Wage, voice, exit, and public policy: a study on the mobility of labor in the Philippines

by Jonathan P. Sale, DPA

1. INTRODUCTION

What influences the mobility of labor in the Philippines?

The question assumes significance because Article XIII, Section 3 of the Philippine constitution requires the State to give full protection to labor, local and overseas, organized and unorganized, and promote full employment and equality of employment opportunities for all. The same constitutional provision requires the State to ensure the rights of all workers to self-organization, collective bargaining and negotiations, security of tenure, a living wage, among others.

Minimum wage fixing in the country is regional, owing to public policy that recognizes the existence of disparities among regions. Minimum wage rates could be raised in rural areas to decongest urban areas or stem the tide of rural-urban migration. Minimum wage rates may also be adjusted to induce industries to invest in the countryside. And government regulates overseas employment of Filipinos.

This paper takes a closer look at the dynamics of labor mobility and the interactions among wage, voice, exit, and public policy. Is public policy influencing the outcomes? Aggregate data over time, and across regions and sectors, are analyzed to determine the impact of public policy, if any.

2. LITERATURE REVIEW

There are models of firm or enterprise mobility.

In the Philippines, it has been observed that: (i) enterprises are fully mobile and will move to the community where their set preference patterns are best satisfied; (ii) enterprises have full knowledge of differences among revenue and expenditure patterns (e.g., labor productivity, wage and underemployment rates) and react to these differences; (iii) a large number of communities exist (i.e., the country has 17 regions) in which enterprises (small or bigger) may choose to operate; and (iv) typically, bigger enterprises choose to operate in the National Capital Region (NCR) while small enterprises choose to operate outside the NCR because of certain factors (public goods). Thus, an enterprise may be viewed as picking that community which best satisfies its preference pattern for public goods (Tiebout 1956), which is made possible

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by the number of communities (regions) and the variance or variability among them.\textsuperscript{2} Enterprises move to the jurisdiction that provides the most effective regulation in terms of the firm’s business model, which is referred to as regulatory competition (Smith-Bozek 2007).\textsuperscript{3}

There are also models of labor mobility.

Kochan (1980) combines the voluntary turnover model of James March and Herbert Simon and the exit, voice and loyalty framework of Albert Hirschman.\textsuperscript{4} Voluntary turnover is influenced by “ease of leaving” and “desirability of leaving.” It is easier to leave one’s current place of work if employment opportunities or conditions outside are better or superior. The desirability of leaving is a function of existing work conditions. Poor work conditions would create dissatisfaction and fuel the desire to leave or “exit.” But a worker might opt for “voice” instead of “exit” if there are existing mechanisms that enable him or her to “voice out” concerns and shape or improve terms and conditions of work at the present workplace. In this sense, unions and collective bargaining are voice mechanisms. The presence or absence of voice mechanisms bear upon the “desirability of leaving.” The presence or absence of voice mechanisms can also affect “ease of leaving.” If voice mechanisms raise wages and benefits to a level higher than that prevailing outside the present workplace, it might not be that easy for the worker to leave the present workplace. And these can be modified by loyalty, according to Hirschman.\textsuperscript{5} Rusbult, et al. add neglect as a possible basis for not leaving.\textsuperscript{6} These are to be distinguished from involuntary turnover due to blameworthy acts, business or health reasons.

But what appears to be voluntary “exit” may actually be involuntary.

“Movement may be definitionally ‘voluntary’ but in reality the decision to move is made within a context where the individual or group is faced with no alternative since staying \textit{in situ} is not a realistic option (e.g. moving because of extreme poverty, environmental hazards). Migration may be ‘voluntary’ but the labour could be forced: ‘choosing’ to move, is not necessarily evidence of the free and equal nature of the labour relations migrants subsequently enter into.”\textsuperscript{7}

\textsuperscript{2}Id.
\textsuperscript{3}Id.
Thus, public policy plays a key role as an institution in the labor market. Institutions do matter.  

