
Bouncing Back to Leaping Forward Towards A Future-Ready Philippines

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Objective of the presentation



TO PROVIDE YOU SOME FOOD FOR THOUGHT on how our country can leap forward towards a future-ready Philippines as regards workers' employment, compensation and human development.

The key messages culled mainly from a recent paper written with Dr. Michael Abrigo for Stratbase entitled, *Issues for the Next Administration's Development Agenda on Human Capital and Labor Markets*.

THE CHALLENGE

To reduce poverty, expand the middle class and keep the country politically stable, the Philippine government must address people's demand for more rapid, inclusive and sustained expansion of gainful jobs, accompanied by rising real wages and benefits.

A defining characteristic of the foreseeable future is the FIRE, the global acceleration in knowledge and its applications that together are expected to radically change the way we live, learn and work.



HOW CAN THE PHILIPPINES MEET THAT CHALLENGE IN THE CONTEXT OF THE FOURTH INDUSTRIAL REVOLUTION (FIRE)?

- * Waves of innovations expected to raise labor productivity, leading to new jobs and destruction, reconfiguration or upgrading of old jobs as AI-driven automation predominates
- * Diminution of unskilled labor demand to a much smaller fraction of total jobs due accelerate automation
- * Need to skill up and broaden the competencies of Filipinos to be able to fully benefit from the FIRE

CORE MESSAGES

1

The need to promote **productivity growth** as the primary tool for achieving rapid, inclusive, and sustainable improvements in workers' well-being

2

The limitations of and need for **tempering over-reliance on government regulations and mandates** as a way to raise workers' compensation in the Philippines; and

3

The critical importance of developing and implementing **effective education reforms** to support faster and sustainable productivity growth, expansion of gainful job opportunities, and increases in labor earnings.

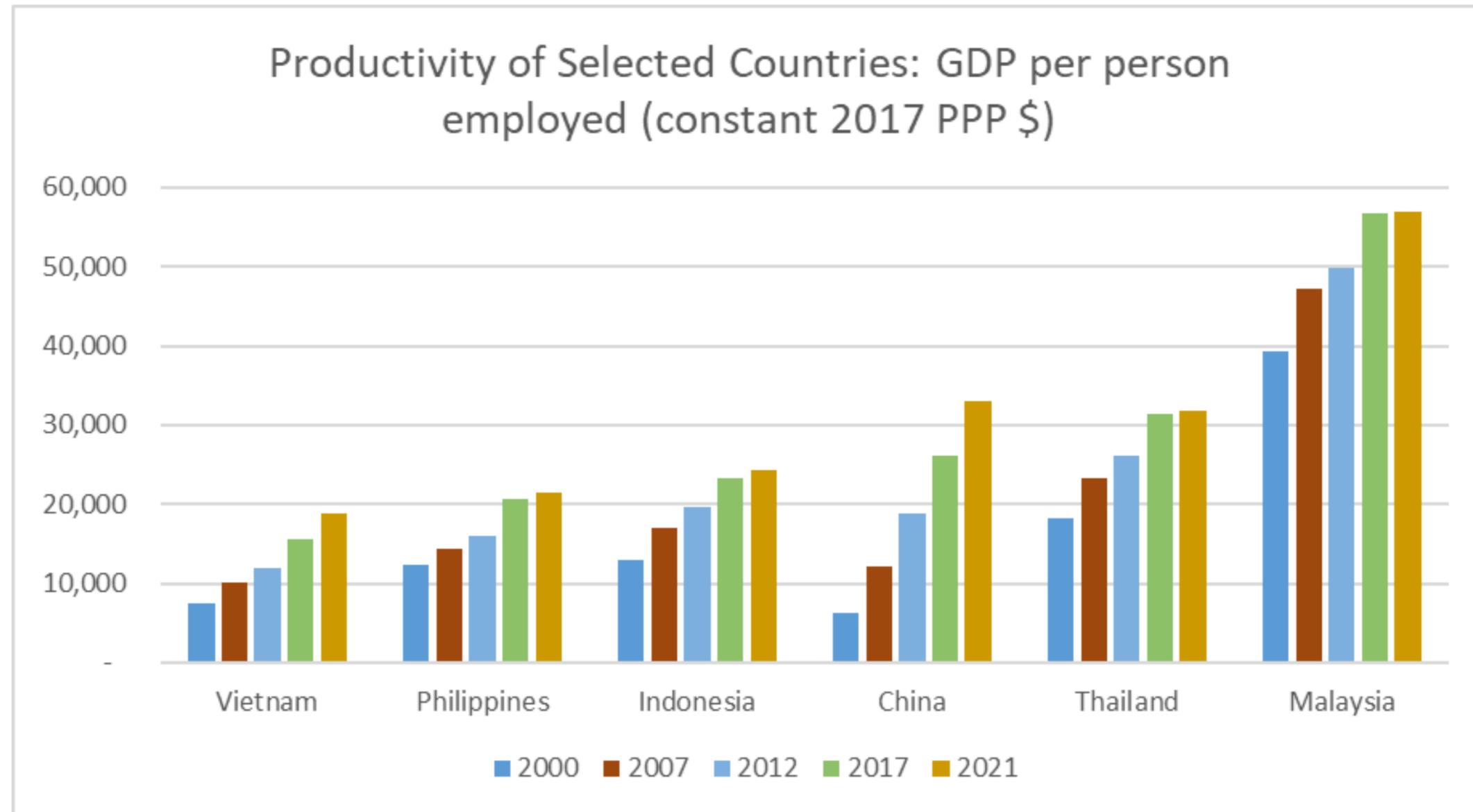
First Message:

Ramping up workers' productivity remains fundamental to our quest for rapid and sustainable achievement of poverty reduction, inclusion and other social objectives

“PRODUCTIVITY ISN'T EVERYTHING, BUT, IN THE LONG RUN, IS ALMOST EVERYTHING.” –KRUGMAN (1994) on the importance of productivity growth

There is huge opportunity for raising workers' productivity in the Philippines.

The Philippines is lagging behind its peers and competitors in regard average worker productivity (GDP/workers).



Source of data: World Development Indicators

Second Message:

There are serious limitations on the effectiveness of government mandates and regulations for achieving sustained expansion of high paying jobs and worker benefits.

