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Labor, HRD and Globalization: The Filipino Worker in a Global Economy (An Integrative Report)

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Abstract

In a world of greater economic integration, strengthening trade linkages, unceasing technological changes and weakening institutions, workers are concerned about their incomes and security in their workplaces. Because of this uncertainty, coupled by large negative reactions against globalization in developed countries, policy makers have expressed skepticism on the benefits of globalization especially as this relates to the labor market. Several issues affect the relationship between greater openness to the world market and human resource development. With the fall in protectionism and breakdown of centrally planned governments, Filipino workers are greatly exposed to the uncertainties that come along with globalization. These include the fear of immiserization, the possibility of unemployment, the concern of labor standards, the dismay over worker participation and the inadequacy of higher educational institutions. The crucial role of state is to create and strengthen the institutions that can provide the necessary economic programs and political incentives and promote long-term development of worker quality and benefit both the individual worker and society.

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Executive Summary

Several issues surround the relationship between greater openness to the world market and human resource development. With the fall in protectionism and breakdown of centrally planned governments, Filipino workers are greatly exposed to the uncertainties that come along with globalization.

First is the fear of further immiserization as a result of globalization. Wage inequalities can widen along with the rising trade, as in many countries, particularly in Latin America. Workers in many developing countries fear the entry of China and other labor-surplus in the international trade, as wages are pressured to decrease.

Second is the possibility of increased unemployment. Particular industries that have been previously protected may be adversely affected, possibly resulting to a reduction in the domestic labor demand. While a number of industries will to some extent benefit from this globalization, it is expected that the process of readjustments will cause some short-term loss of jobs. The government then is tasked to devise mitigating measures in the short-run. One way of coping with unemployment is to consider international migration as an alternative. However, the prospects and the costs of future migration may be a problem.

Third is the concern about labor standards. Market regulations may have to be imposed as workers may be forced to work in substandard conditions in order for firms to be competitive. At the same time, the importance of long-term labor arrangements and unionization has been put into question in the light of the need for greater competitiveness.

Fourth is the role of schooling institutions that have been increasingly analyzed in the light of the rising international interdependencies and rapid structural change. Furthermore, the role of the government-- in relation to the participation of the private sector-- will have to be examined. In this case, the importance of educational institution in determining opportunities should be noted here.

The articles found in this research project on labor, human resource development and globalization consider these issues separately or jointly in the following sections.

Wage Inequality. To study the effects of globalization on the distribution of income, particularly wages, through an empirical framework, one must account for two other factors affecting wages: the country's technological structure, and more important the education levels. Globalization can be defined as a “shock” that increases the foreign goods produced by unskilled workers associated with the increasing wave of economic liberalization around the world. Most of the studies have focused mainly on the effects of world prices and of technology, at home or abroad, on wage distribution. An important issue however is to consider how skills, measured through levels of education, can be able to influence whatever effects trade may have on wages. In my study of top 40

[ii]exporting industries, the article of Lanzona in the volume have shown that although wage inequality is evident as more educated workers receive higher wages, globalization has actually been beneficial to all workers.

Labor Migration. Labor mobility is a device that the workers can gain favorable terms for their labor service, providing further options for employment. The workers possessing valuable skills can also very well experience the improvements in wages of similarly skilled workers in other countries. The key problems here then are the impediments to labor mobility that can prevent the workers from achieving these benefits. The study of Fernando Aldaba in this volume provides some evidence on how the prospect of labor mobility can reduce the debilitating effects of domestic unemployment and labor dislocations. In a panel regression, using the overseas contract workers (OCWs) deployed as the dependent variable and controlling for characteristics of the destination countries, he shows that accelerated Philippine exports tend to reduce the migration. The idea is that a turning point exists, where initially greater trade openness leads to greater migration but, eventually as the country further develops, migration diminishes.

