytical Aspects of Two Current Economic Policies," Philippine Economic Journal, First Semester, 1965.

Table 2. A SUMMARY OF THE FINANCIAL RATIOS USED AS BASIS FOR
DIVISION OF THE METALLIC MINING WAGE BOARD

<u>Item</u>	<u>Gold</u>	<u>Copper</u>	<u>Metals Other than Gold</u>
LABOR COSTS			
A. Before the Proposed Increase	27.50	13.34	19.69
1. Labor Costs/Total Costs	27.50	13.34	19.69
2. Labor Costs/Total Increase	25.35	7.41	17.31
B. After the Proposed Increase			
1. Across the Board (minimum) Escalation			
1.1 Labor Costs/Total Costs	37.17	21.42	29.15
1.2 Labor Costs/Total Income	33.91	13.07	27.49
2. Differential Escalation			
2.1 Labor Costs/Total Costs	34.92	22.21	28.32
2.2 Labor Costs/Total Income	30.76	12.62	26.40
NET RETURNS			
A. Before the Proposed Increase			
1. Net Income/Total Income	9.11	44.40	10.48
2. Net Income/Paid-Up Capital	2.78	142.91	6.54
B. After the Proposed Increase			
1. Across the Board (maximum) Escalation			
1.1 Net Income/Total Income	33.91	13.07	27.49
1.2 Net Income/Paid-Up Capital	15.29	191.62	11.17
2. Differential Escalation			
2.1 Net Income/Total Income	10.89	43.13	16.62
2.2 Net Income/Paid-Up Capital	34.68	149.92	38.89

application of the minimum wages the board proposed. The board, on the basis of its findings, that "it would not be fair to reform minimum wage rate for the entire industry [and] enter of recommending different rates on the basis of each company to pay..." (underline supplied). The final recommendation: three different minimum wages for three types of metallurgical products: minimum wage of P6.24 for gold mining, P6.40 for base metal mining, and P6.72 for copper mining. The standard wage is P6.00 per day.

This decision can be criticized on many grounds. I will confine myself only to three remarks. First, it appears that the wage board was of the mind to tax more economically efficient industries (firms) through added labor costs.¹⁴ The immediate question therefore is why punish "efficiency"?

Second, and perhaps more seriously, the computations which formed the major basis of the recommendations were done as if raising the price of labor would not lead to any economic decisions which might reduce employment either from the mere fact laying off labor which cannot add the same additional value to firms as the wage paid to it or from the possibility, especially in the longer run, of replacing machinery for labor in some undertakings. Thus, the labor costs as a proportion of total costs, before and after wage escalation, are certainly highly dubious basis for

¹⁴The argument that some industries, like copper, are prosperous and should therefore pay higher labor costs is, I believe, invalid because, as the report pointed out, the prosperous companies are in fact paying better than statutory minimum wages. Moreover, the high profits of these companies also spill themselves over to the economy in the form

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any economically sensible decision.

Third, the rates of return calculation before and after wage escalations are quite strange. Why would rates of return increase after imposing new labor costs when evidently, all their calculations were based on all other things remaining the same, except for the new wage rates? Moreover, as we have pointed out, any economic readjustments due to higher labor costs would affect the rate of return to capital. Even if labor is laid off through a substitution of machinery for labor in some mining processes -- e.g., in moving mineral ore -- the obvious result would be for the rate of return to capital to fall, if only slightly, but certainly it would not increase, under the conditions assumed.¹⁵

② A related tendency of Philippine welfare legislation is in the area of pricing higher level personnel. This was certainly implied from an attempt to pass into law in 1968 an "anti-discrimination" or "equal pay for equal work" bill. The bill aimed at making illegal the alleged practice in foreign investment companies in which foreigners get paid much more than Filipinos while performing the "same" work.¹⁶ Although

of taxes paid. Perhaps a more reasonable law would be a tax on the export of these minerals since they deplete the resources available to future generations. Not only will this measure have a stabilizing effect on incomes in mining. Even if the tax burden is felt by the mine producers, the economy is able to share in the gains from an industry which depletes the country's mineral resources.

¹⁵ Hence, the report while it claimed to have glossed over the economic issues is a poor example of the use of economic analysis.

¹⁶ The bill provided a slight differential not exceeding 25 per cent of salaries received by Filipinos.

quite attractively phrased, the bill would have been another occasion to put more constraints on the price structure for labor since its passage into law would have served as an excuse for pressures to raise the salaries of executives currently employed in many foreign companies. This bill, which was fortunately and appropriately vetoed, is in the same category as the minimum wage law. Its ultimate economic objective is increasing the share of labor (hired Filipino management) in a given income.¹⁷ I have argued the economic case against this bill elsewhere.¹⁸ This measure, while certainly well-meaning in intent, discriminated against those seeking employment but favored those already securely holding jobs.

It is perfectly valid to examine whether labor welfare policies have been successful from the standpoint of the operations of government as an "economic enterprise". The biggest gains of unionized labor in the Philippines have been made against the government and its corporations, not in the private sector. The government has suffered the greatest economic loss, more than perhaps the private sector, in strikes. In consequence, the "public" is the residual loser. Strikes have been made in the government corporations -- in the financial institutions like the Develop-

¹⁷That laws should favor Filipinos is an important nationalistic motto and I subscribe to it. Certainly, the great nationalist Jose P. Laurel was correct in saying that "only Filipinos can love the Philippines best". As an economist, I emphasize that certain laws which are presented to us in a nationalistic spirit are oftentimes discriminatory against many of our nationals. I felt in the context of this "anti-discrimination" bill that this was the case.