CONTEXT

- PH labor sector has been predominantly focused on labor laws and regulations to protect and promote workers' well-being
 - By tightly regulating wages, benefits, security of job tenure, other employment conditions
- Less focus is given on fighting for education and training improvements to raise labor productivity and employability are not done so much
- Government labor regulations, if overdone, could backfire on workers by making it too costly for firms to employ and re-deploy workers as needed to survive and flourish in a highly competitive and rapidly changing global environment that is increasingly driven by automation

Second Message:

There are serious limitations on the effectiveness of government mandates and regulations for achieving sustained expansion of high paying jobs and worker benefits.

Data suggest that over-reliance on traditional employment protection laws/regulations can unintentionally produce counter-productive consequences on workers' well-being.

Relative to other countries the Philippine labor market is now less flexible, more costly and, therefore, less efficient than regional and aspiration peers and competitors due to restrictive labor laws and regulations.

Philippine labor markets: high labor cost, inflexible, inefficient due to restrictive laws and regulations

Country	Labor market efficiency score ^a	Rank in labor market efficiency (out of 144)	Selected components (1-7)			Ratio of min. wage to ave. value-added per worker ^b
			Hiring and firing practices	Redundancy costs, weeks of salary	Flexibility in wage determination	
Singapore	5.7	2	5.4	3.0	6.0	
Malaysia	4.8	19	4.9	23.9	5.5	0.23
China	4.6	37	4.6	27.4	4.8	0.33
Vietnam	4.4	49	3.9	24.6	5.1	0.60
Thailand	4.2	66	4.4	36.0	4.3	0.41
Philippines	4.0	91	3.4	27.4	4.8	0.69
Indonesia	3.8	110	4.3	57.8	4.4	0.55

a/ Score of 1 means heavily impeded by regulations, 7 means extremely flexible; b/ means no minimum wage.
Source: World Bank (2016)

Second Message:

There are serious limitations on the effectiveness of government mandates and regulations for achieving sustained expansion of high paying jobs and worker benefits.

- Philippines increases in LMW has had adverse counter-productive impact on workers' employment, hours of work and poverty status of households.
- LMW impacts adversely particularly disadvantaged groups – the women, young, inexperienced and less educated.
- Those increases in LMW had also negatively impacted the employment demands of small and medium scale businesses.
- Interestingly, however, higher LMW tended to have a positive correlation with employment demand of big companies.

Effects of legal minimum wage (LMW) increases

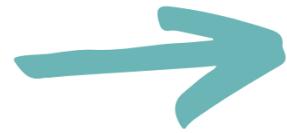
LMW Impact On	Direction of Impact
Employment rate (Lanzona 2014)	
All	Negative
Women	Negative
Young	Negative
Less educated	Negative
Hours of work of employed (Canales 2014)	Negative
Household poverty prevalence rate (Paqueo et al 2014)	Positive
Employment of enterprises (Lanzona 2024)	
Small scale	Negative
Large scale	Positive

Source: Paqueo, Orbeta and Lanzona
(2017)

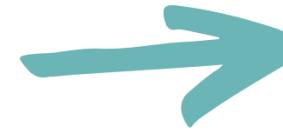
Third Message:

To be future-ready, and to achieve sustained and rapid productivity growth, the Philippines needs to ramp up its children's ability to learn and build up their cognitive competencies and socioemotional skills.

So workers can meet the requirements of future jobs, support the ability of Philippine enterprises to innovate and, as a result, increase their productivity and profitability.



So workers can earn higher wages and enjoy better benefits and working conditions.



And so they can move more opportunely from one job to the next, as jobs are being destroyed, re-configured and created with the accelerating unfolding of the FIRE.

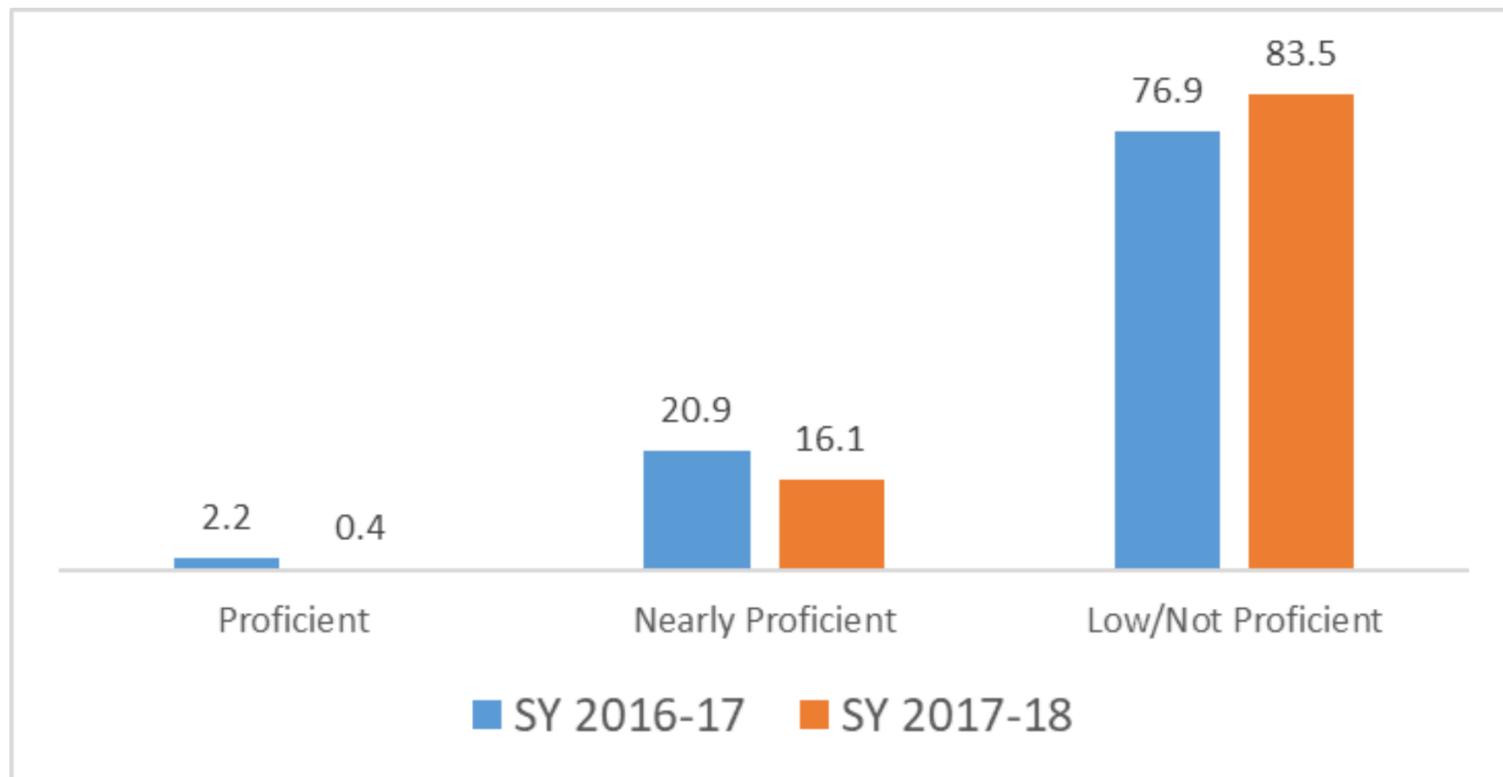
- Education is one of the most important tools for achieving sustained productivity growth and inclusivity objectives.
- There are educational and other human development challenges, however, that need to be more effectively addressed now to get our young to be future-ready.
- Specifically, it is critical for the Philippines to immediately get children's to learn what they are supposed to learn before it becomes too difficult for them to learn the competencies needed for future work.