Labor Standards. The paper of Divina Edralin in this volume shows that despite the general agreement about the benefits of a social clause, a number of industries have found it very difficult to comply with such standards. Her findings indicate that the various hindrances for both labor and management exist towards the full compliance of core labor standards. Nevertheless, to the extent that trade liberalization provides opportunities for future growth, labor standards and liberalization are thus not contradictory. The key point in Edralin's paper is the improbability for institutions to adjust favorably immediately to workers as a result of globalization. Firms may require an additional amount of time to stabilize whatever gains they have gotten from liberalization. In this sense, government stabilization policies and legal structures will be valuable in encouraging the implementation of labor standards and protection. Government should then clarify their rules and regulations to the firms in order for them to determine the costs as well as the benefits of providing these standards to the workers. Firms can very well be willing to provide such rights and protection to workers as long as the costs of doing so are not too prohibitive.

Labor Institutions. The study of Virginia Teodosio in this volume indicated that the growth in unionization in the Philippines has decreased from 12.9 percent in 1990 to 4.7 percent in 1996. Moreover, the importance of independent unions has increased, as Labor Management Councils (LMCs) became more visible. This suggests that the present situation may not necessarily be favorable to the workers and that workers are not given enough opportunities to participate actively in decisions. Teodosio notes that the emergence of flexible labor arrangements happened at almost the same as the decline in labor growth. Using a political framework, the paper maintains that the subsequent capital deepening from globalization has produced an environment that is more favorable to capitalist interests. Furthermore, with imperative to respond immediately to market prices, the industries are seen to favor flexible arrangements rather than the long-term and permanent contracts.

Education. The paper of Tereso Tullao in this volume indicates that the existing educational institutions will not be adequate to improve the chances of the country to benefit optimally from trade unless substantial institutional innovation is developed. The highly distended higher education system in the country is characterized by inadequate faculty qualifications, underdeveloped graduate programs, misallocated resources in public colleges and universities, and highly skewed enrollment in few programs. Tullao points to the limited government funds to higher educational institutions. For instance, more than three-fourths of the public spending in higher education is spent for the operation and maintenance of 107 state colleges and universities. These have lately been given permission to expand, in direct competition with the private sector while the correct policy is to have more integration and cooperation. Moreover, the limited access to continuing professional education has restricted the further upgrading of teachers' skills. This includes the lack of funds for research and development.

All papers eventually deal with the proper role of the government in the development of institutions can prove valuable in understanding this issue. Since human capital is viewed to have significant social effects, society can play a major role in creating and developing these enduring assets. The state should create and strengthen institutions that will provide the economic programs and political incentives that will promote long-term development of worker quality.

Labor, HRD and Globalization:
The Filipino Worker in the World Economy
(An Integrative Report)

Leonardo A. Lanzona*

With increasing world integration, hastening capital mobility, unceasing technological changes and weakening institutions, workers are concerned about their incomes and security in their workplaces. Because of this apprehension, coupled by large negative reactions against globalization in developed countries, policy makers have expressed skepticism on the benefits of globalization especially as this relates to the labor market.

Several issues affect the relationship between greater openness to the world market and human resource development. With the fall in protectionism and breakdown of centrally planned governments, Filipino workers are greatly exposed to the uncertainties that come along with globalization.

First is the fear of further immiserization as a result of globalization. Wage inequalities can widen along with the rising trade, as in many countries, particularly in Latin America (Wood, 1994). Workers in many developing countries fear the entry of China and other labor-surplus in the international trade, as wages are pressured to decrease.

Second is the possibility of increased unemployment and international migration. Particular industries that have been previously protected may be unfavorably affected, possibly resulting to a reduction in the domestic labor demand. While a number of industries will to some extent benefit from this globalization, it is expected that the process of readjustments will cause some short-term loss of jobs. The government then is tasked to devise mitigating measures in the short-run. One way workers can cope with unemployment is to consider international migration as an alternative. However, the prospects and the costs of future migration to society may be a problem.