For instance, Republic Act 8042 – the Migrant Workers and Overseas Filipinos Act of 1995 – was passed by the Philippine Congress after the conviction and execution of overseas Filipino worker Flor Contemplacion in Singapore. Aside from instituting policies of overseas employment, the law established a higher standard of protection and promotion of the welfare of migrant workers, their families and overseas Filipinos in distress. The law enlarged the meaning of illegal recruitment and increased the penalties therefor. But the law also provided for deregulation and phase-out, that is, the Department of Labor and Employment (DoLE) was required to phase out the regulatory functions of the Philippine Overseas Employment Administration (POEA) within a period of five (5) years from its effectivity. In 2006, the deregulation and phase-out provisions of Republic Act 8042 were repealed by Republic Act 9422. Republic Act 9422 instead strengthened the regulatory functions of the POEA over recruitment and placement activities. And in 2009, Republic Act 10022 was enacted to further improve the standard of protection and promotion of the welfare of migrant workers, their families and overseas Filipinos in distress.

Ofreneo (2008) argues that the lack of uniform, regional rules or standards governing entry, deployment and national treatment of migrant workers within the ASEAN has given rise to confusions, conflicts and abuses, leading to a “race to the bottom.”

“Race to the bottom,” a phrase attributed to US Supreme Court Justice Louis Brandeis, refers to a situation where nations reduce regulatory measures to attract business – the race is not of diligence but of laxity. Regulatory measures, while intended to protect the vulnerable, can be costly, and the costs of doing business are uneven across nations. The unevenness is deemed a comparative advantage. Others call this regulatory competition or competitive governance.

Philippine public policy on minimum wages and productivity is an example. “The enactment in 1989 of Republic Act No. 6727, otherwise known as the Wage

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9 REPUBLIC ACT 8042.
10 REPUBLIC ACT 8042, Sec. 29 and Sec. 30.
11 REPUBLIC ACT 9422.
12 REPUBLIC ACT 10022.
Rationalization Act, regionalized minimum wage fixing. Regional Tripartite Wages and Productivity Boards were created in every region of the country. Under the law, the Boards are empowered to determine and fix minimum wage rates applicable in their region, provinces or industries therein, and to issue the corresponding wage orders, subject to the guidelines of the National Wages and Productivity Commission. The Commission formulates wage policies and guidelines, reviews regional wage levels set by the Boards, and exercises technical and administrative supervision over the Boards. The Boards and the Commission are tripartite in structure and process, that is, the three leading actors in the labor market are represented and involved in the process. Varying in each region of the country are controlling factors like the cost of living; supply and demand for basic goods, services and necessities; and the purchasing power of the peso. Wages in some areas may be increased in order to prevent migration to the National Capital Region and, hence, decongest the metropolis. Other regional disparities, e.g., inflation rate and consumer price index, are taken into account. Among the factors considered by the Boards are the need to induce industries to invest in the countryside and fair return on the capital invested and capacity to pay of employers. Retail/service establishments regularly employing not more than 10 workers may be exempted from the applicability of the law upon application with and as determined by the Boards based on rules issued by the Commission. But productivity is an equally important mandate of the Boards and the Commission. Labor productivity is the ratio of gross domestic product to total employment (national estimate) or the ratio of gross value added to industry employment (industry estimate). In this sense, minimum wages and productivity are aspects of competitive governance. (Sale and Bool 2012)

Republic Act 7916, the Special Economic Zone Act of 1995, as amended is another pertinent public policy. Among the purposes of the law is to generate employment opportunities and establish backward and forward linkages among industries in and around the economic zones. Pursuant to this law, over 260 operating economic zones have been established in the Philippines, 65 of which are manufacturing economic zones. Under the law, special economic zones refer to selected areas with highly developed, or which have the potential to be developed into, agri-industrial, industrial, tourist, recreational, commercial, banking, investment and financial centers whose metes and bounds are fixed or delimited by Presidential Proclamations. This public policy promotes development in and around the economic zones only.

