

Unlocking the Filipino People's Potential in the Next Six Years and Beyond

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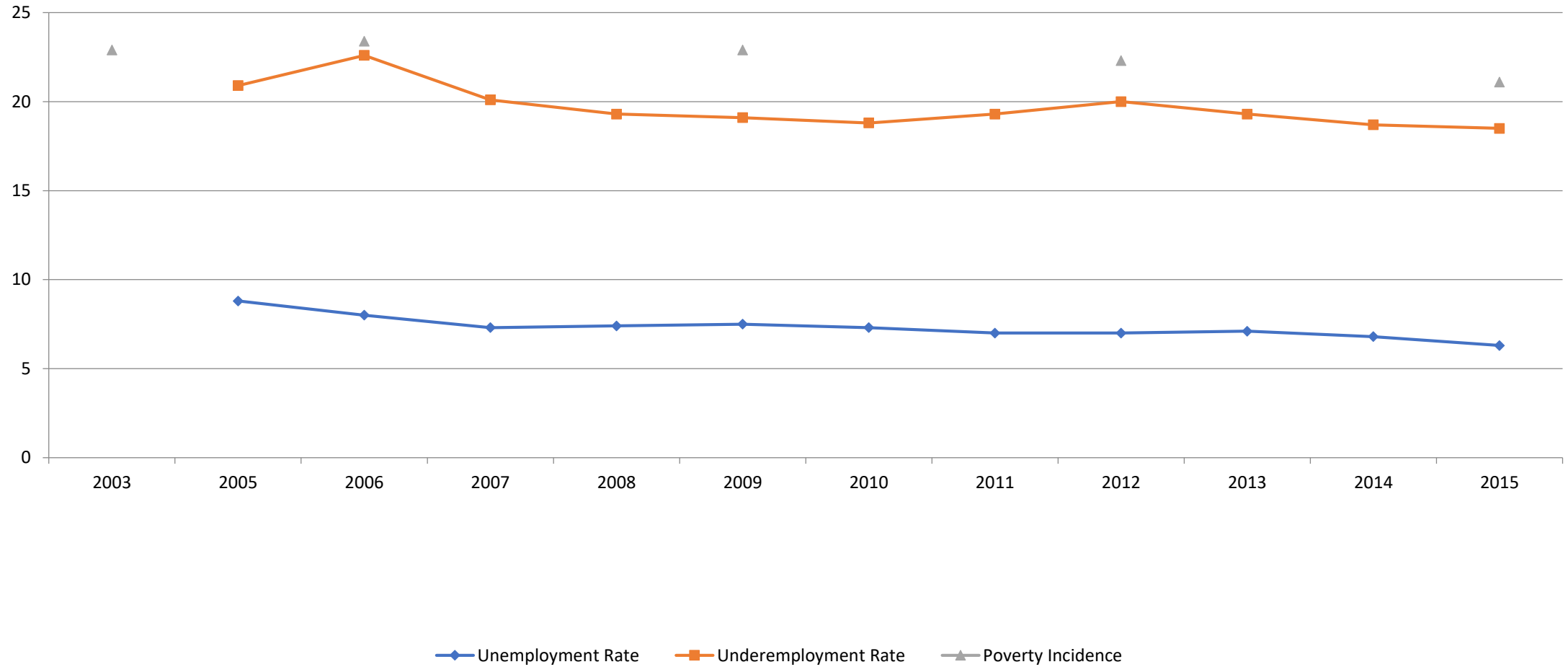
Our purpose

- To raise public awareness of another chance for sustained economic take-off and related development issues
- To get the public and its leaders to think more deeply about the need
 - To maintain a steady course and avoid unnecessary risks that could abort sustained take-off
 - To prepare the country's mindset and institutions for the coming new industrial revolution (Fourth Industrial Revolution or FIRE)
 - To ensure that PH will thrive under FIRE and the disadvantaged will have a fair chance of enjoying a better life
- To lay out suggestions on ways to simultaneously address today's immediate needs and the looming challenges of the future
 - through the lens of labor market, human development, and social protection concerns