¹⁸See the Manila Bulletin (June 27, 1968), the Philippines Herald (July 1, 1968), The Economic Monitor or the Manila Times or Chronicle where these arguments were summarized. I also had the chance to further elaborate on these arguments in private correspondence with a senator of the Philippines.

ment Bank of the Philippines, Social Security Systems, Philippine National Bank, National Power Corporation and Government Service & Insurance System, in the Customs stevedoring service in the Port of Manila, and in the Philippine National Railways, with settlements so favorable for organized labor.

Consider the gains made by employees in the strike against the National Power Corporation. This has reduced the capacity of the company to generate more profits which would be used to amortize its debt commitments, which are international in character. Or consider the gains of strikers in the DBP, SSS, and GSIS. These reduce the available loanable funds and, in the case of the last two institutions, the benefits of members in the respective systems.

In the case of the ordinary operations of the government -- national and local -- the problem is much greater. The financial institutions and other relatively autonomously run government corporations have been able to shield themselves from relatively high-cost labor (casual or permanent) because they have more degrees of freedom in managing their economic affairs (very much like private business to some extent anyway). But ordinary branches of governmental services are not able to do this, for obvious political and organizational reasons. Thus, while other government corporations and the private sector have been able to "modernize" operations by substituting more capital-intensive, labor-displacing activities, ordinary government services are not able to do this. The result is that not only have governmental services suffered because "highly paid labor" cannot be displaced by machinery, but also because with a re-

latively high wage bill per employee (including casuals), fewer employees can be hired. The last statement probably does not apply directly to the public works sector, to which we shall turn next. The lesson is that by the sheer impact of the operations of economics, minimum wage welfare legislation in government has hurt governmental services as well as employment-creation within the governmental sector.

Likewise, employment in public works projects has been hurt by minimum wage legislation. It has been, I think, one reason why more heavy equipment is utilized in public works than before. Since the price of labor had gone up, it became more profitable even for the government to utilize heavier machinery to replace labor. Thus, the imposition of a high minimum wage has hurt employment creation in the most obvious area of governmental activity, public works. The same conclusion can be said about the reduction of employment in the private construction industry.

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Policy Implications After the Fact. While we have demonstrated the bad effects of the minimum wage law on employment and development, we are not to be interpreted that the/solution to the problem raised by it is to be found in scrapping it. Once laws are enacted, they are hard to repeal or revise, especially when they raise issues to which politics is clearly sensitive. What should be done is to encourage measures that will help to swamp the unfavorable effects of this form of legislation, which will have far better effects on labor welfare.

If the above paragraphs have any policy implications for the future, it is to bring attention to labor policies which emphasise job

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creation. It is only in the expansion of job opportunities that we can hope to make the welfare gains of labor universal for the labor force. The immediate effects of having a climate of job expansion is to make labor more scarce. This will cause the general wage rate to go up under a situation where almost every one finds gainful employment.

V. NOTES ON THE SOCIAL SECURITY SYSTEM

It is impossible to discuss labor policies without a mention of the social security law, which was implemented in 1957. This is one of the most significant labor laws of the postwar Philippines. The social security law was also suggested by the Bell Mission, but it was passed into law only in 1954. The law sanctioned a payroll tax on employers and workers to finance a system which provides retirement, sickness, disability, death and other benefits for wage earners not employed in the government sector. At the time of its passage, a similar government service insurance system had been already in operation for government workers.

The payroll tax has definitely raised the cost of hiring labor. There were changes in the social security law which increased the shares of employers in the payroll tax. In its current version, the total contribution for every worker to the social security system (SSS) is 16:7 per cent of the total monthly pay.¹⁹ At the lower salary classes (those with monthly earnings of up to P50 per month), the ratio of employer contribution is 5 to 1. For those with monthly earnings under P100 a month,

¹⁹This should be qualified. The pay mentioned here is "monthly salary credit" which is some midpoint between legally determined salary classes. See R.A. 1161, as amended by R.A. 1792 and R.A. 2685.

the contribution ratio between employers and employees is 2 to 1. For all other classes, the ratio of the contribution is 1.4 to 1, giving a slightly higher burden for employers. Workers who are paid the daily minimum wage and who work the regular working days of the month are therefore in the last category.

Many of the effects of the minimum wage law may be also attributed to the social security law. But the latter has important redeeming features which are very desirable from the standpoint of longer run economic and social objectives.

Firstly, the contributions of wage earners to the SSS are worked out to meet financial difficulties and permanent disabilities related to temporary financial stresses and to worker disability. It is a social insurance scheme for workers which is based on actuarial principles.

Secondly, the system is able to generate a forced saving mechanism which has contributed to the availability of investment finance for the economy. Because the payroll contributions to the system constitute a large fund, it is able to mobilize resources from employers and wage earners alike for other activities, including the provision of resources for long run development finance. Thus, the forced savings it is able to collect are able to finance new investment, which of course has some employment-creating effects. In this sense, therefore, it is able to counteract in part its negative effects on employment.