Third is the concern about labor standards and institutions. Market regulations may have to be imposed as workers may be forced to work in substandard conditions in order for firms to be competitive. At the same time, the importance of long-term labor arrangements and unionization has been put into question in the light of the need for greater competitiveness.

Fourth is the role of schooling institutions that have been increasingly analyzed in the light of the rising international interdependencies and rapid structural change. Furthermore, the role of the government-- in relation to the participation of the private

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sector-- will have to be examined. In this case, the importance of educational institution in determining opportunities should be noted here.

These issues constitute a veritable source of discussion, requiring closer analysis and more in-depth examination of existing data. The articles found in this volume will consider these issues separately or jointly. What emerges from all of these papers is the recognition of the vital role that the state should play in developing the skills and improving the welfare of the Filipino workers. Like Don Quixote, the Filipino worker cannot turn back the winds of change. Yet, unlike this character who at least was able to raise his medieval lance against seemingly illusory foes, the Filipino workers lack the necessary training and equipment to protect themselves against the real dislocations and uncertainties emerging from globalization.

Inequality, Technology, Skills and International Trade

For middle-income developing countries, like the Philippines, where a band of skilled labor exists in select industries alongside a pool of unskilled labor in less advanced sectors, the impact of greater international openness on wage equality is uncertain. According to the standard (Stolper-Samuelson) trade theory, wages are dependent upon the effect of trade on product demand and product prices. Wage inequality between skilled and unskilled labor may then increase if the product prices of goods produced by the less advanced sectors are higher than the imported goods.

To study the effects of globalization on the distribution of income, specifically wages, through an empirical framework, one must account for two key factors affecting wages: the country's technological structure, and more important the education levels. Globalization can be defined as a “shock” that increases the foreign goods produced by either skilled or unskilled workers associated with the increasing wave of economic liberalization around the world. Most of the studies have focused mainly on the effects of world prices and of technology, at home or abroad, on wage distribution. An important issue however is to consider how skills, measured through levels of education, can be able to influence whatever effects trade may have on wages. In particular, we can measure the export price returns on investments in skilled and unskilled labor, as well as capital and intermediate inputs.

In my study of top 40 exporting industries (Chapter 1), I have shown that unskilled labor benefited from globalization, although far less than the educated and perhaps more skilled workers. The study may subject to a number of measurement errors, but nonetheless robustly shows that the process of internationalization has actually been beneficial to all workers. This means that globalization, despite its adverse distributional effects, should not be impeded since this is very important source of economic growth.

Could all workers be made better off through some scheme of redistribution? Conceptually, if we consider a lump-sum tax, the optimal policy intervention is a factor-use tax on skilled labor as well as on the other factors, along with a subsidy specific to the unskilled workers and favoring the use of this factor intensively.

Labor Mobility: Prospects and Consequences

The effects of international labor mobility are seen to be favorable for labor-abundant countries. The export of labor services to the more advanced countries reduces domestic unemployment, and increases wages, resulting to a larger GNP share of labor. This is based on the standard economic (Ricardian) model where wages are determined in a national labor market. Equivalently, the framework views a single factor, labor, which can move freely between sectors.

In reality, however, there are different types of workers as there are industries. Yet, wages earned in one industry are largely determined by the wages that similar workers are earning in other industries. Ideally, this may have two important implications. First, workers can earn more in an open economy by moving into the industries or nations in which they have a comparative advantage. Second, because of globalization, regardless of which industry the worker belongs, wages should not necessarily reflect the productivity at the level of the individual company. Wages for some individuals can very well improve even if the domestic industry where these individuals work languishes. In this framework, skills are assumed to be the only determinants of earnings and are seen to be completely transferable to countries.

These points suggest that labor mobility is a device that the productive workers can wield to gain favorable terms for their labor service. The workers possessing valuable skills can also very well experience the same improvements in wages in other countries. The only constraints here then are the impediments to labor mobility that can prevent the workers from achieving these benefits (see Lanzona, 2000, for labor mobility constraints in APEC).