The context

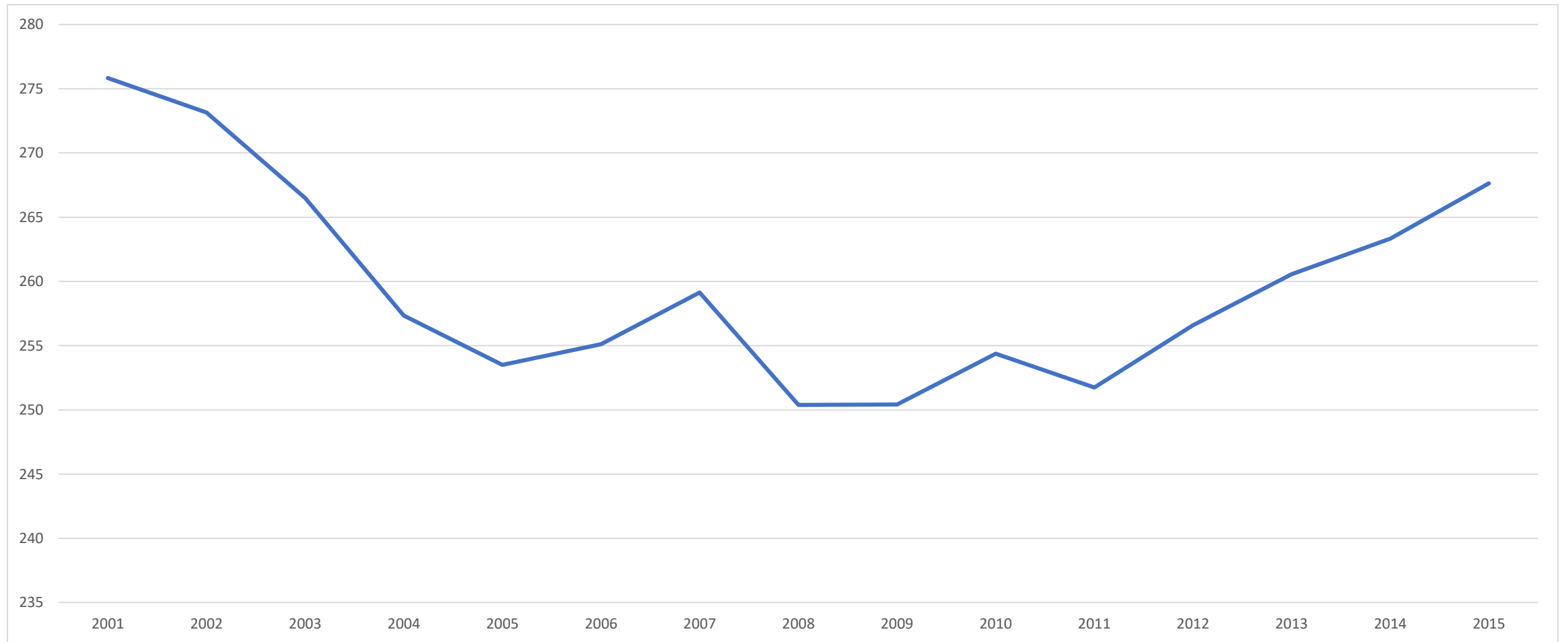
- The past 6 years PH has shown itself capable of
 - Achieving rapid & sustained economic growth
 - Maintaining sound macroeconomic fundamentals
 - Establishing a platform for effective delivery of social assistance to the poor (4Ps)
 - Reversing real wage decline and getting the country back to economic take-off stage and nudging poverty rate down
- But much remains to be done
 - Stubbornly high poverty rate, inequality and lack of inclusiveness
 - Low real wages and high persistent underemployment rate
 - Lack of inclusiveness and social and political cohesion
 - Keep the economic take-off from getting aborted (shooting ourselves in the foot – again?)
- Looking forward, fantastic opportunities are coming our way; but these are expected to come with huge risks due to
 - Current lack of political circumspection
 - Looming FIRE and the consequences of its highly disruptive innovations (see Box 1)

Figure 1. Persistently high poverty, unemployment, underemployment rates (percent): 2003-2015



Sources of basic data: Philippine Statistics Authority (PSA) Official Poverty Statistics, Labor Force Survey (LFS)

Figure 2. Real average daily wages from 2001 to 2015 (in PHP, 2006=100): **Another chance of sustained economic take-off?**



Source: Philippine Statistical Authority

Box 1a. FIRE: What is it?