17 LABOR CODE, art. 122.
18 LABOR CODE, art. 121.
21 LABOR CODE, art. 124 (e) and (h).
22 REPUBLIC ACT NO. 6727, sec. 4 (c).
24 REPUBLIC ACT 7916, Sec. 3 (c).
26 Implementing Rules and Regulations of REPUBLIC ACT 7916, Part I, Rule 1, Sec. 2 (f).
Ultimately, push and pull factors have to be identified. There are factors associated with the area of origin (push), and there are factors associated with the area of destination (pull).\textsuperscript{27}

Thus, the lack of jobs and voice, low wages and poverty in an area (region) may be push or exit factors for workers. Job and voice opportunities as well as higher wages in another area (region) could be pull or entry factors. The movement may be involuntary as when workers prefer to stay but staying is not really a choice due to job loss or scarcity and poverty, triggered by the movement of capital and firms which in turn could be induced by public policy (regulatory competition or competitive governance). In such a situation, workers are systematically deprived of their control of the job as Braverman argues.\textsuperscript{28}

3. METHODS

What influences labor mobility? Is there a relationship among workers' wage, voice, exit, and the governing public policy? Is public policy influencing the outcomes? This research explores these by analyzing recent quantitative, aggregate data from the Philippine Bureau of Labor and Employment Statistics (BLES), Department of Labor and Employment (DoLE) and National Statistical Coordination Board (NSCB) on average and minimum wages, family income, trade union density, collective bargaining coverage, small and bigger enterprises, unemployment and underemployment, poverty incidence, labor productivity, household population 15 years old and over, labor force, number and remittances of overseas Filipino workers, among others, and determining their correlational relationship,\textsuperscript{29} if any. Data are analyzed via charts, i.e., column (for data across regions), pie (for data by major industry group) and line (for data over time), percentages, ratios and proportions. Since the study involves aggregate data, it does not establish characteristics of individual factors within the data.


\textsuperscript{29} A correlational relationship means that two things or variables perform in a synchronized manner. For example, when inflation is high, unemployment also tends to be high and when inflation is low, unemployment also tends to be low. The two variables are correlated; but that does not mean that one causes the other. In a positive relationship, high values on one variable are associated with high values on the other and low values on one are associated with low values on the other. A negative or inverse relationship implies that high values on one variable are associated with low values on the other. (Trochim, William. The Research Methods Knowledge Base 2e. http://www.atomicpublishing.com.) See Sale, Jonathan P. (2011). The Governance of Decision Making and Labor Dispute Settlement in the Philippines: Shifting Methods from Command to Collaboration or Vice-Versa? Doctoral Dissertation, UP National College of Public Administration and Governance, 08 March 2011. See also Sale, Jonathan P. (2008). Labor Market Institutions and Political Development in the Philippines: Trends, Patterns and Directions. TUCP Professorial Chair Lecture. July 2008. UP-SOLAIR Auditorium.
4. RESULTS AND DISCUSSION

In Figures 1 to 11 and 14 to 16, values in the x-axis represent the 17 regions of the Philippines –

1 – National Capital Region
2 – Cordillera Administrative Region
3 – Ilocos Region
4 – Cagayan Valley
5 – Central Luzon
6 – CALABARZON
7 – MIMAROPA
8 – Bicol Region
9 – Western Visayas
10 – Central Visayas
11 – Eastern Visayas
12 – Zamboanga Peninsula
13 – Northern Mindanao
14 – Davao Region
15 – SOCCSKSARGEN
16 – Caraga
17 – Autonomous Region in Muslim Mindanao

Minimum wage rates, average daily basic pay, average family income, membership in existing unions, workers covered by collective bargaining agreements (CBAs), and labor productivity are higher in the NCR, CALABARZON (Cavite, Laguna, Batangas, Rizal, and Quezon) and Central Luzon than most other regions. (Figures 1 to 5)

![Fig. 1. Minimum Wage Rates](image-url)
Average Daily Basic Pay July 2011

Fig. 2. Average daily basic pay
Source: This study, based on data from BLES, DoLE.