Third Message:

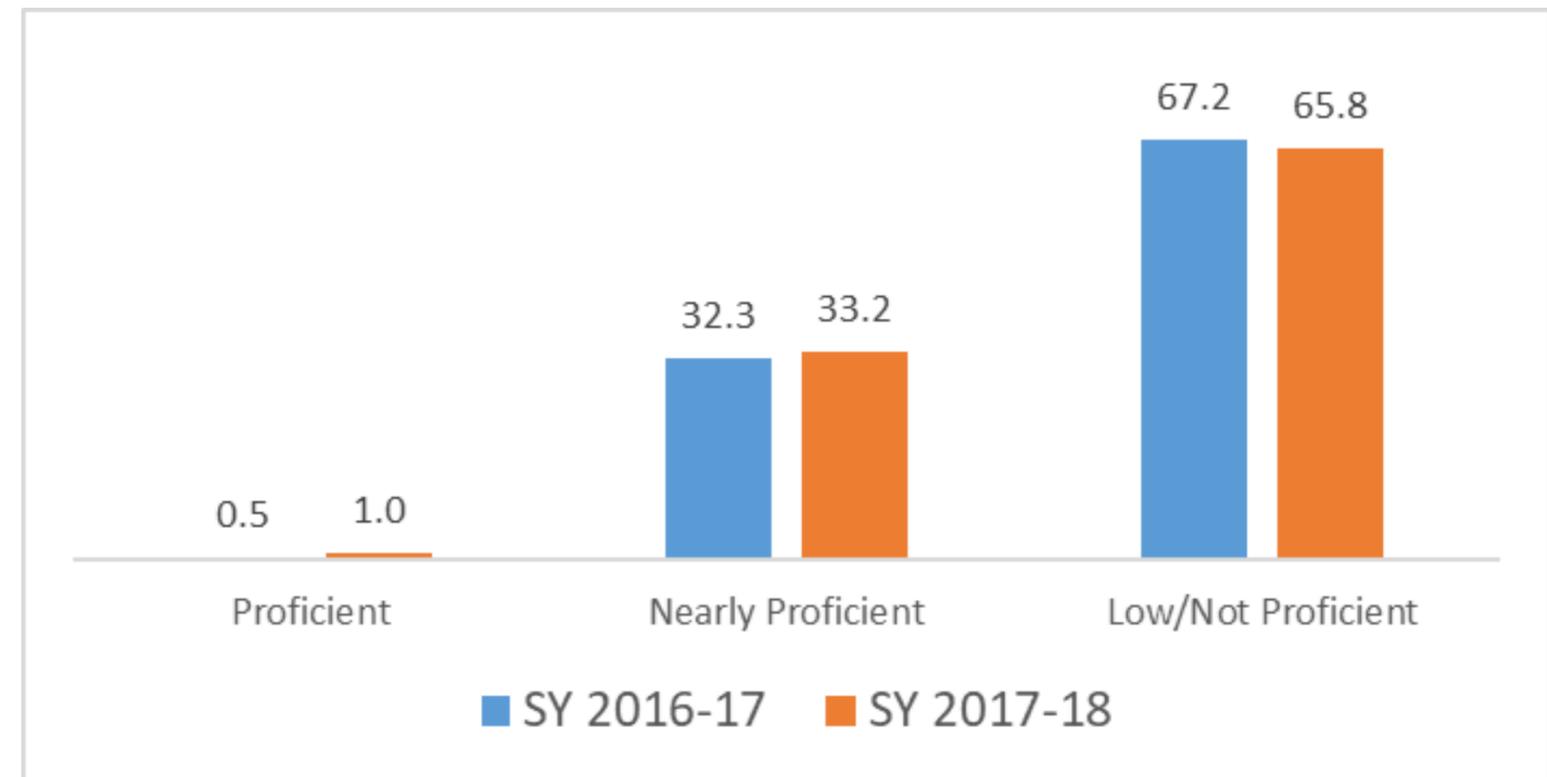
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- It is tragic that as shown below student learning achievement is low relative to minimum local and international standards.
- And to make matter worse, student learning has not improved much over time despite increases in teachers' remuneration and government efforts to reform its education system.