- Schwab (2016) distinguishes FIRE by the fusion of the different technologies. These include:
 - artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing.
- The promise among others is that
 - In an interconnected world any design can be “printed” in three-dimension (3D) layer by layer into the physical product anytime and anywhere.
 - People will be accessing via mobile devices that has unprecedented processing power and storage capacities that enables virtually unlimited access to knowledge on their fingertips.
- These developments will mean “transformation of entire systems of production, management and governance.”
 - The impact will, therefore, be systemic, radical and widespread.

Box 1b. FIRE: Why is it critically important for public discussion and current development planning?

- The speed of change will be exponential rather than linear.
- Details about what FIRE will bring and when are not known at present; but the broad outline and consequences can be imagined. As mentioned,
 - **FIRE will be highly disruptive and labor-saving**
 - **New products/jobs will be created and old ones destroyed (50% or more; net employment impact unknown)**
 - **A new normal will arise where workers must frequently move from one job to the next and continuously learn new competencies**
- Countries need to make suitable and timely adjustments in their policies and institutions to flourish or else suffer instability and decline.
 - **Lack of public understanding of the rapidly changing business environments could mean inability to make timely adaptations.**
 - **Current development planning needs to embrace these future developments and prepare for their unfolding this early.**
- There are huge social and political risks for people to realize too late that familiar jobs are no longer there and emerging jobs are beyond our competencies.

Key constraints on Filipino workers' performance: LM, HD and SP Perspectives

Filipino potential not fully used due to labor market rigidities

- Labor laws and regulations impede labor markets' ability to allocate human resources efficiently and equitably, especially as regards the disadvantaged
 - High legal minimum wages (LMWs) and proposed return to centralized determination of LMWs
 - Regularization law
 - Security of tenure
 - Costly and complex dispute resolution
- These regulations undermines on-the-job training (low in PH)
- Further tightening labor regulatory restrictions will worsen labor market inflexibility and utilization (e.g. return to national LMWs and total prohibition TECs)
 - Wrong direction (lesson from Europe)
 - Stronger impediment to effective and timely adjustments to the upcoming new normal

Table 1. High labor cost, inflexible, inefficient due to restrictive labor laws

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

Source: World Bank (2016)

Table 2. LMW constraining labor markets

Impact of legal minimum wages (LMW) on	Change
Employment rate (Lanzona 2014)	
All	-
Women	-
Young	-
Less educated	-
Hours of work of employed (Canales 2014)	-
Average household income (Paqueo, Orbeta et al. 2014)	-
Poverty rate (Paqueo, Orbeta et al. 2014)	+
Employment of enterprises (Lanzona 2014)	
Small scale	-
Large scale	+

Source: Paqueo, Orbeta and Lanzona (2017)

Human development inadequacies are key constraints to PH ability to thrive under FRe

- Fundamental competencies of Filipinos as a whole are not up to speed
 - lag behind leading East Asian neighbors like Singapore, Malaysia, Thailand, South Korea, Hongkong
 - Worse, the poor and other disadvantaged marginalized groups (e.g. Indigenous people) are being seriously left behind
- The culture of lifelong learning and access to it (essential for efficient adaptation to the upcoming new normal) is underdeveloped
- The development of non-cognitive competencies critical to the success of the young when they become adults is grossly wanting
- These weaknesses seriously limit Filipinos' trainability, flexibility and employability in a competitive world where job creation and destruction will be accelerating.