Average Family Income

Fig. 3. Average family income
Source: This study, based on data from BLES, DoLE.
Household population 15 years old and over and labor force are also higher in these three (3) regions. Migration flows to these 3 regions can be determined from the greater increases over time in household population 15 years old and over and labor force in these regions in relation to most other regions. (Figures 6 to 7)
Fig. 6. Household population 15 years and over
Source: This study, based on data from BLES, DoLE.
This means that workers tend to flock to these areas (regions).

Small and bigger enterprises tend to locate their operations as well in these regions, and such mobility is influenced by regulatory competition or competitive governance, as previously discussed. (Figure 8) These are beyond the control of workers.
Poverty incidence is higher outside these 3 regions, which suggests that poverty is an exit or push factor. (Figure 9)

However, unemployment is higher in these 3 regions (Figure 10). On the other hand, underemployment in the 3 regions is not that high compared with other regions (Figure
But underemployment is a measure of the severity of the lack of jobs, i.e., instead of open unemployment workers opt for low-productivity, low-paying jobs (Sale and Bool 2012). Lower underemployment (together with higher wages and labor productivity) in the 3 regions seems to be an entry or pull factor for small and bigger enterprises (See Figure 8).

Fig. 10. Unemployment
Source: This study, based on data from BLES, DoLE.

Fig. 11. Underemployment
Source: This study, based on data from BLES, DoLE.
Across sectors and over time, workers have been moving from agriculture to services. Workers in manufacturing and industry have decreased. (Table 1) The movement of workers from agriculture to services is influenced by the higher non-agriculture minimum wage rates across regions, as may be gleaned from Figure 1.

Table 1. Employed Persons by Major Industry Group (In percent)

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<tbody>
<tr>
<td>Agriculture</td>
<td>53.7</td>
<td>53.5</td>
<td>51.4</td>
<td>49.0</td>
<td>44.9</td>
<td>45.7</td>
<td>44.1</td>
<td>39.9</td>
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<tr>
<td>Industry</td>
<td>16.5</td>
<td>15.2</td>
<td>15.5</td>
<td>14.2</td>
<td>15.4</td>
<td>15.6</td>
<td>15.6</td>
<td>15.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.9</td>
<td>11.4</td>
<td>11.0</td>
<td>9.7</td>
<td>10.1</td>
<td>10.1</td>
<td>10.2</td>
<td>9.6</td>
</tr>
<tr>
<td>Services</td>
<td>28.2</td>
<td>31.0</td>
<td>33.0</td>
<td>36.8</td>
<td>39.6</td>
<td>38.7</td>
<td>40.2</td>
<td>44.4</td>
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Source: Congress of the Philippines (2001).30

Recent data suggest that the pattern is continuing.

“About 52% of employed persons are in services, 33% in agriculture and 15% in industry. Industry includes manufacturing which employs only about 8%.” (Sale 2012A) (Figures 12 and 13)

Fig. 12. Employed persons by major industry group (2010)
Source: Sale (2012A), based on data from BLES, DoLE.

As already noted, there are only 65 manufacturing economic zones in the country.