**Percentage of Grade 6 students by Level of Proficiency
(All subjects, NAT SY 2016-17 and SY 2017-18)**



**Percentage of Grade 10 students by Level of Proficiency
(All subjects, NAT SY 2016-17 and SY 2017-18)**

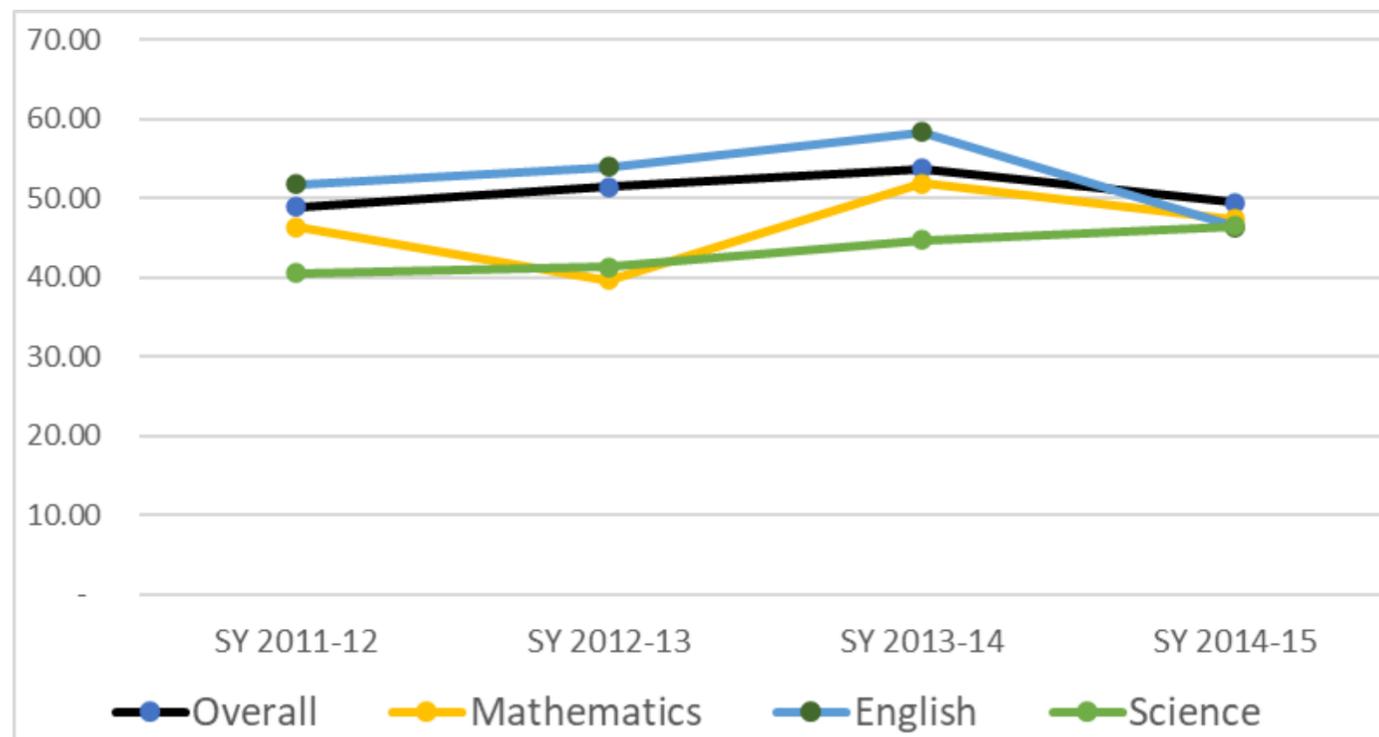


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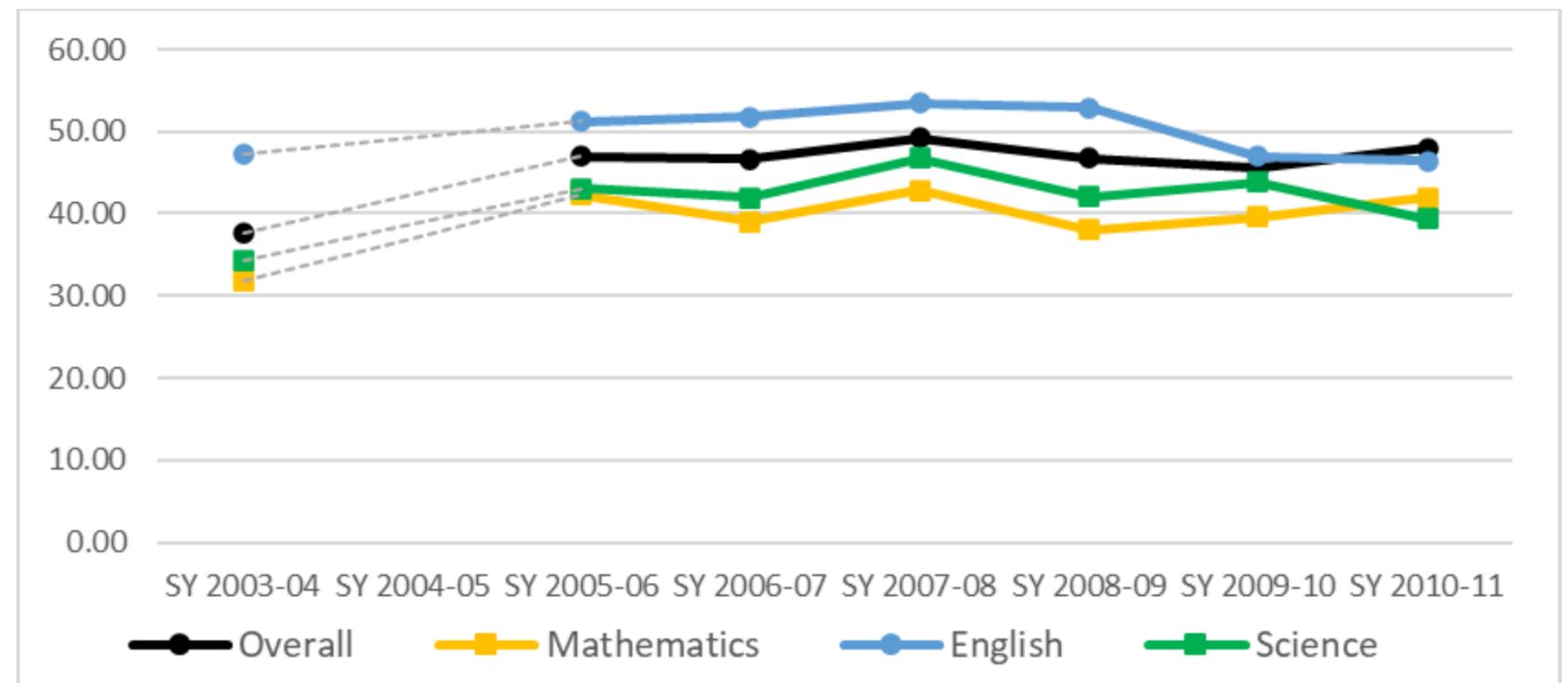
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- Philippine education system appears to have been trapped in a low-level equilibrium in regard student learning