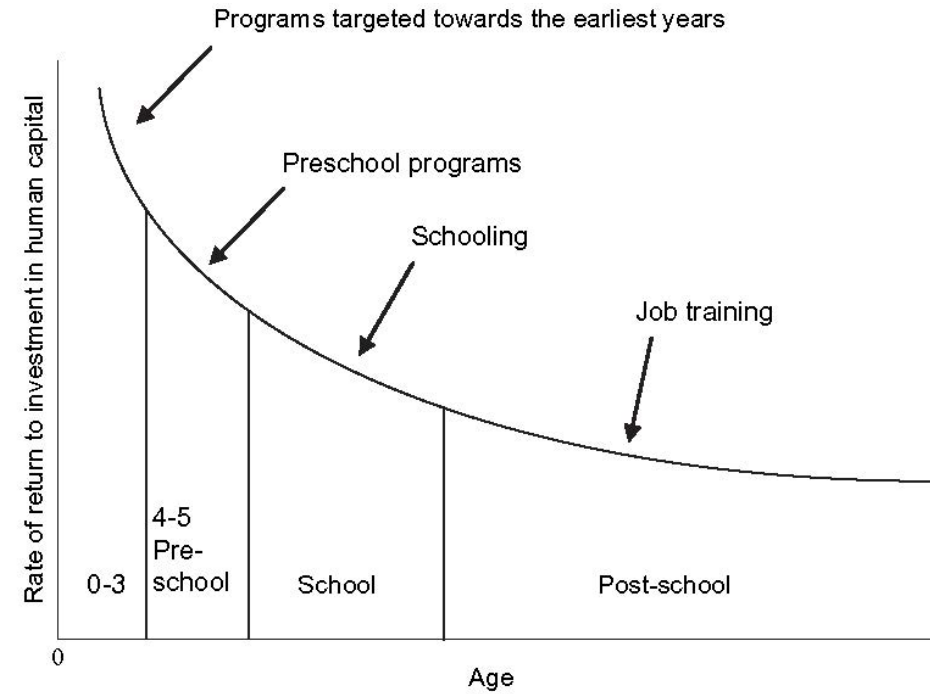
HD Challenges

- Need to expand access to all levels of education, particularly secondary and post-secondary
 - With K to 12, Philippine now in line with standard international practice
 - Elementary enrollment now near universal
 - Enrollment in secondary needs to increase
 - For post secondary education, SUCs remain the primary government instrument for access
 - Existing StuFAPs in tertiary education, poorly funded and badly designed
 - Supposed to be rationalized under UniFAST but recently undermined by free tuition policy for SUCs
- Need to promote lifelong learning
- Need for greater use of technology-mediated learning, e.g. MOOCs

HD Challenges

Need to recognize the importance of investments in ECCD

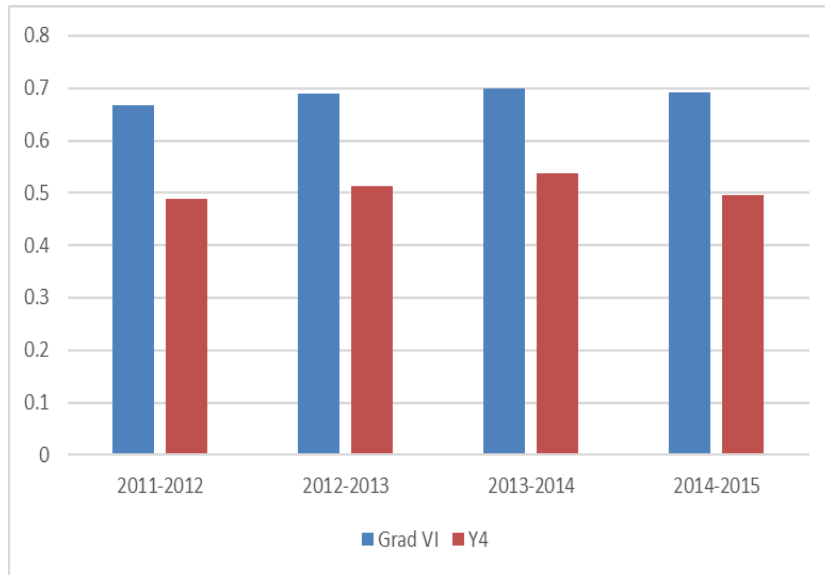
Figure 7. Returns to a unit dollar invested at each age



Source: Heckman (2008)