The study of Fernando Aldaba in Chapter 2 of this volume provides some evidence on how the prospect of labor mobility can reduce the debilitating effects of domestic unemployment and labor dislocations. In a panel regression, using the overseas contract workers (OCWs) deployed as the dependent variable and controlling for characteristics of the destination countries, he shows that accelerated Philippine exports tend to reduce the migration. The idea is that the country experiences a turning point, where initially greater trade openness leads to greater migration but as the country further develops migration diminishes.

Aldaba also presents some data indicating that Filipino OCWs and emigrants are generally those that have finished college. Relating this to the educational level of the presently employed, he found that the work force of those who stay behind tends to be less educated than those who have migrated or who works abroad temporarily. This supports the view that international migration provides opportunities for the qualified individuals to earn more than what they earn domestically. Aldaba notes however that while this condition may be individually rational, this may not be socially beneficial. Migration ultimately reduces the supply of highly skilled or educated individuals, diminishes the human capital investments in the economy, and destroys social capital as families are broken up.

Nevertheless, Aldaba concludes that neither migration nor trade liberalization should be impeded. Instead, the greater trade openness should be pursued as it promotes labor-intensive exports, greater competition and efficiency, resulting in higher output in the medium and long run. In the short term, however, the government should be able to formulate and implement policies and structures that will limit the drain of skills and will protect OCWs from onerous contracts that may only seek to abuse them.

Labor Standards and Economic Growth

Contrary to common perception, a protective labor market policy, measured in terms of greater labor market regulations and standards, has not resulted in poor and economic and employment conditions (Freeman, 1993). One possible explanation is that market regulations that go against the market forces are not commonly complied with. Given that compliance to these regulations are choices made by both the workers and employers, the efficiency losses that result from these market regulations will be averted even before these become binding. The important point here is that effective labor market regulations can be implemented alongside with free trade policies, but only so long as these regulations do not restrict the efficiency gains that can be derived from free trade.

Divina Edralin's contribution in this volume (Chapter 3) shows that a majority of management and labor groups are in favor of what is known as the "social clause" which refers to the incorporation of various social provisions into the labor relations. These provisions include freedom of association and the right to organize. Reasons cited in favor of this clause are: (1) enhance and improve the quality and productivity of workers, (2) boost benefits for better competition; and (3) serve as guide or protection for both union and management.

Nevertheless, Edralin also stresses that, despite the general agreement about the benefits of a social clause, a number of industries have found it very difficult to comply with such standards. Her findings indicate that the various hindrances for both labor and management exist towards the full compliance of core labor standards. These include (1) the consequent increases in the costs of operating the business; (2) the impractical and rather unrealistic requirements set by government; and (3) the worker's apprehension that, if the standards are imposed fully, the probability of higher unemployment will be enhanced. It was observed that companies with high level of compliance were generally those that had medium degree of capitalization, experienced a fair level of profits and had been operating for a number of years. In which case, to the extent that trade liberalization provides opportunities for future growth, labor standards and liberalization are thus not contradictory.

The key point in Edralin's paper is perhaps the obduracy of institutions in relation to worker benefits, despite the benefits brought in by globalization. Firms usually require an additional amount of time to reinforce whatever gains they have gotten from liberalization. In this case, government stabilization policies and legal structures will be valuable in encouraging the implementation of labor standards and protection. Government should then clarify their rules and regulations to the firms in order for them to determine the costs as well as the benefits of setting these standards to the workers. Firms can very well be willing to provide such rights and protection to workers as long as the costs of doing so are not too prohibitive and the productivity of workers is improved.