**NAT Scores of Grade 10 Students,
SY 2011-12 to SY 2014-15**



**NAT Scores of Grade 8 Students, SY 2003-04,
and SY 2005-06 to SY 2014-15**

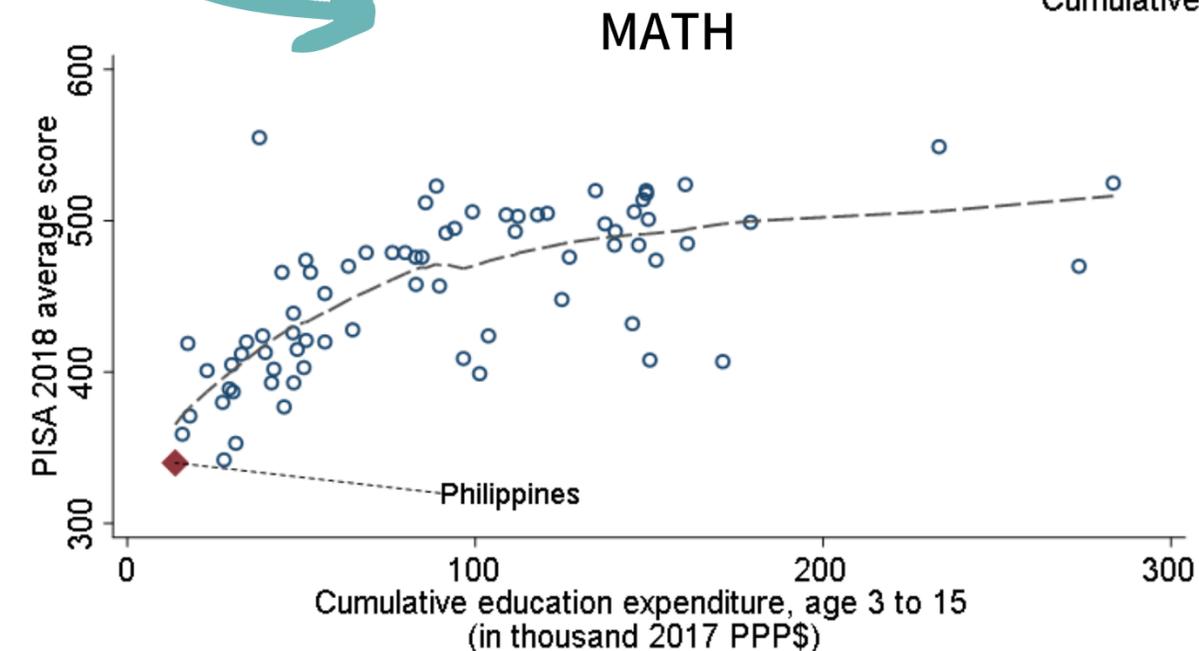
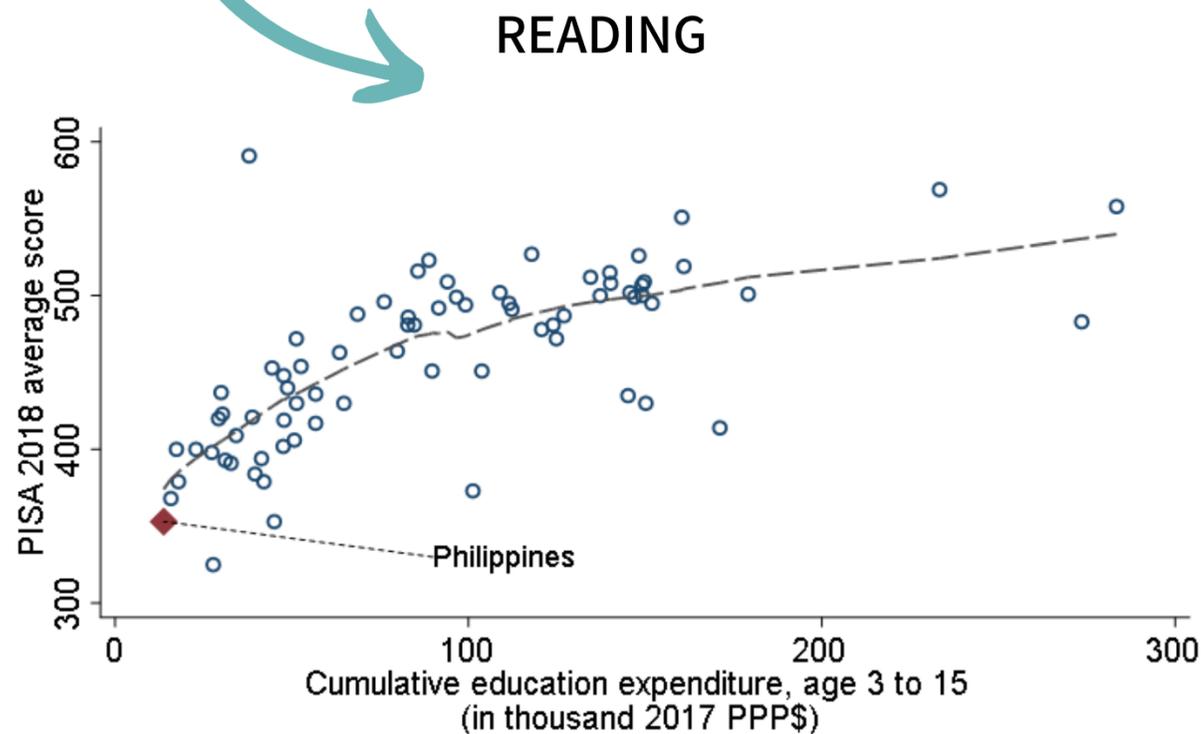


