WHAT DO RECENT EMPLOYMENT STATISTICS TELL US?

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ABSTRACT

Unemployment in the Philippines remains high by Southeast Asian standards notwithstanding the change in definition of unemployment in 2005. Firm level data also support the survey finding of a heightened sense of employment insecurity among workers in recent years. Expansions have played only a minor part as far as the hiring of labor in recent years is concerned. The sluggish growth of employment is often cited as an argument for reducing labor regulations. However, the empirical evidence to support this policy prescription is scanty for the Philippines and at best mixed for other countries. The key to stable and productive employment is rapid and sustained economic growth supported by investments in physical and human capital.

This paper has less to say about either statistical theory or methodology and more about what can be gleaned from recent employment statistics that ought to concern policy makers. I call attention to three observations: first, concerning the new definition of unemployment; second, on some features of unemployment and underemployment (and the importance of raising labor productivity); and third regarding employment insecurity.

On the new definition of unemployment

In April 2005 the government adopted a new definition of unemployment (NSCB, [2004]) resulting in a lower unemployment rate and introducing a break in the data series so that the unemployment figures pre- and post-2005 are not comparable (Figure 1). The redefinition reduced the number of the unemployed by some 800 thousand to 1.5 million depending on the quarter under consideration.

The change involves the inclusion of the “availability for work” criterion in the definition of the unemployed, whereas the previous definition hinged only on the simultaneous satisfaction of the “without work”² and “seeking work”³ criteria. Under the current definition, a negative response to the availability question defines a respondent to be out of the labor force even if he is without a job and is looking for one. Under the old definition, regardless of availability or length of time since they stopped actively looking for work, jobless persons of working age not looking for work were still considered unemployed if the reason for not engaging in job search is any of the following: (1) got tired looking or believes no work is available; (2) awaiting results of a previous job application; (3) temporary illness or disability; (4) bad weather; and (5) waiting to be re-hired. At present, however, if they respond negatively to the availability question, they get classified out of the labor force.

Based on the new definition, the reduction in unemployment should then be equal to: (1) the number of those who responded negatively to the availability question in the LFS plus (2) the discouraged workers who had stopped looking for work more than six months before the survey. But published data show that the residual category, “Others”, consisting of about 500 thousand working-age individuals, has also been excluded from the unemployment

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² Defined as those not in paid employment or self-employment.
³ Defined as those who had taken steps during the reference period to seek paid employment or self-employment.
count under the new definition. It is not clear that respondents in this category were asked the question about availability, however. This suggests that either unemployment was overstated prior to April 2005, or it is understated now.

The more fundamental issue though is the one of clearly defining current availability for work. In the context of the standard unemployment definition, the availability criterion is supposed to differentiate between those who are ready to take up work or start a small business during the reference week or within the next two weeks and those who can begin only much later or are prevented by personal circumstances from taking a job. The idea is that for a jobless person to be considered unemployed he or she must be able and ready to take on a job if an opportunity is present. The problem is that, as currently formulated, the availability question in the Philippines' Labor Force Survey (LFS) is silent on the nature of the prospective work opportunity. Suppose a person is not looking for work because he is waiting for the result of a job application, or is waiting to be recalled to his old job. Surely this person already has a particular job in mind based on his assessment of his qualifications and skill level. Most likely, too, he has formed some expectation about the terms of his anticipated employment and may not be willing to entertain just any alternative.

By the same reasoning, a person looking towards the overseas market for possible employment or re-employment would likely say he is unavailable for work given how the question is presently framed. This is possibly the case for returning OFWs who are waiting for overseas opportunities to open up. In addition, the prospect of overseas employment has widened the choice of labor market even for first-time labor market entrants. While the LFS questionnaire does not specifically ask where the jobseeker intends to work, anecdotal evidence abounds that many prospective labor force entrants already have their sights on the overseas labor market in making career decisions. Once they join the labor market, persons such as these will be looking for work but may not be available for work going by the present LFS questionnaire which provides no context for the availability question.

The point is about the need to attune data collection instruments to the new labor market realities. As jobseekers increasingly look to foreign shores for employment, an ever greater proportion of them could be counted out of the labor force given how the availability criterion is currently applied. This will show up in a declining LFPR even before jobseekers shall have actually become overseas workers. This point may be relevant to recent discussions regarding the inadequacy of the existing framework for measuring the labor force, and the idea of developing a broader concept of a national labor force (as distinct from the current one that embraces only domestic) in recognition of the greater mobility of labor across national boundaries (Rivera [2008]), and particularly in the Philippine case, the substantial contribution of the export of labor services to the economy.