Industrial Relations and Social Transformation

Industrial relations have slowly been altered in two ways, as a result of greater trade openness, industrialization and democratization (Devarajan, et.al., 1997). ***First***, the share of labor unionized, which has been declining in industrialized countries, has actually been observed to increase in developing countries. The political and social effects of independent unions are generally seen to be positive, especially in granting workers their proper returns to their human capital and increasing worker welfare. ***Second***, it has been observed that, though several export-oriented countries have exercised worker repression, such stringent measures are not necessary for export promotion and economic growth. In fact, countries with past records of labor repression continued to maintain their competitiveness only after the international community has succeeded in somehow pressuring these countries to protect workers' rights. While factor mobilization in repressive regimes has proven to be successful in enhancing growth, this factor alone is not sufficient to sustain growth. Competitiveness and efficiency are only possible if major technological changes and free-market structural reforms that have the full support of workers are created.

The study of Virginia Teodosio (Chapter 4) however indicated that the growth in unionization in the Philippines has decreased from 12.9 percent in 1990 to 4.7 percent in 1996 perhaps because of the larger share of the services sector in total employment. More importantly, the influence of independent unions has increased, as Labor Management Councils (LMCs) became more visible. This suggests that the present situation may not necessarily be favorable to the workers and fail to provide the necessary opportunities for greater participation of workers in making decisions. Teodosio noted that the emergence of flexible labor arrangements that further reduce worker security happened at almost the same as the decline in labor growth.

Using primarily a political framework, Teodosio seems to indicate that the subsequent capital deepening from globalization has produced an environment that is more conducive to capitalist interests. Furthermore, with imperative to respond immediately to market prices and labor-saving technological innovations, the industries seem to favor flexible arrangements rather than the long-term and permanent contracts.

Teodosio views this situation as potentially unstable since it creates a discrepancy between social ends and industrial objectives. The problem appears more evident at the micro-corporatist level that involves the corporations, the local trade unions and the government. The central problem according to her is the failure of the state to address the broader implication of flexibilization in labor relations. She then proposes for a modification in the tripartist arrangement, calling for policies that will consider more worker participation and empowerment.

The papers of Edralin and Teodosio highlight the need for a more efficient labor market. However, in order for the labor market to work efficiently, wages should adjust sufficiently to achieve non-inflationary employment; workers should respond to changes in wages across jobs in different firms, sectors and regions; and workers optimally search for and accept improved alternative employment opportunities as they arise. The problem is that labor contracts typically have established terms of duration and specify many contingencies that may not necessarily meet government specified labor standards. The failure to meet these standards, both in timing and magnitude, seems to be affected more by labor market or welfare policies, rather than the long-term human capital accumulations. This means that the distribution of gains has little to do with the distribution of resources, but more with the social institutions that can guarantee and protect the rights of the workers.

Furthermore, a troubling aspect of labor market today is the presence of flexible contracts that have the downside of discouraging investments in worker skills that cannot be transferred to another job. To the extent that on-the-job training enhanced the productivity of the worker only in their current job, this form of firm-specific training may be undervalued by worker and employer and hence subject to under investment. Without a binding long-term employment contract, the employer (by terminating the worker) or the worker (by quitting and job turnover) can reduce the expected return of the on-the-job training to the other party.

The Role of Academic Institutions: Maximizing Learning and Skills

Underlying all of these points is the idea that investment in population quality through human resource development is the key to generating gains from trade. This is true because certain changes in labor supply of skills can have an impact on wage differentials and equity. Given the gains from greater trade, human capital investment is expected to mitigate that inequality arises from trade. At the center of this issue is the interest on education. Skill differences in wages can be narrowed by increasing the share of skilled workers in the labor force through education, on-the-job training and other forms of human capital investment. More importantly, of all these alternative sources of improving skills, education has been the most closely associated with skills.

But does the accumulation of schooling actually respond in this way? While there are increases in the returns to schooling recently, the issue of whether greater investments in education are socially or privately worthwhile remains. This is particularly so in the light of the perceived structural changes expected from globalization.

The key insight here is that human capital can be defined broadly as on-the-job training and continuing professional education. Hence, a policy that focuses on achieving large increases in enrollment rates may not be the most efficient policy for improving the country's stock of human capital. Alternative policies or institutions, such as upgrading the structures of present educational institutions or encouraging the private industries to produce jobs with learning-by-doing activities, may achieve the same objective at the minimum costs.