HD Challenges

Mean percentage scores for Grade 6 and Grade 10



- Quality needs to increase at all levels
 - Achievement test scores in elementary and secondary lower than mastery (75%); critical because it will lower cost of raising quality in higher education and also improves trainability
 - Passing rate in PBEs mostly under 40%

HD Challenges

TVET needs to be more responsive to industry demands

- Internal efficiency is relatively high and improving
 - The bulk (74%) of graduates in 2012 was unemployed before training
 - High graduation rates
 - Increasing proportion of graduates who seek certification; certification rates are high at 80%
- External efficiency needs improvement
 - Employment rates not particularly high
 - Certification not given much importance by employers (no widespread rewards such as increase in salary, job security or job promotion)

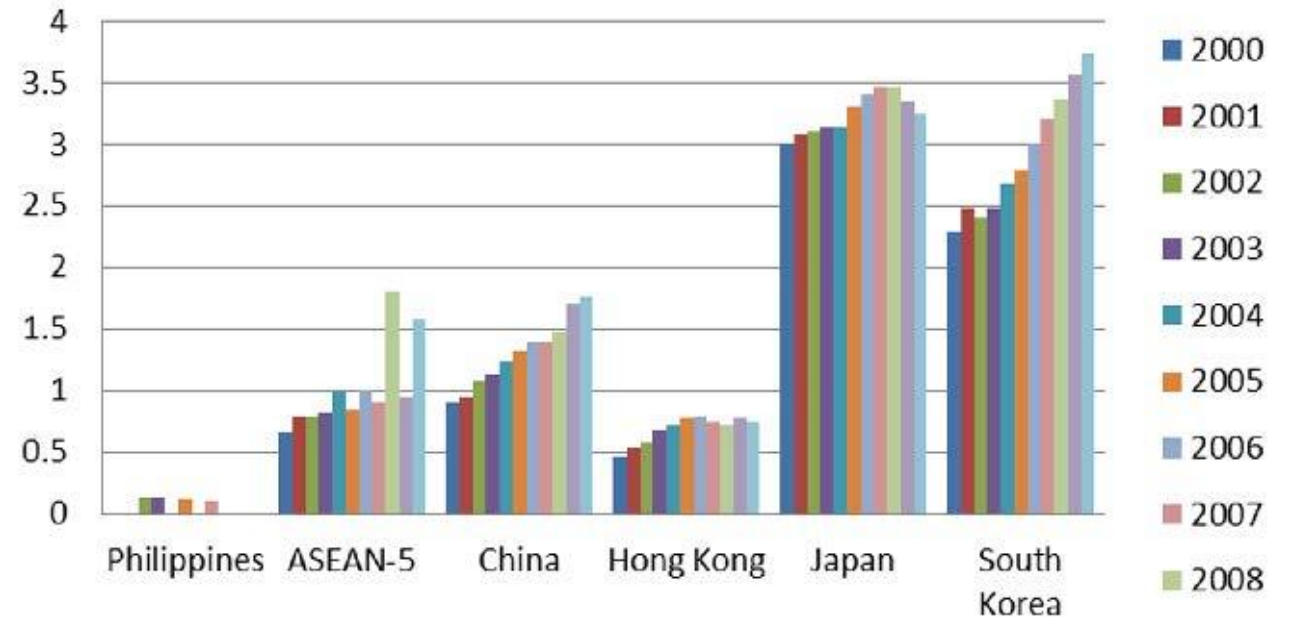
Challenges

R&D culture needs to be promoted in all fields

- Underspend in R&D compared to countries in East Asia

Figure 8. Gross Expenditure on R&D, 2000-2008

Research and development expenditure (% of GDP)
Source: World Bank



Source: Licuanan (2016)

Need for Massive Investments in Human Development

- Even with recent increases in education spending, expenditure per pupil as a share of GDP is still lower than countries in the region; need to continue and increase level of investments
- More resources will increase likelihood of increasing quality
- Private rates of return are still high; private investments expected to continue to be high
- Guard against measures that dissipate already limited resources in education, e.g. free tuition free for SUCs