“Across regions, CALABARZON has the highest number of manufacturing economic zones (30), followed by Central Luzon (10), Central Visayas (7), and the National Capital Region (6).” (Sale 2012B)  (Figure 14)  But household population 15 years old and over, labor force and unemployment are also highest in CALABARZON, Central Luzon and NCR, as already mentioned.
In terms of exit from the country, the NSCB reported that the number of overseas Filipino workers (OFWs) was 2 million in 2008, 1.91 million in 2009 and 2.04 million in 2010.\textsuperscript{31} The 3 biggest work destination countries of OFWs were Saudi Arabia, United Arab Emirates and Malaysia during the same period.\textsuperscript{32} Most employment opportunities for OFWs are provided by these countries. These are indicated by OFW remittances in 2010 which are entry or pull factors: Saudi Arabia (US$1,544,343,000); United Arab Emirates (US$775,237,000); and Malaysia (US$95,633,000).\textsuperscript{33} Interestingly, the most number of OFWs came from 3 regions – CALABARZON, Central Luzon and NCR – where unemployment is higher compared to other regions of the Philippines. (Figure 15, in relation to Figure 10) Unemployment is an exit or push factor for OFWs.

\textbf{Fig. 15. OFWs by region}

Source: This study, based on data from BLES, DoLE.


\textsuperscript{32} Id.

In terms of sex ratio, i.e., the number of male OFWs over the number of female OFWs, these 3 regions plus Central Luzon exceed the 1.5 level, which means a lot more men than women from these regions leave for work outside the Philippines. (Figure 16)

**Fig. 16. Sex ratio A**
Sources: This study, based on data from NSCB.

In terms of major occupation group of OFWs, the top five (5) are laborers and unskilled workers, service workers and shop and market sales workers, trades and related workers, plant and machine operators and assemblers, and professionals, in that order. (Figure 17) Laborers and unskilled workers outnumber the rest of OFWs by more than 100%, which suggests that lack of skills is an exit or push factor.

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As to their sex ratio, a lot more women than men from the biggest occupation group – laborers and unskilled workers – leave the country for work. (Figure 18) This suggests that more women comprise this occupation group.

**Sex ratio (number of male OFWs over number of female OFWs) 2008-2010**

Fig. 18. Sex ratio B
Source: This study, based on data from NSCB.
Overseas income and the corresponding remittances are entry and pull factors for OFWs. Over time, remittances and deployed OFWs have been increasing, albeit periods of decline are noticeable. OFW remittances declined from 1995 to 1996 and from 1998 to 2001. Deployment of OFWs also decreased from 1994 to 1996 and from 2002 to 2003. There were intervals when deployment seemed to slow down, i.e., from 1992 to 1994, from 1998 to 2000, from 2006 to 2007, and from 2009 to 2010. (Figures 19 and 20) These outcomes have been influenced by public policy and significant events. The decline of remittances and deployed OFWs from 1994 to 1996 coincided with the Flor Contemplacion case and eventual passage and implementation of Republic Act 8042 – the Migrant Workers and Overseas Filipinos Act of 1995. The decrease in OFW remittances beginning 1998 concurred with the Asian financial crisis. The slack in deployment may be attributed to the: (i) effects of the Gulf War (1992-1994); (ii) Asian financial crisis (1998-2000); and (iii) passage and implementation of Republic Act 9422 (2006-2007) and Republic Act 10022 (2009-2010). The intervening process of administrative rule making, which is required to implement laws, may be a factor in the sluggishness in between passage and implementation of laws.

![Remittances US$ million](image)

Fig. 19. OFW Remittances 1990 – 2011
Source: This study, based on data from BLES, DoLE.
In general, illegal recruitment cases decreased while other overseas employment cases increased over time. But other overseas employment cases handled by the NLRC (claims arising from employer-employee relationship or any law or contract involving OFWs) and POEA (pre-employment administrative cases, e.g., violation of rules on licensing/registration of recruitment agencies) seem to be converging on a plateau. (Figures 21 and 22) The passage and implementation of Republic Act 9422 in 2006 and Republic Act 10022 in 2009 may have influenced these outcomes. Claims arising from employer-employee relationship or any law or contract involving OFWs may indicate unfree or unequal labor relations.
Fig. 21. Illegal recruitment cases
Source: This study, based on data from BLES, DoLE.