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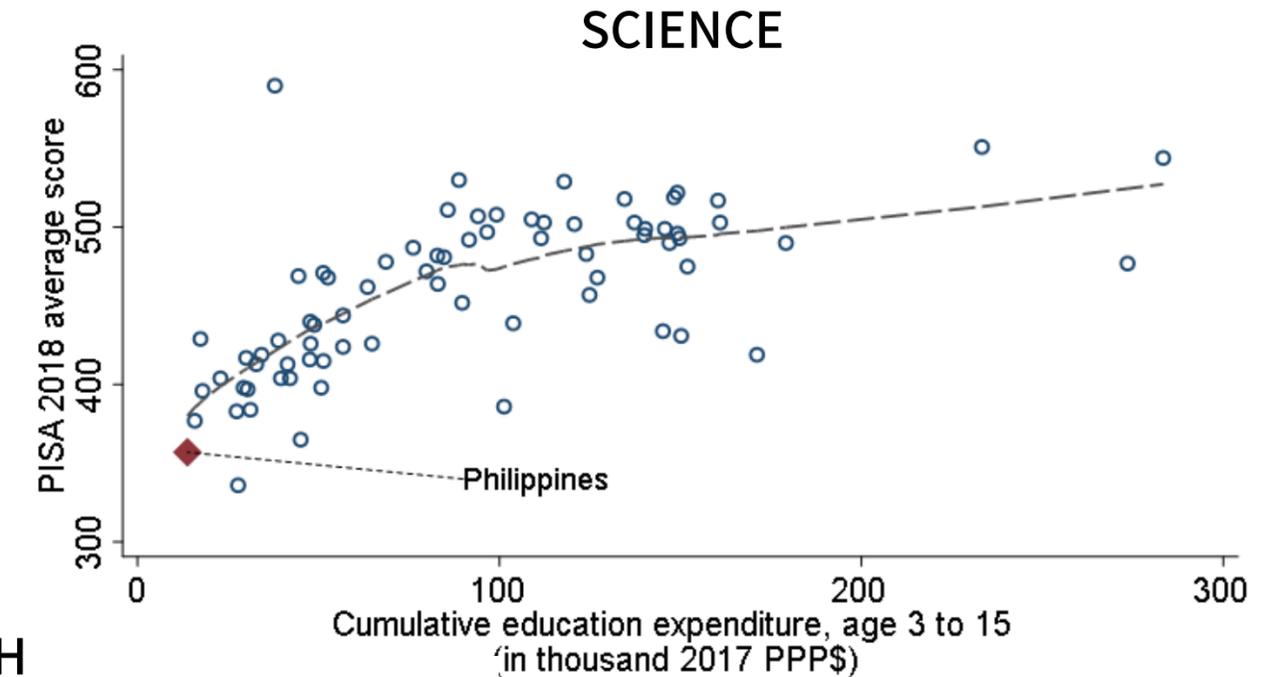
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CAUSES OF LOW STUDENT LEARNING ACHIEVEMENT

1. Government's overwhelming focus on the "massification of education access"
2. Low level of education spending per person.



Education quality and cumulative basic education consumption



Source: Author's [Abrigo] calculations based on recent NTA data from www.ntaccounts.org, and OECD (2019).

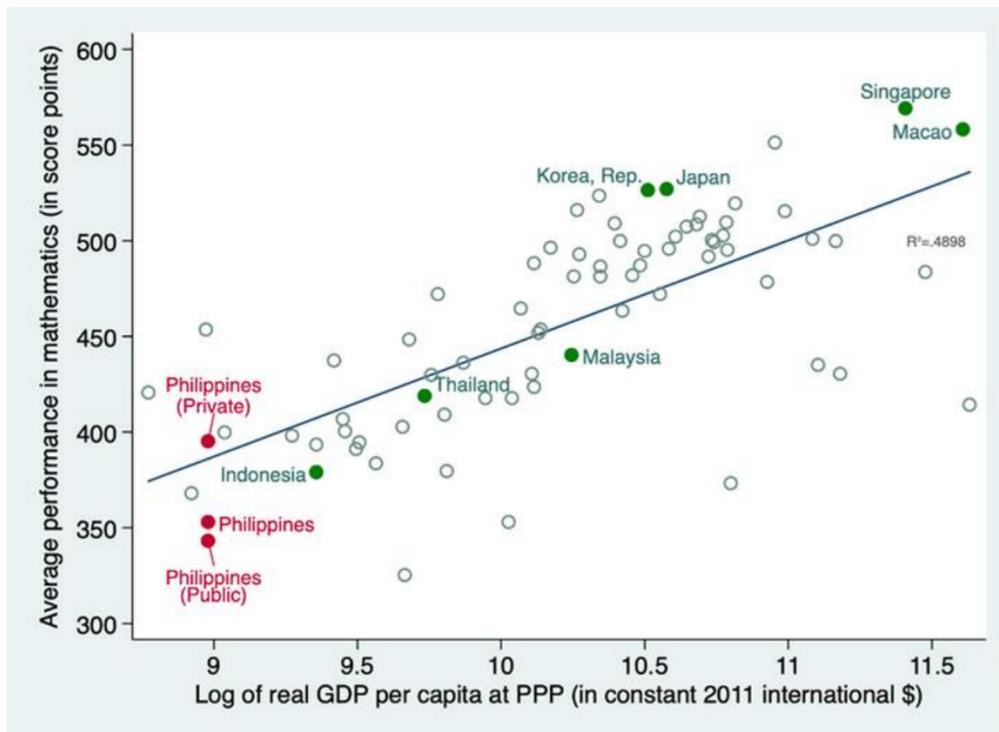
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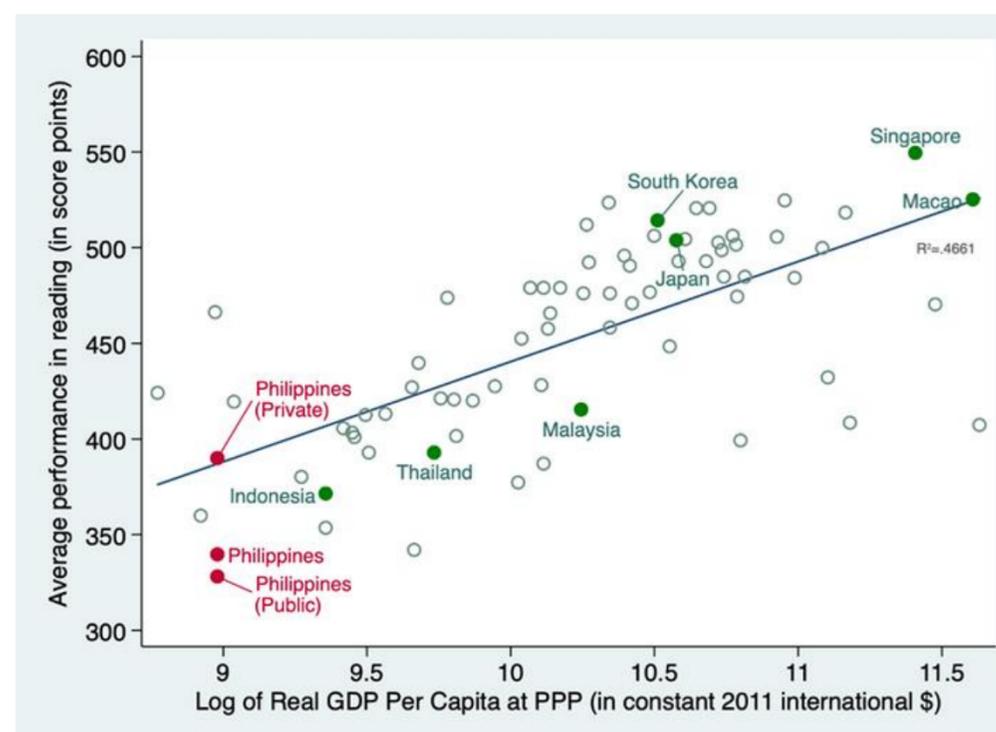
CAUSES OF LOW STUDENT LEARNING ACHIEVEMENT