The paper of Tereso Tullao (Chapter 5) indicates that the existing educational institutions will not be adequate to improve the chances of the country to benefit optimally from trade unless substantial institutional innovation is developed. The highly distended higher education system in the country is characterized by inadequate faculty qualifications, underdeveloped graduate programs, misallocated resources in public colleges and universities, and highly skewed enrollment in few programs.

These problems have led to the following conditions. First, the number of accredited institutions of higher learning offering quality education has been very limited. Second, despite the seemingly high supply of qualified Filipino graduates in both domestic and international markets, more than half of the of the graduates fail the licensure examinations of various professions. Third, a mismatch of graduates and manpower needs of the economy is indicated, as well as the oversupply of graduates.

Tullao points to the limited government funds to higher educational institutions. For instance, more than three-fourths of the public spending in higher education is spent for the operation and maintenance of 107 state colleges and universities. These have lately been given permission to expand, in direct competition with the private sector while the correct policy is to have more integration and cooperation. Moreover, the limited access to continuing professional education has restricted the further upgrading of teachers' skills. This includes the lack of funds for research and development.

Clearly, there is a need to develop higher education further and improve continuing professional education. However, what needs to be settled is how the limited government resources should be allocated. Tullao proposed that state support should legitimately be channeled only to centers of excellence in various disciplines. The problem however is that this may exacerbate income inequality which education is supposed to partly address. In the light of the difficult trade off between efficiency and equity, the private sector, to which most of the accredited colleges and universities belong, may have to take an active part in addressing their own problems. This need not include only the schools, but the private firms as well, especially in providing vocational and on-the-job training to their workers.

Conclusion

While the papers first discuss the effects of globalization on the labor market, all papers in this volume eventually deal with the proper role of the government in the development of worker skills and welfare enhancing institutions. The process of internationalization produces an imbalanced distribution of benefits and costs. Indeed, while globalization can be beneficial to society in general, various sectors of society can be adversely affected.

Since human resource development of the disadvantaged is viewed to have significant societal effects, society can benefit by creating and developing these enduring human resources. The state can thus play a major activist role in promoting long-term development of worker quality, even as the country pursues a process of globalization.

In particular, the employment of skilled labor and the upgrading of unskilled labor are viewed to have a positive social externality, suggesting that the production of various outputs depends in the social provision of a well-trained and satisfied labor force. In this case, a suitable production program of domestic taxes and subsidies that can raise the relative wage of trained labor and simultaneously assist unskilled workers will be necessary in bringing about efficiency, without hindering consumers from enjoying the benefits of internationalization. While a tariff on goods employing unskilled labor may be welfare improving, this policy will only be second-best since this will lead to gratuitous and unnecessary consumption costs. However, a program that properly taxes the gainers from globalization and subsidizes the potential losers will result to a condition that is both efficient and equitable at the same time.

Furthermore, the papers point to the important role of institution building in protecting workers' rights and security. Although politics will continue to be crucial in the design of institutional reform, any repression of labor rights, particularly those of the affected by globalization, is not viewed to be favorable for improving employment and wage incomes. In the same vein, flexible arrangements and negotiations between management and worker unions should be encouraged since these can yield positive benefits especially with the rise of more sophisticated technologies. Indeed, state measures to protect those adversely affected by globalization are needed, but at the same time, mandates on working conditions can also be detrimental to markets and eventually to workers. Ultimately, the proper program mix of wages and job security is better left to industry managers and workers.

Finally, the functioning of education and training systems will have a powerful complementary effect on labor market performance. Government intervention clearly remains critical in this area, but various forms of economic as well as political incentives can be formulated so that the private sector will be induced to invest in training and education. Continuing professional education can be developed with the help of private firms and corporations to help workers acquire skills during the course of their working lives.

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