But first things first. Without further inquiry about the terms at which a person without work might consider him or herself available for a job if the opportunity presented itself, applying the availability criterion risks excluding more jobless persons from the unemployment count than warranted. This potential blind spot in the current measurement of unemployment should not be ignored if public policy must adequately respond to the challenge of job creation.

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4 Since there is no explanation of what this category consists of, the basis for its former inclusion among the unemployed seems unclear to begin with. Could it be that unemployment had been overstated all along before April 2005 by more than can be accounted for by (1) and (2)? Otherwise, how does one explain how the wholesale exclusion of this category from the unemployed? Has everyone here been determined to be “unavailable for work”?

5 In applying the availability criterion, the 13th International Congress of Labor Statisticians (ICLS [1982]) had in fact recommended sensitivity to national circumstances. This calls for referencing potential work opportunities in terms of compensation, working hours, occupation, location and other job characteristics. The LFS questionnaire merely asks, “Had the opportunity for work existed last week or within two weeks, would ___ have been available?”

6 As with GNP and GDP, a national and a domestic labor force.

7 The follow-up question, “Is ___ willing to take up work during the past week or within two weeks?” is also not likely to be informative since willingness to work depends on the context of the job opportunity.
Unemployment, underemployment

Notwithstanding the change in the definition of unemployment, the Philippines’ unemployment rate at 7.5 percent in 2005-2009 is still one of the highest in the Southeast Asian region (Table 2).

The unemployment problem in the country is intimately connected to youth unemployment with the unemployment rate in the 15-24 age group at 18 percent while staying within single-digit range in the other age categories. Half of the nearly 3 million unemployed are in the 15-24 age group (Table 3). The observed high rate of aggregate unemployment can thus be attributed to the higher rates of unemployment among young members of the working age population that constitute a significant portion of the labor force. Deficient in skills, training and experience, the probability of being unemployed and staying unemployed for longer periods is likely to be higher for younger members of the labor force. The pressure to find jobs is also less for younger people who are neither household heads nor primary breadwinners. This suggests that an effective strategy for employment creation ought to address the underlying reasons for high youth unemployment.

Figure 2 gives a regional perspective of unemployment. Unemployment is highest in NCR, Central Luzon, and Calabarzon, the three leading regions in terms of economic development. Migration is part of the story here as the prospect of job opportunities and higher wages in urban areas continues to attract migrants from other regions. Of course, the chances of finding employment will be circumscribed by job vacancies and the skills that migrants bring with them, among others. But when an individual migrates with the view to support the schooling of younger family members through income remittances, urban migration partakes of the character of a fair gamble where temporary unemployment is the price to pay for the probability of landing a wage job in an urban area. In addition, job search activity tends to be higher in urban areas as workers already there may voluntarily quit their jobs to look for better ones. Finally, the recent spate of establishment closures that affected the manufacturing sector exacted a huge toll on jobs in these three regions.

On the other hand, unemployment is lower in the regions with a high poverty incidence, underscoring the fact that poverty is not just the outcome of unemployment, but that poverty does not leave one with too many choices on the matter of jobs. The lower unemployment rate in the relatively poorer regions could also be due to outflow of the more highly educated workers.

In fact, for the Philippines, the connection between poverty and employment status is more closely associated with the low quality of employment and not unemployment [PHDR 2002]. Table 4 shows that in 1998, the poor comprised less than 20 percent of all working-age individuals who were out of the labor force. In addition, more than 80 percent of the unemployed could be categorized as non-poor according to an expenditure-based definition of poverty. The 2006 figures show the same pattern8. It is the poor who can least afford to be without a job. Without any formal system of income support for the unemployed, the poor are more likely to resort to inferior or low-wage employment alternatives than be unemployed when visited by a negative income shock. This may partly be a reason for the observed weak relationship between GDP growth and aggregate employment in some years.

The distribution of the unemployed by educational attainment moreover shows that unemployment rates are lowest among those with elementary or no education (Table 5).

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8 The figures though are not exactly comparable with 1998. First, because official poverty is defined based on income, which results in more people falling below the poverty line. And second, because the definition of unemployment was changed in 2005, resulting in a lower unemployment count, but whose effect on labor force participation and unemployment of poor and non-poor alike we cannot tell a priori.
Most of the poor of working age belong in this category. What this says again is that the poor cannot afford to be choosy with their jobs. Such jobs, however, leave much to be desired in terms of compensation and other benefits. Data show that about 60 percent of the employed poor work as unpaid family workers or are self-employed.