![Illegal recruitment cases handled](image1)

Fig. 22. Overseas employment cases
Source: This study, based on data from BLES, DoLE.

![Overseas employment cases handled](image2)
5. CONCLUSIONS

Labor mobility in the Philippines is influenced by many factors.

Across regions, higher minimum wage rates, average daily basic pay, average family income, trade union density, CBA coverage, and labor productivity in the NCR, Central Luzon and CALABARZON are among the entry or pull factors. Higher poverty incidence and lower minimum wage rates, average daily basic pay, average family income, trade union density, CBA coverage, and labor productivity in other regions are exit or push factors.

Also, small and bigger enterprises as well as manufacturing economic zones tend to converge in the NCR, Central Luzon and CALABARZON due to higher wages and labor productivity, which are entry or pull factors. The exit or push factors may be lower labor productivity, higher underemployment and poverty incidence in other areas. But unemployment is higher in these 3 regions as well. These mixed outcomes are influenced by public policy, i.e., regulatory competition or competitive governance, which are beyond the control of workers who are mostly unorganized (i.e., in reality only organized workers are represented in the Regional Tripartite Wages and Productivity Boards).

Across sectors, workers move from agriculture to services due to low agriculture minimum wage rates (exit or push factor). Manufacturing and industry are contracting. There are only a few manufacturing economic zones, which are concentrated in the NCR, Central Luzon and CALABARZON. These outcomes are also influenced by public policy.

As to overseas work, unemployment in the NCR, Central Luzon and CALABARZON is an exit or push factor. A lot more men than women from these regions leave for overseas work.

As to major occupation group of OFWs, laborers and unskilled workers, service workers and shop and market sales workers, trades and related workers, plant and machine operators and assemblers, and professionals, in that order, far outnumber other groups. But a lot more women than men from the biggest group – laborers and unskilled workers – leave the country for work elsewhere.

Over time, remittances and deployed OFWs have been increasing, save for certain periods. By and large, illegal recruitment cases decreased while other overseas employment cases increased. These outcomes have been influenced by public policy and events.

The following matrix provides a summary (Figure 23):
higher poverty incidence and lower minimum wage rates, average daily basic pay, average family income, trade union density, CBA coverage, and labor productivity outside NCR, Central Luzon and CALABARZON

public policy (competitive governance)

higher minimum wage rates, average daily basic pay, average family income, trade union density, CBA coverage, and labor productivity in NCR, Central Luzon and CALABARZON

greater number of small and bigger enterprises as well as manufacturing economic zones in NCR, Central Luzon and CALABARZON compared to other regions

public policy (competitive governance)

lower agriculture minimum wage rate

higher non-agriculture minimum wage rate

small manufacturing and industry

public policy (competitive governance)

lack of skills, higher unemployment, gender (more male OFWs from NCR, Central Luzon, CALARZON; more female OFWs from biggest occupation group of laborers and unskilled workers)

Philippine public policy regulating overseas employment

higher income, remittances

The movement would be involuntary if workers desire to stay but do not because of job loss or scarcity and poverty in the area, especially when caused by the outward
movement of capital and firms induced in turn by public policy, i.e., regulatory competition or competitive governance. Also, claims of OFWs arising from employer-employee relationship or any law or contract are indicative of unfree or unequal relations. (Figure 24) In these instances, workers are clearly deprived of their control of the job.

<table>
<thead>
<tr>
<th>Local</th>
<th>Overseas</th>
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<td>job loss or scarcity, poverty (due to competitive governance)</td>
<td>OFW claims</td>
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Fig. 24. Indicators of involuntary movement (local) and unfree or unequal relations (overseas)

Source: This study.

REFERENCES


Implementing Rules and Regulations, REPUBLIC ACT 7916.


LABOR CODE of the Philippines.


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REPUBLIC ACT 7916.

REPUBLIC ACT 8042.

REPUBLIC ACT 9422.

REPUBLIC ACT 10022.