3. Inefficient use of ed inputs by public schools (eg: data on pub-priv ed cost & use effectiveness)
4. Weak public school motivation and incentives to ensure students meet proficiency standards
5. Marginalization of private schools and failure to fully benefit from the comparative advantages of delivering education through private schools (declining enrollment share).

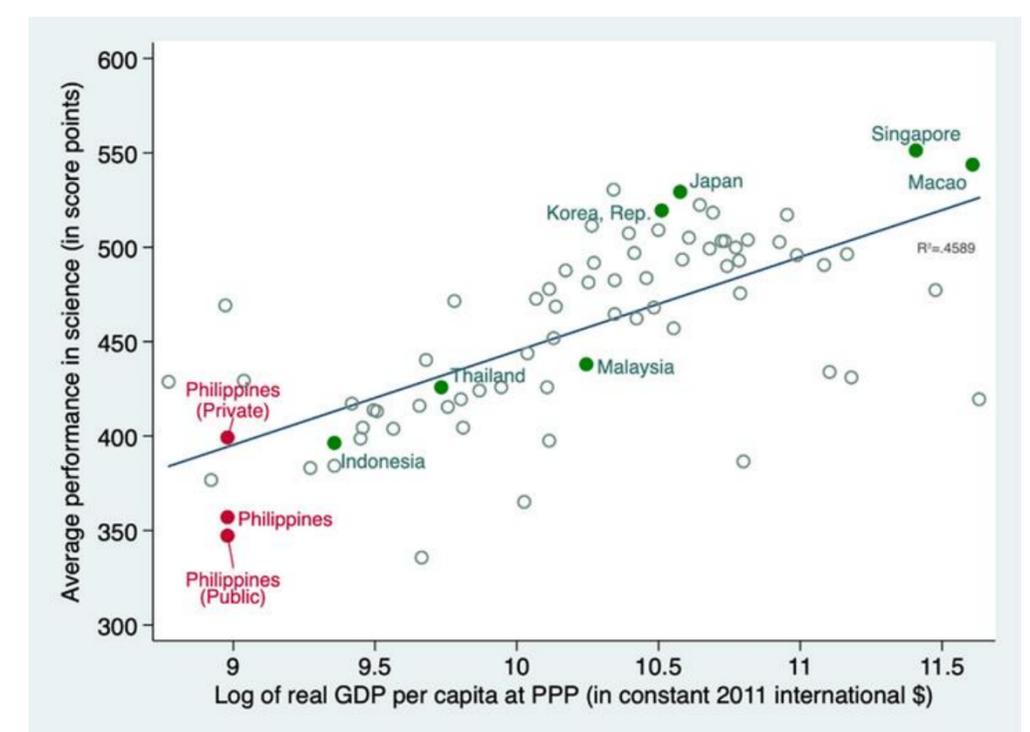
PISA 2018 Performance in Math



PISA 2018 Performance in Reading



PISA 2018 Performance in Science



Third Message:

To be future-ready, and to achieve sustained and rapid productivity growth, the Philippines needs to ramp up its children's ability to learn and build up their cognitive competencies and socioemotional skills.

RECOMMENDATIONS

1

Re-calibrate government education priority towards ensuring that students actually learn what they are supposed to learn in schools

2

Improve student learning through more effective and efficient use of available education resources

- Strengthen and expand the current government subsidized Vouchers Programs enabling students to go to eligible schools of the choice
- Establish clear standards for determining per student subsidy based on realistic cost function

3

Increase budget for education

- Marginal productivity of education spending is high wrt student learning.
- Education rates of return (private & social) are high

4

Promote public schools' drive for higher student learning by addressing information failure, weak accountability and perverse incentive structure (e.g. failing students imposes costs on the teacher (e.g. loss of vacation & family time)

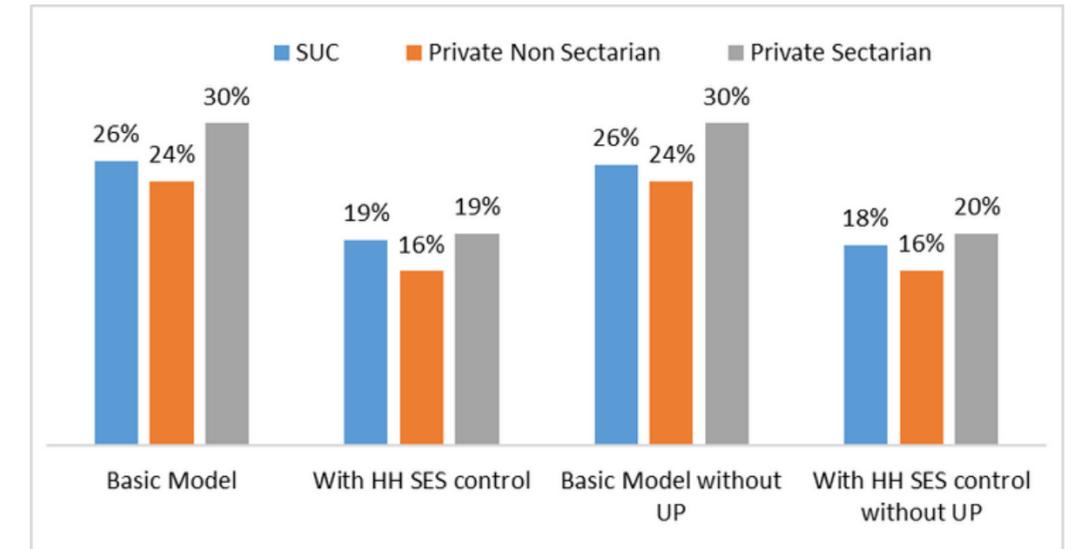
5

Foster adequate and cost-effective use of affordable education technology and distance learning