On the other hand, the unemployment rate is highest at 11 percent among those with some college education or higher. Those with up to high school education comprise 45 percent – the biggest proportion – of the unemployed. In fact, more than 80 percent of the unemployed is comprised of persons with at least some high school education. The high rates of unemployment among those with at least high school education could be the effect of higher reservation wages or the result of worker-job mismatches in some lines of work. The results of a recent DoLE survey point to unfilled vacancies existing alongside a large pool of surplus labor.9

Underemployment and not unemployment is the more serious problem of the less developed regions (Figure 3). Underemployment or the desire for additional work is really an indication of inadequate incomes. In these regions, where the share of the labor force with at least a high school education is lower than the national average, the majority of the labor force settles for intermittent and low-paying jobs in agriculture and the informal sector. As such, many of the employed in these regions express a desire for additional work. The chart also shows that the underemployment rate rose from 2004 to 2008 indicating a deterioration in welfare as economic growth slowed down in 2008. Merely giving jobs to the poor is not sufficient to get them out of poverty.

In order to understand the reasons behind the lack of employment opportunities and the low quality of most available employment, it is important to look at the economy’s rate of labor absorption, which in turn is related to its capacity for sustained growth. The economy’s growth record, which has been characterized by alternating periods of moderate expansion and severe contractions can be credited for the less than favorable employment prospects that greet the 800,000 yearly entrants to the labor force.

Recent years have seen a more respectable growth performance with the economy expanding annually by 4.8 percent in 2001-2008. But this growth has been led mainly by consumption spending on the back of remittances from OFWs. While this has allowed some of the domestically oriented parts of the services sector to expand, these are less investment intensive than industry. Investment spending has been anemic, in fact declining since 2000, which explains why economic growth has not been as employment creating as desired.

Since 1997, the primary source of employment has been the services sector which accounts for more than half of GDP and currently employs 51 percent of all those employed. The share of agriculture has come down from over 50 percent in the 1980s to 45 percent going into the 1990s, and further down to the present 34 percent. Industry’s share has remained at 15-16 percent for many years now. In particular, the share of manufacturing in total employment has been stagnant at about 10 percent. Recent losses in manufacturing as a result of the unfavorable export market in fact may have been responsible for lowering the share to single digit in the last few years.

Despite its strong labor-absorbing capacity, the heterogeneity of the services sector should be noted. This sector includes firms and activities requiring diverse skills employing divergent technologies. Wide differentials also characterize pay and productivity in the sector. While the sector hosts many of the emerging activities associated with ICT, the greater part of employment is still accounted for by wholesale and retail trade, and community, social, and personal services where low-productivity and low-paying jobs

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abound. There is good reason to believe that the informal sector is rather dominant in services.

From the preceding, the limited ability of the usual growth sources to contribute to job generation on the one hand, and the inferior quality of most employment available to the labor force on the other hand, explain why prospects for exiting poverty through the labor market in the Philippines may be highly circumscribed. That growth has been led invariably by the agriculture or services sectors partly explains why employment growth has been weak in spite of recent economic growth. Estimates of employment-output elasticity show that those for agriculture and services are about half of industry’s. This means that the sector with the greatest potential to contribute to employment growth has not been growing as fast as desired. The less than favourable investment climate is an important reason, as suggested by recent findings on the cost of doing business in the country.

Employment insecurity

Cross-country data reveal a higher degree of employment insecurity among workers in the Philippines than in other countries. Six out of every 10 workers surveyed in the Philippines said they worried “to some extent” or “a great deal” about losing their jobs in 1997, compared with the mean of three out of every 10 in the 32 countries included in the study. In 2005, the average for these countries remained the same, while that for the Philippines had increased to seven out of every 10. Other indicators show a similar pattern; the proportion disagreeing with the statement, “My job is secure,” increased from 15 to 20 percent between 1997 and 2005, while 45 percent said it was “very difficult” or “fairly difficult” to find a comparable job to their current one in 2005. This was during a period when the Philippine economy was growing annually by 4 percent.

But employment growth, while positive, was erratic during this period with the official unemployment rate hovering above 11 percent. Thus, the high degree of employment insecurity captured in the surveys probably reflects low employment expectations born of the knowledge that finding a job is generally difficult. Citing earlier studies Green [2009] argues that perceived insecurity generally follows the path of the unemployment rate.