Institution Development and Implementation Issues

- DepEd needs to be a learning institution
 - Several important initiatives, e.g. (a) compulsory kindergarten, (b) MTB-MLE, (c) senior high school, are important opportunities for learning
- TVET needs to concentrate on regulation and promote more enterprise-based training
- CHED needs to be an effective guardian of quality and supplier of basic higher education information
- Government needs greater coherence in regard the financing of education and training and budget allocation

Social protection issues under the looming FIRE

- Radical scientific and technological advances, business innovations and globalization under FIRE can lead to unprecedented capacity for wealth accumulation and income generation
- But poverty, displacement, marginalization and insecurity of vulnerable population can arise amidst new opportunities and growing riches
 - These social issues are expected from more rapid job destruction and creation and
 - The need to frequently move from job to another raising questions about income security and adequacy of social safety net
- If not effectively and opportunely addressed, those issues can lead to popular disorientation, discontent and dangerous divisions
 - Current events around the world remind us of this possible backlash and the need to effectively deal with the above-mentioned issues, which FIRE could intensify
- This push back can pose as a critical impediment to the country's ability to take full advantage of new opportunities and deal with the risks of disruptions and the need for timely and suitable adaptations

The challenges of developing a forward-looking social protection system

- FIRE raises the importance of developing an adequate forward-looking social protection (SP) system
- The objectives of this SP system modernization would be to ensure that
 - Workers have basic minimum incomes in-between jobs expected to occur with high frequency through unemployment insurance and/or some other risk-sharing schemes
 - They have timely support for lifelong learning, acquisition of competencies and job information
 - Labor markets are more efficient and flexible without diluting protection of labor against employers' abuses (replacing job tenure with income security concepts and use of wage subsidy)
 - The currently poor and near poor are effectively assisted for them to survive their present difficulties and are able to thrive under FIRE
- Challenges
 - What would be the benefits?
 - Who pays and how should SP be financed without creating perverse incentives?
 - What can be done for the currently poor and near poor
- Need to develop, test, evaluate and eventually establish a new social protection system consisting of efficient social assistance, employment facilitation and social insurance (income support).

Ways forward

- **Avoidance of regulations that further make employment costly and labor markets less flexible**, including *inter alia*:
 - Tempering of LMW increases and keeping them aligned with labor productivity growth and price inflation;
 - Maintaining the current decentralized manner of setting LMWs;
 - Rejecting bills pending in Congress proposing further curtailment and/or prohibition of all forms temporary employment contracts

Ways forward

- **Create a chain of value-adding high quality lifelong learning opportunities that are accessible to all.**
 - Promote more massive public and private investment in human capital formation
 - Use available resources more efficiently and coherently through greater policy coherence and evidence-based decision-making
 - Invest in human capital as early as possible and continuing through life
 - Make these learning opportunities accessible to all
 - Since government resources will never be enough to finance the needed investments, these limited public resources should be used to leverage private resources particularly at the higher levels of education where returns mostly accrue to the student.
 - To achieve the biggest bang per buck, public funds should fund only services that have clear public good components such as effectively increasing access of the poor and the brightest, and critical R&D
 - Making the education market work more efficiently through provision of needed information for informed decisions of actors would a good use of public resources.
 - On top of these, more cost-effective non-traditional ways of delivering learning opportunities based on digital technology and other methods need to be harnessed.

Ways forward

- **Development of an enhanced social protection system.**
 - Ensure that disadvantaged and vulnerable population groups would overcome immediate survival problems; and at the same time enable them and their children to break intergenerational poverty. *Inter alia*:
 - continuing support and enhancements of 4Ps to provide more effective long term assistance to the poor; and
 - developing a coordinated social assistance model for the near poor in line with government's convergence policy
 - Designing, testing, evaluating and institutionalizing a forward-looking social protection system
 - to help formal sector workers deal with the uncertainties arising from increased business disruptions, faster skills' obsolescence and more frequent need for workers to move from one job to another
 - to facilitate the development income security schemes for self-employed/informal sector workers
 - Explore a social contract between labor, employers and government to modernize and liberalize the labor code in exchange for an income security and wage subsidy system