6

Invest in the promotion of a growth, mindset, culture of evidence-based learning, disciplinary environment (e.g. bullying) and parental socioemotion support,

Annualized rates of return on wages by type of HEI, 2013



Source: Basic data from APIS 2013 (PSA, 2013).
Reprinted from Paqueo, Orbeta and King (2019)

CONCLUDING REMARKS:

Some concerns that need to be addressed

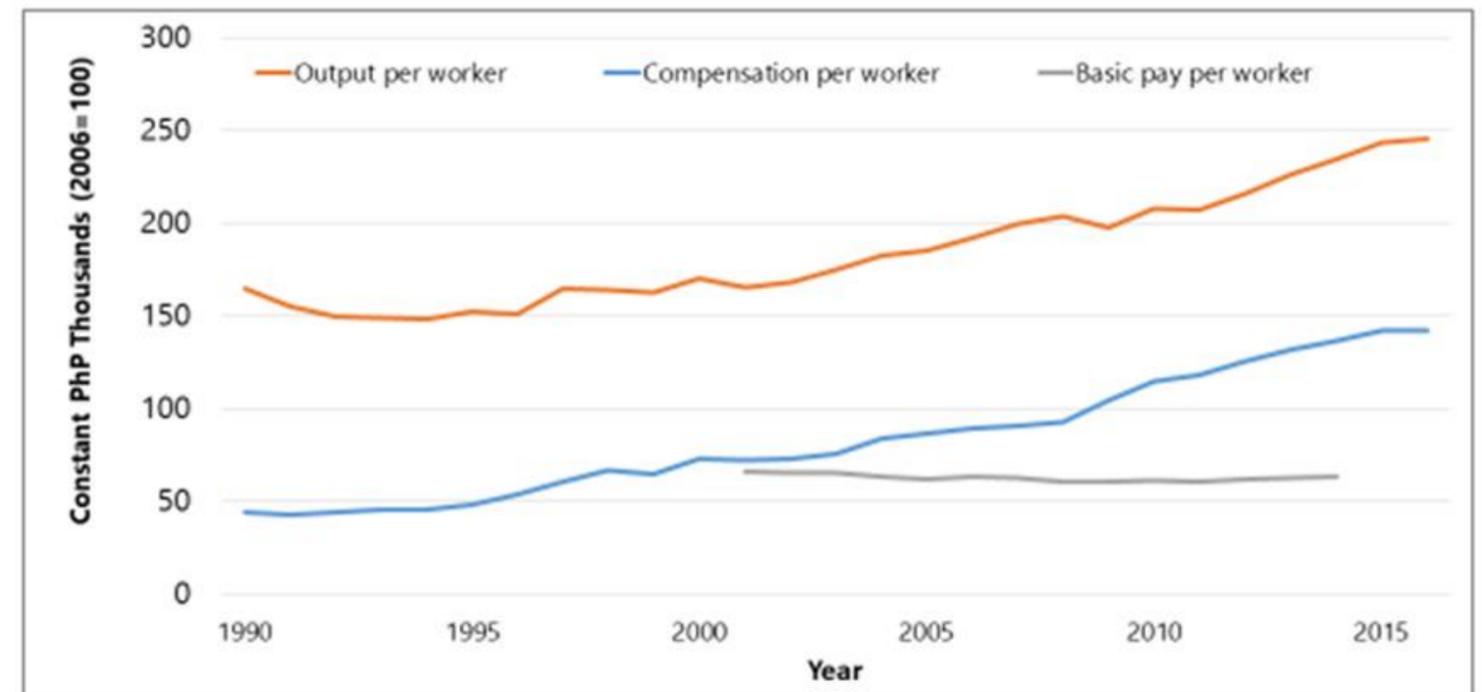
— First concern

* Concern has been raised that in the Philippines increased labor productivity does not translate into higher earnings for workers; therefore, it is argued more government interventions are needed.

* The evidence is faulty: the real wage indicator used covers only daily basic wages and does not include workers' benefits and other types of compensation

* Using a more comprehensive measure of worker compensation that include benefits and other compensations, one finds that compensation per worker rises in parallel (more or less) with GDP per worker

Labor productivity (LP) rises with compensation per worker (wage + benefits) as expected and contrary to anti-capitalist critique



Source: Paqueo and Abrigo (2019), based on PSA, National Income Accounts and PSA/DOLE-BLES, Yearbook of Labor Statistics

CONCLUDING REMARKS:

Some concerns that need to be addressed

— Second concern

- * There is also concern that improving student learning will not significantly benefit workers, unless government create more gainful jobs opportunities for the school graduates to get employed and be able to use their acquired competencies
- * The effect of producing more and better educated workers, it is argued, would simply increase the ranks of the educated unemployed and underemployed workers.
- * The counter-argument is that greater availability of better educated and more trainable workers would likely reduce the cost of hiring more skilled workers. Such cost reduction could motivate enterprises to expand their production, creating more job opportunities that would lead to more hiring of better educated workers.
- * Nonetheless, it is likely true that improving education alone will not be sufficient to meet the country's immediate and future challenges. This has to be accompanied by other complementary measures to maximize societal well-being. These include, for example:
 - More robust implementation of infrastructure development and foreign/domestic investment policies/programs
 - Modernization of the labor code and strengthening of social protection and nutrition interventions to reduce child stuntingOur Stratabase paper, therefore, suggests the formulation of a social contract that packages education, labor and other complementary development programs within a process of give-and-take negotiations among relevant stakeholders .

Thank you for your attention

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