That workers’ perceptions about the risk of job loss have an objective basis is further evidenced by the number of firms reported to have either closed down or shed labor during the period 1998-2007. The number of establishments that resorted to permanent closures and retrenchments increased from 2,289 to 3,262 between 1999 and 2003 and then again from 2008 to 2468 in 2004-2006 (Table 6). The most frequently cited reason for such occurrences was firms needing to reorganize and/or downsize their operations consequently having to let go of some of their redundant personnel. The lack of markets came in a far second as a reason. But what is even more interesting from the data is that the tempo of reorganizations and downsizings seemed to pick up after 1999 continuing well into the next decade and accounting for more than 40 percent of the permanent closures and retrenchments recorded. This supports the view (Lim and Bautista [2001] as cited in Report) that many industries took the economic downturn in 1997-1998 as an opportunity to downsize their workforce and employ new technology. In the process, jobs were threatened.

Between 1998 and 2002, a total of 370 thousand workers were displaced due to establishment closures and retrenchments (Table 7). Displacements were much fewer between 2002 and 2004, but picked up again thereafter. In terms of the composition of displaced workers, the National Capital Region (NCR) accounted for at least half of the displacements in any given year. Calabarzon, Central Luzon, and Central Visayas are the other substantial contributors to the jobless pool understandably because these three regions together with NCR host a large share of non-agriculture activities (see Esguerra and

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10 The data are from the work orientations module of the International Social Survey Programme (ISSP) as cited in Green [2009].
Manning [2007]). By industry distribution, manufacturing led the way in job shedding accounting for more than half of worker displacements in any given year (Table 8). To a large extent, this reflects the highly cyclical demand for exports of semiconductors upon which most of the growth of manufacturing has depended for many years now. Between 1998 and 2007 some 312 thousand workers were displaced from the sector.

Labor turnover statistics further tend to corroborate the perception of increasing employment insecurity among workers. The accession rate which measures the proportion of new hires, whether temporary or permanent, to total employment in an establishment over a period of time, indicates that nearly 70 percent of new hires in 2003-2007 were for replacement, and the remaining for expansion. On the other hand, the separation rate, which measures the proportion of terminations to total employment in an establishment over the same period, indicates that 57 percent of separations during the same period have been employer-initiated (fires) rather than employee initiated (quits).

The labor turnover rate, or the difference between the accession and separation rates, rose from 0.6 to 2.83 between 2003 and 2007 (Table 9). While this rise may be viewed in a positive light as a sign of brisk economic activity, it may also be symptomatic of business fluctuations to which firms have been increasingly subjected. This has adverse consequences on labor productivity and wages, and underscores the importance of macroeconomic policy. A high turnover rate also means that workers’ average job tenures have increasingly shortened. This is not too bad if workers are leaving their jobs for better ones as might be the case in an expanding economy. However, the Philippines’ record in capital formation is not exactly an impressive one and this is supported by the observation above that expansions have played only a minor part as far as the hiring of labor in the last few years is concerned. Unfortunately, it is not possible to tell further from the turnover data what the reasons for the replacements are.

Insecurity in employment is popularly associated with the idea of precarious work and is commonly identified with the use of non-standard employment contracts. These contracts are short-term, contingent, low-paying, and do not provide the usual non-wage benefits normally found in regular employment agreements. In a highly competitive environment that rewards agility, the objective is for the firm to have greater latitude in its hiring and firing decisions. In 2000 the Philippine Labor Flexibility Survey (PLFS) noted the use of temporary, casual, contractual, or agency-hired workers in 86 percent of about 1,200 firms surveyed. In 2004, the Bureau of Labor and Employment Statistics (BLES) reported that part-time, casual, contractual and agency-hired workers accounted for close to 30 percent of the nearly 2.5 million workers employed in establishments with at least 20 workers. The June 2008 figures show that the share of non-regular workers to rank-and-file employees was 28 percent. Given these numbers, it does not appear that employers are substituting non-regular contracts for the standard employment contract in a big way as some observers think. Non-regular contracts have an economic purpose and are not the least costly alternative under all situations (Abraham and Taylor [1996], Segal and Sullivan [1997]).

The use of flexible staffing arrangements in firms can lead to the high turnover rates observed. The ease of dismissing an employee whose services are no longer needed makes hiring also easy. But it does not follow that an employer using a non-standard contract will be firing and hiring employees more frequently (i.e. have a higher turnover rate) than another employer who uses a standard contract to employ workers performing the same functions. The point of using the non-standard contract is to have flexibility when it is needed. In the Philippines, however, the law requires employers to make their workers regular upon reaching their sixth month on the job. This has led to the widespread practice among

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11 These statistics are gathered from large enterprises belonging to the Securities and Exchange Commission’s list of top corporations.
12 In the Philippines, this is reckoned quarterly and an average for the entire year is reported. The same is done with the separation rate.
employers of terminating their non-regular workers on the fifth month of their employment in order not to lose flexibility. In this way, the unintended consequence of a regulation meant to provide job security has been exactly to heighten insecurity. Given the high share of replacements in the accession rate, is it possible that the increase in the labor turnover rate between 2003 and 2007 was caused by early terminations because of the “regularization” law?

Aside from workers’ perception of the risk of job separation, insecurity also depends upon the ease of finding a job that is comparable to the present one. A disturbing aspect of the process of labor churning is the low rate of re-absorption of displaced workers observed by Pascual [2009] in case studies13. No more than 50 percent of the 195 worker-respondents found a wage job since being laid off. The median job search period ranged from a low of three months to a high of 14. As of the interview date, less than 30 percent still had a wage job suggesting that displaced workers’ employment options also tend to be limited to jobs of short-term duration. Moreover, the probability of getting another job is inversely related with age, with as much as a 20 to 50 percent cut in wage relative to the former job in case one is found. Since only a few succeed at self-employment or finding a job overseas, while the others are deterred by the out-of-pocket costs of job search, a high percentage either become unemployed (i.e. jobless, not looking for work) for an extended period or prematurely exit the labor force. This makes re-absorption more difficult and exit from the labor force permanent as a result of the skills deterioration. Other negative welfare effects follow from the income loss especially in the absence of social safety nets and the concomitant loss of access to credit (e.g. children quitting school, deterioration in health status). Beyond case studies such as this, however, there is very little systematic information about what happens to workers when they are displaced from their jobs as a result of establishment closures or downsizing.

From a policy perspective addressing insecurity requires knowing which segments of the working population are likely to feel vulnerable to employment shocks and designing the appropriate responses. There is some reason to believe that women bear a disproportionately larger share of employment insecurity than men as a result of socially ascribed roles and the higher probability of career interruptions which tend to limit their access to specific training and, consequently, secure job positions in a work organization. Part-time jobs in services and other less protected sectors also tend to employ mostly women. Age can have a positive or a negative effect on insecurity depending on the sector of employment and the associated labor market institutions. Where personnel decisions are mainly governed by internal labor markets, job insecurity and age will tend to be negatively correlated. On the other hand, in highly dynamic sectors requiring new skills, such as those closely associated with the information-communication technologies, age and insecurity will be positively correlated. In industries where manual dexterity, good eyesight, and adaptability to multiple tasks make for good credentials, young workers will tend to feel more secure.

The role of human capital investment looms large on the issue of labor flexibility and employment security. Individuals educated only up to the high-school level or less are likely to land routine jobs requiring no more than general, and therefore, easy-to-replace skills. Those with college degrees or higher, on the other hand, are generally presumed able to take on mental labor and work with technologies that require a much higher level of skills. The cost of job loss is more manageable for educated persons who are highly trainable and possess a good amount of skills that can be applied in various work settings. As age and gender are not alterable attributes, the best insurance against permanent job loss is lifelong education and training. Basic education if done right equips the individual with the most fundamental skill – the ability to learn – and prepares him or her for more complex and

13 The case studies included both casual and regular workers formerly employed in two garment firms in Metro Manila.
specialized work. This increases employability and reduces the cost of job loss. Higher education (which need not be formal), including specialized training, allows the individual to keep abreast with new ideas and techniques that accompany technological progress.

That labor market flexibility is equated with job insecurity in the Philippines owes to the type or form of flexibility that has dominated practice. Numerical (or external) flexibility relies on the use of casual and temporary labor, sub-contracting, lay-offs, and retrenchment of personnel. Functional (or internal) flexibility involves changes in the work organization and work process, investment in training and skills enhancement, performance-based pay, multi-tasking, and job rotation. To be sure, one will find evidence of both types in the Philippines. But why has the former dominated as the strategy to adjust to competition? The country’s concentration on low labor costs as a source of comparative advantage is one reason. This has undermined the incentive to invest in long-term training and the upgrading of skills. The other reason is the historically protected status of industry, particularly manufacturing, that in effect guaranteed job security. Considering the deficit in human capital investment, the strategy for adjusting to international competition had to take the form of a systematic reductions in the regular work force. In other words, even if the subjective preference had been functional flexibility, it would not have been possible. Among Asian countries, “functional flexibility is generally found in states which underwrite a supportive social structure in training, education, and R&D; where labor standards are enforced; and where the state provides incentives to invest in training and organizational development.” (Kuruvilla and Erickson [2000]: 41). The Philippines has a lot of catching up to do in this area.

In this connection, it should be noted that the country will not be able to meet the goal of universal primary education that it has set for itself under the Millennium Development Goals by 2015. This development does not augur well for the future quality of the labor supply, individual employment prospects, job security, and earnings and its implications on poverty and income inequality are disturbing.